

PRELIMINARY OFFICIAL STATEMENT DATED NOVEMBER 4, 2011

NEW ISSUE -- BOOK-ENTRY ONLY

Rating: See "Rating" herein.

In the opinion of Bond Counsel, assuming continuing compliance by the Authority with certain covenants to comply with provisions of the Internal Revenue Code of 1986, as amended (the "Code"), and any regulations applicable thereunder, interest on the 2011 Bonds is not includable in gross income under Section 103(a) of the Code, except as set forth under the heading "Tax Exemption" in this Official Statement. Other provisions of the Code may affect the purchasers and holders of the 2011 Bonds. See "Federal Tax Laws" herein for a brief description of these provisions. Under the laws of the Commonwealth of Pennsylvania (the "Commonwealth"), the 2011 Bonds and interest on the 2011 Bonds, shall be free from taxation for State and local purposes within the Commonwealth, but this exemption does not extend to gift, estate, succession or inheritance taxes or any other taxes not levied directly on the 2011 Bonds or the interest thereon. Under the laws of the Commonwealth, profits, gains or income derived from the sale, exchange or other disposition of the 2011 Bonds shall be subject to State and local taxation within the Commonwealth.

\$50,000,000*

**READING AREA WATER AUTHORITY
(Berks County, Pennsylvania)
Water Revenue Bonds, Series of 2011**

Dated: Date of Delivery

Principal Due: December 1, as shown herein

Interest Payable: June 1 and December 1

First Interest Payment: June 1, 2012

Reading Area Water Authority (the "Authority"), will issue its Water Revenue Bonds, Series of 2011 (the "2011 Bonds"), as fully registered bonds in the denominations of \$5,000 and any integral multiple thereof. The 2011 Bonds are being issued as fully registered securities and, when issued, will be registered in the name of Cede & Co., as the registered owner and nominee of The Depository Trust Company ("DTC"), New York, New York. DTC will act as securities depository for the 2011 Bonds. Purchases of the 2011 Bonds may be made in book-entry-only form and purchasers (the "Beneficial Owners") will not receive certificates representing their interests in the 2011 Bonds. So long as DTC, or its nominee, Cede & Co., or any other nominee of DTC, is the registered owner of the 2011 Bonds, payments of the principal of, redemption premium, if any, and interest on the 2011 Bonds will be made by Manufacturers and Traders Trust Company, as Trustee (the "Trustee"), directly to Cede & Co. Disbursement of such payments to DTC Participants is the responsibility of DTC, and disbursement of such payments to Beneficial Owners of the 2011 Bonds is the responsibility of DTC Participants and Indirect Participants. See "BOOK-ENTRY-ONLY SYSTEM" herein.

The 2011 Bonds are subject to optional and mandatory redemption prior to maturity as more fully set forth herein.

The proceeds of the 2011 Bonds will be used for and towards: (i) improvements and extensions to the water supply, treatment, pumping and distribution facilities of the Authority; (ii) capitalizing interest on the 2011 Bonds; (iii) a deposit to the Debt Service Reserve Fund; and (iv) costs and expenses of issuing and insuring the 2011 Bonds.

The scheduled payment of principal of and interest on the Bonds when due will be guaranteed under an insurance policy to be issued concurrently with the delivery of the Bonds by _____.

[Insurance Logo]

**MATURITY DATES, PRINCIPAL AMOUNTS AND INTEREST RATES AND PRICES
ARE DISPLAYED INSIDE THE FRONT COVER**

The 2011 Bonds will be issued pursuant to and secured by the provisions of the Authority's Trust Indenture, dated as of September 15, 2002, as amended and supplemented by a First Supplemental Trust Indenture, dated July 1, 2003, as amended and supplemented by a Second Supplemental Trust Indenture, dated as of July 15, 2007, and as further amended and supplemented by a Third Supplemental Trust Indenture, dated as of _____, 2011 (collectively, the "Indenture"), between the Authority and Manufacturers and Traders Trust Company, as successor Trustee, as more fully described herein. The 2011 Bonds are payable solely from the Water Revenues of the Authority derived from its Water System, and from other moneys as may be made available for such purpose, as set forth in the Indenture.

THE 2011 BONDS ARE LIMITED OBLIGATIONS OF THE AUTHORITY AND NEITHER THE CREDIT OR TAXING POWER OF ANY POLITICAL SUBDIVISION SERVED BY THE AUTHORITY, THE COUNTY OF BERKS, THE COMMONWEALTH OF PENNSYLVANIA, OR ANY AGENCY OR POLITICAL SUBDIVISION THEREOF, IS PLEDGED TO PAY THE PRINCIPAL OF AND INTEREST ON THE 2011 BONDS. THE AUTHORITY HAS NO TAXING POWER.

The 2011 Bonds are offered, subject to prior sale, withdrawal or modification, when, as and if issued by the Authority and received by the Underwriter and subject to the legal opinion of Georgeadis Setley, Reading, Pennsylvania, Bond Counsel. Said opinion will be furnished upon delivery of the 2011 Bonds. Certain legal matters will be passed upon for the Authority by Georgeadis Setley, Reading, Pennsylvania, Solicitor for the Authority. Concord Public Financial Advisors, Inc., Reading, Pennsylvania, has acted as financial advisor in connection with the issuance of the 2011 Bonds. It is expected that the 2011 Bonds will be available for delivery in New York, New York, on or about _____, 2011.

Dated: _____



*Preliminary, subject to change

This Preliminary Official Statement and the information contained herein are subject to completion, amendment or other changes without notice. The Series of 2007 Bonds may not be sold nor may offers to buy be accepted prior to the time of the Official Statement is delivered in final form. Under no circumstances shall this Preliminary Official Statement constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of Series of 2007 Bonds in any jurisdiction in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the applicable securities laws of any such jurisdiction.

\$50,000,000*
READING AREA WATER AUTHORITY
(Berks County, Pennsylvania)
Water Revenue Bonds, Series of 2011

Dated: Date of Delivery

Principal Due: December 1, as shown below

Interest Payable: June 1 and December 1

First Interest Payment: June 1, 2012

<u>Year</u> <u>(December 1,)</u>	<u>Principal</u> <u>Amount</u>	<u>Interest</u> <u>Rate</u>	<u>Price</u>	<u>CUSIP</u>
				755562
				755562
				755562
				755562
				755562
				755562
				755562
				755562
				755562
				755562
				755562
				755562
				755562
				755562
				755562

\$ _____ % Term Bonds due December 1, _____ -- Price _____ % -- CUSIP 755562

READING AREA WATER AUTHORITY

801 Washington Street
Reading, Pennsylvania 19601

AUTHORITY MEMBERS

<u>Name</u>	<u>Office</u>
Raymond Schuenemann, III, Esquire	Chairman
Vacant	Vice Chairman
Donna Glaze.....	Secretary/Treasurer
Eron Lloyd	Member
Carl McLaughlin	Member

EXECUTIVE DIRECTOR

Dean A. Miller

CONSULTING ENGINEER

BCM Engineers Inc.
Plymouth Meeting, Pennsylvania

AUTHORITY SOLICITOR

Georgeadis Setley
Reading, Pennsylvania

BOND COUNSEL

Georgeadis Setley
Reading, Pennsylvania

TRUSTEE

Manufacturers and Traders Trust Company
Harrisburg, Pennsylvania

FINANCIAL ADVISOR

Concord Public Financial Advisors, Inc.
Reading, Pennsylvania

UNDERWRITER

_____, Pennsylvania

This Official Statement does not constitute an offer to sell or a solicitation of an offer to buy, nor shall there be any sale of the 2011 Bonds, in any jurisdiction to any person to whom it is unlawful to make such offer in such jurisdiction. No dealer broker, salesman or any other person has been authorized by the Authority or the Underwriter to give any information or make any representation, other than those contained in this Official Statement, in connection with the offering of or solicitation of offers for the 2011 Bonds. If given or made, such information or representation must not be relied upon.

Information contained in this Official Statement was obtained in part from officials of the Authority, from trade and statistical services and from other sources that are considered to be reliable, although such sources are not guaranteed as to accuracy or completeness. Such information is not intended to be, and should not be relied upon as, a complete report or analysis. It is not to be construed as a representation either by the Underwriter or, other than as to matters describing the Authority and its operations, the Authority.

All quotations from and summaries and explanations of provisions of laws and documents herein do not purport to be complete and reference is made to such laws and documents for full and complete statements of their provisions. Any statements made in this Official Statement involving estimates or matters of opinion, whether or not expressly so stated, are intended merely as estimates or opinions and not as representations of fact. The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale of the 2011 Bonds shall under any circumstances create any implication that there has been no change in the affairs of the Authority since the date of this Official Statement.

In connection with this offering, the Underwriter may over allot or effect transactions that stabilize or maintain the market price of the 2011 Bonds at a level above that which might otherwise prevail in the open market. Such stabilizing, if commenced, may be discontinued at any time without prior notice.

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\$50,000,000*
READING AREA WATER AUTHORITY
(Berks County, Pennsylvania)
Water Revenue Bonds, Series of 2011

INTRODUCTION

This Official Statement, including the cover page hereof and attached appendices, of Reading Area Water Authority (the “Authority”) provides certain information concerning the Authority, in connection with the issuance of \$50,000,000* Water Revenue Bonds, Series of 2011 (the “2011 Bonds”). The 2011 Bonds are being issued by the Authority pursuant to the Constitution and laws of the Commonwealth of Pennsylvania, (the “Commonwealth”) including the Municipality Authorities Act of 1945 (P.L. 382, No. 164), as repealed and replaced by the Municipality Authorities Act, 53 Pa.C.S.A § 5601 *et seq.* (the “Act”), and the Bond Resolution adopted by the Authority on _____, 2011, and are secured under the Authority’s Trust Indenture dated as of September 15, 2002, as amended and supplemented by a First Supplemental Indenture, dated as of July 1, 2003 (the “First Supplemental Indenture”), as amended and supplemented by a Second Supplemental Indenture, dated as of July 15, 2007 (the “Second Supplemental Indenture”), and as further amended and supplemented by a Third Supplemental Indenture, dated as of _____, 2011 (the “Third Supplemental Indenture”) (hereinafter collectively, the “Indenture”), between the Authority and Manufacturers and Traders Trust Company, as successor Trustee (the “Trustee”). Capitalized terms and phrases used in this Official Statement unless otherwise defined, shall have the meanings ascribed to them in the Indenture.

The 2011 Bonds are limited obligations of the Authority, and the principal of, redemption premium, if any, and the interest on the 2011 Bonds are payable solely from (i) the debt service payments from the Authority to the Trustee payable under the Indenture from revenues of the Authority; (ii) the Funds established under the Indenture (other than the Rebate Fund); (iii) money which may be paid pursuant to a policy of municipal bond insurance issued by _____; and (iv) other moneys as may be made available for such purpose to the extent and in the manner provided in the Indenture. The Authority has no taxing power.

THE AUTHORITY

Introduction

The Authority was established on June 1, 1994, and is a body corporate and politic, organized under the Act.

The Authority has been incorporated pursuant to appropriate action of the governing body of the City of Reading, Berks County, Pennsylvania (the “City”) and is existing under and is governed by the Act. The Authority has the power to, among other things, acquire, hold, construct, improve, maintain and operate water supply, water filtration plants, trunklines and water distribution systems.

The governing body of the Authority is a Board consisting of five (5) members appointed by the City. The terms of the members of the Authority are staggered so that the term of one member expires each year. Members of the Board of the Authority may be reappointed. The

Authority Board is comprised of the members listed below, whose terms expire on the 1st day of January in the years listed.

<u>Name</u>	<u>Office</u>	<u>Term Expires</u>
Raymond Schuenemann, III, Esquire	Chairman	January 1, 2015
Vacant	Vice Chairman	----
Donna Glaze	Secretary/Treasurer	January 1, 2012
Eron Lloyd	Member	January 1, 2013
Carl McLaughlin	Member	January 1, 2016

For a more complete description of the demographic, economic and financial characteristics of the Service Area Municipalities, reference is hereby made to Appendix A of this Official Statement. See Appendix A – “Reading Area Water Authority, Economic, Demographic and Financial Information.”

PURPOSE OF THE ISSUE

The proceeds of the 2011 Bonds will be used for and towards: (i) improvements and extensions to the water supply, treatment, pumping and distribution facilities of the Authority; (ii) capitalizing interest on the 2011 Bonds; (iii) a deposit to the Debt Service Reserve Fund; and (iv) costs and expenses of issuing and insuring the 2011 Bonds.

Sources and Uses of Funds

It is estimated that monies will be provided, and applied, substantially in accordance with the following table:

Sources:

Principal Amount of 2011 Bonds	\$
Net Original Issue Premium/(Discount)	
Total Sources	\$

Uses:

Available for Capital Projects	\$
Deposit to 2011 Debt Service Fund (Capitalized Interest)	
Deposit to Debt Service Reserve Fund	
Costs of Issuance (1)	
Total Uses	\$

(1) Includes legal fees, rating agency fees, municipal bond insurance premium, financial advisory fees, document and bond printing, bond discount, trustee fees, CUSIP numbers, registration fees and miscellaneous.

THE 2011 BONDS

Description

The 2011 Bonds are being issued in the aggregate principal amount of \$50,000,000*, are dated as of the Date of Delivery, bear interest from that date at the rates shown on the inside

cover page hereof, payable June 1 and December 1 of each year, beginning June 1, 2012, and mature on December 1 in each of the years shown on the inside cover page hereof.

The 2011 Bonds are available for purchase only in book entry form. Beneficial ownership of the 2011 Bonds may be acquired, in denominations of \$5,000 principal amount or any integral multiple thereof, only under the book-entry system maintained by The Depository Trust Company (“DTC”), New York, New York, through brokers and dealers who are, or act through DTC Participants. The purchasers of the 2011 Bonds (the “Beneficial Owners”) will not receive any physical delivery of bond certificates, and beneficial ownership of the 2011 Bonds will be evidenced only by book entries maintained by DTC. For so long as any purchaser is the beneficial owner of a 2011 Bond, that purchaser must maintain an account with a broker or dealer who is, or acts through, a DTC Participant to receive payment of the principal of, redemption premium, if any, and interest on the 2011 Bonds. See “BOOK - ENTRY ONLY SYSTEM” herein.

Payment of Principal and Interest

When issued, the 2011 Bonds will be registered in the name of Cede & Co., as nominee for DTC. So long as Cede & Co., as nominee for DTC, is the registered owner of the 2011 Bonds, payments of principal of, redemption premium, if any, and interest on the 2011 Bonds, when due, are to be made by the Trustee to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC, and all such payments shall be valid and effective to satisfy fully and to discharge the obligations of the Authority with respect to, and to the extent of, principal, redemption premium, if any, and interest so paid.

If the use of a book-entry system for the 2011 Bonds is discontinued for any reason, bond certificates will be issued to the Beneficial Owners of the 2011 Bonds and payment of principal, redemption premium, if any, and interest on the 2011 Bonds shall be made as described in the following paragraphs.

Principal of the 2011 Bonds will be paid to the registered owners thereof or assigns, when due, upon surrender of the 2011 Bonds to the Trustee at its corporate trust office in Harrisburg, Pennsylvania (or to any successor trustee at its designated office(s)).

Interest on any 2011 Bond held in physical, certificated form is payable to the registered owner of such 2011 Bond from the interest payment date next preceding the date of registration and authentication of the 2011 Bond, unless: (a) such 2011 Bond is registered and authenticated as of an interest payment date, in which event such 2011 Bond shall bear interest from said interest payment date; or (b) such 2011 Bond is registered and authenticated after a Record Date (hereinafter defined) and before the next succeeding interest payment date, in which event such 2011 Bond shall bear interest from such interest payment date; or (c) such 2011 Bond is registered and authenticated on or prior to the Record Date next preceding June 1, 2012, in which event such 2011 Bond shall bear interest from the Date of Delivery; or (d) as shown by the records of the Trustee, interest on such Bond shall be in default, in which event such 2011 Bond shall bear interest from the date to which interest was last paid on such 2011 Bond. Interest shall be paid semiannually on June 1 and December 1 of each year, beginning June 1, 2012, until the

principal sum is paid. Interest on each 2011 Bond while held in physical, certificated form is payable by check drawn on the Trustee, which shall be mailed to the registered owner whose name and address shall appear, at the close of business on the fifteenth (15th) day (whether or not a day on which the Trustee is open for business) next preceding each interest payment date (the "Record Date"), on the registration books maintained by the Trustee, irrespective of any transfer or exchange of the 2011 Bond subsequent to such Record Date and prior to such interest payment date, unless the Authority shall be in default in payment of interest due on such interest payment date. In the event of any such default, such defaulted interest shall be payable to the person in whose name the 2011 Bond is registered at the close of business on a special record date for the payment of such defaulted interest established by notice mailed by the Trustee to the registered owners of the 2011 Bonds not less than fifteen (15) days preceding such special record date. Such notice shall be mailed to the persons in whose names the 2011 Bonds are registered at the close of business on the fifth (5th) day preceding the date of mailing.

If the date for the payment of the principal of or interest on any the 2011 Bonds shall be a Saturday, Sunday, legal holiday or on a day on which banking institutions in the Commonwealth are authorized or required by law or executive order to close, then the date for payment of such principal or interest shall be the next succeeding day which is not a Saturday, Sunday, legal holiday or a day on which such banking institutions are authorized or required to close, and payment on such date shall have the same force and effect as if made on the nominal date established for such payment.

Transfer, Exchange and Registration of the 2011 Bonds

When issued, the 2011 Bonds will be registered in the name of Cede & Co., as nominee for DTC. So long as Cede & Co., as nominee for DTC, is the registered owner of the 2011 Bonds, transfers of ownership interests in the 2011 Bond are to be accomplished by entries made on the books of DTC Participants acting on behalf of the Beneficial Owners. See "BOOK ENTRY ONLY SYSTEM" herein.

If the use of the Book Entry Only System is discontinued and bond certificates are issued, any 2011 Bond will be transferable or exchangeable by the registered owner thereof upon surrender of such 2011 Bond to the Trustee, accompanied by a written instrument or instruments in form, with instructions, and with guaranty of signature satisfactory to the Trustee, duly executed by the registered owner of such 2011 Bond or his attorney-in-fact or legal representative. The Trustee shall enter any transfer of ownership of such 2011 Bond in the registration books and shall authenticate and deliver at the earliest practicable time in the name of the transferee or transferees a new fully registered 2011 Bond or 2011 Bonds of authorized denominations of the same tenor and maturity for the aggregate amount which the registered owner is entitled to receive.

If and when use of the Book-Entry Only System has been discontinued, the Authority and the Trustee shall not be required (a) to register the transfer of or exchange any 2011 Bonds then considered for redemption during a period beginning at the close of business on the fifteenth (15th) day next preceding any date of selection of 2011 Bonds to be redeemed and ending at the close of business on the day on which the applicable notice of redemption is mailed or (b) to

register the transfer of or exchange any portion of any 2011 Bond selected for redemption until after the redemption date. Also, 2011 Bonds may then be exchanged for a like aggregate principal amount of 2011 Bonds of other authorized denominations of the same maturity and interest rate.

REDEMPTION OF 2011 BONDS

Optional Redemption

The 2011 Bonds stated to mature on or after December 1, 2022, are subject to redemption prior to maturity, at the option of the Authority, as a whole or, from time to time, in part, in any order of maturities selected by the Authority, on December 1, 2021, or on any date thereafter, upon payment of a redemption price of 100% of the principal amount redeemed, plus interest accrued thereon to the redemption date.

Mandatory Sinking Fund Redemption

The 2011 Bonds stated to mature on December 1, ____, are subject to mandatory sinking fund redemption prior to maturity at a redemption price of 100% of the principal amount to be redeemed plus accrued interest to the redemption date on December 1 of the years and in the amounts as shown in the following schedule(s):

Bonds Stated to Mature on <u>December 1, xxxx</u>	
<u>Year</u> (Maturity)	<u>Amount</u>

Any such redemption shall be upon application of money available for the purpose in the Series of 2011 Sinking Fund established within the 2011 Debt Service Fund under the Indenture. In lieu of mandatory redemption, the Authority or the Trustee, on behalf of the Authority, may purchase from money in the Series of 2011 Sinking Fund, at a price not to exceed the principal amount plus accrued interest, or the Authority may tender to the Trustee, all or part of the 2011 Bonds of the appropriate maturity subject to being drawn for mandatory redemption on any such date.

If any maturity of the 2011 Bonds that is subject to mandatory sinking fund redemption shall be called for optional redemption in part, the Authority shall be entitled to designate whether the principal amount redeemed is to be credited against the principal amount of the 2011 Bonds of such maturity required to be called for mandatory sinking fund redemption on any particular future date or dates or shall be credited against the principal amount of such 2011 Bonds to be due and payable at maturity, in each case in multiples of \$5,000 principal amount.

Notice of Redemption

So long as the 2011 Bonds are registered in the name of DTC or its nominee, all notices of redemption shall be given to DTC or its nominee, as registered owner of the 2011 Bonds. Conveyance of any such notices to the Beneficial Owners by DTC and by Direct Participants and

Indirect Participants in DTC will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

If at any time the book-entry only system shall be discontinued with respect to the 2011 Bonds, the Indenture provides that whenever the Authority shall determine to redeem all or part of the 2011 Bonds, or whenever the Trustee shall be required under the Indenture to redeem part of the 2011 Bonds out of any sinking fund or analogous fund established for the 2011 Bonds, a notice of intention to redeem shall be mailed by the Trustee, by first-class mail, to the registered owners of the 2011 Bonds to be redeemed in whole or in part, not more than forty-five (45) days nor less than thirty (30) days prior to the date fixed for redemption, at the addresses shown on the registration books maintained by the Trustee; provided, however, that failure to mail any notice of redemption, or any defect therein or in the mailing thereof, shall not affect the validity of any proceeding for redemption of other 2011 Bonds so called for redemption.

If at the time of mailing of a notice of redemption, the Authority has not deposited with the Trustee moneys sufficient to redeem all 2011 Bonds called for redemption, such notice may state that it is conditional, and that redemption of such 2011 Bonds is subject to the deposit of the redemption moneys with the Trustee not later than the opening of business on the redemption date, and such notice shall be of no effect unless such moneys are so deposited.

Manner of Redemption

If a 2011 Bond is of a denomination larger than \$5,000, a portion of such 2011 Bond may be redeemed. For the purposes of redemption, a 2011 Bond shall be treated as representing the number of 2011 Bonds that is equal to the principal amount thereof divided by \$5,000, each \$5,000 portion of such 2011 Bond being subject to redemption. In the case of partial redemption of a 2011 Bond, payment of the redemption price shall be made only upon surrender of such 2011 Bond in exchange for 2011 Bonds of authorized denominations of the same maturity and interest rate, in the aggregate principal amount equal to the unredeemed portion of the principal amount thereof.

If the date fixed for redemption shall be a Saturday, Sunday, legal holiday or on a day on which banking institutions in the Commonwealth are authorized or required by law or executive order to close, then the date for payment of the redemption price shall be the next succeeding day which is not a Saturday, Sunday, legal holiday or a day on which such banking institutions are authorized or required to close, and payment on such date shall have the same force and effect as if made on the nominal date fixed for redemption.

So long as Cede & Co., as nominee of DTC, is the registered owner of the 2011 Bonds, however, payment of the redemption price shall be made to Cede & Co. in accordance with the existing arrangements by and among the Authority, the Trustee and DTC and, if less than all 2011 Bonds of any particular maturity are to be redeemed, the amount of the interest of each DTC Participant, Indirect Participant and Beneficial Owner in such 2011 Bonds to be redeemed shall be determined by the governing arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. See "BOOK-ENTRY ONLY SYSTEM" herein for further information regarding redemption of 2011 Bonds registered in the name of Cede & Co.

BOOK-ENTRY-ONLY SYSTEM

The Depository Trust Company (“DTC”), New York, NY, will act as securities depository for the 2011 Bonds. The 2011 Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC’s partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered 2011 Bond certificate will be issued for the 2011 Bonds, in the aggregate principal amount of such issue, and will be deposited with DTC.

DTC, the world's largest depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of the Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has a Standard & Poor's rating of AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

Purchases of 2011 Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the 2011 Bonds on DTC’s records. The ownership interest of each actual purchaser of each 2011 Bond (“Beneficial Owner”) is in turn to be recorded on the Direct and Indirect Participants’ records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the 2011 Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in 2011 Bonds, except in the event that use of the book-entry system for the 2011 Bonds is discontinued.

To facilitate subsequent transfers, all 2011 Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co. or such other name as may be requested by an authorized representative of DTC. The deposit of 2011 Bonds with DTC and their registration in the name of Cede & Co. or such other nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the 2011 Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such 2011 Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of 2011 Bonds may wish to take certain steps to augment transmission to them of notices of significant events with respect to the 2011 Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Security documents. For example, Beneficial Owners of 2011 Bonds may wish to ascertain that the nominee holding the 2011 Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of the notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the 2011 Bonds within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. (nor such other DTC nominee) will consent or vote with respect to the 2011 Bonds unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Authority as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the 2011 Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Redemption proceeds, distributions and dividend payments on the 2011 Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Authority or the Trustee on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name", and will be the responsibility of such Participant and not of DTC, the Trustee or the Authority, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Authority or the Trustee, disbursement of such payments to Direct

Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as securities depository with respect to the 2011 Bonds at any time by giving reasonable notice to the Authority or the Trustee. Under such circumstances, in the event that a successor securities depository is not obtained, 2011 Bond certificates are required to be printed and delivered.

The Authority may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, 2011 Bond certificates will be printed and delivered to DTC.

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the Authority believes to be reliable, but the Authority takes no responsibility for the accuracy thereof.

BOND INSURANCE

[To Come]

SECURITY FOR THE 2011 BONDS

The 2011 Bonds are secured under the Indenture by the assignment and pledge of certain funds and accounts established under the Indenture, and the municipal bond insurance policy, if necessary. Notwithstanding the foregoing, the 2011 Bonds shall not be entitled to any assignment, pledge or benefit of any funds or accounts available from guarantees with respect to other bonds outstanding under the Indenture.

Rate Covenant

The Authority has covenanted in the Indenture that water rentals, rates and other charges imposed pursuant to the resolution in effect at the time shall be at least such that the estimated amounts to be received by the Authority therefrom, and together with money otherwise estimated to be available under provisions of the Indenture for the purposes, will be sufficient:

A. To pay the reasonable Administrative Expenses, as such phrase is defined in the Indenture, of the Authority in connection with the Water System and in connection with Bonds issued under the Indenture, in each Fiscal Year, as such phrase is defined in the Indenture, to the extent that the same shall not otherwise be provided for under the Indenture.

B. To pay the reasonable Operating Expenses, as such phrase is defined in the Indenture, of the Authority, in each such Fiscal Year, to the extent that the same shall not otherwise be provided for under the Indenture.

C. To provide an amount in each Fiscal Year, beginning with the Fiscal Year ending December 31, 2011, and so long as the 2011 Bonds shall remain outstanding, equal to at

least 100% of the Debt Service Requirements, as such phrase is defined in the Indenture, in such Fiscal Years, on the 2011 Bonds then Outstanding, to the extent that such Debt Service Requirements shall not otherwise be provided for under the Indenture.

D. To provide an amount in each such Fiscal Year in which any Bonds (as such phrase is defined in the Indenture) constituting Water Revenue Bonds (as such phrase is defined in the Indenture) shall be Outstanding, beginning with the first such Fiscal Year in which Debt Service Requirements on such Bonds shall be payable, equal to 100% of such Debt Service Requirements, in such Fiscal Year, on such Bonds, then outstanding, plus any mandatory payments, if any, required to be made in such Fiscal Year to any Fund (as defined in the Indenture and any supplement thereto in accordance with provisions thereof), to the extent that such Debt Service Requirements or such mandatory payments otherwise shall not be provided for under the Indenture or a supplement thereto.

2011 Debt Service Reserve Fund

The amount of \$_____ will be deposited to the 2011 Debt Serve Reserve Fund at settlement and satisfy the initial reserve requirement with respect to the 2011 Bonds. This amount, in addition to funds currently on deposit in the debt service reserve funds with respect to the Authority's 2002 Bonds, 2003 Bonds and 2007 Bonds, must be on deposit in the Debt Service Reserve Fund under the Indenture as security for the 2011 Bonds and all other bonds Outstanding under the Indenture. The Trustee is authorized to apply the money in the 2011 Debt Service Reserve Fund toward the payment of the principal and interest from time to time becoming due and payable upon the 2011 Bonds, to the extent that moneys available in the 2011 Debt Service Fund is insufficient therefor. The money in the 2011 Debt Service Reserve Fund will be held by the Trustee in trust for the holders of the 2011 Bonds and all other Bonds outstanding under the Indenture and shall be irrevocably pledged as security for the payment of the principal of and interest on such 2011 Bonds and all other bonds Outstanding under the Indenture.

Limited Obligations

The 2011 Bonds are limited obligations of the Authority, and the principal of, redemption premium, if any, and the interest on the 2011 Bonds are payable solely from (i) the debt service payments from the Authority to the Trustee payable under the Indenture from revenues of the Authority; (ii) the Funds established under the Indenture (other than the Rebate Fund); (iii) money which may be paid pursuant to a policy of municipal bond insurance issued by _____; and (iv) other moneys as may be made available for such purpose to the extent and in the manner provided in the Indenture. The 2011 Bonds are not a debt of the Commonwealth or any political subdivision thereof, and neither the full faith and credit of the Commonwealth nor any political subdivision thereof is pledged to the payment of the principal of or premium, if any, or interest on the 2011 Bonds or other costs incident thereto. The Authority has no taxing power.

SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE

The 2011 Bonds will mature and are subject to redemption prior to their respective maturities as set forth on the cover page hereof and under the section captioned “REDEMPTION OF 2011 BONDS” herein.

The Indenture also provides for the issuance of Water Assessment Revenue Bonds. The principal of, premium, if any and interest on the Water Assessment Revenue Bonds, which may be authorized for issuance under the Indenture, from time to time, are payable only from “Receipts from Assessments” and from the receipts, revenues and moneys of the Authority available for such purposes, as provided in the Indenture. Water Assessment Revenue Bonds which may be authorized for issuance under the Indenture, from time to time, and Water Revenue Bonds which are or, from time to time, may be authorized for issuance under Indenture, including the 2011 Bonds, are not equally and ratably secured by the Indenture. Except as otherwise provided in the Indenture, all Water Revenue Bonds, *inter se*, shall be equally and ratably secured by the Indenture.

2011 Construction Fund

The 2011 Construction Fund consists of funds deposited therein from 2011 Bond proceeds pursuant to the terms of the Indenture for the purpose of paying Costs, Costs of Acquisition or Costs of Construction relating to the Water System (including the 2011 Project), Capital Additions, and the acquisition or construction of property in the nature of Capital Additions. The Trustee shall pay amounts on deposit in the 2011 Construction Fund at the direction of the Authority, which direction shall consist of requisition which, among other provisions set forth in the Indenture, certifies that the payment requested complies in all respects with the covenants set forth in the Indenture and is a proper capital cost of the Authority which has not been paid previously.

2011 Clearing Fund

The proceeds of the 2011 Bonds shall be deposited upon settlement into the 2011 Clearing Fund established under the Indenture (the “2011 Clearing Fund”) and shall be disbursed for the purposes and in the amounts as provided in the Indenture. Money from time to time in the 2011 Clearing Fund shall be held by the Trustee, in trust, and shall be secured and applied as provided in the Indenture. Pending such application, the money will be subject to a lien and charge in favor of the Registered Owners of the 2011 Bonds.

2011 Debt Service Fund

On or before May 15, 2012, and on or before November 15, 2012, and on or before each May 15 and November 15 thereafter to and including November 15, ____, until provision for payment upon maturity or redemption of all 2011 Bonds Outstanding has been made, the Trustee is required to deposit in the 2011 Debt Service Fund from the 2011 Clearing Fund an amount sufficient to pay the installment of interest and principal payable on all 2011 Bonds Outstanding as and when due or payable upon maturity or mandatory redemption, on the next succeeding

June 1 or December 1 as appropriate. The Trustee will apply the moneys on deposit in the 2011 Debt Service Fund for the timely payment of principal and interest on all the 2011 Bonds.

Money held in the 2011 Debt Service Fund, including the Series of 2011 Sinking Fund, are pledged irrevocably for the payment of principal and interest on the 2011 Bonds.

2011 Debt Service Reserve Fund

This Fund shall initially consist of \$_____. The 2011 Debt Service Reserve Fund will be applied toward the payment of principal and interest due on the 2011 Bonds to the extent that amounts on deposit in the 2011 Debt Service Fund at any time are insufficient for such payment.

Funds held in the 2011 Debt Service Reserve Fund shall be held by the Trustee, in trust, for the benefit of Registered Owners of all bonds outstanding under the Indenture.

Investment of Funds

Under the provisions of the Indenture, money in the 2011 Clearing Fund, 2011 Construction Fund, 2011 Debt Service Fund and the 2011 Debt Service Reserve Fund, shall be wholly or partially invested and reinvested by the Trustee in investments authorized under the Act.

Securities purchased with money from any Fund shall be a part of such Fund, and interest and income received from such securities and any profits realized or losses sustained upon disposition thereof shall be considered, except as otherwise stated in the Indenture, a part of or charge against the appropriate Fund, as applicable.

Additional Bonds

The Authority may issue, from time to time, Additional Bonds for purposes of paying Costs, Costs of Acquisition or Costs of Construction relating to completion of the Project, or of paying Costs, Costs of Acquisition or Costs of Construction of Capital Additions, including, in each case, reimbursement or expenditures made by it, or paying any indebtedness incurred by it for such purposes; and the Trustee shall authenticate and shall deliver such Additional Bonds, but only upon receipt and satisfaction, of the requirements set forth in the Indenture.

The Authority may issue Additional Bonds, from time to time, for the purpose of providing all or part of funds necessary to refund, through purchase, payment or redemption, all or any part of the then Outstanding Water Assessment Revenue Bonds that are so subject to being refunded and/or all or any part of the then Outstanding Water Revenue Bonds that are so subject to being refunded, including, in each case, all or any part of costs or expenses incidental to such purchase, payment or redemption, including redemption premiums, if any; and the Trustee shall authenticate and deliver such Additional Bonds, but only upon receipt and satisfaction, of the requirements set forth in the Indenture.

Defaults and Remedies

The Act and the Indenture provides remedies to the Registered Owners in the event of default or failure on the part of the Authority to fulfill its covenants.

Under the Indenture, in the event of any such default as therein defined, the Trustee may enforce, and upon the written request of the Registered Owners of 25% in principal amount of all the Bonds then Outstanding under the Indenture accompanied by indemnity as provided in the Indenture shall enforce, for the benefit of all Registered Owners, all rights provided under the Indenture and said Act, including bringing suit upon all the Bonds Outstanding under the Indenture and protecting and enforcing by mandamus or other suit, action or proceeding at law or in equity all rights of Registered Owners and of having a receiver appointed.

Neither the Trustee nor any receiver, however, may sell, assign, mortgage or otherwise dispose of any assets of the Authority. For a more complete statement of rights and remedies of the Bondholders and of the limitations thereon, reference is made to the Indenture.

Discharge of the Indenture

The lien of the Indenture may be terminated by the Authority by depositing with the Trustee funds sufficient for payment of redemption of the principal of and interest on all the Bonds Outstanding under the Indenture to the date of maturity or redemption prior to maturity. Such requirements may be satisfied by deposit with the Trustee of a sum of money, which together with interest to be earned thereon from investments which constitute direct obligations of the United States of America, is sufficient to pay the principal of and interest on all the Bonds Outstanding under the Indenture.

Covenants of the Authority

The Authority covenants, among other things, that at all times it will:

- (a) maintain the Water System in good repair and operating condition;
- (b) continuously operate the same; and
- (c) make all necessary and proper repairs, renewals, replacements and improvements thereto in order to maintain adequate service.

The Authority also covenants that it will maintain adequate insurance with respect to the Water System against such risks, including public liability and property damages, and in such amounts are usually carried on or with respect to like properties.

RATING

Standard & Poor's Ratings Group is expected to assign its municipal bond rating of “___” to this issue of 2011 Bonds on the understanding that the standard municipal bond insurance policy of _____ insuring the scheduled payment of the principal of and interest due with respect to the 2011 Bonds will be issued by _____ upon the issuance of the 2011 Bonds. Any explanation

of the significance of such rating may be obtained from the rating agency. The rating reflects only the views of the rating agency and the Authority makes no representation as to the appropriateness of the rating. There is no assurance that such rating will continue for any given period of time or that it will not be revised downward or withdrawn entirely by the rating agency, if in their judgment circumstances so warrant. Any such downward revision or withdrawal of such rating may have an adverse effect on the market price of the 2011 Bonds.

LEGAL MATTERS

Legal Opinions

The issuance and delivery of the 2011 Bonds are subject to the legal opinion of Georgeadis Setley, Reading, Pennsylvania, Bond Counsel. Certain legal matters will be passed upon by Georgeadis Setley, Reading, Pennsylvania, Solicitor to the Authority.

Litigation

Upon delivery of the 2011 Bonds, the Authority shall furnish, or cause to be furnished, a certificate, in form satisfactory to Bond Counsel and the Underwriter, to the effect that, among other things, there is no litigation pending in any court to restrain or enjoin the issuance or delivery of the 2011 Bonds, or the proceedings of the Authority taken in connection therewith, or the application of any moneys provided for their payment, or contesting the powers of the Authority with respect to the foregoing or the consummation of the transactions contemplated by this Official Statement.

Authorized Investments

Under the Probate, Estates and Fiduciaries Code, the 2011 Bonds are authorized investments for fiduciaries and personal representatives (as defined in that Code) in the Commonwealth of Pennsylvania.

Future Financing

The Authority expects to access the capital markets from time to time. There are no immediate additional financing plans at this time.

Negotiability

The 2011 Bonds are investment securities under Article 8 of the Pennsylvania Uniform Commercial Code and are negotiable instruments to the extent provided therein.

TAX MATTERS

In the opinion of Bond Counsel, assuming continuing compliance by the Authority with certain covenants to comply with provisions of the Code and any applicable regulations thereunder, now or hereafter enacted, interest on the 2011 Bonds is not includable in the gross income of the holders of the 2011 Bonds for federal income tax purposes under Section 103 of

the Code, except as described below under the caption “Federal Tax Laws”. The tax exemption described above does not extend to corporations required to include interest on the 2011 Bonds in the calculation of alternative minimum taxable income within the meaning provided in Section 56 of the Code, or to corporations that are required to include such interest in the calculation of the “Environmental Tax” under Section 59A of the Code. Other provisions of the Code will affect certain purchasers and holders of the 2011 Bonds. See “Federal Tax Laws” below.

Under the laws of the Commonwealth, the 2011 Bonds and the interest thereon shall at all times be free from taxation for State and local purposes within the Commonwealth, but this exemption shall not extend to gift, estate, succession or inheritance taxes or any other taxes not levied directly on the 2011 Bonds or the interest thereon. Under the laws of the Commonwealth, profits, gains or income derived from the sale, exchange or other disposition of certain government obligations, including the 2011 Bonds, shall be subject to state and local taxation within the Commonwealth of Pennsylvania.

The Authority will issue its certificate regarding the facts, estimates and circumstances in existence on the date of delivery of the 2011 Bonds and regarding the anticipated use of the proceeds of the 2011 Bonds. The Authority will certify that, on the basis of the facts, estimates and circumstances in existence on the date of issuance of the 2011 Bonds, the Authority does not reasonably expect to use the proceeds of the 2011 Bonds in a manner that would cause the 2011 Bonds to be or become “arbitrage bonds”, as defined in Section 148 of the Code.

Under the provisions of the Code, the Treasury Department is authorized and empowered to promulgate regulations implementing the intent of Congress under the Code which could affect the tax-exemption and/or tax consequences of holding tax-exempt obligations, such as the 2011 Bonds. In addition, legislation may be introduced and enacted in the future which could change the provisions of the Code relating to tax-exempt bonds of a state or local government unit such as the Authority.

No representation is made or can be made by the Authority or any other party associated with the issuance of the 2011 Bonds as to whether or not any other legislation now or hereafter introduced and enacted will be applied retroactively so as to subject interest on the 2011 Bonds to federal income taxes or so as to otherwise affect the marketability or market value of the 2011 Bonds.

EACH PURCHASER OF THE 2011 BONDS SHOULD CONSULT HIS OR HER OWN TAX ADVISOR REGARDING ANY CHANGES IN THE STATUS OF PENDING OR PROPOSED FEDERAL TAX LEGISLATION.

Federal Tax Laws

Numerous provisions of the Internal Revenue Code of 1986, as amended (the “Code”), affect the issuers of state and local government bonds, such as the Authority, and impair or restrict the ability of the Authority to finance projects on a tax-exempt basis. Failure on the part of the Authority to comply with any one or more of such provisions of the Code, or any regulations under the Code, could render amounts treated as interest on the 2011 Bonds

includable in the gross income of the owners thereof for purposes of federal income tax retroactively to the date of issuance of the 2011 Bonds. Among these provisions are more restrictive rules relating to (a) investment of funds treated as proceeds of the 2011 Bonds, (b) the advance refunding of tax-exempt bonds, and (c) the use of proceeds of the 2011 Bonds to benefit private activities. In addition, under the Code, the Authority is required to file an information return with respect to the issue and to “rebate” to the federal government certain arbitrage profits on an ongoing basis throughout the term of the issue.

Prospective purchasers of the 2011 Bonds should be aware that (i) Section 265 of the Code denies a deduction for interest on (A) indebtedness incurred or continued to purchase or carry certain state or local government bonds, such as the 2011 Bonds, or (B) in the case of a financial institution, that portion of a financial institution’s interest expense allocated to interest on certain state or local government bonds, such as the 2011 Bonds, unless the issuer of the state or local government bonds designates each of the bonds as a “qualified tax-exempt obligation” for the purpose and effect contemplated by Section 265(b)(3)(B) of the Code (the Authority has not designated the bonds as “qualified tax-exempt obligations”), (ii) for taxable years beginning after December 31, 1986, certain corporations must take into account amounts treated as interest on certain state or local bonds, such as the 2011 Bonds, in determining adjusted net book income (adjusted current earnings for taxable years beginning after December 31, 1989) for the purpose of computing the alternative minimum tax imposed on such corporation, (iii) with respect to insurance companies subject to the tax imposed by Section 831 of the Code, for taxable years beginning after December 31, 1986, Section 832(b)(5)(B) reduces the deduction for loss reserves by 15% of the sum of certain items, including interest and amounts treated as such on certain state or local government bonds, such as the 2011 Bonds, (iv) for taxable years beginning after December 31, 1986, interest on certain state or local government bonds, such as the 2011 Bonds, earned by certain foreign corporations doing business in the United States could be subject to a branch profits tax imposed by Section 884 of the Code, (v) if a Subchapter S corporation has passive investment income (which passive investment income will include interest on state and local government bonds, such as the 2011 Bonds) exceeding 25% of such Subchapter S corporation’s gross receipts and if such Subchapter S corporation has Subchapter “C” earnings and profits, then interest income derived from state and local government bonds, such as the 2011 Bonds, may be subject to federal income tax under the Code, and (vi) Section 86 of the Code requires recipients of certain Social Security and certain Railroad Retirement benefits to take into account, in determining gross income, receipts or accruals of interest on certain state or local government bonds, such as the 2011 Bonds.

THE ABOVE SUMMARY OF POSSIBLE TAX CONSEQUENCES IS NOT EXHAUSTIVE. ALL PURCHASERS OF BONDS SHOULD CONSULT THEIR TAX ADVISORS REGARDING THE POSSIBLE FEDERAL INCOME TAX CONSEQUENCES OF OWNERSHIP OF THE 2011 BONDS.

Regulations; Future and Proposed Legislation

Under the provisions of the Code, the Treasury Department is authorized and empowered to promulgate regulations implementing the intent of Congress under the Code which could affect

the tax-exemption and/or tax consequences of holding tax-exempt obligations, such as the 2011 Bonds.

Tax legislation, administrative actions taken by tax authorities, or court decisions, whether at the federal or state level, may adversely affect the tax-exempt status of interest on the Bonds under federal or state law and could affect the market price or marketability of the Bonds. On September 12, 2011, President Obama submitted to Congress a legislative proposal entitled the “American Jobs Act of 2011” (the “Jobs Act”). If enacted as proposed, the Jobs Act would limit for certain individual taxpayers the value of certain deductions and exclusions, including the exclusion for tax-exempt interest. The likelihood of the Jobs Act being enacted in the form introduced or in some other form cannot be accurately predicted at this time. **Prospective purchasers of the Bonds should consult their own tax advisors regarding the foregoing matters.**

Original Issue Discount

The difference between the final offering price to the public of the 2011 Bonds maturing on ____ through and including ____ (the “OID Bonds”) and the maturity amount of such OID Bonds is treated as original issue discount.

Because of the possibility of transfers, redemption or other disposition prior to maturity, the Code provides rules for the accrual of original issue discount on any tax-exempt obligation including any securities issued in the form of the 2011 Bonds. Original issue discount on the OID Bonds is treated as accruing in the manner provided by the Code with respect to original issue discount on taxable securities, except that the rules with respect to acquisition premium and de minimis original issue discount that apply to taxable securities will not apply to tax-exempt securities. Generally, an appropriate portion (depending on the holding period of the OID Bond by each purchaser) of the total amount of original issue discount payable at the maturity of the OID Bond will, upon disposition or payment of an OID Bond, be treated as a return of capital, rather than as taxable gain, for federal income tax purposes. The portion so treated will be determined by allocating the total original issue discount over the term of each OID Bond through a series of adjustments to the issue price for each accrual period. The adjustment to the issue price for each accrual period is determined by multiplying the issue price at the beginning of such accrual period (the issue price as increased by adjustments for all prior accrual periods) by the appropriate fraction of such OID Bond’s original yield to maturity and subtracting any current interest payment thereon during such accrual period.

Owners of OID Bonds should consult their professional tax advisors as to the precise determination for federal income tax purposes for interest accrued on and original issue discount accrued with respect to such OID Bonds upon any purchase, sale, redemption or other disposition or payment of such OID Bonds, and as to the state and local tax consequences of owning such OID Bonds.

Tax Treatment of Premium

The 2011 Bonds that mature on December 1 of the years ____ through and including ____ and ____ through and including ____ are being offered and sold to the public at a price in excess

of the principal amount thereof (the "Premium Bonds"). Under the Code, the difference between the principal amount of a Premium Bond and the cost basis of such Premium Bond to an owner thereof is "bond premium." A holder of a Premium Bond may elect to amortize the amount of such bond premium under a constant yield method over the term of the Premium Bond (i.e., the maturity date of the Premium Bond or its earlier call date). Amortizable bond premium will be treated as an offset to interest income on the Premium Bond, and the Code requires a reduction in basis of a Premium Bond for which amortizable bond premium is applied to offset interest income.

Owners of Premium Bonds (including purchasers of Premium Bonds in the secondary market) should consult their own tax advisors with respect to the precise determination for federal income tax purposes of the treatment of bond premium upon sale, redemption or other disposition of Premium Bonds and with respect to the state and local consequences of owning and disposing of Premium Bonds.

CONTINUING DISCLOSURE AGREEMENT

Certain provisions of the Continuing Disclosure Agreement (defined herein) are described below. Reference is made to the Continuing Disclosure Agreement for the detailed provisions thereof.

The Authority will agree, in a Continuing Disclosure Agreement of the Authority, dated the date of the issuance of the 2011 Bonds (the "Continuing Disclosure Agreement"), for the benefit of the Holders and beneficial owners from time to time of the Bonds, in accordance with, and as the only obligated person with respect to the 2011 Bonds under, Rule 15c2-12 (the "Rule") of the Securities and Exchange Commission (the "SEC"), to provide or cause to be provided such financial information and operating data (collectively, the "Annual Information"), audited financial statements and notices, in such manner, as may be required for purposes of paragraph (b)(5)(i) of the Rule, including specifically the following accompanied by such identifying information as is prescribed by the Municipal Securities Rulemaking Board ("MSRB"):

- (a) To the Electronic Municipal Market Access ("EMMA") system of the MSRB:
 - (1) Annual Information for each Authority fiscal year, ending on or after December 31, 2011, not later than the 270th day following the end of each fiscal year, consisting of the audited annual financial statements of the Authority. The Authority expects to provide directly the Annual Information.
 - (2) The Authority expects such financial statements to be prepared, that they will be available together with the Annual Information, and that the accounting principles to be applied in their preparation will be in accordance with the guidelines adopted by the Government Accounting Standards Board and American Institute of Certified Public Accountants' Audit Guide, Audits of State and Local Government.
- (b) in a timely manner not in excess of ten business days after the occurrence of the event, to file with the EMMA system notice of the occurrence of any of the following events with respect to the 2011 Bonds: (1) principal and interest payment delinquencies; (2)

non-payment related defaults, if material; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the security, or other material events affecting the tax status of the 2011 Bonds; (7) modifications to rights of holders of the 2011 Bonds, if material; (8) bond calls, if material, and tender offers; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the 2011 Bonds, if material; (11) rating changes; (12) bankruptcy, insolvency, receivership or similar event of the obligated person; (13) the consummation of a merger, consolidation, or acquisition involving an obligated person or the sale of all or substantially all of the assets of the obligated person, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and (14) appointment of a successor or additional trustee or the change of name of a trustee, if material.

- (c) in a timely manner to file with the EMMA system a notice of a failure to provide the required annual financial information specified above on or before the date specified above.

The Continuing Disclosure Agreement may be amended, and any of its provisions may be waived, if such amendment or waiver is supported by a legal opinion of independent counsel who is expert in federal securities laws, selected by the Authority, to the effect that such amendment or waiver would not, in and of itself, violate the Rule.

The Continuing Disclosure Agreement is solely for the benefit of the Holders and beneficial owners from time to time of the 2011 Bonds. The remedy for any breach of the Continuing Disclosure Agreement by the Authority is limited to a right of Holders and beneficial owners of to cause to be instituted and maintained certain legal proceedings to obtain the specific performance by the Authority of its obligations under the Continuing Disclosure Agreement. Any such proceedings may be instituted and maintained only after the Authority has been given 30 days notice of its failure to comply with the terms of the Continuing Disclosure Agreement and thereafter the Authority will have 30 days to comply with such terms. Thereafter, proceedings may be instituted and maintained to require the Authority to provide a pertinent filing if such a filing is due and has not been made. Any such proceedings to require the Authority to perform any obligation under the Continuing Disclosure Agreement (including any proceedings that contest the sufficiency of any pertinent filing) may be instituted and maintained only by the holders and Beneficial Owners of not less than 25% in principal amount of the 2011 Bonds then outstanding or their agent, or, in certain circumstances, the Trustee.

Any failure by the Authority to comply with any provision of the Continuing Disclosure Agreement will not constitute a failure or a default, or an event of default, under the Indenture or the 2011 Bonds.

The Continuing Disclosure Agreement will remain in effect only for such period that any of the 2011 Bonds are outstanding in accordance with their terms or until the Rule no longer applies to the 2011 Bonds.

As of the dated of this Official Statement, the Authority is in compliance with all prior undertakings pursuant to the Rule, to the extent and such undertakings have been made, through Fiscal Year ending December 31, 2010.

The Authority may from time to time choose to provide notice of the occurrence of certain other events, in addition to those listed above, but the Authority does not commit to provide notice of the occurrence of any events except those specifically listed above.

Effective July 1, 2009, the MSRB was designated by the SEC to be the central repository for ongoing disclosures by municipal issuers. Disclosure filings and notices are made available to investors through the MSRB's EMMA system which is accessible on the internet at <http://emma.org>.

MISCELLANEOUS

The Trustee

The principal of, interest and premium, if any, on the 2011 Bonds will be payable at the designated corporate trust office of the Trustee, provided that interest may be paid by check drawn on the Trustee and mailed to the Registered Owner on the appropriate Record Date.

The obligations and duties of the Trustee are described in the Indenture and the Trustee has undertaken only those obligations and duties which are expressly set out in the Indenture. The Trustee has not independently passed upon the validity of the 2011 Bonds, the security therefore, the adequacy of the provisions for payment thereof or the tax-exempt status of the interest on the 2011 Bonds.

Underwriting

The 2011 Bonds are being purchased by the Underwriter. The Underwriter has agreed to purchase the 2011 Bonds at a purchase price of \$_____ (representing par plus net original issue premium of \$_____ less an underwriting discount of \$_____), plus accrued interest. The Bond Purchase Agreement for the 2011 Bonds provides that the Underwriter will purchase all the 2011 Bonds, if any are purchased, in accordance with its terms. The initial public offering price, set forth on the cover page of this Official Statement, may be changed by the Underwriter from time to time without any requirement of prior notice. The Underwriter reserves the right to join with other dealers in offering the 2011 Bonds to the public, and said 2011 Bonds offered to other dealers may be at prices lower than those offered to the public.

Financial Advisor

The Authority has retained Concord Public Financial Advisors, Inc., Reading, Pennsylvania as financial advisor (the “Financial Advisor”) in connection with the preparation, authorization and issuance of the 2011 Bonds. The Financial Advisor is not obligated to undertake, and has not undertaken to make, an independent verification or to assume responsibility for the accuracy, completeness, or fairness of the information contained in the Official Statement. The Financial Advisor is an independent advisory firm and is not engaged in the business of underwriting, trading, or distributing municipal securities or other public securities.

Certain Relationships

Michael A. Setley, Esquire is a principal in the law firm of Georgeadis Setley, which firm is the Solicitor to the Authority and which firm is Bond Counsel to the Authority in connection with the issuance of the 2011 Bonds. Mr. Setley is also a principal of Concord Public Financial Advisors, Financial Advisor to the Authority.

Other

All the summaries of the provisions of the Act, and other laws, the 2011 Bonds and the Indenture hereinabove set forth are made subject to all the detailed provisions thereof, to which reference is hereby made for further information, and do not purport to be complete statements of any or all such provisions.

All information, estimates and assumptions herein have been obtained from officials of the Authority, other governmental bodies, trade and statistical services and other sources which are believed to be reliable, but no representations whatsoever are made that such estimates or assumptions are correct or will be realized. So far as any statements herein involve matters of opinion, whether or not expressly so stated, they are intended as such and not as representations of fact.

Appendices attached hereto are expressly incorporated herein as a part thereof.

READING AREA WATER AUTHORITY

By: _____
Chairman

APPENDIX A
READING AREA WATER AUTHORITY
ECONOMIC, DEMOGRAPHIC AND FINANCIAL INFORMATION

READING AREA WATER AUTHORITY

THE WATER SYSTEM

General

The first public supply of water delivered in Reading was introduced in 1821 by the Reading Water Company. The works then consisted of the Hampden Springs, a 2½" earthenware pipe leading to a small covered basin near Eleventh and Court Streets, and wooden pipes in the streets for distributing the water. As the population of the town increased and additional sources of water supply were introduced, all of these earlier pipes were replaced with larger pipes.

In 1865, the City of Reading purchased the entire works of the Reading Water Company for \$300,000.00. It consisted of the Hampden Springs, Bernhart, Egelman, and Mineral Spring gravity supplies; 3 basins at Eleventh and Penn Streets, 12 miles of cast iron pipes; 89 fire hydrants, 110 street valves with wooden boxes; and 147 acres of land with improvements.

At present, the water supply for the City of Reading is obtained from a single source. Lake Ontelaunee was constructed in 1926 and is located about 8 miles north of the City. Lake Ontelaunee has a water surface area of 1,082 acres and a capacity of 3.88 billion gallons. The design safe yield is 77 million gallons per day.

Raw lake water is delivered to the Maiden creek Filter Plant by gravity via a 2,800 foot long, concrete lined, 81 inch diameter pressurized tunnel and a 60 inch diameter 4,680 foot long concrete conduit, respectively.

The Maiden creek Filter Plant was constructed in 1935. Additions were made in 1956 and major renovations were made in 1994. The plant's capacity is 40 million gallons per day of treated water. The Centrifuge Plant is located adjacent to the Filter Plant. Its function is to separate sludge solids from its liquid form for disposal at the Authority's landfill.

The treated water from the Maiden creek Filter Plant flows by gravity through four (4) 30 inch siphons. These pipes are laid under Willow Creek to the two 5 million gallon clear water storage basins, then to the Maiden creek Pumping Station.

The Maiden creek Pumping Station capacity is 25 million gallons per day. Its average daily pumping rate is 14.8 million gallons. The water is pumped to the City's distribution system by 3 force mains, consisting of 36", 30" and 24" diameter water mains.

The distribution system consists of 210 miles of water mains, 1,894 fire hydrants and 4,135 valves. The distribution system is divided into four pressure zones with 2 additional pumping stations and 9 treated water reservoirs, with the capacity of 66.2 million gallons of storage.

Management Agreements

The Authority has entered into an agreement with Miller Environmental, Inc. for the services of a qualified water filter plant manager, who is responsible for the management of all operational and maintenance activities of the water filter plant. The agreement is automatically renewable annually unless one of the parties gives written notice of their intent to terminate the agreement. Total expense under the agreement for the years ended December 31, 2010 and 2009 was \$136,990 and \$123,628, respectively. In addition, the Authority has entered into an Agreement with Miller Environmental, Inc. to perform executive director services for the Authority.

Water Reading Services Agreement

The Authority has entered into an agreement with Miller Environmental, Inc. to perform water reading services in the Authority's service area. Under the terms of the original agreement, the Authority pays a monthly operating fee of \$29,624 plus additional hourly charges for services performed outside the scope of the agreement. The monthly fee and hourly rates are subject to a 5% increase per year, effective March 1 of each year. The agreement was extended March 1, 2006 for a three-year term and is automatically renewable for three-year terms unless one of the parties give written notice of their intent to terminate the agreement. Total expense under the agreement for the years ended December 31, 2010 and 2009 was \$498,226 and \$474,501, respectively.

Description of the Service Area

There are approximately 30,250 service connections that service approximately 150,000 people in the following municipalities: City of Reading, portions of Bern Township, portions of Ontelaunee Township, portions of Muhlenberg Township, portions of Cumru Township, portions of Lower Alsace Township and the Borough of Kenhorst. The Authority is also a back-up supply to the Western Berks Water Authority.

The System Facilities

Customers

At the end of 2010, there were over 30,000 connections to the Water System. Of all water delivered, approximately 30% is delivered to residential connections, approximately 20% to Industrial connections and approximately 25% to Commercial connections. Approximately 25% of all water delivered is "unaccounted for."

Water Consumption Demand

In 2010, the Authority sold water (metered consumption) to its customers at an average rate of approximately 11,500,000 million gallons per day ("mgd"). The average daily demand -- or water production -- was approximately 15,000,000 mgd. The maximum daily demand on the system is projected to increase from a current level of about 19,150,000 mgd to about 22,650,000 mgd by the year 2020.

Source, General

The Authority's Water System is currently served exclusively from the Maiden Creek Filter Plant ("MFP"), which has a safe daily yield of 35 million gallons per day. An emergency intake is in place along the Maiden Creek. Additional information on these sources is provided below. It is expected that these same sources will continue to serve the Authority, although the quantities contributed from each source will change over time, as outlined in the following table.

Treatment

Complete conventional filtration treatment is employed at MFP, and that level of treatment is expected to continue indefinitely. The MFP is a state-of-the-art facility incorporating such processes as screening, coagulation, flocculation, filtration, PH adjustment, disinfection, corrosion treatment and granular activated carbon absorption.

Permits and Licenses

The Authority and its operations are subject to extensive regulation by governmental authorities. The Authority is required to obtain and maintain permits and licenses from various governmental bodies in order to continue its operations.

Distribution Facilities

The main water system is composed of four pressure zones.

The Water System includes eleven distribution storage facilities, which control water pressures within their respective service area. The combined water system storage capacity is 66 million gallons.

The Water System contains three transfer stations, which allow transfer of water between service levels.

The Water System's pipeline network consists of approximately 1,108,800 feet of 4-inch through 36-inch cast iron, ductile iron and asbestos-cement pipe. Approximately 1,894 fire hydrants are installed in the Service Area for fire protection services.

Pumping operations are automated and controlled by a (SCADA) supervisory control system. Pumping is based on water pressure, system demands and water levels in the distribution storage facilities.

The Water System includes an office complex, an operations center and garage and maintenance buildings for the Authority's operations.

Schedule of Water Rates

The Authority imposed a substantial increase in consumption charges to large water users effective March 1, 2007. In addition, under the Authority's rate resolutions, rates will increase 3% per year beginning January 1, 2008 without further action by the Authority. On March 8, 2011 it was resolved that all Authority rates and charges, including those for water consumption, meter fees, meter surcharges and all other services, such as abandonment fees, service restoration fees and meter tampering fees, exempting only Tapping Fees, shall increase by 12% and an additional rate increase of approximately 10% will be instituted in 2012. Authority rates are not subject to review or approval of the Pennsylvania Public Utility Commission or any other entity with authority to review or approve rates.

Authority Employment

The Authority entered into a collective bargaining agreement with AFSCME relating to rank and file employees and with AFSCME with respect to first level supervisory employees in 2011. Both agreements expire on December 31, 2015. The Authority employs approximately 70 rank and file union employees and approximately 10 supervisory union employees. In addition, the Authority employs three Division Superintendents and approximately five non-union administrative staff persons. The Executive Director position of the Authority is contracted to Miller Environmental Services. The Authority also contracts for meter reading services with a private company.

RATES

Service Charges

<u>Meter Size</u>	<u>Water</u>	<u>Sewer</u>	<u>Meter Surcharge</u>
0.62"	\$8.36	\$13.50	\$6.14
0.75"	\$16.36	\$26.44	\$6.14
1.00"	\$27.62	\$44.63	\$24.14
1.25"	\$43.24	\$69.88	\$37.79
1.50"	\$49.46	\$79.93	\$43.21
2.00"	\$81.49	\$131.69	\$71.20
3.00"	\$158.82	\$256.65	\$138.78
4.00"	\$197.08	\$318.47	\$172.19
6.00"	\$389.12	\$628.82	\$340.01
8.00"	\$968.72	\$1,565.45	\$846.44
10.00"	\$1,509.19	\$2,438.85	\$1,318.70

Service Charges for Fire Connections

Meter Size	Water	Sewer	Meter Surcharge
2.00"	\$26.36	\$0.00	\$23.00
3.00"	\$39.11	\$0.00	\$34.17
4.00"	\$65.44	\$0.00	\$57.18
6.00"	\$119.84	\$0.00	\$104.70
8.00"	\$176.77	\$0.00	\$154.45
10.00"	\$232.86	\$0.00	\$203.45

Consumption charges .62" Meters

	Water	Sewer
Per 1,000 Cu Ft	\$3.300	\$5.3400
Per 1,000 Gallons	\$4.420	\$7.1500

Consumption charges .75 to 10" meters

	Per 100 Cu Ft	
	Water	Sewer
First 100,000 Cu Ft	\$4.070	\$6.570
Next 400,000 Cu Ft	\$3.560	\$5.760
Over 500,000 Cu Ft	\$3.000	\$4.850

	Per 1,000 Gallons	
	Water	Sewer
First 750,000 Gallons	\$5.440	\$8.800
Next 3,000,000 Gallons	\$4.760	\$7.690
Over 3,750,000 Gallons	\$4.010	\$6.480

Largest Commercial and Industrial Users

Customer	Billing Amount	Current Usage
Reading Housing Authority	\$1,711,079.78	13,365,017
Ontelaunee Power Operating LLC	1,272,417.58	43,221,010
United Corrstack LLC	964,444.92	2,138,148
Bern Township Municipal Authority	778,263.65	13,225,250
Pfisterer Partnership Biesenbac	599,413.60	724,782
Carpenter Technology Corp	487,788.48	9,562,883
Carpenter Technology Corp	481,173.92	3,070,514
Sweet Street Desserts, Inc.	414,192.08	2,754,953
Cambridge Lee Industries	386,720.51	7,205,417
Burgoe Realty	305,795.60	966,490

Source: Authority officials

READING AREA WATER AUTHORITY
(Berks County, Pennsylvania)
Statements of Net Assets
For the years ended December 31

	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
ASSETS				
CURRENT ASSETS				
Unrestricted Assets				
Cash and cash equivalents	\$7,826,411	\$7,160,432	\$5,561,465	\$5,876,463
Accounts receivable*	3,015,021	2,011,542	2,287,226	2,366,265
Due from the City of Reading	0	0	2,885,349	2,696,356
Other receivable	197,154	1,522,284	153,874	0
Accrued interest receivable	0	33,211	25,082	43,984
Prepaid expenses	<u>5,000</u>	<u>6,973</u>	<u>49,108</u>	<u>0</u>
Total Current Assets	11,043,586	10,734,442	10,962,104	10,983,068
Restricted Assets				
Cash and temporary investments held by trustee				
Construction Funds	20,132,239	19,249,101	15,725,144	12,376,828
Debt service funds	2,527,039	1,479,574	334,295	3
Debt service reserve funds	3,905,086	3,962,743	4,065,061	4,044,552
Clearing funds	35,931	10,176	10,177	93,107
Escrow funds	<u>76,084</u>	<u>150,552</u>	<u>111,835</u>	<u>96,376</u>
Total Restricted Assets	26,676,379	24,701,594	20,246,512	16,610,866
TOTAL CURRENT ASSETS	37,719,965	35,436,036	31,208,616	27,593,934
CAPITAL ASSETS				
Leasehold improvements	10,263,846	15,834,380	16,107,640	19,167,334
Equipment	1,253,805	2,150,491	2,588,931	3,808,904
Vehicles	907,730	1,168,306	1,491,011	1,654,792
Computers and software	291,834	356,334	382,334	451,593
Construction progress	<u>5,650,672</u>	<u>1,318,329</u>	<u>5,328,755</u>	<u>9,601,615</u>
	18,367,887	19,509,511	20,569,916	25,082,623
Accumulated depreciation	<u>(3,587,846)</u>	<u>(4,258,962)</u>	<u>(5,164,324)</u>	<u>(6,244,764)</u>
Capital assets, net	14,780,041	16,568,878	20,734,347	28,439,474
OTHER ASSETS				
Due from City – Pennvest loan assumption	5,361,889	4,065,603	2,756,295	1,433,833
Unamortized bond issue costs, net of accumulated**	1,025,855	961,468	897,081	832,694
Leased land rights	0	0	0	1,020,000
Total Other Assets	<u>6,387,744</u>	<u>5,027,071</u>	<u>3,653,376</u>	<u>3,286,527</u>
TOTAL ASSETS	<u>\$58,887,750</u>	<u>\$57,182,537</u>	<u>\$55,596,339</u>	<u>\$59,319,935</u>

*net of allowance of \$1,008,300 (2007); \$1,556,065 (2008); \$2,079,125 (2009); \$2,761,231 (2010)

**net of accumulated amortization of \$203,197 (2007); \$231,270 (2008); \$295,657 (2009); \$295,657 (2010)

Source: Authority Audited Financial Statements

READING AREA WATER AUTHORITY
(Berks County, Pennsylvania)
Statements of Net Assets

For the years ended December 31

	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
LIABILITIES AND NET ASSETS				
CURRENT LIABILITIES, payable from current assets				
Accounts payable	\$268,290	\$91,255	\$591,669	\$1,884,112
Accrued interest	117,830	110,052	109,516	114,079
Due to City of Reading	1,252,117	1,253,482	0	0
Note payable	82,943	0	0	0
Revenue bonds payable	190,000	0	0	0
Pennvest loans payable	1,447,222	0	0	0
Current maturities of long-term debt	0	1,748,544	1,782,478	2,479,300
Escrow deposits	<u>75,388</u>	<u>147,779</u>	<u>108,606</u>	<u>92,808</u>
Total Current Liabilities	3,433,790	3,351,112	2,592,269	4,570,299
NONCURRENT LIABILITIES				
Note payable	201,792	0	0	0
Revenue bonds payable	48,145,000	0	0	0
Pennvest loans payable	5,732,799	0	0	0
Unamortized interest on capital appreciation bonds	(6,679,135)	0	0	0
Unamortized bond premium	<u>893,285</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total Non Current Liabilities	<u>48,293,741</u>	<u>0</u>	<u>0</u>	<u>0</u>
TOTAL LIABILITIES	51,727,531	3,351,112	2,592,269	4,570,299
OTHER LONG-TERM LIABILITY, interest rate swap	0	0	226,475	332,995
LONG-TERM DEBT, less current maturities	0	0	45,914,773	48,699,114
NET ASSETS				
Invested in capital assets, net of related debt	0	0	0	0
Restricted for (net of related debt):				
Capital Projects	0	0	0	0
Debt Service	0	5,442,317	4,399,356	4,044,555
Unrestricted	<u>7,160,219</u>	<u>1,281,066</u>	<u>2,463,466</u>	<u>1,672,972</u>
Total Net Assets	7,160,219	6,723,383	6,862,822	5,717,527
TOTAL LIABILITIES AND NET ASSETS	<u>\$58,887,750</u>	<u>\$57,182,537</u>	<u>\$55,596,339</u>	<u>\$59,319,935</u>

Source: Authority Audited Financial Statements

READING AREA WATER AUTHORITY
(Berks County, Pennsylvania)
Statement of Revenues and Expenses
For the years ended December 31,

	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
Operating Revenues					
Water billings	\$14,335,160	\$16,387,626	\$16,604,898	\$18,237,476	\$19,987,932
Interest and penalty charges	0	818,503	341,901	415,319	395,410
Tampered meter and other charges	212,107	217,273	189,553	282,498	397,579
Tapping and connection fees	93,387	312,514	283,575	157,979	157,335
Abandonment and hydro fees	<u>39,107</u>	<u>90,289</u>	<u>87,264</u>	<u>21,419</u>	<u>51,519</u>
Total Operating Revenues	14,679,761	17,826,205	17,507,191	19,114,691	20,989,775
Operating and Administrative Expenses					
Lease Payments – City of Reading	11,822,143	12,830,326	13,276,508	14,071,200	16,790,137
Depreciation	586,344	625,085	0	0	0
Meter Reading	409,892	430,386	451,906	474,501	498,226
Collections Expense	105,197	284,334	193,709	177,026	155,764
Engineering	111,636	71,226	79,926	95,930	38,974
Legal fees	72,925	71,024	85,105	85,337	118,231
Salaries and payroll taxes	107,915	92,746	105,097	116,393	197,650
Insurance	48,647	68,604	95,147	47,018	99,231
Licenses and reporting	14,811	0	0	0	0
Bank charges	20,366	18,505	8,676	12,989	5,778
Grant expenditures	89,366	30,891	54,682	112,985	56,280
Accounting	22,235	17,875	53,529	61,356	64,309
Employee benefits	26,047	11,720	7,959	8,566	13,854
Telephone	11,080	11,328	10,733	11,032	11,066
Contracted Services	21,297	118,336	117,085	123,628	136,990
Advertising	1,010	1,720	2,526	1,860	1,404
Education	150	3,213	2,282	4,038	2,255
Supplies	7,004	2,595	2,747	4,385	8,383
Repairs and maintenance	34,428	500	260,161	86,346	49,801
Other professional services – rate study	23,700	15,800	15,000	0	23,045
Bad debt expense (recoveries)	426,498	305,430	547,765	523,060	682,106
ISO flow testing	0	0	0	0	122,093
Lake Ontelaunee dredging	0	0	0	0	163,207
Total Operating and Admin Expenses	<u>13,962,691</u>	<u>15,011,644</u>	<u>15,370,543</u>	<u>16,017,650</u>	<u>19,238,784</u>
Net Operating Income (Loss)	717,070	2,814,561	2,136,648	3,097,041	1,750,991
Other Revenues (Expenses)					
Grants	126,469	70,684	0	4,273	101,594
Interest income	316,179	818,392	756,337	221,745	220,419
Swap income, net	0	0	421,325	3,682	12,587
Miscellaneous income	255,293	26,120	5,053	15,607	26,587
Change in value of interest rate swap	0	0	0	582,057	(106,520)
Depreciation	0	0	(671,116)	(905,362)	(1,080,440)
Amortization of bond issuance costs	(29,717)	(44,163)	(64,387)	(64,387)	(64,387)
Interest expense	(755,274)	(1,384,039)	(1,957,754)	(1,973,668)	(1,994,785)
Miscellaneous expense	<u>(3,268)</u>	<u>(5,156)</u>	<u>(24,110)</u>	<u>(33,017)</u>	<u>(11,341)</u>
Net Other Revenues (Expenses)	<u>(90,318)</u>	<u>(518,162)</u>	<u>(1,534,652)</u>	<u>(2,149,070)</u>	<u>(2,896,286)</u>
Net Income (Loss)	626,752	2,296,399	601,996	947,971	(1,145,295)
Contributions for Capital Improvements	960,464	0	1,460,134	0	0
Net Assets at Beginning of Year	<u>726,604</u>	<u>2,313,820</u>	<u>4,610,219</u>	<u>5,914,851*</u>	<u>6,862,822</u>
Prior period adjustments	0	0	51,034	0	0
Net Assets at End of Year	<u>\$2,313,820</u>	<u>\$4,610,219</u>	<u>\$6,723,383</u>	<u>\$6,862,822</u>	<u>\$5,717,527</u>

Source: Authority Audited Financial Statements

*Restatement of (\$808,532) per GASB 53 (2010 Audited Financial Statements)

Reading Area Water Authority
Historical Debt Service Coverage Calculations

	2006	2007	2008	2009	2010
Operating and Non-Operating Revenues	15,377,702	19,209,494	19,928,975	20,599,067	21,861,477
Operating Expenses (not including Depreciation and Amortization)	13,962,691	15,011,644	15,370,543	16,017,650	19,238,784
Excess of Revenues over Operating Expenses (not including Depreciation and Amortization)	1,415,011	4,197,850	4,558,432	4,581,417	2,622,693
Annual Bond Debt Service	590,238	1,057,522	1,826,565	1,824,228	1,857,454
Debt Service Coverage	2.40	3.97	2.50	2.51	1.41

DEMOGRAPHIC - OTHER

Population

Shown below are statistics from the Bureau of Census illustrating population trends over the last three decades for the County and comparable statistics for the City of Reading.

Census Information

U.S. Census

	<u>2010</u>	<u>2000</u>	<u>1990</u>	<u>1980</u>	<u>% Change 2000-2010</u>
City of Reading	88,082	81,207	78,380	78,643	3.61%
County of Berks	411,442	373,638	336,523	312,509	11.03%
Commonwealth	12,702,379	12,281,054	11,884,643	11,863,895	3.23%

	<u>Area in Square Miles</u>	<u>2010 Pop. Density per Square Mile</u>	<u>2000 Pop. Density per Square Mile</u>	<u>1990 Pop. Density per Square Mile</u>	<u>1980 Pop. Density per Square Mile</u>
City of Reading	9.9	8,897.2	8,202.7	7,917.2	7943.7
County of Berks	864.3	476.0	432.3	389.3	361.5

Source: U.S. Census Bureau

The following table analyzes the composition of the population of the County by age group and gender.

Berks County

Age and Population Composition

<u>Age Group</u>	<u>Male</u>	<u>Female</u>	<u>Total</u>
0 to 5	13,001	12,287	25,288
5 to 9	13,664	13,296	26,960
10 to 14	14,384	13,444	27,828
15 to 19	16,247	15,538	31,785
20 to 24	13,675	13,680	27,355
25 to 29	11,605	11,679	23,284
30 to 34	11,322	11,551	22,873
35 to 39	12,352	12,828	25,180
40 to 44	14,178	14,545	28,723
45 to 49	15,863	16,202	32,065
50 to 54	15,373	15,268	30,641
55 to 59	13,202	13,469	26,671
60 to 64	11,358	11,873	23,231
65 to 69	7,849	8,856	16,705
70 to 74	5,947	6,924	12,871
75 to 79	5,004	6,335	11,339
80 to 84	3,858	5,592	9,450
85+	<u>2,982</u>	<u>6,211</u>	<u>9,193</u>
Totals	201,864	209,578	411,442

Source: U.S. Census 2000.

Income

According to 2000 census data, the median family income in the County exceeds that of the City of Reading and the Commonwealth. Per capita income for the County is slightly higher than that of the Commonwealth. The following tables illustrate these statistics:

	<u>Median Income 2000</u>		
	<u>Berks County</u>	<u>City of Reading</u>	<u>Commonwealth of Pennsylvania</u>
Median Family Income	\$52,997	\$31,067	\$40,106
Below Poverty Level	9.4%	22.3%	11.0%

Source: United States Census Bureau - 2000

	<u>Per Capita Income</u>		
	<u>1990</u>	<u>2000</u>	<u>Percentage Increase 1990-2000</u>
Berks County	\$14,604	\$21,232	45.4%
Commonwealth of Pennsylvania	\$14,068	\$20,880	48.4%

Source: Pennsylvania State Data Center, 2000 Census.

**Housing Tenure for the
Reading MSA and Counties in the Philadelphia CMSA - 2010**

	<u>Percent Owner Occupied</u>	<u>Percent Renter Occupied</u>	<u>Percent Vacant</u>
Berks County	71.7%	28.3%	6.4%
Delaware County	70.5%	29.5%	6.4%
Bucks County	77.1%	22.9%	4.5%
Chester County	76.2%	23.8%	5.0%
Montgomery County	73.1%	26.9%	5.5%
Philadelphia County	54.1%	45.9%	10.5%

Source: Bureau of the Census, 2010 Census of Housing, General Housing Characteristics, Pennsylvania.

**Characteristics of Houses in the County
Occupied Housing Units
2010**

	<u>Berks County</u>	<u>City of Reading</u>	<u>Commonwealth of Pennsylvania</u>
Total Housing Units	154,356	29,979	5,018,904
Owner	71.7%	42.4%	69.6%
Renter	28.3%	57.6%	30.4%

Source: U.S. Department of Commerce, Bureau of Census.

Composition of County Housing Stock -- 2000

	<u>Total</u>	<u>1 Unit</u>	<u>2-9 Units</u>	<u>10 or more Units</u>	<u>Mobile Homes and Trailers</u>
All Year Round					
Housing Units	150,222	116,403	19,293	8,796	5,730
Percent	100%	77.49%	12.84%	5.86%	3.81%

Source: United States Department of Commerce. Bureau of the Census, 2000 Census of Housing, detailed Housing Characteristics, Pennsylvania.

**CLASSIFICATION OF BERKS COUNTY MANUFACTURING EMPLOYMENT
DISTRIBUTION OF EMPLOYMENT
READING MSA***

	September <u>2011</u>	September <u>2010</u>
Total Nonfarm	170,400	167,700
Total Private	146,900	144,300
Goods Producing	36,000	35,000
Service-Providing	134,400	132,700
Private Service Providing	110,900	109,300
Construction, Natural Resources and Mining	7,800	7,300
Manufacturing	28,200	27,700
Durable Goods	19,200	18,600
Non-Durable Goods	9,000	9,100
Trade	33,800	33,000
Wholesale Trade	7,200	7,000
Retail Trade	19,400	18,800
Transportation	7,200	7,200
Information	1,300	1,300
Financial Activities	6,600	6,600
Professional and Business Services	19,400	19,600
Education and Health Services	27,900	27,200
Leisure and Hospitality	13,900	13,800
Other Services	8,000	7,800
Government	23,500	23,400

Source: Pennsylvania State Employment Service

*Non-Agricultural Wage and Salary Employment; establishment data.

Industry. Principal manufacturers in the County include textile mill products, primary and fabricated metals, machinery, food and kindred products and transportation equipment. The comparative importance of manufacturing as well as the variety of industrial employment opportunities available in the County is illustrated below.

Industrial and Commercial Employers. The major industrial and commercial employers located within the County and their approximate employment are shown hereunder:

The largest public and private employers of the County and their approximate employment are as follows:

<u>Employer</u>	<u>Business Type</u>	<u>Approximate Employment</u>
Reading Hospital and Medical Center	General Hospital	4,076
East Penn Manufacturing Co., Inc.	Battery Manufacturer	3,852
County of Berks	County Government	2,658
Boscov's Department Store, Inc.	Department Stores	2,087
Reading School District	Public Education	1,898
Carpenter Technology Corp.	Specialty Steel	1,775
Reading Area Community College	Communtiy College	1,500
St. Joseph Medical Center	General Hospital	1,475
Sovereign Bank	Finance / Banking	1,359
First Energy / Met Ed Regional	Utility	1,373
Boyertown Area School District	Public Education	1,200

Source: Berks County Chamber of Commerce

Commerce. The downtown area of the City of Reading and other locations throughout the County provide shopping areas for residents. A wide variety of goods and services are provided by the retail outlets located in the central city and in outlying suburban areas. Additionally, the downtown and suburban areas provide auxiliary facilities such as theaters, restaurants and various banking, legal and medical services. Supplementing the central shopping area are various commercial centers in the areas surrounding the City including the Berkshire Mall in the Borough of Wyomissing where Sears Roebuck and Company and the Bon-Ton are located, the Fairgrounds Square Mall in Muhlenberg Township where Boscov's, and JC Penney Outlet Store are located and the VF Factory Outlets in the Borough of Wyomissing.

The following table depicts unemployment rates in the County, as compared to the Commonwealth and the United States, from 1999 through August, 2011 (not seasonally adjusted).

<u>Unemployment Rates - 1999-2011</u>			
<u>Year</u>	<u>Berks County</u>	<u>Pennsylvania</u>	<u>United States</u>
1999	3.2%	3.8%	3.8%
2000	4.0	4.2	4.0
2001	4.9	4.7	4.7
2002	6.5	5.7	5.8
2003	5.9	5.7	6.0
2004	5.2	5.4	5.5
2005	4.8	5.0	5.1
2006	5.2	5.4	5.5
2007	4.2	4.4	4.6
2008	5.4	5.3	5.3
2009	8.7	8.0	8.0
2010	9.2	8.7	8.7
2011 *	8.7	8.2	9.1

*August, 2011

Source: Pennsylvania Department of Labor & Industry

Financial Institutions

The following shows a listing of the commercial banks and savings and loan associations which are located in the Service Area Municipalities: Fulton Bank, Susquehanna Bank, Wells Fargo Bank, Sovereign Bank, Citizens Bank and Metro Bank.

Transportation

Norfolk Southern Company, Reading Regional Airport, several bus lines and trucking concerns provide freight and passenger services. A steadily improving network of local and regional highways and by-passes makes the area accessible to all areas of the eastern seaboard and Harrisburg to the west.

Higher Education

A variety of institutions of higher learning are located in Reading and Berks County. Included are four degree-granting institutions and a number of business schools. The larger institutions in the area are Penn State Berks-Lehigh Valley College, Albright College, Alvernia University and Kutztown University of Pennsylvania which offers master's degrees in business administration, education, library education and various fields of the arts and sciences. The County of Berks is the sponsoring government for the Reading Area Community College and appoints members to the Board of Trustees.

Medical Facilities

The County is served by five medical centers, three medical and dental laboratories, two general hospitals and five medical-like specialized institutions which deal with geriatric patients, mental, tubercular and retarded patients, and the physically handicapped.

APPENDIX B

SPECIMEN MUNICIPAL BOND INSURANCE POLICY

APPENDIX C

AUTHORITY AUDITED FINANCIAL STATEMENTS

READING AREA WATER AUTHORITY

A COMPONENT UNIT OF THE CITY OF READING

FINANCIAL REPORT

DECEMBER 31, 2010

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INDEPENDENT AUDITOR'S REPORT

**To the Members of the Board
Reading Area Water Authority
Reading, Pennsylvania**

We have audited the accompanying basic financial statements of the Reading Area Water Authority, a component unit of the City of Reading, Pennsylvania, as of and for the years ended December 31, 2010 and 2009, as listed in the table of contents. These financial statements are the responsibility of the Reading Area Water Authority's management. Our responsibility is to express an opinion on these financial statements based on our audits.

Except as discussed in the following paragraph, we conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As of December 31, 2010, the Authority was unable to provide records that reflect accounts receivable balances due by customer.

In our opinion, except for the effects of such adjustments on the 2010 financial statements, if any, as might have been determined necessary had we been able to examine records reflecting accounts receivable balances due by customer, the financial statements referred to above present fairly, in all material respects, the financial position of the Reading Area Water Authority as of December 31, 2010 and 2009, and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on Pages 2 through 6 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Reinsel Kuntz Lesher LLP

**Wyomissing, Pennsylvania
August 25, 2011**

READING AREA WATER AUTHORITY
A COMPONENT UNIT OF THE CITY OF READING
MANAGEMENT'S DISCUSSION AND ANALYSIS

The Management of the Reading Area Water Authority (the "Authority") offers readers of our financial statements the following narrative overview and analysis of our financial activities for the year ended December 31, 2010.

Financial Highlights

- Unrestricted current assets exceed current liabilities by \$ 6,412,769 at the close of the year. This is compared to \$ 8,369,835 and \$ 7,383,330 at the close of the 2009 and 2008 years, respectively.
- Total net assets increased (decreased) by \$ (1,145,295) and \$ 947,971 at the close of the 2010 and 2009 years over the total net assets balance at the close of the 2009 and 2008 years, respectively. The 2010 decrease is largely due to an increase in lease payments to the City of \$ 2,718,937 in addition to \$ 308,000 in expenses related to a rate study, ISO flow testing and dredging of Lake Ontelaunee.
- The Authority had a net operating income of \$ 606,164 at the close of the year compared to a net operating income of \$ 2,127,292 and \$ 1,401,145 at the close of the 2009 and 2008 years, respectively. This decrease in net operating income is the result of an increase in operating expenses of \$ 3,221,134.
- The statement of cash flows, which identifies the sources and uses of cash activities for the fiscal year, indicates that operating cash increased by \$ 314,998 and decreased \$ 1,598,967 at the close of the 2010 and 2009 fiscal years, respectively, compared to the cash balance at the close of the 2009 and 2008 years, respectively. The 2010 increase is largely due to the increase in net cash provided by operating activities.
- During the year ended December 31, 2010, the Authority adopted Government Accounting Standards Board Statement No. 53, *Accounting and Financial Reporting for Derivatives*. The December 31, 2010 and 2009 statements of net assets include a liability for interest rate swaps of \$ 332,995 and \$ 226,475, respectively. The statements of revenues, expenses and changes in net assets for the years ended December 31, 2010 and 2009 include a nonoperating revenue (expense) item of \$ (106,520) and \$ 582,057, respectively, for the change in value of the interest rate swaps. The January 1, 2009 net assets were decreased by \$ 808,532 to reflect the interest rate swap liability at January 1, 2009.

Basic Financial Statements

Our basic financial statements are prepared on the accrual basis of accounting using an economic resources measurement focus, which is basically the same as what is used in for profit businesses in the private sector. The basic financial statements include statements of net assets, statements of revenues, expenses and changes in net assets, statements of cash flows and notes to the financial statements.

The statements of net assets present information on the assets and liabilities, with the difference between assets and liabilities reported as net assets. The increases and decreases in net assets over time may be a useful indicator of the finances of the Authority as to whether it is improving or deteriorating.

The statements of revenues, expenses and changes in net assets of the Authority for the year show the detail of net income or loss being combined with the beginning net assets balance, resulting in the ending net assets for the year.

The statements of cash flows report cash activities for the year resulting from operating activities, noncapital financing activities, capital and related financing activities, and investing activities. The net result of these activities, added to the beginning of the year cash balance, reconciles to the cash balance at the end of the current year.

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the financial statements.

Financial Information

Net Assets. The following schedule presents a summary of net assets comparison for the years ended December 31, 2010, 2009 and 2008:

	2010	2009	2008
Unrestricted current assets	\$ 10,983,068	\$ 10,962,104	\$ 10,734,442
Restricted current assets	16,610,866	20,246,512	24,852,146
Capital assets, net	28,439,474	20,734,347	16,568,878
Other assets, net	<u>3,286,527</u>	<u>3,653,376</u>	<u>5,027,071</u>
 Total assets	 <u>59,319,935</u>	 <u>55,596,339</u>	 <u>57,182,537</u>
 Current liabilities	 4,570,299	 2,592,269	 3,351,112
Other long term liability, interest rate swap	332,995	226,475	808,532
Long-term debt, net	<u>48,699,114</u>	<u>45,914,773</u>	<u>47,108,042</u>
 Total liabilities	 <u>53,602,408</u>	 <u>48,733,517</u>	 <u>51,267,686</u>
 Net assets:			
Invested in capital assets, net	-	-	-
Restricted for debt service	4,044,555	4,399,356	5,442,317
Unrestricted assets	<u>1,672,972</u>	<u>2,463,466</u>	<u>472,534</u>
 Total net assets	 <u>\$ 5,717,527</u>	 <u>\$ 6,862,822</u>	 <u>\$ 5,914,851</u>

A large portion of the Authority's total current assets is invested in construction funds (e.g., cash restricted for infrastructure and improvements).

Current liabilities increased by 76.3% in 2010 compared to a decrease of 22.6% in 2009, mostly because of the increase in current maturities of long-term debt and increase in trade accounts payable, specifically for a \$ 1,020,000 payment to the City of Reading for rights to leased land.

Revenues. The following schedule presents a summary of revenue for the years ended December 31, 2010, 2009 and 2008:

	2010	2009	2008
Water billings	\$ 19,987,932	\$ 18,237,476	\$ 16,604,898
Interest and penalty charges	395,410	415,319	341,901
Tampered meter and other charges	397,579	282,498	189,553
Tapping and connection fees	157,335	157,979	283,575
Abandonment fees	<u>51,519</u>	<u>21,419</u>	<u>87,264</u>
Total operating revenues	<u>\$ 20,989,775</u>	<u>\$ 19,114,691</u>	<u>\$ 17,507,191</u>

The 2010 fiscal year's total operating revenue increased by 9.8% compared to 2009 and increased by 9.2% in 2009 and decreased (1.8%) in 2008.

Expenses. The following schedule presents a summary of expenses for the years ended December 31, 2010, 2009 and 2008:

	2010	2009	2008
Operating expenses:			
Lease payments, City of Reading	\$ 16,790,137	\$ 14,071,200	\$ 13,276,508
Meter reading	498,226	474,501	451,906
Other	<u>1,950,421</u>	<u>1,471,949</u>	<u>1,642,129</u>
Total operating expenses	<u>\$ 19,238,784</u>	<u>\$ 16,017,650</u>	<u>\$ 15,370,543</u>

The largest portion of the \$ 3,221,134 increase in expenses is the result of an increase in lease payments to the City of Reading in the amount of \$ 2,718,937.

Changes in Net Assets. The following schedule presents a summary of changes in net assets for the years ended December 31, 2010, 2009 and 2008:

	2010	2009	2008
Operating revenues	\$ 20,989,775	\$ 19,114,691	\$ 17,507,191
Operating expenses	<u>19,238,784</u>	<u>16,017,650</u>	<u>15,370,543</u>
Operating income before depreciation and amortization	1,750,991	3,097,041	2,136,648
Depreciation and amortization	<u>1,144,827</u>	<u>969,749</u>	<u>735,503</u>
Operating income	606,164	2,127,292	1,401,145
Nonoperating revenues (expenses)	<u>(1,751,459)</u>	<u>(1,179,321)</u>	<u>(1,403,342)</u>
Income (loss) before capital contributions	(1,145,295)	947,971	(2,197)
Capital contributions	<u>-</u>	<u>-</u>	<u>1,460,134</u>
Increase in net assets	<u>\$ (1,145,295)</u>	<u>\$ 947,971</u>	<u>\$ 1,457,937</u>

**Statement of Changes in Net Assets
Year Ended December 31, 2010**

	Beginning Balance	Increase (Decrease)	Ending Balance
Invested in capital assets, net	\$ -	\$ -	\$ -
Restricted	4,399,356	(354,801)	4,044,555
Unrestricted	<u>2,463,466</u>	<u>(790,494)</u>	<u>1,672,972</u>
 Total net assets	 <u>\$ 6,862,822</u>	 <u>\$ (1,145,295)</u>	 <u>\$ 5,717,527</u>

**Statement of Changes in Net Assets
Year Ended December 31, 2009**

	Beginning Balance	Increase (Decrease)	Ending Balance
Invested in capital assets, net	\$ -	\$ -	\$ -
Restricted	5,442,317	(1,042,961)	4,399,356
Unrestricted	<u>472,534</u>	<u>1,990,932</u>	<u>2,463,466</u>
 Total net assets	 <u>\$ 5,914,851</u>	 <u>\$ 947,971</u>	 <u>\$ 6,862,822</u>

**Statement of Changes in Net Assets
Year Ended December 31, 2008**

	Beginning Balance	Increase	Ending Balance
Invested in capital assets, net	\$ -	\$ -	\$ -
Restricted	4,456,914	985,403	5,442,317
Unrestricted	<u>-</u>	<u>472,534</u>	<u>472,534</u>
 Total net assets	 <u>\$ 4,456,914</u>	 <u>\$ 1,457,937</u>	 <u>\$ 5,914,851</u>

Capital Acquisitions. The Authority's investment in capital assets includes leasehold improvements, equipment, vehicles, computers and software, and construction in progress. Major additions are funded by the issuance of water revenue bonds and notes or funds held in the Authority's construction accounts.

The Authority's capital assets as of December 31, 2010, 2009 and 2008, net of accumulated depreciation, amounted to \$ 28,439,474, \$ 20,734,347 and \$ 16,568,878, respectively. For the year ended December 31, 2010, this amount represents a net increase (including additions, deletions and depreciation) of \$ 7,705,127 from the prior year. See Note 4 for more information on capital assets.

Debt Administration. At December 31, 2010, the Authority had \$ 55,196,820 of Guaranteed Revenue Bonds and loans payable, compared to \$ 52,331,047 and \$ 54,079,591 at the end of the 2009 and 2008 years, respectively. The proceeds from these long-term borrowings were used for renovations and improvements to the water system. See Note 4 for additional information on the Authority's debt.

**Capital Assets at December 31
(Net of Accumulated Depreciation)**

	2010	2009	2008
Leasehold improvements	\$ 15,730,869	\$ 13,259,803	\$ 13,464,297
Equipment	2,427,454	1,511,080	1,313,418
Vehicles	559,299	561,427	408,689
Computers and software	120,237	73,282	64,145
Construction in progress	<u>9,601,615</u>	<u>5,328,755</u>	<u>1,318,329</u>
	<u>\$ 28,439,474</u>	<u>\$ 20,734,347</u>	<u>\$ 16,568,878</u>

Economic Factors

The Reading Area Water Authority will continue to address the existing infrastructure by addressing the rehabilitation needs of the system, as well as pursue possible extension of the water system into new areas.

Future investments include relining of water mains throughout the existing system, cleaning of finished water reservoirs to uphold water quality, address PADEP requirements for the Lake Ontelaunee Dam and address sediment within Lake Ontelaunee.

Request for Information

This financial report is intended to provide an overview of the finances of the Reading Area Water Authority for those with an interest in the Authority. Questions concerning any information contained in the report may be directed to the Executive Director, Reading Area Water Authority, 815 Washington Street, Reading, PA 19601.

**READING AREA WATER AUTHORITY
A COMPONENT UNIT OF THE CITY OF READING**

**STATEMENTS OF NET ASSETS
December 31, 2010 and 2009**

ASSETS	2010	2009
UNRESTRICTED CURRENT ASSETS		
Cash	\$ 5,876,463	\$ 5,561,465
Accounts receivable, billings, net of allowance 2010 \$ 2,761,231; 2009 \$ 2,079,125	2,366,265	2,287,226
Due from City of Reading	2,696,356	2,885,349
Accrued interest receivable	43,984	25,082
Accounts receivable, other	-	153,874
Prepaid expenses	-	49,108
	10,983,068	10,962,104
RESTRICTED CURRENT ASSETS		
Developer escrow deposits, cash	96,376	111,835
Trust accounts, cash and investments:		
Clearing Account	93,107	10,177
Construction Account	12,376,828	15,725,144
Debt Service Account	3	334,295
Debt Service Reserve Account	4,044,552	4,065,061
	16,514,490	20,134,677
	16,610,866	20,246,512
CAPITAL ASSETS		
Capital assets not being depreciated, construction in progress	9,601,615	5,328,755
Capital assets being depreciated:		
Leasehold improvements	19,167,334	16,107,640
Equipment	3,808,904	2,588,931
Vehicles	1,654,792	1,491,011
Computers and software	451,593	382,334
	25,082,623	20,569,916
Less accumulated depreciation	6,244,764	5,164,324
	18,837,859	15,405,592
	28,439,474	20,734,347
OTHER ASSETS		
Due from City of Reading, Pennvest loan assumption	1,433,833	2,756,295
Unamortized bond issuance costs, net of accumulated amortization 2010 \$ 360,044; 2009 \$ 295,657	832,694	897,081
Leased land rights	1,020,000	-
	3,286,527	3,653,376
	\$ 59,319,935	\$ 55,596,339

See Notes to Financial Statements.

LIABILITIES AND NET ASSETS	2010	2009
CURRENT LIABILITIES		
Accounts payable, capital	\$ 708,084	\$ 543,022
Accounts payable, trade	1,176,028	48,647
Accrued interest payable	114,079	109,516
Escrow deposits	92,808	108,606
Current maturities of long-term debt	<u>2,479,300</u>	<u>1,782,478</u>
Total current liabilities	<u>4,570,299</u>	<u>2,592,269</u>
OTHER LONG-TERM LIABILITY, interest rate swap	<u>332,995</u>	<u>226,475</u>
LONG-TERM DEBT, less current maturities	<u>48,699,114</u>	<u>45,914,773</u>
COMMITMENTS AND CONTINGENCY	<u>-</u>	<u>-</u>
NET ASSETS		
Invested in capital assets, net of related debt	-	-
Restricted for debt service	4,044,555	4,399,356
Unrestricted	<u>1,672,972</u>	<u>2,463,466</u>
	5,717,527	6,862,822
	<u><u>\$ 59,319,935</u></u>	<u><u>\$ 55,596,339</u></u>

**READING AREA WATER AUTHORITY
A COMPONENT UNIT OF THE CITY OF READING**

**STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
Years Ended December 31, 2010 and 2009**

	2010	2009
Operating revenues:		
Water billings	\$ 19,987,932	\$ 18,237,476
Interest and penalty charges	395,410	415,319
Tampered meter and other charges	397,579	282,498
Tapping and connection fees	157,335	157,979
Abandonment fees	<u>51,519</u>	<u>21,419</u>
Total operating revenues	<u>20,989,775</u>	<u>19,114,691</u>
Operating expenses:		
Lease payments, City of Reading	16,790,137	14,071,200
Meter reading	498,226	474,501
Engineering	38,974	95,930
Legal fees	118,231	85,337
Salaries and payroll taxes	197,650	116,393
Collections expense	155,764	177,026
Insurance	99,231	47,018
Employee benefits	13,854	8,566
Grant expenditures	56,280	112,985
Telephone	11,066	11,032
Contracted services	136,990	123,628
Repairs and maintenance	49,801	86,346
Audit and accounting	64,309	61,356
Bank charges	5,778	12,989
Advertising	1,404	1,860
Education	2,255	4,038
Supplies	8,383	4,385
Bad debt expense	682,106	523,060
Other professional services, rate study	23,045	-
ISO flow testing	122,093	-
Lake Ontelaunee dredging	<u>163,207</u>	<u>-</u>
Total operating expenses	<u>19,238,784</u>	<u>16,017,650</u>
Operating income before depreciation and amortization	<u>1,750,991</u>	<u>3,097,041</u>

**READING AREA WATER AUTHORITY
A COMPONENT UNIT OF THE CITY OF READING**

**STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS (CONTINUED)
Years Ended December 31, 2010 and 2009**

	2010	2009
Depreciation and amortization:		
Depreciation	\$ 1,080,440	\$ 905,362
Amortization of bond issuance costs	<u>64,387</u>	<u>64,387</u>
	<u>1,144,827</u>	<u>969,749</u>
Operating income	<u>606,164</u>	<u>2,127,292</u>
Nonoperating revenues (expenses):		
Investment income	220,419	221,745
Swap income, net	12,587	3,682
Miscellaneous income	26,587	15,607
Change in value of interest rate swap	(106,520)	582,057
Interest expense	(1,994,785)	(1,973,668)
Miscellaneous expense	(11,341)	(33,017)
Grant income	<u>101,594</u>	<u>4,273</u>
	<u>(1,751,459)</u>	<u>(1,179,321)</u>
Increase (decrease) in net assets	<u>(1,145,295)</u>	<u>947,971</u>
Net assets, beginning	<u>6,862,822</u>	<u>5,914,851</u>
Net assets, ending	<u>\$ 5,717,527</u>	<u>\$ 6,862,822</u>

See Notes to Financial Statements.

**READING AREA WATER AUTHORITY
A COMPONENT UNIT OF THE CITY OF READING**

**STATEMENTS OF CASH FLOWS
Years Ended December 31, 2010 and 2009**

	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash receipts from customers	\$ 20,228,630	\$ 18,315,947
Cash payments to suppliers for goods and services	(17,859,672)	(19,707,745)
Cash payments to employees for services	<u>(197,650)</u>	<u>(116,393)</u>
Net cash provided by (used in) operating activities	<u>2,171,308</u>	<u>(1,508,191)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Increase (decrease) in escrow liability, net	(15,798)	(39,173)
Miscellaneous income received	26,587	15,607
Miscellaneous expenses paid	(11,341)	(33,017)
Cash receipts from grants	<u>101,594</u>	<u>4,273</u>
Net cash provided by (used in) noncapital financing activities	<u>101,042</u>	<u>(52,310)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition and construction of capital assets	(8,620,505)	(4,513,559)
Proceeds from issuance of debt	6,069,642	-
Principal paid on long-term debt	(1,881,407)	(439,236)
Interest paid on long-term debt	(1,374,832)	(1,384,995)
Capital contributions received	<u>-</u>	<u>1,460,134</u>
Net cash used in capital and related financing activities	<u>(5,807,102)</u>	<u>(4,877,656)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Decrease in restricted assets, net	3,635,646	4,605,634
Swap income received, net	12,587	3,682
Investment income received	<u>201,517</u>	<u>229,874</u>
Net cash provided by investing activities	<u>3,849,750</u>	<u>4,839,190</u>
Net increase (decrease) in cash	314,998	(1,598,967)
Cash:		
Beginning	<u>5,561,465</u>	<u>7,160,432</u>
Ending	<u>\$ 5,876,463</u>	<u>\$ 5,561,465</u>

**READING AREA WATER AUTHORITY
A COMPONENT UNIT OF THE CITY OF READING**

**STATEMENTS OF CASH FLOWS (CONTINUED)
Years Ended December 31, 2010 and 2009**

	2010	2009
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES		
Operating income	\$ 606,164	\$ 2,127,292
Adjustments to reconcile operating income to net cash provided by (used in) operating activities:		
Depreciation	1,080,440	905,362
Amortization	64,387	64,387
Changes in assets and liabilities:		
(Increase) in accounts receivable	(79,039)	(275,684)
(Increase) decrease in accounts receivable, other	153,874	(153,874)
(Increase) decrease in prepaid expenses	49,108	(42,135)
Increase in accounts payable	107,381	5,292
(Increase) decrease in due from City of Reading	188,993	(2,885,349)
(Decrease) in due to City of Reading	-	(1,253,482)
	\$ 2,171,308	\$ (1,508,191)
NONCASH CAPITAL AND FINANCING ACTIVITIES		
Payment by City of Reading, Pennvest loan assumption applied to Pennvest note payable	\$ 1,322,462	\$ 1,309,308

See Notes to Financial Statements.

**READING AREA WATER AUTHORITY
A COMPONENT UNIT OF THE CITY OF READING**

NOTES TO FINANCIAL STATEMENTS

Note 1. Nature of Activity and Significant Accounting Policies

Nature of activity:

The Reading Area Water Authority (the "Authority"), a component unit of the City of Reading, was created as an operating authority in 1995 in compliance with the Pennsylvania Municipality Authorities Act. The Authority was formed to provide water services to residential, commercial and industrial users of the water system for the City of Reading and certain surrounding municipalities. The Authority is governed by a five-member board, each of whom is appointed by the City of Reading.

A summary of the Authority's significant accounting policies follows:

The accompanying financial statements conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The following is a summary of the more significant accounting policies used by the Authority.

A. THE FINANCIAL REPORTING ENTITY

Accounting principles generally accepted in the United States of America require that the reporting entity include the primary government, organizations for which the primary government is financially accountable and other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. There are no agencies or entities which should be presented with the Authority.

The Authority is a component unit of the City of Reading, Berks County, Pennsylvania.

B. MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT PRESENTATION

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

The financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of timing of related cash flows.

Private-sector standards of accounting and financial reporting issued prior to December 31, 1989 are generally followed to the extent that these standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. The Authority has elected to follow subsequent private-sector guidance, subject to the same limitation.

NOTES TO FINANCIAL STATEMENTS

Note 1. Nature of Activity and Significant Accounting Policies (Continued)

A summary of the Authority's significant accounting policies follows (continued):

B. MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT PRESENTATION (CONTINUED)

Operating revenues and expenses are distinguished from nonoperating items in the statements of revenues, expenses and changes in net assets. Operating revenues and expenses generally result from providing services in connection with the Authority's principal ongoing operations. The principal operating revenues of the Authority are charges to customers for the sale of water. Operating expenses include the cost of providing services, administrative expenses, depreciation on capital assets and amortization on bond premium and issue costs. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses. The principal nonoperating revenues and expenses of the Authority are interest expense, investment income, change in value of interest rate swap and capital contributions.

When restricted and unrestricted resources are available for its use, it is the Authority's policy to use restricted resources first.

C. ASSETS, LIABILITIES AND NET ASSETS

In accordance with the terms of the trust indenture dated September 15, 2002, the first supplemental indenture dated July 1, 2003, and the second supplemental indenture dated July 15, 2007 (hereinafter collectively referred to as the "indentures"), relating to the bonded debt, funds of the Authority are accounted for by separate trust accounts; segregated for specific use and held for the benefit of the bondholders. In accordance with the indentures, the trust accounts maintained by the independent trustee are accounted for, by the trustee, using the cash basis method of accounting. A brief description of the purposes of the several revenue bond trust restricted accounts follows:

Project accounts:

Clearing Account:

Funds are deposited herein to cover principal and interest payments due on the bonds. Transfers are made to the Debt Service Account to make these payments.

Construction Account:

The Construction Account consists of funds deposited from the Settlement Account for the purpose of paying costs of capital additions.

Debt Service Account:

Semiannual transfers from the Clearing Account were recorded herein. Current debt service and sinking fund requirements of the bond issues are paid from this Account.

NOTES TO FINANCIAL STATEMENTS

Note 1. Nature of Activity and Significant Accounting Policies (Continued)

A summary of the Authority's significant accounting policies follows (continued):

C. ASSETS, LIABILITIES AND NET ASSETS (CONTINUED)

Project accounts (continued):

Debt Service Reserve Account:

This Account was funded by the trust indentures. The aggregate balance provides additional collateral for the bondholders.

Cash:

For purposes of reporting cash flows, the Authority considers all cash accounts, which are not subject to withdrawal restrictions or penalties, and all highly-liquid debt investments purchased with a maturity of three months or less to be cash.

Accounts receivable:

Accounts receivable are shown net of an allowance for uncollectibles, as applicable. Accounts receivables are evaluated for collectibility and an allowance is established, as deemed necessary, based on the best information available and in an amount that management believes is adequate. Accounts receivable are written off when deemed uncollectible. Recoveries of accounts receivable previously written off are recorded when received.

Investments:

The Board and trustee are permitted to invest the Authority's funds as defined in the Local Government Unit Debt Act, the Municipality Authorities Act and the related trust indentures. Authorized types of investments include the following:

- a. U. S. Treasury Bills.
- b. Short-term obligations of the U. S. Government and federal agencies.
- c. Insured savings and checking accounts and certificates of deposit in banks, savings and loan associations and credit unions.
- d. General obligation bonds of the federal government, the Commonwealth of Pennsylvania or any state agency, or of any Pennsylvania political subdivision.
- e. Shares of mutual funds whose investments are restricted to the above categories.

When making investments, the Board and trustee can combine funds from more than one fund under the Authority's control for the purchase of a single investment and join with other political subdivisions and municipal authorities in the purchase of a single investment.

Investments are carried at fair value.

NOTES TO FINANCIAL STATEMENTS

Note 1. Nature of Activity and Significant Accounting Policies (Continued)

A summary of the Authority's significant accounting policies follows (continued):

C. ASSETS, LIABILITIES AND NET ASSETS (CONTINUED)

Capital assets:

Capital assets are stated at cost. Depreciation of capital assets is computed on the straight-line method over the following estimated useful lives:

	Years
Leasehold improvements	10-40
Equipment	3-7
Vehicles	5-7
Computers and software	3-5

Maintenance and repairs of capital assets are charged to operations and major improvements are capitalized. Upon retirement, sale or other disposition of capital assets, the cost and accumulated depreciation are eliminated from the accounts and gain or loss is included in operations. Interest costs incurred during the construction period of major projects are capitalized and amortized over the life of the asset.

Bond/note premiums/issuance costs:

Bond/note premiums and issuance costs are deferred and amortized over the term of the bonds/notes. Bond premiums are presented as an addition to the face amount of the revenue bonds payable, whereas issuance costs are recorded as an other asset.

Derivatives:

Changes in fair value for effective hedges that are achieved with derivative instruments are recognized in the reporting period to which they relate. Changes in fair value of these hedging derivative instruments do not affect the current period, but are instead reported as deferrals in the statement of net assets. Derivative instruments that either do not meet the criteria for an effective hedge or are associated with investments that are already reported at fair value are classified as investment derivative instruments for financial reporting purposes. Changes in fair value of those derivative instruments are reported in the current reporting period.

NOTES TO FINANCIAL STATEMENTS

Note 1. Nature of Activity and Significant Accounting Policies (Continued)

A summary of the Authority's significant accounting policies follows (continued):

C. ASSETS, LIABILITIES AND NET ASSETS (CONTINUED)

Net assets:

Net assets are classified into three categories as follows:

Invested in capital assets consists of capital assets, net of accumulated depreciation and debt incurred for the acquisition of capital assets.

Restricted net assets are amounts that have externally imposed restrictions on how the funds can be spent.

Unrestricted net assets are amounts that do not meet the definitions of "invested in capital assets" or "restricted" and are available for Authority operations.

D. RECENT ACCOUNTING PRONOUNCEMENT

The Authority adopted Government Accounting Standards Board (GASB) Statement No. 53, *Accounting and Financial Reporting for Derivatives*. GASB Statement No. 53 addresses the recognition, measurement and disclosure of information regarding derivative instruments for the year ended December 31, 2010.

Note 2. Stewardship, Compliance and Accountability

Compliance with finance-related legal and contractual provisions:

The Authority had no material violations of finance-related legal and contractual provisions in regard to the terms, covenants, provisions or conditions contained in the trust indentures relating to the bond issues.

NOTES TO FINANCIAL STATEMENTS

Note 3. Cash and Investments

The carrying amounts of cash and investments at December 31, 2010 and 2009 consist of the following:

	2010	2009
Petty cash	\$ 300	\$ 300
Demand deposit accounts	5,972,539	5,673,000
Investments	<u>16,514,490</u>	<u>20,134,677</u>
	<u>\$ 22,487,329</u>	<u>\$ 25,807,977</u>
Classification per statements of net assets:		
Unrestricted current assets, cash	\$ 5,876,463	\$ 5,561,465
Restricted current assets:		
Developer escrow deposits, cash	96,376	111,835
Trust accounts, cash and investments	<u>16,514,490</u>	<u>20,134,677</u>
	<u>\$ 22,487,329</u>	<u>\$ 25,807,977</u>

Cash:

The Authority's available cash is invested in demand deposit accounts.

The Authority has custodial credit risk on cash deposits. This is the risk that in the event of a financial institution failure, the Authority's deposits may not be returned. The Authority has a deposit policy for custodial risk that requires depository institutions to pledge securities as collateral for deposits that exceed depository insurance.

At December 31, 2010 and 2009, the carrying amounts of the Authority's bank deposits were \$ 5,972,539 and \$ 5,673,000, respectively, and the bank balances were \$ 5,792,059 and \$ 5,527,419, respectively, of which \$ 500,000 was covered by Federal Depository Insurance each year. The remaining \$ 5,292,059 and \$ 5,027,419, respectively, of deposits were exposed to custodial risk because they were uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the Authority's name. The Authority has a petty cash balance of \$ 300 at December 31, 2010.

NOTES TO FINANCIAL STATEMENTS

Note 3. Cash and Investments (Continued)

Investments:

As of December 31, 2010 and 2009, the Authority has the following investments with M&T Bank:

December 31, 2010	Investment Maturities	
	----- (in Years) -----	
	Fair Value	Less than One Year
Federated Treasury Obligation Funds	\$ 5,772,210	\$ 5,772,210
Federal National Mortgage Association Note	3,742,280	3,742,280
Certificates of deposit	<u>7,000,000</u>	<u>7,000,000</u>
	<u>\$ 16,514,490</u>	<u>\$ 16,514,490</u>
December 31, 2009		
Federated Treasury Obligation Funds	\$ 491,546	\$ 491,546
Morgan Stanley Institutional Liquidity Funds, Government Portfolio	16,059,438	16,059,438
Federal Home Loan Mortgage Corp Discount Note	2,530,747	2,530,747
Federal National Mortgage Association Note	<u>1,052,946</u>	<u>1,052,946</u>
	<u>\$ 20,134,677</u>	<u>\$ 20,134,677</u>

Interest rate risk:

The Authority does not have a formal investment policy that limits maturities in certain investments as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit risk:

The Authority does not have an investment policy that would limit its investment choices to certain credit ratings. However, the Authority limits the type of investments permitted as defined in the Local Government Unit Debt Act, the Municipality Authorities Act and the related trust indentures. Permitted investments are defined in Note 1.

Custodial credit risk:

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Authority will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. As of December 31, 2010 and 2009, \$ 16,514,490 and \$ 20,134,677, respectively, is held by the investment's counterparty, not in the name of the Authority.

NOTES TO FINANCIAL STATEMENTS

Note 4. Capital Assets

Capital asset activity for the years ended December 31, 2010 and 2009 was as follows:

	-----2010-----			
	Balance January 1,	Additions	Deletions	Balance December 31,
Capital assets not being depreciated, construction in progress	\$ 5,328,755	\$ 8,361,436	\$ 4,088,576	\$ 9,601,615
Capital assets being depreciated:				
Leasehold improvements	16,107,640	3,059,694	-	19,167,334
Equipment	2,588,931	1,219,973	-	3,808,904
Vehicles	1,491,011	163,781	-	1,654,792
Computers and software	<u>382,334</u>	<u>69,259</u>	<u>-</u>	<u>451,593</u>
Total capital assets being depreciated	<u>20,569,916</u>	<u>4,512,707</u>	<u>-</u>	<u>25,082,623</u>
Less accumulated depreciation for:				
Leasehold improvements	2,847,837	588,628	-	3,436,465
Equipment	1,077,851	303,599	-	1,381,450
Vehicles	929,584	165,909	-	1,095,493
Computers and software	<u>309,052</u>	<u>22,304</u>	<u>-</u>	<u>331,356</u>
Total accumulated depreciation	<u>5,164,324</u>	<u>1,080,440</u>	<u>-</u>	<u>6,244,764</u>
Total capital assets being depreciated, net	<u>15,405,592</u>	<u>3,432,267</u>	<u>-</u>	<u>18,837,859</u>
Total capital assets, net	<u>\$ 20,734,347</u>	<u>\$ 11,793,703</u>	<u>\$ 4,088,576</u>	<u>\$ 28,439,474</u>

NOTES TO FINANCIAL STATEMENTS

Note 4. Capital Assets (Continued)

	----- 2009 -----			
	Balance January 1,	Additions	Deletions	Balance December 31,
Capital assets not being depreciated, construction in progress	<u>\$ 1,318,329</u>	<u>\$ 4,246,085</u>	<u>\$ 235,659</u>	<u>\$ 5,328,755</u>
Capital assets being depreciated:				
Leasehold improvements	15,834,380	273,260	-	16,107,640
Equipment	2,150,491	438,440	-	2,588,931
Vehicles	1,168,306	322,705	-	1,491,011
Computers and software	<u>356,334</u>	<u>26,000</u>	<u>-</u>	<u>382,334</u>
Total capital assets being depreciated	<u>19,509,511</u>	<u>1,060,405</u>	<u>-</u>	<u>20,569,916</u>
Less accumulated depreciation for:				
Leasehold improvements	2,370,083	477,754	-	2,847,837
Equipment	837,073	240,778	-	1,077,851
Vehicles	759,617	169,967	-	929,584
Computers and software	<u>292,189</u>	<u>16,863</u>	<u>-</u>	<u>309,052</u>
Total accumulated depreciation	<u>4,258,962</u>	<u>905,362</u>	<u>-</u>	<u>5,164,324</u>
Total capital assets being depreciated, net	<u>15,250,549</u>	<u>155,043</u>	<u>-</u>	<u>15,405,592</u>
Total capital assets, net	<u>\$ 16,568,878</u>	<u>\$ 4,401,128</u>	<u>\$ 235,659</u>	<u>\$ 20,734,347</u>

NOTES TO FINANCIAL STATEMENTS

Note 5. Long-Term Debt

At December 31, 2010 and 2009, long-term debt consists of the following:

	----- 2010 -----		
	Balance Outstanding January 1,	Additions (Payments)	Balance Outstanding December 31,
Note payable to a bank in quarterly principal payments ranging from \$ 21,366 to \$ 23,300, plus monthly interest payments calculated at a variable rate through February 2011	\$ 114,636	\$ (91,214)	\$ 23,422
Note payable to PENNVEST, due in monthly payments of \$ 18,405, including interest at 3.997% to December 2017, secured by a lien and security interest in substantially all Authority assets	1,510,116	(163,475)	1,346,641
Note payable to PENNVEST, due in monthly payments of \$ 111,998, including interest at 1.000% through January 2012, guaranteed by the City of Reading	2,756,295	(1,322,462)	1,433,833
Guaranteed Water Revenue Bonds, Series of 2002, initial issue \$ 3,250,000, various interest rates ranging from 1.300% to 4.400%, maturing in amounts ranging from \$ 190,000 to \$ 265,000 through 2017	1,870,000	(205,000)	1,665,000
Guaranteed Water Revenue Bonds, Series of 2003 (Capital Appreciation Bonds), initial issue \$ 21,080,000, various interest rates ranging from 3.600% to 4.620%, maturing in amounts ranging from \$ 610,000 to \$ 2,690,000 through 2020	21,080,000	-	21,080,000
Guaranteed Water Revenue Bonds, Series of 2007, initial issue \$ 25,000,000, various interest rates ranging from 4.250% to 5.000%, maturing in amounts ranging from \$ 125,000 to \$ 3,860,000 through 2027	25,000,000	-	25,000,000
Note payable to PENNVEST, maximum drawdown of \$ 6,550,000, interest only for the first 36 months of the loan, principal and interest due monthly thereafter; interest at 1.274% for first 5 years and 2.547% thereafter through 2032. Guaranteed by the City of Reading	-	2,875,070	2,875,070

NOTES TO FINANCIAL STATEMENTS

Note 5. Long-Term Debt (Continued)

	----- 2010 -----		
	Balance Outstanding January 1,	Additions (Payments)	Balance Outstanding December 31,
Water Revenue Note, Series of 2009, maximum drawdown of \$ 6,550,000, interest payable monthly at 3.150%, with principal due October 2012	\$ -	\$ 1,772,854	\$ 1,772,854
	<u>\$ 52,331,047</u>	<u>\$ 2,865,773</u>	<u>\$ 55,196,820</u>
	----- 2009 -----		
	Balance Outstanding January 1,	Payments	Balance Outstanding December 31,
Note payable to a bank in quarterly principal payments ranging from \$ 21,366 to \$ 23,300, plus monthly interest payments calculated at a variable rate through February 2011	\$ 201,792	\$ (87,156)	\$ 114,636
Note payable to PENNVEST, due in monthly payments of \$ 18,405, including interest at 3.997% to December 2017, secured by a lien and security interest in substantially all Authority assets	1,667,196	(157,080)	1,510,116
Note payable to PENNVEST, due in monthly payments of \$ 111,998, including interest at 1.000% through January 2012, guaranteed by the City of Reading	4,065,603	(1,309,308)	2,756,295
Guaranteed Water Revenue Bonds, Series of 2002, initial issue \$ 3,250,000, various interest rates ranging from 1.300% to 4.400%, maturing in amounts ranging from \$ 190,000 to \$ 265,000 through 2017	2,065,000	(195,000)	1,870,000
Guaranteed Water Revenue Bonds, Series of 2003 (Capital Appreciation Bonds), initial issue \$ 21,080,000, various interest rates ranging from 3.600% to 4.620%, maturing in amounts ranging from \$ 610,000 to \$ 2,690,000 through 2020	21,080,000	-	21,080,000
Guaranteed Water Revenue Bonds, Series of 2007, initial issue \$ 25,000,000, various interest rates ranging from 4.250% to 5.000%, maturing in amounts ranging from \$ 125,000 to \$ 3,860,000 through 2027	<u>25,000,000</u>	<u>-</u>	<u>25,000,000</u>
	<u>\$ 54,079,591</u>	<u>\$ (1,748,544)</u>	<u>\$ 52,331,047</u>

NOTES TO FINANCIAL STATEMENTS

Note 5. Long-Term Debt (Continued)

Aggregate maturities required on the long-term debt at December 31, 2010 are as follows:

Year Ending	Principal	Interest	Total
2011	\$ 2,479,300	\$ 1,423,974	\$ 3,903,274
2012	4,332,996	1,511,422	5,844,418
2013	2,690,946	1,608,068	4,299,014
2014	2,716,326	1,661,046	4,377,372
2015	2,742,085	1,710,295	4,452,380
2016-2020	14,878,424	10,042,037	24,920,461
2021-2025	16,640,661	4,548,400	21,189,061
2026-2030	8,358,427	669,634	9,028,061
2031-2032	<u>357,655</u>	<u>9,565</u>	<u>367,220</u>
	<u>\$ 55,196,820</u>	<u>\$ 23,184,441</u>	<u>\$ 78,381,261</u>
		2010	2009
Total long-term debt payable		\$ 55,196,820	\$ 52,331,047
Less current maturities		(2,479,300)	(1,782,478)
Plus unamortized bond premium		758,731	803,582
Less unamortized interest on capital appreciation bonds		<u>(4,777,137)</u>	<u>(5,437,378)</u>
		<u>\$ 48,699,114</u>	<u>\$ 45,914,773</u>

Bonds payable:

The bonds are secured under the indentures by an assignment and pledge to the trustee of receipts and revenues from the water system.

Derivative financial instrument:

Interest rate swap - In July 2005, the Authority entered into a forward interest rate swap agreement with a financial institution in conjunction with its Guaranteed Water Revenue Bonds, Series of 2003. The agreement uses an underlying index of 67% of the 30-day LIBOR versus the BMA Municipal Bond Index.

The swap is a cash flow hedge – a pay-fixed interest rate swap. The classification of the interest rate swap is deferred outflow. The fair value liability as of December 31, 2010 and 2009 was as follows:

----- 2010 -----					
Notional Amount	Effective Date	Maturity Date	January 1, Beginning	Increase (Decrease)	December 31, Ending
\$ 21,080,000	July 1, 2005	November 1, 2020	\$ (226,475)	\$ (106,520)	\$ (332,995)
----- 2009 -----					
\$ 21,080,000	July 1, 2005	November 1, 2020	\$ (808,532)	\$ 582,057	\$ (226,475)

NOTES TO FINANCIAL STATEMENTS

Note 6. Operating Lease

The Authority has entered into a 99-year operating lease, effective June 1, 1994, with the City of Reading for the operations of the water system. Lease payments are the sum of agreed-upon administrative expenses, operating expenses, debt service expenses and financing fees of the City of Reading. In addition, the Authority must provide water service free of charge to the City. Lease payments are made monthly based on an estimate of the anticipated lease payments for the year. At the end of the year, the Authority receives an annual reconciliation statement, which reflects a credit due to the Authority or a payment due to the City. Total lease expense for the years ended December 31, 2010 and 2009 was \$ 16,790,137 and \$ 14,071,200, respectively.

In December 2010, a Second Addendum to the lease was agreed upon by the City of Reading and the Authority. The Addendum authorizes the Authority to directly employ the City's Water Department employees at various dates beginning in January 2011, as defined therein. Upon employment by the Authority of each employee, the lease payment to the City of Reading shall be reduced by the operational expenses and administrative expenses directly attributed to the City's employment of such employee for the period following such employment.

The Addendum also required the payment by the Authority to the City of \$ 1,020,000 for restriction on the City's Ontelaunee Township property. Under the Addendum, except in the exercise of its Take-Back Powers or with the Authority's prior written approval, the City cannot voluntarily convey or transfer any property interest in the approximately 120 acre parcel of land located in Ontelaunee Township.

Note 7. Commitments and Contingency

Commitments:

Management agreement:

The Authority has entered into an agreement with Miller Environmental, Inc. for the services of a qualified water filter plant manager, who is responsible for the management of all operational and maintenance activities of the water filter plant. The agreement is automatically renewable annually unless one of the parties gives written notice of their intent to terminate the agreement. Total expense under the agreement for the years ended December 31, 2010 and 2009 was \$ 136,990 and \$ 123,628, respectively.

Water reading services agreement:

The Authority has entered into an agreement with Miller Environmental, Inc. to perform water reading services in the Authority's service area. Under the terms of the original agreement, the Authority pays a monthly operating fee of \$ 29,624 plus additional hourly charges for services performed outside the scope of the agreement. The monthly fee and hourly rates are subject to a 5% increase per year, effective March 1 of each year. The agreement was extended March 1, 2006 for a three-year term and is automatically renewable for three-year terms unless one of the parties give written notice of their intent to terminate the agreement. Total expense under the agreement for the years ended December 31, 2010 and 2009 was \$ 498,226 and \$ 474,501, respectively.

NOTES TO FINANCIAL STATEMENTS

Note 7. Commitments and Contingency (Continued)

Commitments (continued):

Capital improvements:

The Authority has entered into contracts for various capital improvements. Outstanding commitments on these contracts totaled approximately \$ 1,578,000 as of December 31, 2010.

Purchase of water system:

The Authority has entered into an agreement of sale to purchase a water system in the amount of \$ 800,000. Settlement is expected to occur in 2011.

Contingency:

The Authority has an unused letter of credit of \$ 800,000 at December 31, 2010.

Note 8. Change in Accounting Principle

In connection with the adoption of GASB Statement No. 53, the Authority restated its 2009 financial statements. The effect on the 2009 financial statements was to increase long-term liability, interest rate swap by \$ 226,475, increase the increase in net assets by \$ 582,057 and decrease unrestricted net assets by \$ 808,532. The effect on the 2010 financial statements was to increase long-term liability, interest rate swap by \$ 106,520 and increase the decrease in net assets by \$ 106,520.

Note 9. Subsequent Events

The Authority has evaluated subsequent events through August 25, 2011. This date is the date the financial statements were available to be issued. The following subsequent events were noted:

Capital projects:

From January through June 2011, the Authority awarded various contracts for capital projects totaling \$ 3,972,000.

Purchase of property:

In June 2011, the Authority purchased property to be used as administrative offices for \$ 365,000.

Transfer of City of Reading employees:

In July 2011, the City of Reading transferred employment of 42 water department employees to the Authority in accordance with the Second Addendum to the lease between the City of Reading and the Authority. The estimated annual payroll related to these employees is approximately \$ 1,600,000.

NOTES TO FINANCIAL STATEMENTS

Note 9. Subsequent Events (Continued)

Union contract:

In April 2011, the Authority entered into an agreement with the American Federation of State, County and Municipal Employees, AFL-CIO, and its District Council 88, Local 2763E "Union". Except for management level employees, supervisors, first-level supervisors, confidential employees and guards, all full-time and part-time nonprofessional employees are represented by the Union.

APPENDIX D

DEBT SERVICE SCHEDULE