



CITY OF READING

FINANCIAL AND COMPLIANCE AUDIT REPORT

Year Ended December 31, 2022

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INDEPENDENT AUDITOR'S REPORT

**Members of City Council
City of Reading, Pennsylvania
Reading, Pennsylvania**

Report on the Audit of the Financial Statements

Opinions

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Reading, Pennsylvania, as of and for the year ended December 31, 2022, and the related notes to the basic financial statements, which collectively comprise the City of Reading, Pennsylvania's basic financial statements as listed in the table of contents.

In our opinion, based on our audit and the report of the other auditor, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Reading, Pennsylvania, as of December 31, 2022, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

We did not audit the financial statements of the Reading Area Water Authority, a component unit of the City of Reading, Pennsylvania, which represent 90%, 78%, and 99%, respectively, of the assets, net position, and revenues of the water fund as of December 31, 2022 and the respective changes in financial position, and where applicable, cash flows thereof for the year then ended. Those statements were audited by another auditor whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Reading Area Water Authority, is based solely on the report of the other auditor.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the City of Reading, Pennsylvania and to meet our ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions. The financial statements of the blended component unit in the water fund were not audited in accordance with *Government Auditing Standards*.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the City of Reading, Pennsylvania's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibility for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City of Reading, Pennsylvania's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the City of Reading, Pennsylvania's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Other Matter

As described in Note 1 to the financial statements, effective January 1, 2022, the City of Reading adopted new accounting guidance, Governmental Accounting Standards Board Statement No. 87, *Leases*. Our opinion is not modified with respect to this matter.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the budgetary comparison schedule for the general fund, and the pension and other postemployment benefit information on pages 120 through 124 be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Reading, Pennsylvania's basic financial statements. The schedule of revenues and other financing sources - budgetary basis - general fund, schedule of expenditures and other financing uses - budgetary basis - general fund, and the combining nonmajor governmental funds, water funds, and fiduciary funds financial statements/schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. Code of Federal Regulations Part 200 *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America by us and the other auditor. In our opinion, based on our audit and the procedures performed as described previously, and the report of the other auditor, the general fund budgetary basis schedules, the combining nonmajor governmental, water, and fiduciary funds financial statements/schedules, and the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 18, 2023, on our consideration of the City of Reading, Pennsylvania's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Reading, Pennsylvania's internal control over financial reporting and compliance.

Herbein + Company, Inc.

**Reading, Pennsylvania
December 18, 2023**

INTRODUCTION

This Management's Discussion and Analysis (MD&A) presents a narrative overview and analysis of the financial activities of the City of Reading (City) for the year ended December 31, 2022. We recommend that it be read in conjunction with the accompanying basic financial statements and notes to the financial statements in order to obtain a thorough understanding of the City's financial condition at December 31, 2022. This discussion focuses on the City's primary government. Component units, unless otherwise noted, are not included in this discussion.

FINANCIAL HIGHLIGHTS

- The City's total assets and deferred outflows of resources exceeded its liabilities and deferred inflows of resources at December 31, 2022 by \$192.4 million. Of this amount, net position (deficit) of \$(58.0) million was from governmental activities, \$(88.8) million of which is unrestricted, and \$250.4 million was from business-type activities, \$179.8 million of which is unrestricted.
- Long-term liabilities increased overall by \$16.8 million, or 3.8%. Governmental activities long-term liabilities increased by \$24.9 million primarily because of net effect of principal payments of \$7.6 million, increase in net pension liability of \$50.2 million and decrease in OPEB liability of \$16.7 million. Business-type activities long-term liabilities decreased by \$8.1 million primarily because of principal payments made over net new borrowings of \$13.2 million, increase in net pension liability of \$5.6 million and decrease in OPEB liability of \$0.1 million.
- During 2022, the City's change in net position was \$48.9 million. The net position (deficit) of governmental activities increased by \$32.3 million and the net position of business-type activities increased by \$16.6 million.
- The City's property tax millage was kept the same for 2022 as in 2021; no property tax increase. Property tax millage remains 18.129 mills for 2022. 17.729 mills are for general purposes, .200 mills are for the Library system and .200 mills are for the City's Shade Tree fund.
- During 2022, the City's general fund had an increase in fund balance of \$6.9 million. The primary reasons for the increase are because the City's earned income tax (EIT) revenue exceeded its budget by \$3.8 million plus the City's Real Estate Transfer Tax (RTT) revenue exceeded its budget by \$3.4 million.
- In 2022, management of the City has again elected to present the Community Development fund, the Grant Fund, and the Capital Projects Fund as major funds. See Note 1.C. on page 38 for more information.

OVERVIEW OF THE FINANCIAL STATEMENTS

The financial section of this report consists of four parts:

- Management's discussion and analysis (this section)
- Basic financial statements (including notes)
- Required supplementary information
- Supplementary information

Management's discussion and analysis is a guide to reading the financial statements and provides related information to help the reader to better understand City government. The basic financial statements include notes that provide additional information essential to a full understanding of the financial data provided in the government-wide and fund financial statements. Required supplementary information is provided on the City's pension and other post-employment benefit plans and budget-to-actual figures for the General Fund. In addition to these required elements, an optional supplementary section is included with other statements that provide particulars about non-major funds.

The basic financial statements present two different views of the City.

- **Government-wide financial statements**, the first two statements, provide a broad overview of the City's overall financial status as well as the financial status of the City's component units, in a manner similar to private-sector business.
- **Fund financial statements**, the remaining statements, focus on individual parts of City government. They provide more detail on operations than the government-wide statements. There are three types of fund financial statements:
 - *Governmental* fund statements show how general government services such as public safety were financed in the short term, as well as what remains for future spending.
 - *Proprietary* fund statements offer short-term and long-term financial information about the activities the City operates like a business.
 - *Fiduciary* fund statements reflect activities involving resources that are held by the City as a trustee or agent for the benefit of others, including the City's retirement plans and OPEB Trust fund. Fiduciary funds are not reflected in the government-wide statements, because the resources cannot be used to support the City's programs.

Table 1 summarizes the major features of the City's financial statements, including the area of the City's activities they cover and the types of information they contain.

Table 1
Major Features of the Government-Wide and Fund Financial Statements

	Government-wide Statements	Fund Financial Statements		
		Governmental	Business-Type	Fiduciary
Scope	Entire entity and component units (except fiduciary funds)	The day-to-day operating activities of the City such as general government, public safety and public works	The business-type activities of the City, such as water and sewer	Instances in which the City administers resources on behalf of others, such as employee pension plans
Required financial statements	• Statement of Net Position • Statement of Activities	• Balance Sheet • Statement of Revenues, Expenditures, and Changes in Fund Balances	• Statement of Net Position • Statement of Revenues, Expenses, and Changes in Net Position • Statement of Cash Flows	• Statement of Net Position - Fiduciary Funds - Trust Funds • Statement of Changes in Net Position - Fiduciary Funds - Trust Funds
Accounting basis and measurement focus	Accrual accounting and economic resources measurement focus	Modified accrual accounting and current financial resources measurement focus	Accrual accounting and economic resources measurement focus	Accrual accounting and economic resources measurement focus
Type of asset and liability information	All assets and liabilities, both financial and capital, current and noncurrent, and deferred inflows and outflows of resources	Current assets and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both financial and capital, current and noncurrent, and deferred inflows and outflows of resources	All assets and liabilities, both financial and capital, current and noncurrent; funds do not contain capital assets, although they can
Types of inflow and outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during the year or soon thereafter, expenditures when good or services have been received and the related liability is due and payable	All revenues and expenses during the year, regardless of when cash is received or paid	All additions and deductions during the year, regardless of when cash is received or paid

The remainder of this overview explains the structure and contents of the government-wide and fund financial statements.

Government-Wide Financial Statements

Government-wide financial statements report information about the City as a whole using accounting methods similar to those used by private-sector companies.

- The statement of net position includes all of the City's assets, deferred outflows of resources, liabilities, and deferred inflows of resources, except fiduciary funds, with the difference reported as net position. This statement serves a purpose similar to that of the balance sheet of a private-sector business.
- The statement of activities focuses on how the City's net position changed during the year. Because it separates program revenue (revenue generated by specific programs through charges for services, grants, and contributions) from general revenue (revenue provided by taxes and other sources not related to a particular program), it shows to what extent each program has had to rely on local taxes for funding.

All changes to the net position are recorded using the accrual method of accounting, which requires that revenues be recorded when they are earned and expenses be recorded when the goods and/or services are received, regardless of when cash is received or paid.

Net position is one way to measure the City's financial position. Over time, increases or decreases in the City's net position are one indicator of whether the City's financial position is improving or deteriorating. However, other non-financial factors such as changes in the City's real property tax base and general economic conditions must be considered to assess the overall position of the City.

The primary government and its component units are included in the government-wide financial statements. Component units reflect the activities of legally separate government entities over which the City can exercise influence and/or be obligated to provide financial support. The City has one blended component unit, Reading Area Water Authority, and two discretely presented component units: the Reading Parking Authority and the Reading Redevelopment Authority.

There are two categories of activities for the primary government.

- *Governmental activities* include the City's basic services such as general government, public safety, public works, community development, and culture and recreation. Property taxes and other taxes, plus operating grants and revenues, finance most of these activities.
- *Business-type activities* generally charge a fee to customers to help cover the cost of services.

Net position of the governmental activities differs from the governmental fund balances because governmental fund level statements only report transactions using or providing current financial resources. Capital assets are reported as expenditures when financial resources (monies) are expended to purchase or build assets in the fund financial statements. Likewise, the financial resources that may have been borrowed are considered other financing sources when they are received in the fund financial statements. Principal and interest payments are both considered expenditures when paid in the fund financial statements. Depreciation and amortization are not calculated, as it does not provide or reduce current financial resources in the fund financial statements.

Government-wide statements are reported using an economic resources measurement focus and full accrual basis of accounting that involves the following steps to format the statement of net position:

- Capitalize current outlays for capital assets
- Report long-term debt as a liability
- Depreciate/amortize capital assets and allocate the depreciation/amortization to the proper program/activities
- Calculate revenue and expense using the economic resources measurement focus and the accrual basis of accounting
- Allocate net position balances as follows:
 - Net investment in capital assets
 - Restricted net position are those with constraints placed on their use by external sources (creditors, grantors, contributors, or laws or regulations of governments) or imposed by law through constitutional provisions or enabling legislation
 - Unrestricted net position is net position that does not meet any of the above criteria.

Fund Financial Statements

Fund financial statements provide more detailed information on the City's most significant funds, *not the City as a whole*. Funds are accounting devices, i.e., a group of related self-balancing accounts that the City uses to keep track of specific sources of funding and spending for particular purposes. Some funds are required by state law. Other funds are established to control and manage resources designated for specific purposes. Governmental fund financial statements are reported using current financial resources measurement focus and modified accrual accounting established by the Governmental Accounting Standards Board (GASB) for governments.

The City has three kinds of funds:

- *Governmental funds* include most of the City's basic services and focus on: (1) the flow in and out of cash and other financial assets that can be readily converted to cash, and (2) the balances left at year-end that are available for spending. The seven governmental funds that the City maintains (General, Community Development, Grant, American Rescue Plan and Capital Projects [major funds] plus Shade Tree and Liquid Fuels [non-major funds]) are reported using the modified accrual accounting basis, and a current financial resources measurement focus. Consequently, the governmental fund financial statements provide a detailed short-term view that helps determine the financial resources available in the near future to finance the City's programs.

The relationship between governmental activities (reported in the statement of net position and the statement of activities) and governmental funds is described in a reconciliation that follows the governmental fund financial statements.

The City adopts an annual budget as required by state law. Budgetary comparisons for the general fund are presented as required supplementary information.

- *Proprietary funds* report business-type programs and activities that charge fees designed to cover the cost of providing services. They report using the full accrual basis of accounting.
- *Fiduciary funds* are funds for which the City is the trustee or fiduciary. These include the Officers and Employees Pension Fund, the Police Pension Fund, the Firemen Pension Fund and OPEB Trust fund, and certain agency funds or clearing accounts for assets held by the City in its role as custodian until the funds are allocated to the private parties, organizations, or government agencies to which they belong. The City is responsible to ensure the assets reported in these funds are used for their intended purposes. This fiduciary activity is reported in a separate statement of fiduciary net position and a statement of changes in fiduciary net position. These funds are excluded from the City's government-wide financial statements, because the City cannot use these assets to finance its operations.

Notes to Financial Statements

The notes, beginning on page 34, are integral to developing a complete understanding of both the government-wide and fund financial statements. They provide additional explanation of the amounts shown in the various statements.

Other Information

This report also includes required supplementary information related to employee pension liabilities, other post-employment benefits and budgetary comparison schedules for major governmental funds. The combining statements and other financial information, in connection with nonmajor governmental and enterprise funds, internal service funds and fiduciary funds are presented following the required supplementary information.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Over time, net position may serve as a useful indicator of a government's financial position. The table below summarizes the City's net position at December 31, 2022 and 2021.

Table 2
Condensed Statement of Net Position
(Amounts expressed in thousands)

	Governmental Activities			Business-Type Activities			Total		
	2022	2021 restated	% Change	2022	2021	% Change	2022	2021 restated	% Change
Current & Other Assets	\$ 145,902	\$ 124,146	17.5%	\$ 189,483	\$ 181,992	4.1%	\$ 335,385	\$ 306,138	9.6%
Capital Assets	79,454	63,410	25.3%	293,206	295,751	(0.9%)	372,660	359,161	3.8%
Total Assets	<u>225,356</u>	<u>187,556</u>	20.2%	<u>482,689</u>	<u>477,743</u>	1.0%	<u>708,045</u>	<u>665,299</u>	6.4%
Deferred Outflows of Resources	62,663	23,150	170.7%	13,282	9,270	43.3%	75,945	32,420	134.3%
Current & Other Liabilities	70,320	48,765	44.2%	18,010	16,494	9.2%	88,330	65,259	35.4%
Long-Term Liabilities	236,860	211,968	11.7%	224,604	232,658	(3.5%)	461,464	444,626	3.8%
Total Liabilities	<u>307,180</u>	<u>260,733</u>	17.8%	<u>242,614</u>	<u>249,152</u>	(2.6%)	<u>549,794</u>	<u>509,885</u>	7.8%
Deferred Inflows of Resources	38,861	40,300	(3.6%)	2,921	4,058	(28.0%)	41,782	44,358	(5.8%)
Net Position:									
Net Investment in Capital Assets	12,220	(4,258)	387.0%	68,061	59,624	14.2%	80,281	55,366	45.0%
Restricted	19,220	20,594	(6.7%)	2,561	5,512	(53.5%)	21,781	26,106	(16.6%)
Unrestricted	<u>(89,462)</u>	<u>(106,663)</u>	16.1%	<u>179,814</u>	<u>168,667</u>	6.6%	<u>90,352</u>	<u>62,004</u>	45.7%
Total Net Position	<u>\$ (58,022)</u>	<u>\$ (90,327)</u>	35.8%	<u>\$ 250,436</u>	<u>\$ 233,803</u>	7.1%	<u>\$ 192,414</u>	<u>\$ 143,476</u>	34.1%

City of Reading, Pennsylvania
Management's Discussion and Analysis (Unaudited)

The City's net investment in capital assets, net of the related debt outstanding used to acquire those assets, is \$80.3 million, or 41.7% of its net position. These capital assets are used to provide services and are not available for future spending. The resources needed to repay the debt incurred to acquire these assets will come from future revenues.

An additional portion of net position, \$21.8 million or 11.3% represents resources subject to external restrictions. The unrestricted balance increased by \$28.3 million from last year; the primary reasons for the overall increases are discussed in the sections for governmental activities and business-type activities.

The changes in long-term liabilities are described in the Financial Highlights section of the MD&A on page 4.

The following statement of activities represents changes in net position for the year ended December 31, 2022. It shows revenues by source and expenses by function for governmental activities, business-type activities, and the government as a whole.

Table 3
Changes in Net Position
(Amounts expressed in thousands)

	Governmental Activities			Business-Type Activities			Total		
	2022	Restated 2021	% Change	2022	2021	% Change	2022	Restated 2021	% Change
Revenues:									
Program Revenues:									
Charges for services	\$ 14,258	\$ 12,815	11.3%	\$ 84,223	\$ 80,253	4.9%	\$ 98,481	\$ 93,068	5.8%
Operating Grants and Contributions	17,822	14,615	21.9%	521	161	223.6%	18,343	14,776	24.1%
Capital Grants and Contributions	8,837	6,004	47.2%	-	-	0.0%	8,837	6,004	100.0%
General Revenues:									
Property Tax	26,143	26,194	(0.2%)	-	-	0.0%	26,143	26,194	(0.2%)
Act 511 Taxes	44,741	40,437	10.6%	-	-	0.0%	44,741	40,437	10.6%
Indirect Cost Allocation	1,730	1,741	(0.6%)	(1,730)	(1,741)	0.6%	-	-	0.0%
Other	3,035	1,725	75.9%	898	(464)	293.5%	3,933	1,261	211.9%
Total Revenues	<u>116,566</u>	<u>103,531</u>	12.6%	<u>83,912</u>	<u>78,209</u>	7.3%	<u>200,478</u>	<u>181,740</u>	10.3%
Expenses									
General Government	14,734	11,123	32.5%	-	-	0.0%	14,734	11,123	32.5%
Public Safety	57,809	48,909	18.2%	-	-	0.0%	57,809	48,909	18.2%
Public Works - Highway and Streets	2,723	1,334	104.1%	-	-	0.0%	2,723	1,334	104.1%
Public Works - Other	6,117	5,769	6.0%	-	-	0.0%	6,117	5,769	6.0%
Community Development	9,922	8,409	18.0%	-	-	0.0%	9,922	8,409	18.0%
Culture and Recreation	1,927	1,708	12.8%	-	-	0.0%	1,927	1,708	12.8%
Other (employee benefits)	36	449	(92.0%)	-	-	0.0%	36	449	(92.0%)
Debt Service - Interest	4,597	4,711	(2.4%)	-	-	0.0%	4,597	4,711	(2.4%)
Water	-	-	0.0%	22,839	21,552	6.0%	22,839	21,552	6.0%
Sewer	-	-	0.0%	20,902	17,232	21.3%	20,902	17,232	21.3%
Solid Waste	-	-	0.0%	9,934	6,292	57.9%	9,934	6,292	57.9%
Total Expenses	<u>97,865</u>	<u>82,412</u>	18.8%	<u>53,675</u>	<u>45,076</u>	19.1%	<u>151,540</u>	<u>127,488</u>	18.9%
Excess of revenues over expenses before capital contributions and transfers	18,701	21,119	(11.4%)	30,237	33,133	(8.7%)	48,938	54,252	(9.8%)
Transfers	<u>13,604</u>	<u>13,317</u>	2.2%	<u>(13,604)</u>	<u>(13,317)</u>	(2.2%)	<u>-</u>	<u>-</u>	0.0%
Increase in net position	32,305	34,436	(6.2%)	16,633	19,816	(16.1%)	48,938	54,252	(9.8%)
Net Position (Deficit) - Beginning of Year	<u>(90,327)</u>	<u>(124,763)</u>	27.6%	<u>233,803</u>	<u>213,987</u>	9.3%	<u>143,476</u>	<u>89,224</u>	60.8%
Net Position (Deficit) - End of Year	<u>\$ (58,022)</u>	<u>\$ (90,327)</u>	35.8%	<u>\$ 250,436</u>	<u>\$ 233,803</u>	7.1%	<u>\$ 192,414</u>	<u>\$ 143,476</u>	34.1%

During 2022, the City's governmental activities net position (deficit) increased by \$32.3 million, from \$(90.3 million) to \$(58.0 million). Total governmental activities revenues increased by \$13.1 million, from \$103.5 million to \$116.6 million. Charges for services increased by \$1.4 million mostly because of increased admissions tax revenues because of the end of the COVID-19 pandemic, \$0.5 million, and a one-time settlement received of almost \$0.4 million. Operating and capital grants and contributions combined were \$6.0 million more than last year largely because of timing of expenditures of operating and capital grants from year to year, most notably a net of decreased US HUD spending and increased ARPA spending from last year of \$(0.4 million) and \$5.9 million, respectively, plus approximately \$0.5 million more spent on River Road extension construction this year.

Expenses for governmental activities increased \$15.4 million, or 18.8%. The expenses cover a range of services, the largest being public safety. Public safety (police, fire and EMS) expense increased by 8.9 million, or 18.2%, mostly because of the net effect of an increase in salaries and overtime, \$0.7 million, offset by a decrease to pension and other postemployment benefit expense of \$8.1 million. General government expense increased by \$3.6 million, or 32.5%, primarily because American Rescue Plan grant funds.

Net Cost of Services

Net cost of services indicates the amount of support required from taxes and other general revenues for a program of the government. In 2022, real estate and Act 511 taxes totaled \$70.9 million. Table 4 depicts the net program expenses for the years ended December 31, 2022 and 2021.

Table 4
Net Cost of Governmental Activities
(Amounts expressed in thousands)

	Total Cost of Services		%	Net Cost (Income) of Services		2022 Surplus/Deficit
	2022	2021		2022	2021	
Expenses						
General Government	\$ 14,734	\$ 11,123	32.5%	\$ (1,306)	\$ 3,866	Surplus
Public Safety	57,809	48,909	18.2%	48,461	38,253	Deficit
Public Works - Highways and Streets	2,723	1,334	104.1%	299	(824)	Deficit
Public Works - Other	6,117	5,769	6.0%	2,512	1,956	Deficit
Community Development	9,922	8,409	18.0%	417	(1,809)	Deficit
Culture and Recreation	1,927	1,708	12.8%	202	635	Deficit
Other (employee benefits)	36	449	(92.0)%	36	449	Deficit
Debt Service - interest	4,597	4,711	(2.4)%	4,597	4,711	Deficit
Total Expenses	\$ 97,865	\$ 82,412	18.8%	\$ 55,218	\$ 47,237	

The City relied on real estate tax, Act 511 taxes, and other general revenues to fund 75.5% of its governmental activities in 2022.

Revenues of the City's business-type activities (see Table 3) increased by 7.3% (\$83.9 million in 2022 compared to \$78.2 million in 2021). Included within total revenues are other revenues, composed of investment earnings and miscellaneous income, of \$0.9 million in 2022 and \$(0.5) million in 2021. Expenses increased by 19.1% (\$53.7 million in 2022 compared with \$45.1 million in 2021).

Total business-type activities revenues increased by \$5.7 million, from \$78.2 million to \$83.9 million. During 2022, the City's business-type activities net position increased by \$16.6 million, from \$233.8 million to \$250.4 million.

Expenses for business-type activities increased \$8.6 million, or 19.1%. The expenses cover providing services to the City's water, sewer and solid waste customers. Sewer fund expenses increased by \$3.7 million, or 21.3%; increases in personnel expense including pension of \$1.2 million and an increase in chemicals and supplies expense of \$0.5 million. Solid Waste fund expenses increased by \$3.6 million, or 57.9%; most of the increase resulted from substantial increases from the City's trash and recycling providers, such increases were passed on to the individual customers.

Operations of the water, sewer and solid waste funds are entirely funded through charges and fees for services.

Table 5
Net Cost of Business-Type Activities
(Amounts expressed in thousands)

	Total Cost of Services		%	Net Cost (Income) of Services		2022 Surplus/Deficit
	2022	2021		2022	2021	
Business-Type Activities:						
Water	\$ 22,839	\$ 21,552	6.0%	\$ (11,880)	\$ (11,835)	Surplus
Sewer	20,902	17,232	45.7%	(18,217)	(21,081)	Surplus
Solid Waste	9,934	6,292	57.9%	757	(681)	Deficit
Total Expenses	<u>\$ 53,675</u>	<u>\$ 45,076</u>	28.4%	<u>\$ (29,340)</u>	<u>\$ (33,597)</u>	

Financial Analysis of the Government's funds

GOVERNMENTAL FUNDS

The City of Reading uses fund accounting to ensure and demonstrate compliance with finance related legal requirements.

The focus of governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unassigned fund balance may serve as a useful measure of the City's net resources available for spending at the end of the year. Governmental fund accounting was not affected by the adoption of GASB No. 34. Therefore, a schedule is presented to reconcile the fund statements to the government-wide statements.

The City's governmental funds include the general fund, special revenue funds, and a capital projects fund. The general fund is the chief operating fund for the City. Special revenue funds are restricted to specific legislated use. The capital projects fund primarily accounts for allocations of earned income taxes and when applicable, proceeds on bond issues to be used for capital projects. The major funds are shown on the governmental funds balance sheet and statement of revenues, expenditures, and changes in fund balance in the financial statements.

Governmental Fund Revenues

Governmental fund revenues by source for the years ended December 31, 2022 and 2021 were as follows. Table 6 also presents changes from 2021 to 2022.

Table 6
Revenues by Source
Governmental Funds
(Amounts expressed in thousands)

	2022	2021	Change	Percent Change
Real Estate Taxes	\$ 26,607	\$ 26,671	\$ (64)	(0.2)%
Earned Income Tax	31,673	27,909	3,764	13.5%
Other Taxes	12,836	12,325	511	4.1%
Licenses, Permits, Fines	4,797	4,811	(14)	(0.3)%
Intergovernmental	26,858	20,797	6,061	29.1%
Charges for Services	9,115	8,563	552	6.4%
Interest and Rent	2,621	2,093	528	25.2%
Other	3,823	3,539	284	8.0%
Total Revenue	\$ 118,330	\$ 106,708	\$ 11,622	10.9%

Governmental fund revenues totaled \$118.3 million for the year ended December 31, 2022. This is an increase of \$11.6 million from 2021. The overall increase is primarily due to increase in earned income tax revenue of \$3.8 million and in increase in operating and capital grants and contributions of \$6.0 million.

Governmental Fund Expenditures

Governmental fund expenditures by function for the years ended December 31, 2022 and 2021 were as follows. Table 7 also presents changes from 2021 to 2022.

Table 7
Expenditures by Function
Governmental Funds
(Amounts expressed in thousands)

	2022	2021	Change	Percent Change
General Government	\$ 19,636	\$ 10,615	\$ 9,021	85.0%
Public Safety	64,679	62,733	1,946	3.1%
Public Works-Highways & Streets	8,687	7,848	839	10.7%
Public Works-Other	9,792	9,455	337	3.6%
Community Development	10,631	9,988	643	6.4%
Culture and Recreation	1,229	1,169	60	5.1%
Other (employee Benefits)	2,373	2,850	(477)	(16.7)%
Debt Service - Principal	8,063	5,622	2,441	43.4%
Debt Service - Interest	3,741	3,761	(20)	(0.5)%
Total Expenditures	<u>\$ 128,831</u>	<u>\$ 114,041</u>	<u>\$ 14,790</u>	<u>13.0%</u>

The City maintains seven individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund, community development, grant fund, ARPA fund and capital projects fund, which includes the street paving, city facilities construction and housing improvements funds. They are considered major funds. Non-major funds include the shade tree fund and liquid fuels fund. They are presented separately in the combining balance sheet - non-major governmental funds and in the combining statement of revenues, expenditures, and changes in fund balances - non-major governmental funds.

Governmental fund expenditures totaled \$128.8 million for the year ended December 31, 2022, an increase of 13.0% from 2021.

Governmental Fund Balances (Deficit) and Net Position of Enterprise Funds

Table 8 reflects ending fund balances (deficit) for governmental funds and the net position for enterprise funds at December 31, 2022 and 2021.

Table 8
Ending Fund Balances (Deficit), Governmental Funds; Net Position, Enterprise Funds
(Amounts expressed in thousands)

	2022		2021	
	Governmental Funds	Enterprise Funds	Governmental Funds	Enterprise Funds
General	\$ 48,231	\$ -	\$ 41,333	\$ -
Community Development	2,448	-	2,232	-
Grant Fund	679	-	634	-
ARPA	104	-	-	-
Shade Tree	(119)	-	(60)	-
Liquid Fuels	4,032	-	4,992	-
Capital Projects	14,306	-	17,447	-
Water	-	24,862	-	23,405
Sewer	-	220,271	-	204,261
Solid Waste	-	5,303	-	6,137
Total	\$ 69,681	\$ 250,436	\$ 66,578	\$ 233,803

The City's governmental funds reported a combined fund balance of \$69.7 million at December 31, 2022. Of the total, \$0.1 in nonspendable, \$4.0 million is restricted for liquid fuels, \$13.0 million is restricted for certain purposes, \$4.8 million is committed for capital projects, \$15.1 million is assigned for capital projects and acquisitions, and \$3.6 million is assigned for the 2023 budget contingency.

Budgetary Highlights

The Reading City Council may revise the budget through transfers or ordinance. There are two kinds of revisions:

- Allocations made to specific line items from other line items (internal transfers) or from contingency funds established in the budget
- New appropriations are budgeted when received, and the anticipated related expense is budgeted at the same time

Because the City's fiscal year differs from those of the Commonwealth and the federal government, it is difficult to know what grants will be forthcoming in the City's fiscal year. Some revenue variances are due to budgeting for grants not received. Other revenue variances are based on grants received but not anticipated.

Capital Assets

The City's investment in capital assets and right-to-use lease assets at December 31, 2022, net of accumulated depreciation and amortization, respectively, was \$372.7 million. Capital assets consist of land, construction in progress, buildings, improvements, machinery and equipment, infrastructure and right-to-use lease assets. Table 9 is a summary of capital assets at December 31, 2022 and 2021.

Table 9
Capital Assets at December 31, 2022 and 2021
(Amounts expressed in thousands)

	Governmental Activities		Business-Type Activities		Total	
	2022	2021 restated	2022	2021	2022	2021 restated
Land	\$ 2,348	\$ 2,348	\$ 2,136	\$ 2,136	\$ 4,484	\$ 4,484
Construction in Progress	22,639	16,435	193,842	189,990	216,481	206,425
Buildings	9,949	10,550	6,863	7,779	16,812	18,329
Improvements	24,098	20,765	81,779	86,475	105,877	107,240
Machinery and Equipment	12,523	10,836	8,586	9,371	21,109	20,207
Infrastructure	7,477	1,766	-	-	7,477	1,766
Right-to-use lease assets	420	710	-	-	420	710
Total	<u>\$79,454</u>	<u>\$63,410</u>	<u>\$293,206</u>	<u>\$295,751</u>	<u>\$372,660</u>	<u>\$359,161</u>

Major capital asset acquisitions during the year include the following:

Governmental activities:

- Various projects that remain to be completed and are included in construction in progress, including River Road extension, \$2.54 million increase; street paving \$2.21 million increase; 9th & Marion fire station \$6.27 million increase; Schuylkill River Trail improvements \$789,000; fire apparatus \$689,000
- Street paving projects 2020-2022 completed this year, \$5,774,000
- 18th Ward bike trails, \$738,000
- Penn Street Courtyards (600 block) upgrades, \$689,000
- City Hall roof replacement phase 1, \$513,000
- Five police SUVs, a cargo van, a truck and two patrol motorcycles, all with upfits, \$498,000
- New Spartan fire truck with 93' aerial, \$1,289,000

Business-type activities:

- Ongoing construction of the new wastewater treatment plant, \$3.7 million

Detailed information about the City's capital assets and right-to-use lease assets can be found in Note 9 in the financial statements.

Debt Administration

Long-Term Debt

At December 31, 2022, the City's governmental activities had \$245.2 million of noncurrent liabilities outstanding, including bonds, notes, leases, compensated absences and liabilities for pension and other postemployment benefits. The City's business-type activities had \$237.9 million of noncurrent liabilities outstanding. Table 10 provides a summary of outstanding debt.

Table 10
Summary of Long-Term Debt
(Amounts expressed in thousands)

	Government Activities	Business-Type Activities
Bonds/Notes Payable, net	\$ 100,818	\$ 231,138
Leases payable	414	-
Net Pension Liability	96,071	6,013
Other Postemployment Benefits	46,407	785
Compensated Absences	1,467	-
	<u>\$ 245,177</u>	<u>\$ 237,936</u>

The amount of indebtedness a City may incur is limited by Pennsylvania law to 250% (nonelectoral) and 350% (net non-electoral and lease rental) of a three-year average of the total revenue received, exclusive of governmental grants for a specific purpose. The City's non-electoral debt limit at December 31, 2022 was approximately \$456 million, and the total debt outstanding was \$260 million, which is below the legal debt limit. The City's net non-electoral and lease rental debt limit at December 31, 2022 was approximately \$638 million and the total debt outstanding was \$356 million.

Bond Rating

The City's debt rating was BBB+ (negative outlook) by S&P as of December 31, 2022. Insurance has been purchased to guarantee repayment of certain of the City's indentures.

Detailed information about the City's Long-term Debt can be found in Note 10 in the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The 2023 General Fund budget, adopted in December 2022, including balances and transfers, is \$103.0 million. The 2023 adopted General Fund budget represents a significant \$7.7 million or 8.1% increase from the 2022 adopted budget of \$95.3 million, in response to post-COVID-19 pandemic. The 2023 General Fund adopted budget includes the use of fund balance of \$3.1 million. For 2023, the property tax millage rate was unchanged from 2022, 18.129 mills.

REQUESTS FOR INFORMATION

The financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, please contact Michael R. Oppenheimer, City Controller; Deputy Finance Director at (610) 655-2583. Written inquiries may be made to City of Reading, Finance Department Room 2-41, 815 Washington Street, Reading, PA 19601.

CITY OF READING
STATEMENT OF NET POSITION

December 31, 2022

	Primary Government			Component Units	
	Governmental Activities	Business-type Activities	Total	Reading Parking Authority	Reading Redevelopment Authority
ASSETS					
Cash	\$ 103,174,945	\$ 103,216,505	\$ 206,391,450	\$ 2,698,131	\$ 438,209
Investments	20,716,848	56,477,466	77,194,314	-	-
Accounts receivable, net	3,112,142	11,337,874	14,450,016	1,319,704	-
Taxes receivable, net	5,889,706	-	5,889,706	-	-
Internal balances	(377,711)	377,711	-	-	-
Intergovernmental receivables	3,258,482	14,084,086	17,342,568	-	-
Leases receivable due within one year	293,463	-	293,463	923,807	-
Interest receivable	77,169	-	77,169	6,951	-
Inventory	-	334,406	334,406	-	-
Prepaid expenses	132,302	-	132,302	111,195	30,691
Restricted cash and investments	807,924	2,786,977	3,594,901	10,253,289	-
Capital assets:					
Capital assets not being depreciated	24,987,898	195,977,700	220,965,598	4,896,471	-
Capital assets, net of accumulated	54,045,609	97,228,191	151,273,800	31,823,667	-
Right-to-use lease assets, net of accumulated amortization	420,005	-	420,005	-	-
Other noncurrent assets:					
Leases receivable	1,794,866	-	1,794,866	2,438,931	-
Loans receivable, net	221,361	-	221,361	-	-
Notes receivable, net	6,801,086	-	6,801,086	-	-
Property held for redevelopment	-	-	-	-	504,181
Leased land rights	-	868,113	868,113	-	-
TOTAL ASSETS	225,356,095	482,689,029	708,045,124	54,472,146	973,081
DEFERRED OUTFLOWS OF RESOURCES					
Deferred charge on bond refunding	9,615,545	7,745,470	17,361,015	111	-
Deferred outflows of resources for pension	49,627,193	5,394,653	55,021,846	-	-
Deferred outflows of resources for other postemployment benefits	3,420,333	141,769	3,562,102	-	-
TOTAL DEFERRED OUTFLOWS OF RESOURCES	62,663,071	13,281,892	75,944,963	111	-

See accompanying notes to the financial statements.

December 31, 2022

	Primary Government			Component Units	
	Governmental Activities	Business-type Activities	Total	Reading Parking Authority	Reading Redevelopment Authority
LIABILITIES					
Accounts payable	7,558,058	1,548,636	9,106,694	712,134	17,669
Accounts payable - capital	-	1,753,190	1,753,190	-	-
Accrued interest	573,259	176,809	750,068	38,963	-
Accrued claims	1,541,538	-	1,541,538	-	-
Unearned revenue	52,189,288	-	52,189,288	79,663	-
Other current liabilities	140,728	1,199,573	1,340,301	269,326	-
Long-term debt due within one year	8,317,288	13,331,527	21,648,815	1,606,638	-
Noncurrent liabilities:					
Notes and bonds payable, net	92,812,162	217,806,081	310,618,243	25,281,329	-
Leases payable	102,853	-	102,853	-	-
Other liabilities	-	-	-	66,786	-
Compensated absences	1,466,829	-	1,466,829	-	-
Net pension liability	96,070,876	6,013,197	102,084,073	-	-
Other postemployment benefits liability	46,407,405	784,495	47,191,900	-	-
TOTAL LIABILITIES	307,180,284	242,613,508	549,793,792	28,054,839	17,669
DEFERRED INFLOWS OF RESOURCES					
Deferred inflows of resources for lease revenue	2,280,344	-	2,280,344	3,348,447	-
Deferred inflows of resources for pension	22,377,094	2,793,898	25,170,992	-	-
Deferred inflows of resources for other postemployment benefits	14,203,211	127,608	14,330,819	-	-
TOTAL DEFERRED INFLOWS OF RESOURCES	38,860,649	2,921,506	41,782,155	3,348,447	-
NET POSITION					
Net investment in capital assets	12,220,133	68,060,563	80,280,696	9,832,282	-
Restricted	19,220,090	2,561,269	21,781,359	10,253,289	-
Unrestricted (deficit)	(89,461,990)	179,814,075	90,352,085	2,983,400	955,412
TOTAL NET POSITION (DEFICIT)	\$ (58,021,767)	\$ 250,435,907	\$ 192,414,140	\$ 23,068,971	\$ 955,412

CITY OF READING

STATEMENT OF ACTIVITIES

Year Ended December 31, 2022

Functions/Programs	Program Revenues					Net (Expense) Revenue and Changes in Net Position				
	Expenses	Indirect Cost Allocation	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government			Component Units	
						Governmental Activities	Business-Type Activities	Total	Reading Parking Authority	Reading Redevelopment Authority
Primary Government										
Governmental activities:										
General government	\$ 14,733,477	\$ (1,933,319)	\$ 4,747,026	\$ 5,501,396	\$ 3,857,950	\$ 1,306,214	\$ -	\$ 1,306,214	\$ -	\$ -
Public safety:										
Police	35,986,650	-	868,471	3,469,815	-	(31,648,364)	-	(31,648,364)	-	-
Fire	15,858,243	-	369,211	1,026,962	15,000	(14,447,070)	-	(14,447,070)	-	-
Emergency medical services	5,964,723	-	3,224,939	373,901	-	(2,365,883)	-	(2,365,883)	-	-
Public works - highways and streets	2,722,911	-	195,611	2,228,470	-	(298,830)	-	(298,830)	-	-
Public works - other	6,116,506	-	167,696	95,542	3,340,695	(2,512,573)	-	(2,512,573)	-	-
Community development	9,921,618	203,634	3,853,180	4,231,595	1,623,527	(416,950)	-	(416,950)	-	-
Culture and recreation	1,927,375	-	831,648	894,002	-	(201,725)	-	(201,725)	-	-
Other (employee benefits)	35,677	-	-	-	-	(35,677)	-	(35,677)	-	-
Debt service - interest	4,597,401	-	-	-	-	(4,597,401)	-	(4,597,401)	-	-
Total governmental activities	97,864,581	(1,729,685)	14,257,782	17,821,683	8,837,172	(55,218,259)	-	(55,218,259)	-	-
Business-type activities:										
Water	22,838,972	116,837	34,835,401	-	-	-	11,879,592	11,879,592	-	-
Sewer	20,901,975	1,226,236	40,344,807	-	-	-	18,216,596	18,216,596	-	-
Solid waste	9,933,584	386,612	9,043,019	520,462	-	-	(756,715)	(756,715)	-	-
Total business-type activities	53,674,531	1,729,685	84,223,227	520,462	-	-	29,339,473	29,339,473	-	-
Total Primary Government	\$ 151,539,112	\$ -	\$ 98,481,009	\$ 18,342,145	\$ 8,837,172	(55,218,259)	29,339,473	(25,878,786)	-	-
Component Units										
Reading Parking Authority	\$ 12,166,773	\$ -	\$ 12,899,199	\$ -	\$ -	-	-	-	732,426	-
Reading Redevelopment Authority	743,750	-	13,211	555,908	-	-	-	-	-	(174,631)
Total Component Units	\$ 12,910,523	\$ -	\$ 12,912,410	\$ 555,908	\$ -	-	-	-	732,426	(174,631)
General Revenues										
Taxes:										
Property taxes						26,142,794	-	26,142,794	-	-
Earned income taxes						31,673,241	-	31,673,241	-	-
Other taxes						13,068,080	-	13,068,080	-	-
Investment earnings						612,545	952,118	1,564,663	184,081	5,829
Miscellaneous income (expense)						2,422,783	(54,308)	2,368,475	74,079	-
Transfers - internal activities						13,604,268	(13,604,268)	-	-	-
Total General Revenues and Transfers						87,523,711	(12,706,458)	74,817,253	258,160	5,829
Change in Net Position						32,305,452	16,633,015	48,938,467	990,586	(168,802)
Net Position (Deficit) - Beginning of Year - Restated						(90,327,219)	233,802,892	143,475,673	22,078,385	1,124,214
Net Position (Deficit) - End of year						\$ (58,021,767)	\$ 250,435,907	\$ 192,414,140	\$ 23,068,971	\$ 955,412

See accompanying notes to the financial statements.

CITY OF READING

BALANCE SHEET - GOVERNMENTAL FUNDS

December 31, 2022

	General	Community Development	Grant Fund	American Rescue Plan	Capital Projects	Total Nonmajor Funds	Total Governmental Funds
ASSETS							
Cash	\$ 27,571,644	\$ 2,951,210	\$ 1,660,891	\$ 49,521,969	\$ 15,579,228	\$ 5,081,485	\$ 102,366,427
Restricted cash	19,471	-	788,453	-	-	-	807,924
Investments	17,178,799	-	48,272	-	-	-	17,227,071
Accounts receivable	2,970,592	114,702	-	26,295	-	1,363	3,112,952
Taxes receivable, net	6,126,792	-	-	-	-	36,822	6,163,614
Interfund receivables	903,222	350,363	47,695	259,144	269,332	7,270	1,837,026
Intergovernmental receivable	248	1,938,688	1,319,546	-	-	-	3,258,482
Leases receivable	2,088,329	-	-	-	-	-	2,088,329
Interest receivable	77,169	-	-	-	-	-	77,169
Loans receivable	221,361	-	-	-	-	-	221,361
Prepaid expenses	96,194	-	-	-	-	-	96,194
TOTAL ASSETS	\$ 57,253,821	\$ 5,354,963	\$ 3,864,857	\$ 49,807,408	\$ 15,848,560	\$ 5,126,940	\$ 137,256,549
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES							
LIABILITIES							
Accounts payable	\$ 1,575,579	\$ 1,200,258	\$ 1,711,701	\$ 503,760	\$ 1,326,104	\$ 1,182,531	\$ 7,499,933
Interfund payables	544,564	404,537	1,292,756	-	6,410	-	2,248,267
Unearned revenue	1,296,868	1,301,714	180,900	49,200,056	209,750	-	52,189,288
Other liabilities	140,728	-	-	-	-	-	140,728
TOTAL LIABILITIES	3,557,739	2,906,509	3,185,357	49,703,816	1,542,264	1,182,531	62,078,216
DEFERRED INFLOWS OF RESOURCES							
Deferred inflows of resources for lease revenue	2,280,344	-	-	-	-	-	2,280,344
Unavailable revenue: Property taxes	2,707,572	-	-	-	-	31,506	2,739,078
Other	477,426	-	-	-	-	-	477,426
TOTAL DEFERRED INFLOWS OF RESOURCES	5,465,342	-	-	-	-	31,506	5,496,848
FUND BALANCES							
Nonspendable	96,194	-	-	-	-	-	96,194
Restricted for:							
Community development	-	2,448,454	-	-	-	-	2,448,454
Donor or regulatory restricted	-	-	637,027	-	-	-	637,027
Donor- Potteiger Trust	-	-	42,473	-	-	-	42,473
Liquid fuels	-	-	-	-	-	4,031,881	4,031,881
Capital projects	-	-	-	-	9,842,102	-	9,842,102
Committed	375,000	-	-	-	4,464,194	-	4,839,194
Assigned for:							
Budget appropriations	3,622,340	-	-	-	-	-	3,622,340
Demolition	1,000,000	-	-	-	-	-	1,000,000
Property acquisition	1,000,000	-	-	-	-	-	1,000,000
Other	13,000,000	-	-	103,592	-	-	13,103,592
Unassigned	29,137,206	-	-	-	-	(118,978)	29,018,228
TOTAL FUND BALANCES	48,230,740	2,448,454	679,500	103,592	14,306,296	3,912,903	69,681,485
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES	\$ 57,253,821	\$ 5,354,963	\$ 3,864,857	\$ 49,807,408	\$ 15,848,560	\$ 5,126,940	\$ 137,256,549

See accompanying notes to the financial statements.

CITY OF READING

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE
GOVERNMENT-WIDE STATEMENT OF NET POSITION**

December 31, 2022

Amounts reported for governmental activities in the statement of net position are different because:

TOTAL FUND BALANCES - GOVERNMENTAL FUNDS	\$ 69,681,485
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds. The cost of the assets is \$152,159,083 and the accumulated depreciation and amortization is \$72,705,571.	79,453,512
Property taxes receivable will be collected this year, but are not available soon enough to pay for the current period's expenditures and, therefore, are reported as unavailable revenue in the funds.	2,739,078
Other long-term assets (receivables and restricted cash) and lease rental receivable are not available to pay current period expenditures and, therefore, are reported as unearned revenue in the funds.	10,888,902
Establish allowance for doubtful accounts - property taxes receivable (\$273,908) and other long-term asset receivables (\$3,610,390).	(3,884,298)
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the funds. Long-term liabilities at year end consist of:	
Bonds/notes payable	\$ (100,017,080)
Leases payable	(414,347)
Accrued interest	(573,259)
Unamortized bond discount	212,848
Unamortized bond premium	(1,013,724)
Deferred charge on bond refunding	9,615,545
Compensated absences	(1,466,829)
The net pension liability and related deferred outflows and inflows of resources for pensions are not reflected on the fund financial statements.	(68,820,777)
The other postemployment benefits liability and related deferred outflows and inflows of resources for other postemployment benefits are not reflected on the fund financial statements.	(57,190,283)
Internal service funds are used by the City to charge the costs of workman's compensation insurance and other insurance to individual funds. The assets and liabilities of the internal service funds are included with governmental activities on the statement of net position.	2,767,460
TOTAL NET POSITION (DEFICIT) - GOVERNMENTAL ACTIVITIES	\$ (58,021,767)

CITY OF READING

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -
GOVERNMENTAL FUNDS

Year Ended December 31, 2022

	General	Community Development	Grant Fund	American Rescue Plan	Capital Projects	Total Nonmajor Funds	Total Governmental Funds
REVENUES							
Real estate taxes	\$ 26,312,878	\$ -	\$ -	\$ -	\$ -	\$ 294,303	\$ 26,607,181
Earned income taxes	24,792,634	-	-	-	6,880,607	-	31,673,241
Other taxes	12,835,663	-	-	-	-	-	12,835,663
Licenses, permits, and fines	4,796,980	-	-	-	-	-	4,796,980
Intergovernmental	6,421,742	5,388,200	4,035,970	8,934,914	-	2,077,423	26,858,249
Charges for services	8,228,777	886,011	-	-	-	-	9,114,788
Interest and rent	2,471,077	1,336	-	103,592	34,750	9,868	2,620,623
Other	3,820,243	-	2,778	-	-	-	3,823,021
TOTAL REVENUES	89,679,994	6,275,547	4,038,748	9,038,506	6,915,357	2,381,594	118,329,746
EXPENDITURES							
Current:							
General government	7,477,926	-	1,266	8,934,914	3,222,030	-	19,636,136
Public safety:							
Police	39,228,931	-	552,545	-	2,131,222	-	41,912,698
Fire	15,954,233	-	58,523	-	891,653	-	16,904,409
Emergency medical services	5,861,575	-	-	-	-	-	5,861,575
Public works - highways and streets	1,463,713	-	-	-	4,175,844	3,047,762	8,687,319
Public works - other	6,447,845	-	3,343,851	-	-	-	9,791,696
Community development	4,542,653	6,059,049	29,403	-	-	-	10,631,105
Culture and recreation	875,646	-	-	-	-	353,467	1,229,113
Other (employee benefits, debt issuance costs)	2,372,588	-	296	-	-	-	2,372,884
Debt service - principal	8,009,597	-	5,904	-	46,890	-	8,062,391
Debt service - interest	3,732,384	-	1,260	-	7,625	-	3,741,269
TOTAL EXPENDITURES	95,967,091	6,059,049	3,993,048	8,934,914	10,475,264	3,401,229	128,830,595
(DEFICIENCY) EXCESS OF REVENUES OVER EXPENDITURES	(6,287,097)	216,498	45,700	103,592	(3,559,907)	(1,019,635)	(10,500,849)
OTHER FINANCING SOURCES (USES)							
Transfers in - lease payments	10,604,268	-	-	-	-	-	10,604,268
Transfers in	3,000,000	-	-	-	419,323	-	3,419,323
Transfers out	(419,323)	-	-	-	-	-	(419,323)
TOTAL OTHER FINANCING SOURCES	13,184,945	-	-	-	419,323	-	13,604,268
NET CHANGES IN FUND BALANCES	6,897,848	216,498	45,700	103,592	(3,140,584)	(1,019,635)	3,103,419
FUND BALANCES - BEGINNING OF YEAR	41,332,892	2,231,956	633,800	-	17,446,880	4,932,538	66,578,066
FUND BALANCES - END OF YEAR	\$ 48,230,740	\$ 2,448,454	\$ 679,500	\$ 103,592	\$ 14,306,296	\$ 3,912,903	\$ 69,681,485

See accompanying notes to the financial statements.

CITY OF READING

**RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES TO THE GOVERNMENT-WIDE STATEMENT OF ACTIVITIES**

Year Ended December 31, 2022

Amounts reported for governmental activities in the statement of activities are different because:

NET CHANGE IN FUND BALANCES - GOVERNMENTAL FUNDS \$ 3,103,419

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.

Capital outlays	\$ 20,573,590	
Less: depreciation and amortization expense	<u>(4,530,157)</u>	16,043,433

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		(1,198,149)
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Issuance of long-term debt (e.g., bonds) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds.

Repayment of bond/note principal	7,766,610	
Repayment of lease principal	295,781	
Amortization of bond discount	(35,314)	
Amortization of bond premium	141,737	
Amortization of deferred charge on bond refunding	<u>(1,001,274)</u>	7,167,540

Interest on long-term debt in the statement of activities differs from the amount reported in the governmental funds because interest is recognized as an expenditure in the funds when it is due, and thus requires the use of current financial resources.		38,719
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Some expenses reported in the statement of activities do not require the use of current financial resources and are not reported as expenditures in governmental funds. The difference in the amount incurred and amount paid of these activities is:

Compensated absences	(82,656)	
Net pension liability and related deferred outflows and inflows	3,895,288	
OPEB liability and related deferred outflows and inflows	<u>4,384,597</u>	8,197,229

An internal service fund is used by the City to charge the costs of insurance claims to the individual funds. The excess revenue (expense) is reported with governmental activities.		<u>(1,046,739)</u>
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CHANGE IN NET POSITION (DEFICIT) OF GOVERNMENTAL ACTIVITIES		<u><u>\$ 32,305,452</u></u>
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CITY OF READING

STATEMENT OF NET POSITION -
PROPRIETARY FUNDS

December 31, 2022

	Water Fund	Sewer Fund	Solid Waste Fund	Total Enterprise Funds	Internal Service Funds
ASSETS					
Current assets:					
Cash	\$ 17,932,893	\$ 81,248,944	\$ 4,034,668	\$ 103,216,505	\$ 808,518
Investments	120,049	56,357,417	-	56,477,466	3,489,777
Accounts receivable, net of allowance of \$8,773,929	5,681,794	4,073,705	1,582,375	11,337,874	1,379
Interfund receivables	87,072	105,037	203,505	395,614	120,000
Intergovernmental receivables	-	14,084,086	-	14,084,086	-
Inventory	334,406	-	-	334,406	-
Prepaid expenses	-	-	-	-	36,108
Restricted assets - cash and investments	2,786,977	-	-	2,786,977	-
Total current assets	26,943,191	155,869,189	5,820,548	188,632,928	4,455,782
Noncurrent assets:					
Capital assets not being depreciated	2,390,621	193,587,079	-	195,977,700	-
Capital assets, net of accumulated depreciation	63,900,624	32,905,932	421,635	97,228,191	-
Total capital assets, net	66,291,245	226,493,011	421,635	293,205,891	-
Rights to leased land	868,113	-	-	868,113	-
Total noncurrent assets	67,159,358	226,493,011	421,635	294,074,004	-
TOTAL ASSETS	94,102,549	382,362,200	6,242,183	482,706,932	4,455,782
DEFERRED OUTFLOWS OF RESOURCES					
Deferred charge on bond refunding	5,290,594	2,454,876	-	7,745,470	-
Deferred outflows of resources for pension	1,136,909	3,740,948	516,796	5,394,653	-
Deferred outflows of resources for other postemployment benefits	5,633	131,064	5,072	141,769	-
TOTAL DEFERRED OUTFLOWS OF RESOURCES	6,433,136	6,326,888	521,868	13,281,892	-

CITY OF READING

STATEMENT OF NET POSITION -
PROPRIETARY FUNDS - CONTINUED

December 31, 2022

	Water Fund	Sewer Fund	Solid Waste Fund	Total Enterprise Funds	Internal Service Funds
LIABILITIES					
Current liabilities:					
Accounts payable	60,007	805,468	683,161	1,548,636	118,873
Accounts payable - capital	-	1,753,190	-	1,753,190	-
Interfund payables	13,776	-	4,127	17,903	27,915
Accrued interest	176,809	-	-	176,809	-
Accrued payroll and compensated absences	736,900	-	-	736,900	-
Accrued claims	-	-	-	-	1,541,534
Escrow deposits	278,641	184,032	-	462,673	-
Current portion notes and bonds payable	4,385,846	8,945,681	-	13,331,527	-
Total current liabilities	5,651,979	11,688,371	687,288	18,027,638	1,688,322
Noncurrent liabilities:					
Notes and bonds payable, net	68,114,498	149,691,583	-	217,806,081	-
Net pension liability	1,304,963	4,202,063	506,171	6,013,197	-
Other postemployment benefits liability	-	782,912	1,583	784,495	-
Total noncurrent liabilities	69,419,461	154,676,558	507,754	224,603,773	-
TOTAL LIABILITIES	75,071,440	166,364,929	1,195,042	242,631,411	1,688,322
DEFERRED INFLOWS OF RESOURCES					
Deferred inflows of resources for pension	532,263	2,014,288	247,347	2,793,898	-
Deferred inflows of resources for other postemployment benefit liabilities	70,499	38,693	18,416	127,608	-
TOTAL DEFERRED INFLOWS OF RESOURCES	602,762	2,052,981	265,763	2,921,506	-
NET POSITION					
Net investment in capital assets	(918,505)	68,557,433	421,635	68,060,563	-
Restricted for debt service	2,561,269	-	-	2,561,269	-
Restricted for other	-	-	-	-	2,218,153
Unrestricted net position	23,218,719	151,713,745	4,881,611	179,814,075	549,307
TOTAL NET POSITION	\$ 24,861,483	\$ 220,271,178	\$ 5,303,246	\$ 250,435,907	\$ 2,767,460

CITY OF READING

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION -
PROPRIETARY FUNDS

Year Ended December 31, 2022

	Water Fund	Sewer Fund	Solid Waste Fund	Total Enterprise Funds	Internal Service Funds
OPERATING REVENUES					
Charges for services	\$ 34,334,418	\$ 40,344,807	\$ 9,043,019	\$ 83,722,244	\$ 3,285,260
Other	500,983	-	-	500,983	30,428
TOTAL OPERATING REVENUES	34,835,401	40,344,807	9,043,019	84,223,227	3,315,688
OPERATING EXPENSES					
Personnel	7,011,844	7,204,906	933,085	15,149,835	86,817
Depreciation and amortization	4,957,328	3,486,584	74,447	8,518,359	-
Risk management	65,800	624,200	262,900	952,900	-
Contracted services	936,570	597,741	7,670,476	9,204,787	-
Chemicals and supplies	1,658,599	911,656	-	2,570,255	-
Utilities	1,036,602	1,099,997	-	2,136,599	-
Payment for claims and administrative costs	-	-	-	-	4,296,827
Other	5,064,538	5,577,837	1,379,288	12,021,663	-
TOTAL OPERATING EXPENSES	20,731,281	19,502,921	10,320,196	50,554,398	4,383,644
OPERATING INCOME (LOSS)	14,104,120	20,841,886	(1,277,177)	33,668,829	(1,067,956)
NONOPERATING REVENUES (EXPENSES)					
Intergovernmental revenue	-	-	520,462	520,462	-
Interest income	162,057	790,061	-	952,118	21,217
Gain on sale of equipment	-	-	7,000	7,000	-
Other	(64,322)	3,014	-	(61,308)	-
Gain (loss) on sale of solid waste accounts receivable	83,468	-	(83,468)	-	-
Interest expense	(2,224,528)	(2,625,290)	-	(4,849,818)	-
TOTAL NONOPERATING REVENUES (EXPENSES)	(2,043,325)	(1,832,215)	443,994	(3,431,546)	21,217
INCOME (LOSS) BEFORE TRANSFERS	12,060,795	19,009,671	(833,183)	30,237,283	(1,046,739)
Transfers out - lease payments	(10,604,268)	-	-	(10,604,268)	-
Transfers out	-	(3,000,000)	-	(3,000,000)	-
CHANGES IN NET POSITION	1,456,527	16,009,671	(833,183)	16,633,015	(1,046,739)
NET POSITION - BEGINNING OF YEAR	23,404,956	204,261,507	6,136,429	233,802,892	3,814,199
NET POSITION - END OF YEAR	\$ 24,861,483	\$ 220,271,178	\$ 5,303,246	\$ 250,435,907	\$ 2,767,460

See accompanying notes to the financial statements.

CITY OF READING

STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS

Year Ended December 31, 2022

	Water Fund	Sewer Fund	Solid Waste Fund	Total Enterprise Funds	Internal Service Fund
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts from customers	\$ 34,117,622	\$ 31,914,170	\$ 8,777,969	\$ 74,809,761	\$ 86,574
Receipts from interfund charges	-	-	-	-	3,285,260
Payments to employees	(6,996,877)	(7,317,235)	(936,935)	(15,251,047)	(86,817)
Payments to suppliers for goods and services	(9,546,670)	(8,180,987)	(9,271,105)	(26,998,762)	(4,715,359)
NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES	17,574,075	16,415,948	(1,430,071)	32,559,952	(1,430,342)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES					
Intergovernmental revenue	-	-	520,462	520,462	-
Nonoperating revenues/expenses, net	(64,322)	3,014	-	(61,308)	-
Gain (loss) on sale of receivables	83,468	-	(83,468)	-	-
Transfers out, net	(10,604,268)	(3,000,000)	-	(13,604,268)	-
NET CASH (USED FOR) PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	(10,585,122)	(2,996,986)	436,994	(13,145,114)	-
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Proceeds from issuance of long-term debt	-	449,520	-	449,520	-
Increase in escrow deposits, net	203,830	-	-	203,830	-
Interest paid on debt	(2,178,250)	(2,523,702)	-	(4,701,952)	-
Acquisition and construction of capital assets	(780,703)	(5,009,185)	(145,880)	(5,935,768)	-
Principal payments of notes and bonds	(4,215,608)	(8,832,841)	-	(13,048,449)	-
NET CASH USED FOR CAPITAL AND RELATED FINANCING ACTIVITIES	(6,970,731)	(15,916,208)	(145,880)	(23,032,819)	-
CASH FLOWS FROM INVESTING ACTIVITIES					
Interest earnings	162,057	790,061	-	952,118	21,217
Net purchase of investments	(286)	(627,738)	-	(628,024)	(21,217)
NET CASH PROVIDED BY INVESTING ACTIVITIES	161,771	162,323	-	324,094	-
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	179,993	(2,334,923)	(1,138,957)	(3,293,887)	(1,430,342)
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	20,539,877	83,583,867	5,173,625	109,297,369	2,238,860
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 20,719,870	\$ 81,248,944	\$ 4,034,668	\$ 106,003,482	\$ 808,518

See accompanying notes to the financial statements.

CITY OF READING

STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS - CONTINUED

Year Ended December 31, 2022

	Water Fund	Sewer Fund	Solid Waste Fund	Total Enterprise Funds	Internal Service Fund
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES					
Operating income (loss)	\$ 14,104,120	\$ 20,841,886	\$ (1,277,177)	\$ 33,668,829	\$ (1,067,956)
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:					
Depreciation and amortization	4,957,328	3,486,584	74,447	8,518,359	-
Changes in assets, deferred outflows of resources, liabilities, and deferred inflows of resources:					
Accounts receivable	(658,638)	76,689	(265,050)	(846,999)	56,146
Interfund receivables	(84,409)	(105,037)	(182,266)	(371,712)	-
Intergovernmental receivables	-	(8,507,326)	-	(8,507,326)	-
Inventory	(187,712)	-	-	(187,712)	-
Prepaid expenses	(52,683)	-	-	(52,683)	(36,108)
Deferred outflows of resources for pension	(958,307)	(3,109,510)	(369,082)	(4,436,899)	-
Deferred outflows of resources for other postemployment benefits	-	(17,014)	835	(16,179)	-
Accounts payable	(21,304)	605,012	225,278	808,986	(39,299)
Interfund payables	(474,403)	(42,063)	(1,453)	(517,919)	(140,868)
Accrued payroll and compensated absences	35,950	-	-	35,950	-
Accrued claims	-	-	-	-	(202,257)
Escrow deposits	-	172,532	-	172,532	-
Net pension liability	1,202,327	3,897,138	477,387	5,576,852	-
Other postemployment benefits liability	(59,141)	(64,291)	(23,936)	(147,368)	-
Deferred inflows of resources for pension	(264,279)	(857,345)	(107,470)	(1,229,094)	-
Deferred inflows of resources for other postemployment benefits	35,226	38,693	18,416	92,335	-
NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES	<u>\$ 17,574,075</u>	<u>\$ 16,415,948</u>	<u>\$ (1,430,071)</u>	<u>\$ 32,559,952</u>	<u>\$ (1,430,342)</u>
NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES					
Capital additions in accounts payable	\$ -	\$ 3,496	\$ -	\$ 3,496	\$ -
Intergovernmental receivable related to debt	-	289,729	-	289,729	-

CITY OF READING

STATEMENT OF NET POSITION - FIDUCIARY FUNDS - TRUST FUNDS

December 31, 2022

	Pension/OPEB Trust Funds
ASSETS	
Cash	\$ 4,451,016
Investments	261,508,517
Interest receivable	526
Interfund receivable	2,189
TOTAL ASSETS	265,962,248
LIABILITIES	
Interfund payable	60,744
NET POSITION HELD IN TRUST FOR PENSION/OPEB BENEFITS	<u><u>\$ 265,901,504</u></u>

CITY OF READING

STATEMENT OF CHANGES IN NET POSITION - FIDUCIARY FUNDS - TRUST FUNDS

Year Ended December 31, 2022

	<u>Pension/OPEB Trust Funds</u>
ADDITIONS	
Contributions:	
Employer (including state aid)	\$ 18,628,100
Employee	1,755,531
Investment income:	
Interest and dividends	5,632,309
Net change in fair value of investments	(49,448,798)
Other	<u>352,547</u>
TOTAL ADDITIONS	(23,080,311)
DEDUCTIONS	
Benefits, including tax withheld	23,438,540
Administrative expenses	1,172,365
Refunds paid	<u>184,025</u>
TOTAL DEDUCTIONS	<u>24,794,930</u>
CHANGES IN NET POSITION	(47,875,241)
NET POSITION HELD IN TRUST FOR PENSION/OPEB BENEFITS - BEGINNING OF YEAR	<u>313,776,745</u>
NET POSITION HELD IN TRUST FOR PENSION/OPEB BENEFITS - END OF YEAR	<u><u>\$ 265,901,504</u></u>

CITY OF READING

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2022

The City of Reading, Pennsylvania, (the "City") was founded by Thomas and Richard Penn in 1748, established as a borough in 1783, and incorporated as a city on March 26, 1847. The City operates as a Home Rule/Strong Mayor form of government with a seven member council. The City provides municipal services to its residents. Those services include: public safety (police, fire, and emergency medical services), highways and streets, sanitation, economic development, cultural and recreational, public improvements, planning and zoning, and general administrative services.

The major accounting principles and practices followed by the City are presented below to assist the reader in evaluating the basic financial statements and the accompanying notes.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the City of Reading, Pennsylvania, have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the authoritative standard-setting body for the establishment of governmental accounting and financial reporting principles. The more significant of these accounting principles are as follows:

A. Reporting Entity

As required by generally accepted accounting principles, the financial statements of the reporting entity include those of the City (the primary government) and its component units.

The City used guidance contained in generally accepted accounting principles to evaluate the possible inclusion of related entities (authorities, boards, councils, etc.) within its reporting entity. Accounting principles generally accepted in the United States of America require that the reporting entity consists of the primary government and legally separate entities for which the primary government is financially accountable. In addition, the primary government may determine through the exercise of management's professional judgment that the inclusion of a legally separate entity that does not meet the financial accountability criteria is necessary in order to prevent the reporting entity's financial statements from being misleading. In such instances, that legally separate entity should be included as a component unit if the nature and significance of their relationship with the primary government or other component units are such that the exclusion from the financial reporting entity would render the financial reporting entity's financial statements incomplete or misleading. In evaluating how to define the reporting entity, management has considered all potential component units.

Based on the foregoing criteria, the reporting entity has been defined to include all criteria for which the City is financially accountable or for which there is another significant relationship. Specific information on the nature of the various potential component units and a description of how the aforementioned criteria have been considered in determining whether or not to include or exclude such units in the City's financial statements are provided in the following paragraphs. Separately published audit reports of the component units are available for public inspection in the City's finance office.

CITY OF READING

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2022

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

A. Reporting Entity - continued

1. Blended Component Units

Some component units, despite being legally separate from the primary government (City), are so intertwined with the primary government that they are, in substance, the same as the primary government and are reported as part of the primary government. The component unit reported in this way is the Reading Area Water Authority.

Reading Area Water Authority - The Authority was formed pursuant to the Municipal Authority Act of 1986 for the purpose of providing certain utility services to the residents of the City, through lease of City-owned assets. The seven-member board of directors is appointed by the Mayor and approved by City Council. The Authority's primary activity is the operation of the water distribution system on behalf of the City. The Authority publishes a separate financial statement and is accounted for in the water fund, an enterprise fund, of the City's financial statements.

2. Discretely Presented Component Units

Component units which are not blended as part of the primary government are discretely presented, which entails reporting component unit financial data in a column separate from the financial data of the primary government. The component units presented in this way are the Reading Parking Authority and the Reading Redevelopment Authority.

Reading Parking Authority - The Authority was incorporated in 1953 under the provisions of the parking authority law. The entire board of directors is appointed by the Mayor, and members can be removed from the board at will. The Authority was formed to provide parking facilities to residential and commercial users. The Authority publishes a separate financial statement.

Reading Redevelopment Authority - The Redevelopment Authority was established pursuant to the Urban Redevelopment Act of 1945 (Public Law-991). The Redevelopment Authority is administered by a five-member board, all of whom are appointed by the Mayor. The Authority was established to provide a broad range of urban renewal and maintenance programs within the City, in addition to coordination of efforts to improve the economic vitality, the housing stock, and overall living conditions within the City. On November 9, 2020, the Authority executed a three-year cooperation agreement with the City. The agreement notes the City's Director of Community Development will serve as the executive director of the Authority. The City will also provide administrative support. The Authority will reimburse \$30,000 annually for these services.

3. Fiduciary Component Units

The City has determined it has four fiduciary component units. The City's three defined benefit pension plans and the other postemployment benefits plan are considered fiduciary component units and are reported as pension/OPEB trust funds in the fiduciary financial statements.

CITY OF READING

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2022

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

A. Reporting Entity - continued

4. Potential Component Units Excluded

Reading Housing Authority - The Housing Authority was established pursuant to the housing authority law to promote the availability of safe and sanitary dwelling accommodations at affordable rents to families of low income. The Housing Authority is administered by a five-member board, all of whom are appointed by the Mayor.

The Housing Authority operates low rent subsidized housing projects established within the City. The Authority manages the acquisition of federal and state funds for the construction and/or improvements to low income properties and reviews programs with the landlords to ensure compliance with various rules and regulations. The City has no financial accountability over the Housing Authority's operations.

The Housing Authority operates and reports on a fiscal year ending March 31.

5. Related Organizations

The City Council and Mayor are also responsible for appointing the members of several boards, but the City's accountability for these organizations does not extend beyond making appointments. These boards include, but are not limited to:

Stadium Commission
Shade Tree Commission
Plumbing Board of Examiners
Heating Board of Examiners

Vacant Property Review Committee
Board of Historical and Architectural Review
Board of Health
Electricians Examining Board

CITY OF READING

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2022

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

B. Basis of Presentation - Government-Wide Financial Statements

Government-wide financial statements (i.e., the statement of net position and the statement of activities) display information about the reporting entity, except for its fiduciary activities. All fiduciary activities are reported only in the fund financial statements. The government-wide statements include separate columns for the governmental and business-type activities of the primary government, as well as its discretely presented component units. Governmental activities, which normally are supported by taxes, intergovernmental revenues, and other nonexchange transactions are reported separately from business-type activities which rely, to a significant extent, on fees and charges for support. Likewise, the primary government is reported separately from the legally separate component units for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function to the City are offset by the program revenues related to that function. Direct expenses are those that are directly related to and clearly identified with a function. Program revenues include 1) charges to customers or others who purchase, use, or directly benefit from services or goods provided by a given function, or 2) grants and contributions that are restricted to meet the operational or capital requirements of a function. Taxes, including those dedicated for specific purposes, and other items not includable in program revenues are reported as general revenues.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are contributions made to the component units from the City's governmental funds and transfers between governmental funds and business-type and fiduciary funds. Elimination of these contributions would distort the direct costs and program revenues reported for the various functions concerned.

The City chooses to allocate indirect costs in a separate column in the government-wide financial statements. The City allocates indirect costs primarily comprised of central governmental services to operating functions and programs benefiting from those services. Central services include overall City management, centralized budgetary formulation and oversight, accounting, financial reporting, payroll, procurement contracting and oversight, investing and cash management, personnel services, and other central administrative services. Allocations are charged to programs based on use of central services determined by various allocation methodologies. These charges are separately reported in the statement of activities. As a matter of policy, certain functions that use significant central services are not charged for the use of these services. These functions or programs include police, fire, and certain divisions within public services and parks.

CITY OF READING

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2022

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

C. Basis of Presentation - Fund Financial Statements

The fund financial statements provide information about the government's funds, including its fiduciary funds. Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as nonmajor funds on the fund financial statements.

The City Reports the Following Major Governmental Funds:

General Fund: This fund is established to account for resources devoted to financing the general services that the City performs for its citizens. General tax revenues and other sources of revenue used to finance the fundamental operations of the City are included in this fund. The fund is charged with all costs of operating the government for which a separate fund has not been established.

Community Development Fund: This special revenue fund was established to account for the proceeds of specific revenue sources other than special assessments, expendable trusts, or major capital projects that are legally restricted to expenditures for specified purposes.

Grant Fund: This special revenue fund is established for the purpose of accumulating special purpose grants and other resources for purposes (other than for community development or capital projects) that are restricted to expenditures for specified purposes as imposed by outside parties. This fund also includes the fire escrow activity for the City.

American Rescue Plan Act Fund: This special revenue fund is established to account for the federal funds received and disbursed through the American Rescue Plan Act.

Capital Projects Fund: This fund is established to account for financial resources to be used for the acquisition or construction of major capital equipment or facilities (other than those financed by proprietary funds).

The following are included in the capital projects fund:

Street Paving: Provides for designated funding for street paving projects.

City Facilities Construction: Provides for designated funding for City facility construction projects.

Housing Improvement: Provides for designated funding for City housing improvement projects.

CITY OF READING

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2022

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

C. Basis of Presentation - Fund Financial Statements - continued

The City Has the Following Nonmajor Governmental Funds:

Shade Tree Fund: This special revenue fund is established for the purpose of recording a certain portion of the tax millage to be used for the maintenance and expansion of the City's horticulture. The portion was .2 mills for the year ended December 31, 2022.

Liquid Fuels Fund: This special revenue fund is established to account for proceeds from the State Motor License Fund allocated by the Commonwealth of Pennsylvania. Under the act of June 1, 1956, P.L. 1944, No. 145, this fund must be kept separate from all other funds and no other funds shall be commingled with this fund. Disbursements are legally restricted to disbursements for highway purposes in accordance with Department of Transportation regulations.

The City has the Following Major Enterprise Funds:

Water Fund: This fund was established to account for the user charges and operating expenses of providing water services to City residents. It includes the activity of the Reading Area Water Authority, a blended component unit of the City.

Sewer Fund: This fund was established to account for the user charges and operating expenses of providing wastewater transportation and treatment.

Solid Waste Fund: This fund is established to account for the user charges and operating expenses of providing trash and recycling collection services to City residents.

Enterprise funds are maintained to account for activities that are financed and operated in a manner similar to private business, with the intent that the costs (expenses, including depreciation) of providing goods or services on a continuing basis be financed or recovered, primarily through user charges.

CITY OF READING

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2022

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

C. Basis of Presentation - Fund Financial Statements - continued

Additionally, the City Reports the Following Fund Types:

Internal Service Fund: Internal Service Fund (Self-Insurance) is a proprietary fund used to account for the risk-management services (including claims for workers' compensation, general liability, and property damage) provided by one department or agency to other departments or agencies of the City, or to other governments on a cost-reimbursement basis. Since the majority of this fund supports governmental activities, its activity is included in the governmental activities in the government-wide statements.

Pension/OPEB Trust Funds: These fiduciary funds were established to provide pension benefits for qualified City employees. The principal revenue source for these funds is employer and employee contributions (includes Police, Fire, and Officers' and Employees' Trust Funds). Also included is the Other Postemployment Benefit Trust Fund, which was established to provide resources to pay future other postemployment benefit expenses. All four plans are considered fiduciary component units.

During the course of operations, the government has activity between funds for various purposes. Any residual balances outstanding at year end are reported as interfund receivables and payables. While these balances are reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Balances between the funds included in governmental activities (i.e., the governmental and internal service funds) are eliminated so that only the net amount is included as internal balances in the governmental activities column. Similarly, balances between the funds included in business-type activities (i.e., the enterprise funds) are eliminated so that only the net amount is included as internal balances in the business-type activities column.

Further, certain activity occurs during the year involving transfers of resources between funds. In fund financial statements, these amounts are reported at gross amounts as transfers in/out. While reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Transfers between the funds included in governmental activities are eliminated so that only the net amount is included as transfers in the governmental activities column. Similarly, balances between the funds included in business-type activities are eliminated so that only the net amount is included as transfers in the business-type activities column.

D. Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as *current financial resources* or *economic resources*. The basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

CITY OF READING

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2022

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

D. Measurement Focus and Basis of Accounting - continued

The government-wide financial statements are reported using the *economic resources measurement focus*, and the *accrual basis of accounting* as are the proprietary and the fiduciary funds. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the water fund, sewer fund, and solid waste fund are charges to customers for sales and services. The internal service fund principal operating revenues are charges to fund self-insurance workers' compensation and liability insurance claims. The water and sewer funds also recognize as operating revenue the portion of tapping fees intended to recover the cost of connecting new customers to the system. Operating expenses for enterprise funds and internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

The governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to pension, compensated absences, and claims and judgments, are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Issuance of long-term debt, including lease liabilities, are reported as other financing sources.

Property taxes, sales taxes, franchise taxes, and licenses associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Entitlements are recorded as revenues when all eligibility requirements are met, including any time requirements, and the amount is received during the period or within the availability period for this revenue source (within 60 days of year end). Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other eligibility requirements have been met, and the amount is received during the period or within the availability period for this revenue source. All other revenue items are considered to be measurable and available only when cash is received by the City.

CITY OF READING

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2022

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

E. Financial Position

1. Cash and Cash Equivalents

The City's reporting entity considers all highly-liquid investments with a maturity of three months or less when purchased to be cash equivalents.

2. Investments

For funds other than Pension Trust Funds, Pennsylvania Third Class City Code allows the City to invest in obligations of the United States of America, the Commonwealth of Pennsylvania, or any agency or instrumentality of either, which are secured by the full faith and credit of such entity. The law also allows for the City to invest in certificates of deposit of banks, savings and loan associations, and savings banks both within and outside the Commonwealth of Pennsylvania provided such amounts are insured by the FDIC or other like insurance and that deposits in excess of such insurance are collateralized by the depository. The City may also invest in shares of registered investment companies, provided that investments of such companies are in authorized investments as noted previously.

The law provides that the City's Pension Trust Funds may be invested in any form or type of investment or financial instrument when determined by the City to be prudent. See Note 11 for further discussion of the City's investment policy related to the Pension Trust Funds.

Investments for all funds are valued at fair value in accordance with Governmental Accounting Standards Board Statement No. 72, *Fair Value Measurement and Application*, except for investments in external investment pools, which are valued at amortized costs if required criteria are met as outlined in Governmental Accounting Standards Board Statement No. 79, *Certain External Investment Pools and Pool Participants*.

The City categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

Investments are exposed to various risks such as interest rate, credit, and overall market volatility. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the fair value of investments will occur in the near-term and that such changes could materially affect the amounts reported in the statement of financial position.

3. Interfund Transactions

Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the year are referred to as "interfund receivables/payables." Any residual balances outstanding between the governmental and business-type activities are reported in the government-wide financial statements as "internal balances."

CITY OF READING

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2022

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

E. Financial Position - continued

4. Inventory and Prepaid Items

Inventory is valued at cost using the first-in/first-out (FIFO) method and consist of expendable supplies and vehicle repair parts. The cost of such inventory is recorded as expenditures/expenses when consumed rather than when purchased.

Certain payments to vendors reflect costs applicable to future accounting periods, and are recorded as prepaid items in both the government-wide and fund financial statements. The cost of prepaid items is recorded as an expenditure/expense when consumed rather than when purchased.

5. Capital Assets, Depreciation, and Amortization

The City's property and equipment with useful lives of more than one year are stated at historical cost and comprehensively reported in the government-wide financial statements. Proprietary capital assets are also reported in their respective financial statements. The government reports infrastructure assets on a network and subsystem basis. Accordingly, the amounts spent for the construction or acquisition of infrastructure assets are capitalized and reported in the government-wide financial statements regardless of their amount. As the government constructs or acquires additional capital assets each period, including infrastructure assets, they are capitalized and reported at historical cost. The reported value excludes normal maintenance and repairs which are essentially amounts spent in relation to capital assets that do not increase the capacity or efficiency of the item or extend its useful life beyond the original estimate. Donated capital assets are recorded at acquisition value of the item at the date of donation. Right-to-use assets are reported when a qualifying lease liability is incurred.

The City generally capitalizes machinery, equipment, and vehicles with a cost of \$5,000 or more and other assets with a cost of \$25,000 or more as purchase and construction outlays occur. Assets purchased or constructed with long-term debt may be capitalized regardless of the threshold established. The costs of normal maintenance and repairs that do not add to the asset value or materially extend useful lives are not capitalized. Construction in progress is stated at cost and consists primarily of costs incurred on construction projects. No provision for depreciation is made on construction in progress until the assets are complete and placed into service. Capital assets, including those of component units, are depreciated using the straight-line method. When capital assets are disposed of, the cost and applicable accumulated depreciation are removed from the respective accounts, and the resulting gain or loss is recorded in operations.

CITY OF READING

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2022

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

E. Financial Position - continued

5. Capital Assets, Depreciation, and Amortization - continued

Estimated useful lives for depreciable and amortizable assets are as follows:

<u>Assets</u>	<u>Years</u>
Infrastructure	25 - 50
Buildings	10 - 60
Improvements*	5 - 83
Machinery and equipment	3 - 83
Right-to-use lease assets	3 - 8

* Includes improvements to buildings, roads, water distribution and sewer collection systems.

6. Valuation of Long-Lived Assets

Long-lived assets to be held and used are required to be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. In general, any long-lived assets to be disposed of are reported at the lower of carrying amount or fair value less cost to sell. The City periodically evaluates the recoverability of its long-lived assets, including real estate and improvements and deferred costs, using objective methodologies. Such methodologies include evaluations based on cash flows generated by the underlying assets or other determinants of fair value. None of the City's long-lived assets were considered to be impaired as of December 31, 2022.

7. Unearned Revenues

Revenues that are received but not earned are reported as unearned revenues in the government-wide, governmental and proprietary fund financial statements. Unearned revenues arise when resources are received prior to the incurrence of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the City has legal claim to the resources, the liability for unearned revenue is removed from the respective financial statements and revenue is recognized.

8. Compensated Absences

City policies permit employees to accumulate earned but unused sick days based on contractual agreements. Payments for sick days are expensed as paid in the governmental fund statements. Accumulated sick leave that is expected to be liquidated with expendable available financial resources and that has matured is reported as an expenditure and a liability in the governmental funds. Accumulated sick leave that is not expected to be liquidated with expendable available financial resources and that has not matured is reported as a long-term liability in the proprietary funds and the government-wide financial statements and is expensed as incurred. Additionally, all employees are permitted to accrue compensatory time, paid at their standard hourly rate upon termination.

CITY OF READING

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2022

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

E. Financial Position - continued

9. Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental or business-type activity columns in the statement of net position. This same treatment also applies to proprietary fund financial statements. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount. Other bond issuance costs are expensed at the time the debt is issued.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued and original issue discounts or premiums are reported as other financing sources and uses. Issuance costs and underwriter's discount, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

10. Leases

Lessor

The City is a lessor for a noncancellable lease of building space, land, and First Energy Stadium. The City recognizes a lease receivable and a deferred inflow of resources in the government-wide and governmental fund financial statements.

At the commencement of a lease, the City initially measures the lease receivable at the present value of payments expected to be received during the lease term. Subsequently, the lease receivable is reduced by the principal portion of lease payments received. The deferred inflow of resources is initially measured as the initial amount of the lease receivable, adjusted for lease payments received at or before the lease commencement date. Subsequently, the deferred inflow of resources is recognized as revenue over the life of the lease term.

Key estimates and judgments include how the City determines (1) the discount rate it uses to discount the expected lease receipts to present value, (2) lease term, and (3) lease receipts.

- The City uses its estimated incremental borrowing rate as the discount rate for leases.
- The lease term includes the noncancellable period of the lease. Also included within the lease term are qualifying lease renewals or early termination options that the City is reasonably certain to exercise or not. Lease receipts included in the measurement of the lease receivable is composed of fixed payments from the lessee.

CITY OF READING

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2022

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

E. Financial Position - continued

10. Leases - continued

Lessor - continued

The City monitors changes in circumstances that would require a remeasurement of its lease, and will remeasure the lease receivable and deferred inflows of resources if certain changes occur that are expected to significantly affect the amount of the lease receivable.

Lessee

The City is a lessee for noncancellable leases of furniture, building space, equipment, and vehicles. The City recognizes a lease liability and an intangible right-to-use lease asset (lease asset) in the government-wide financial statements.

At the commencement of a lease, the City initially measures the lease liability at the present value of payments expected to be made during the lease term. Subsequently, the lease liability is reduced by the principal portion of lease payments made. The lease asset is initially measured as the initial amount of the lease liability, adjusted for lease payments made at or before the lease commencement date, plus certain initial direct costs. Subsequently, the lease asset is amortized on a straight-line basis over its useful life.

Key estimates and judgments related to leases include how the City determines (1) the discount rate it uses to discount the expected lease payments to present value, (2) lease term, and (3) lease payments.

- The City uses the interest rate charged by the lessor as the discount rate. When the interest rate charged by the lessor is not provided, the City generally uses its estimated incremental borrowing rate as the discount rate for leases.
- The lease term includes the noncancellable period of the lease. Also included within the lease term are any qualifying lease renewals or early termination options that the City is reasonably certain to exercise or not exercise. Lease payments included in the measurement of the lease liability are composed of fixed payments and purchase option price that the City is reasonably certain to exercise.

The City monitors changes in circumstances that would require a remeasurement of its lease and will remeasure the lease asset and liability if certain changes occur that are expected to significantly affect the amount of the lease liability.

Lease assets are reported with capital assets as right-to-use lease assets and lease liabilities are reported with noncurrent liabilities on the statement of net position.

CITY OF READING

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2022

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

E. Financial Position - continued

11. Pension

The City administers three single employer defined benefit pension plans covering all full-time police officers, full-time paid firemen, and nonuniform employees: the City of Reading Police Pension Plan (PPP), the City of Reading Paid Firemen's Pension Plan (PFPP), and the City of Reading Officers' and Employees' Pension Plan (O&E).

Financial information of the pension plans (Plans) is presented on the accrual basis of accounting. Benefits and refunds are recognized when due and payable in accordance with the terms of the Plans. Employer contributions to the Plans are recognized when due as required by applicable law. Investments of the Plans are reported at fair value.

12. Other Postemployment Benefits (OPEB)

The City's other postemployment benefit plans are accounted for under the provisions of GASB Statement No. 75, which establishes standards for the measurement, recognition, and display of other postemployment benefit expense and related liabilities, deferred outflows and deferred inflows of resources related to other postemployment benefits, certain required supplementary information, and note disclosures.

The City sponsors a single-employer defined benefit OPEB plan. For purposes of measuring the total OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB and OPEB expense, information about the fiduciary net position of the OPEB plan, and additions to/deductions from the plan's fiduciary net position have been determined on the same basis as they are reported by the plan. For this purpose, the plan recognizes benefit payments when due and payable in accordance with the benefit terms.

CITY OF READING

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2022

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

E. Financial Position - continued

13. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/expenditure) until then. The City has three types of items that qualify for reporting in this category, which are a deferred charge on bond refunding, deferred outflows of resources for pension, and deferred outflows of resources for other postemployment benefits, which are reported on the government-wide statement of net position, as well as the proprietary fund statements.

A deferred charge on bond refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

Deferred outflows of resources for pension relate to the City's net pension liability and pension expense and arise from changes in assumptions, actual versus expected results, changes in benefits, variances in expected versus actual investment earnings, or changes in the internal allocation of the net pension liability among funds. These amounts are deferred and amortized over either a closed five-year period or the average remaining service life of all employees depending on what gave rise to the deferred outflow.

Deferred outflows of resources for other postemployment benefits relate to the City's other postemployment benefit liability and other postemployment benefits expense and arise from changes in assumptions, actual versus expected results, changes in benefits, variances in expected versus actual investment earnings, or changes in the internal allocation of the other postemployment benefit liability among funds. These amounts are deferred and amortized over either a closed five-year period or the average remaining service life of all employees depending on what gave rise to the deferred outflow.

CITY OF READING

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2022

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

E. Financial Position - continued

13. Deferred Outflows/Inflows of Resources - continued

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The City has four types of items that qualify for reporting this category.

Unavailable revenue arises only under a modified accrual basis of accounting and is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenue primarily from property taxes and other charges (alarm fees). These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

Deferred inflows of resources for lease revenue relate to lessor agreements the City has for its facilities with third parties. The deferred inflows of resources is recorded at the initiation of the lease in an amount equal to the initial recording of the lease receivable. The deferred inflow of resources is amortized on a straight-line basis over the term of the lease.

Deferred inflows of resources for pension relate to the City's net pension liability and pension expense and arise from changes in assumptions, actual versus expected results, changes in benefits, variances in expected versus actual experience, or changes in the internal allocation of the liability among funds. These amounts are deferred and amortized over either a closed five-year period or the average remaining service life of all employees depending on what gave rise to the deferred inflow.

Deferred inflows of resources for other postemployment benefits relate to the City's liability for postemployment benefits other than pensions and related expenses and arise from changes in assumptions, actual versus expected results, changes in benefits, variances in expected versus actual investment earnings, or changes in the internal allocation of the other postemployment benefit liability between governmental and business-type activities or funds. These amounts are deferred and amortized over either a closed 5-year period or the average remaining service life of all employees depending on what gave rise to the deferred inflow.

14. Encumbrances

Appropriations in governmental funds are encumbered upon issuance of purchase orders, contracts, or other forms of legal commitment. Even though goods and services have not been received, the transactions are accounted for as a reservation of fund balances in the year the commitment is made. While appropriations lapse at the end of the year, encumbrances outstanding are reported as reservations of fund balance for subsequent expenditures.

CITY OF READING

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2022

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

E. Financial Position - continued

15. Net Position and Flow Assumptions

Net position represents the difference between assets and deferred outflows of resources less liabilities and deferred inflows of resources. The net investment in capital assets component of net position is comprised of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets. In addition, any deferred outflows of resources and/or deferred inflows of resources related to such capital assets or liabilities associated with the capital assets should also be added to or deducted from the overall net investment in capital assets. If there are unspent related debt proceeds at year end, the portion of debt attributed to the unspent bond proceeds is not included in the calculation of net investment in capital assets. The restricted component of net position is used when there are limitations imposed on their use either through the enabling legislation adopted by a higher governmental authority or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. The remaining component of net position is unrestricted.

The City applies restricted resources first when an expense is incurred for purposes for which both the restricted and unrestricted components of net position are available.

16. Fund Balance Policies and Flow Assumptions

Fund balance of governmental funds is reported in various categories based on the nature of any limitations requiring the use of resources for specific purposes. The government itself can establish limitations on the use of resources through either a commitment (committed fund balance) or an assignment (assigned fund balance).

The restricted fund balance represents funds that are limited in use due to constraints on purpose and circumstances of spending that are legally enforceable by outside parties. At December 31, 2022, the City had restrictions through grant agreements, enabling legislation, unspent tax revenues, and debt covenants as described in the governmental funds balance sheet and Note 15.

The committed fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the government's highest level of decision-making authority. The governing council is the highest level of decision-making authority for the government that can, by adoption of an ordinance prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by the ordinance remains in place until a similar action is taken (the adoption of another ordinance) to remove or revise the limitation.

CITY OF READING

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2022

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

E. Financial Position - continued

16. Fund Balance Policies and Flow Assumptions - continued

Amounts in the assigned fund balance classification are intended to be used by the government for specific purposes but do not meet the criteria to be classified as committed. The governing council by resolution may assign fund balance as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year's appropriated budget and policy. Unlike commitments, assignments generally only exist temporarily. In other words, an additional action does not normally have to be taken for the removal of an assignment. Conversely, as discussed above, an additional action is essential to either remove or revise a commitment.

The City has a fund balance policy stating that the City shall maintain an unassigned fund balance in the general fund of 20% based on the annual general fund budget or a minimum of \$22,000,000, whichever is higher, to allow for proper cash flow to fund operations and to allow for monthly contributions to the pension fund.

Sometimes the government will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements a flow assumption must be made about the order in which the resources are considered to be applied. It is the government's policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

F. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

CITY OF READING

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2022

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

G. Adoption of Accounting Standards

During the year ended December 31, 2022 the City adopted new accounting guidance GASB Statement No. 87, retroactive to January 1, 2022. GASB Statement No. 87 was issued to recognize certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right-to-use an underlying asset. Under this statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources. As a result of this standard implementation, the following restatements were made to beginning balances at January 1, 2022:

	Governmental Activities	General Fund
Lease receivable	\$ 904,856	\$ 904,856
Right-to-use lease assets	710,128	-
Lease payable	(710,128)	-
Deferred inflows of resources for lease revenues	<u>(2,425,856)</u>	<u>(904,856)</u>
Net Restatement	(1,521,000)	-
Net Position (Deficit)/Fund Balance	<u>(88,806,219)</u>	<u>41,332,892</u>
Net Position (Deficit)/Fund Balance - Revised	<u><u>\$ (90,327,219)</u></u>	<u><u>\$ 41,332,892</u></u>

During the year ended December 31, 2022, the City adopted new accounting guidance GASB Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans*. This statement's primary objectives are to (1) increase consistency and comparability related to the reporting of fiduciary component units in circumstances in which a potential component unit does not have a governing board and the primary government performs the duties that a board would perform; (2) mitigate the costs of reporting certain defined contribution pension or other postemployment benefit plans as a fiduciary component unit; and (3) enhance the relevance, consistency, and comparability of the accounting and financial reporting for Internal Revenue Section 457 deferred compensation plans that meet the definition of a pension plan and for benefits provided. As a result of this standard implementation, there was no net restatement to beginning net position or fund balance.

CITY OF READING

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2022

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

G. Adoption of Accounting Standards - continued

During the year ended December 31, 2022, the City adopted new accounting guidance GASB Statement No. 99, *Omnibus 2022*. The objectives of this statement are to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing (1) practice issues that have been identified during implementation and application of certain GASB Statements and (2) accounting and financial reporting for financial guarantees. The City has implemented applicable paragraphs of this statement in which did not result in any effect on the City's net position. The City's financial management expects to implement remaining guidance in this statement as applicable to the City in its years ending December 31, 2023 and 2024.

NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Budgetary Data

The City follows the following procedures in establishing the budgetary data reflected in the financial statements:

During September, the City department heads are required to submit requested operating budgets to the City managing director for the fiscal year commencing the following January 1. The budgets submitted include proposed expenditures along with a narrative justification for such expenditures. Budgets, as submitted, are subject to a detailed review by the director of finance and managing director. This review process, which continues through November, includes meetings with the City Council, comparisons with prior year's spending patterns, and forecasting of future needs.

As required by the Home Rule Charter, the proposed budget is made available for public inspection for at least 30 days prior to the date of adoption, with adoption required by December 31. Subsequent to the budget approval, the City Council adopts the appropriation measures required to put the budget into effect and fix the rate of taxation.

Should supplemental budget appropriations be required, the City Council may, within statutory limitations, authorize the transfer of funds between line items by means of a resolution approved at a regularly scheduled council meeting. Expenditures may not legally exceed budgeted amounts at the line item level.

Annual budgets providing comprehensive appropriations are legally adopted for all governmental funds except the community development fund, grant fund, and American Rescue Plan fund which are all special revenue funds, capital projects funds, and debt service funds. Budgets are adopted on a modified accrual basis; accordingly, revenues are reported when susceptible to accrual and expenditures are recorded when incurred.

CITY OF READING

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2022

NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY - CONTINUED

Deficit Fund Balance or Net Position of Individual Funds

As of December 31, 2022, the Shade Tree Fund shows a total deficit fund balance of \$118,978. The deficit results from excess expenditures for contracted services over real estate revenues collected. Public works will develop a plan to fund the deficit which will include decreasing future expenditures and increasing fund revenues.

Excess of Expenditures Over Appropriations

For the year ended December 31, 2022, the General Fund had excess expenditures over appropriations of \$1,155,925. This was covered with excess revenues received.

Net Position Deficit and Liquidity

As of December 31, 2022, the City, in its statement of net position, shows a total net deficit of \$58,021,767 for governmental activities, due largely to the accounting to comply with GASB No. 68, *Accounting and Financial Reporting for Pensions*, and GASB No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. The largest components of the unrestricted deficit, besides the net pension and OPEB liabilities, are the general obligation debt to meet funding requirements to the pension fund, maintenance, and equipment expenditures on City infrastructure. The City's debt service expenditures in its governmental funds were \$11,741,981, 9.16% of its total expenditures, and the City used 16.59% of its current tax revenues to finance debt service requirements.

In October 2009, the City sought municipal self-help as a "financially distressed" municipality under the Municipalities Financial Recovery Act (Act 47 of 1987) of the Commonwealth of Pennsylvania. The Act 47 of 1987 coordinators appointed by the Commonwealth issued their five-year recovery plan, which was originally adopted by the City Council on June 11, 2010. On October 27, 2014, an amended recovery plan was filed with the Pennsylvania Department of Community and Economic Development extending the Act 47 of 1987 status through 2019. In July of 2019, the City adopted a 3-year exit plan from Act 47 of 1987 with the goal of exiting the program by the end of 2022. During 2022, the City continued efforts to control costs, improve collections, and maintain solvency. In July 2022, the City exited Act 47 status.

NOTE 3 - CASH AND INVESTMENTS

The City's investment authority for all funds, except Pension Trust Funds, is set by state statute to include: U.S. Treasury Bills, short-term U.S. Government or Agency obligations, deposits in savings accounts, time deposits or share accounts, obligations of the United States or any of its agencies or instrumentalities, obligations of the Commonwealth of Pennsylvania or any of its agencies or instrumentalities, and shares of any investment company which invests only in the above or certificates of deposit. Pursuant to Act 72 of the 1971 Session of the General Assembly, a depository must pledge assets to secure state and municipal deposits. The pledged assets must at least be equal to the total amount of such assets required to secure all of the public deposits at the depository and may be on a pooled basis. Additionally, all such pledged assets must be delivered to a legal custodian. Fiduciary fund investments are authorized by 20 Pa.C.S. Ch. 73 for any pension or retirement plan.

CITY OF READING

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2022

NOTE 3 - CASH AND INVESTMENTS - CONTINUED

Pennsylvania Act 10 of 2016 became effective May 25, 2016 and expanded the permitted investment types to include commercial paper, bankers' acceptances, negotiable certificates of deposit, and insured bank deposit reciprocals as long as certain safeguards related to credit quality and maturity are met.

The deposit and investment policy of the City adheres to state statutes. There are no deposits or investment transactions during the year that were in violation of either state statutes or the policy of the City.

The carrying amount of cash, restricted cash, and investments at December 31, 2022, consists of the following:

	Primary Government	Blended Component Unit	Total
Petty cash	\$ 3,100	\$ 1,000	\$ 4,100
Demand deposit accounts	193,755,088	18,116,910	211,871,998
Pooled cash and investments	409,834	-	409,834
Investments	338,292,997	2,561,269	340,854,266
			<u>\$ 553,140,198</u>

Classification per statement of net position and fiduciary fund statements:

Unrestricted cash	\$ 206,391,450
Investments	77,194,314
Restricted cash and investments	3,594,901
Trust cash	4,451,016
Trust investments	261,508,517
	<u>\$ 553,140,198</u>

Deposits

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The City does not have a policy for custodial credit risk. As of December 31, 2022, the carrying amount of the City's deposits was \$216,700,972 and the bank balance was \$218,639,489. Of the balance, \$6,078,974 was covered by federal depository insurance and \$212,560,515 was exposed to custodial credit risk but covered by the collateralization requirements in accordance with Act 72 of the 1971 Session of the General Assembly. Included in the deposits and bank balance above are certificates of deposit (CDs) totaling \$4,828,974, all of which mature in less than one year. These CDs are fully covered by federal depository insurance and included in investments for financial reporting purposes.

CITY OF READING

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2022

NOTE 3 - CASH AND INVESTMENTS - CONTINUED

Investments

As of December 31, 2022, the City had the following pooled cash and investments:

	<u>Fair Value</u>	<u>Carrying Value</u>
PA Local Government Investment Trust (PLGIT):		
PLGIT/Reserve-Class	\$ 409,834	\$ 409,834

Certain external investments held by the City, based on portfolio maturity, quality, diversification, and liquidity measures, qualify for measurement at amortized cost at both the pool and participating government level consistent with GASB Statement No. 79. The City measures those investments, which include \$409,834 (PLGIT) at amortized cost.

A portion of the City's deposits were in the Pennsylvania Local Government Investment Trust (PLGIT). PLGIT acts like a money market mutual fund in that the objective is to maintain a stable net asset value of \$1 per share, is rated by nationally recognized statistical rating organization, and is subject to an independent annual audit.

PLGIT invests primarily in U.S. Treasury and federal agency securities and repurchase agreements secured by such obligations, as well as certain municipal obligations and collateralized or insured certificates of deposit. The fund manager intends to comply with guidelines similar to those mandated for money-market funds as contained in Rule 2a-7 of the Investment Company Act of 1940.

PLGIT/Reserve-Class is an option which requires a minimum investment of \$50,000, a one day minimum investment period, and limits redemptions or exchanges to two per calendar month. However, there is no minimum investment period and dividends are paid monthly.

The City's cash equivalent investments in PLGIT cannot be classified by risk category because they are not evidenced by securities that exist in physical or book entry form. The fair value of the City's position in the external investment pool is the same as the value of the pool shares. All investments in external investment pools that are not registered with the Securities and Exchange Commission are subject to oversight by the Commonwealth of Pennsylvania.

As of December 31, 2022, the entire PLGIT book balance of \$409,834 is considered to be a cash equivalent for cash flow presentation on the government-wide and fund financial statements.

CITY OF READING

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2022

NOTE 3 - CASH AND INVESTMENTS - CONTINUED

Investments - continued

As of December 31, 2022, the City had the following nonpension investments:

Investment Type	Yield	Fair Market Value	Investment Maturities at December 31, 2022		Fair Value Level
			< 1 Year	1 - 5 Years	
Investments measured at fair value:					
Certificates of deposit	0.10% - 0.35%	\$ 4,828,974	\$ 4,828,974	\$ -	N/A
Money market funds	N/A	2,567,086	N/A	N/A	N/A
Accrued income/cash equivalents	N/A	131,139	N/A	N/A	N/A
U.S. Government issues:					
U.S. Treasury Bills	N/A	67,393,571	67,393,571	-	2
U.S. Treasury Notes	0.13% - 2.75%	1,863,599	1,620,061	243,538	2
Total investments measured at fair value		76,784,369			
Reconciling items		111			
Total nonpension investments		\$ 76,784,480			

Level 2 securities are valued using a matrix pricing technique or comparable securities. Matrix pricing is used to value securities based on the securities' relationship to benchmark quoted prices.

Interest Rate Risk

The City does 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.

CITY OF READING

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2022

NOTE 3 - CASH AND INVESTMENTS - CONTINUED

Credit Risk

The City does have an investment policy that would limit its investment choices to certain credit ratings. As of December 31, 2022, the City's investments were rated as:

<u>Investments</u>	<u>Standard & Poor's (Moody's & Fitch)</u>
U.S. Treasury Funds	N/A (AAA)
U.S. Treasury Notes	N/A (AAA)

The Blended Component Unit, Reading Area Water 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 Municipal Authorities Act, and the related trust indentures.

Concentration of Credit Risk

The City places no limit on the amount the City may invest in any one issuer.

Custodial Credit Risk

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral security that are in the possession of an outside party. There are no funds exposed to custodial credit risk.

Pension Trust Funds

The pension trust funds' investments are held separately from those of other City funds. Assets in the pension trust funds are stated at fair value. Any premiums or discounts are recognized as a gain or loss upon disposition. The City maintains investment policies that summarize the investment philosophy of the City and establishes investment guidelines and performance objectives for the Police, the Paid Firemen and the City Officers' and Employees' Pension Funds.

CITY OF READING

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2022

NOTE 3 - CASH AND INVESTMENTS - CONTINUED

Pension Trust Funds - continued

As of December 31, 2022, the City had the following investments in its pension trust funds:

Investment Type	Yield	Fair Market Value	Fair Value Level
<u>Police Pension Fund</u>			
Investments measured at fair value:			
Money market funds		\$ 166,876	N/A
Accrued income/cash equivalents		2,359,450	N/A
Common stock		30,684,961	1
Corporate bonds and notes		8,579,596	2
Other asset backed securities		4,832,725	2
Equity mutual funds:			
Diversified Emerging Markets	4.03%	28,933	1
Large Blend	1.46% - 1.68%	21,235,684	1
Foreign Large Blend	2.66% - 3.85%	5,996,380	1
Large Cap Value	2.51%	10,736,470	1
Real Estate	2.06%	20,728	1
Fixed income mutual funds:			
Intermediate Term Bond	2.57%	61,842	1
Multisector Bond	5.06%	37,576	1
Ultrashort Bond	0.74% - 3.79%	11,186,573	1
World Bond	1.16% - 4.10%	1,772,720	1
Exchange traded products (ETP):			
Equity ETPs		6,269,455	1
Real estate ETPs		12,290	1
Fixed Income ETPs		205,489	1
US Government Issues:			
US Treasury notes	0.13% - 1.27%		
Maturity 1-5 years		10,496,534	2
Maturity 6-10 years		2,913,273	2
Maturity > 10 years		591,595	2
Real estate investments		7,739,486	3
Investments measured at fair value - Police Pension		125,928,636	
Reconciling items		42,897	
Total investments measured at fair value - Police Pension		\$ 125,971,533	

CITY OF READING

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2022

NOTE 3 - CASH AND INVESTMENTS - CONTINUED

Pension Trust Funds - continued

Investment Type	Yield	Fair Market Value	Fair Value Level
<u>Fire Pension Fund</u>			
Investments measured at fair value:			
Money market funds		\$ 1,800	N/A
Accrued income/cash equivalents		1,116,957	N/A
Common stock		16,324,740	1
Corporate bonds and notes		1,635,573	2
Other asset backed securities		5,944,933	2
Equity mutual funds:			
Large Blend	1.68%	11,620,650	1
Foreign Large Blend	2.66%	3,283,241	1
Large Cap Value	2.51%	6,068,901	1
Fixed income mutual funds:			
Ultrashort Bond	1.37%	6,150,054	1
World Bond	4.10%	1,105,716	1
Exchange traded products (ETP):			
Equity ETPs		3,352,063	1
US Government Issues:			
US Treasury notes	1.26% - 4.50%		
Maturity 1-5 years		5,319,249	2
Maturity 6-10 years		2,216,610	2
Maturity > 10 years		362,823	2
Real estate investments		4,536,012	3
Other		1,876,800	N/A
Investments measured at fair value - Fire Pension		70,916,122	
Reconciling items		25,143	
Total investments measured at fair value - Fire Pension		\$ 70,941,265	

CITY OF READING

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2022

NOTE 3 - CASH AND INVESTMENTS - CONTINUED

Pension Trust Funds - continued

Money market funds		\$	1,785	N/A
Accrued income/cash equivalents			1,291,017	N/A
Common stock			15,850,268	1
Corporate bonds and notes			4,343,985	2
Other asset backed securities			2,473,801	2
Equity mutual funds:				
Large Blend	1.68%		10,753,301	1
Foreign Large Blend	2.66%		2,978,769	1
Large Cap Value	2.51%		5,693,994	1
Mix Tgt All Gro	2.09%		49,743	1
Fixed income mutual funds:				
Ultrashort Bond	1.37%		5,866,763	1
World Bond	4.10%		819,571	1
Equity traded products:				
Equity ETPs	1.03% - 2.92%		3,049,008	1
US Government Issues:				
US Treasury notes	1.26% - 4.50%			
Maturity 1-5 years			4,845,261	2
Maturity 6-10 years			1,932,726	2
Maturity > 10 years			314,008	2
Real estate investments			4,361,032	3
Investments measured at fair value -				
Officers' and Employees' Pension			64,625,032	
Reconciling items			(29,313)	
Total investments measured at fair value -				
Officers' and Employees' Pension		\$	64,595,719	
TOTAL PENSION INVESTMENTS		\$	261,508,517	

Level 1 securities are valued using quoted market prices. Level 2 securities are valued using a matrix pricing technique or comparable securities. Matrix pricing is used to value securities based on the securities' relationship to benchmark quoted prices. Level 3 securities are valued on a percentage of ownership from the audited financial statements issued by the real estate holder.

CITY OF READING

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2022

NOTE 3 - CASH AND INVESTMENTS - CONTINUED

Pension Trust Funds - continued

Credit Risk

The risk that an issuer or other counterparty to an investment will not fulfill its obligation is called credit risk. The pension trust funds have no formal investment policy that would limit its investment choices based on credit ratings by nationally recognized statistical rating organizations. As of December 31, 2022, the pension trust funds' investment in corporate bonds ranged from AAA to BB.

Investments held in mutual funds are not subject to credit risk.

Concentration of Credit Risk

The City places no limit on the amount the City may invest in any one issuer. There were no individual investments in any pension plan that constituted more than 5% of any of the pension plan net assets available for benefits at December 31, 2022. In addition, the plans did not have any investment transactions with related parties during the year.

Interest Rate Risk

The pension trust funds do not have a formal deposit or investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Component Unit (Reading Parking Authority)

Under State Statute, the Authority is permitted to invest funds in:

Obligations of (a) the United States of America or any of its agencies or instrumentalities backed by the full faith and credit of the United States of America, (b) the Commonwealth of Pennsylvania or any of its agencies or instrumentalities backed by the full faith and credit of the Commonwealth, or (c) any political subdivision of the Commonwealth of Pennsylvania or any of its agencies or instrumentalities backed by the full faith and credit of the political subdivision.

Deposits in savings accounts or time deposits or share accounts of institutions insured by the Federal Deposit Insurance Corporation to the extent that such accounts are so insured and, for any amounts above the insured maximum, provided that approved collateral as provided by law therefore, shall be pledged by the depository.

Pennsylvania Act 10 of 2016 became effective May 25, 2016, and expanded the permitted investment types to include commercial paper, bankers' acceptances, negotiable certificates of deposit, and insured bank deposit reciprocals as long as certain safeguards related to credit quality and maturity are met.

CITY OF READING

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2022

NOTE 3 - CASH AND INVESTMENTS - CONTINUED

Component Unit (Reading Parking Authority) - continued

Cash and investments consist of the following at December 31, 2022:

Unrestricted:	
Petty cash	\$ 4,329
Deposits	<u>2,693,802</u>
	<u>\$ 2,698,131</u>
Restricted:	
Money market funds	\$ 7,932,074
Commercial paper	1,581,553
Certificates of deposit	738,481
Investments	<u>1,181</u>
	<u>\$ 10,253,289</u>

Deposits

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The Authority does not have a policy for custodial credit risk. As of December 31, 2022, the carrying amount of the Authority's deposits was \$3,432,283 and the bank balance was \$3,687,175. As of December 31, 2022, \$1,235,025 of the bank balance was covered by federal depository insurance and the remainder was exposed to custodial credit risk, but covered by collateralization requirements in accordance with Act 72 of the 1971 Session of the General Assembly. Included in the deposits and bank balance above are certificates of deposit totaling \$735,025 at December 31, 2022. These certificates of deposit are fully covered by depository insurance and included in investments for financial reporting purposes.

CITY OF READING

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2022

NOTE 3 - CASH AND INVESTMENTS - CONTINUED

Component Unit (Reading Parking Authority) - continued

Investments

As of December 31, 2022, the Authority had the following investments:

	<u>Fair Value</u>	<u>Level</u>
Pennsylvania Treasurer's INVEST Program:		
Daily Pool	\$ 1,181	N/A
Money Market Funds:		
GS Financial Square Treasury Solutions Fund	7,932,074	N/A
Commercial Paper:		
Royal Bank of Canada	843,067	N/A
LMA Americas LLC	738,486	N/A
Total Investments	<u>\$ 9,514,808</u>	

The Authority categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; and Level 3 inputs are significant unobservable inputs. Money market funds are not subject to fair value hierarchy and are reported at amortized cost.

Certain external investments held by the Authority, based on portfolio maturity, quality, diversification, and liquidity measures, qualify for measurement at amortized cost at both the pool and participating government level consistent with GASB Statement No. 79. The Authority measures those investments, which include the Pennsylvania Treasurer's INVEST Program for Local Governments, at amortized cost. All investments in external investment pools that are not registered with the Securities and Exchange Commission are subject to oversight by the Commonwealth of Pennsylvania.

A portion of the Authority's deposits are in the Pennsylvania Treasurer's INVEST Program for Local Governments (INVEST). INVEST acts like a money market fund and is a family of highly rated investment pools designed specifically for local government and nonprofit groups. INVEST is rated by a nationally recognized statistical rating organization and is subject to an independent annual audit. These funds are reported as cash equivalents for cash flow presentation.

CITY OF READING

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2022

NOTE 3 - CASH AND INVESTMENTS - CONTINUED

Component Unit (Reading Parking Authority) - continued

Investments - continued

The INVEST fund invests in the following:

Federal obligations (United States Treasury bills, notes, bonds, strips, and “short-term” United States agency obligations) which have a maturity of up to and including 397 days from the date of settlement. These are considered level one investments.

Repurchase agreements with bank or non-bank financial institutions. All repurchase agreements held by the portfolios are secured by U.S. Government Obligations and/or Government National Mortgage Association Obligations, which have explicit full faith and credit from the United States Government. Securities pledged as collateral for Buy/Sell Repurchase Agreements are held by a third-party custodian bank until the agreements mature. Each agreement requires that the market value of the collateral be sufficient to cover 102% of payments of interest and principal; however, in the event of default or bankruptcy by the other party to the agreement, retention of the collateral may be subject to legal proceedings.

Other debt instruments of banks, financial institutions, and non-financial institutions that are authorized for the shareholder by Commonwealth of Pennsylvania statute, so long as those investment criteria are as restrictive as the provisions of Pennsylvania statutory authority. Other debt instruments may include certificates of deposit and money market funds.

The INVEST account has no maximum or minimum balance requirements or limitations or restrictions on withdrawals. Securities are valued at amortized cost, which approximates market value.

The INVEST Daily Pool portfolio is comprised of the following investments at December 31, 2022:

Federal agency obligations	4.45%
Certificates of deposit	5.55%
Commercial paper	47.43%
Money market funds	42.75%
Liabilities in excess of other assets	<u>(0.18%)</u>
	<u><u>100.00%</u></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.

CITY OF READING

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2022

NOTE 3 - CASH AND INVESTMENTS - CONTINUED

Component Unit (Reading Parking Authority) - continued

Credit Risk

The Authority does not have an investment policy that would limit its investment choices to certain credit ratings. As of December 31, 2022, the Authority's investments subject to this risk were all rated as AAA by a nationally recognized rating organization.

Concentration of Credit Risk

The Authority places no limit on the amount the Authority may invest in any one issuer. For the year ended December 31, 2022, the Authority has more than 5% of its investments in commercial paper.

Custodial Credit Risk

For an investment, custodial credit risk is the risk that, in the event of a failure of the counterparty, the Authority will not be able to recover the value of its investments or the collateral security that are in the possession of an outside party. The Authority has no investments subject to custodial credit risk.

Component Unit (Reading Redevelopment Authority)

The carrying amount of the Authority's cash and cash equivalents as of December 31, 2022 was (\$1,996) and the bank balance was \$17,091. The total bank balance was covered by FDIC insurance.

The Authority has funds invested with the Commonwealth of Pennsylvania's INVEST Program with a market value and a carrying value of \$440,205. The INVEST Program is an investment pool designed for local government and nonprofit groups. The INVEST Program funds are managed by the Pennsylvania Department of Treasury. The INVEST Program's authorized investments are limited to Federal Obligations, Repurchase Agreements with bank or nonbank financial institutions, and other debt instruments of banks, financial institutions, and nonfinancial institutions that are authorized for the shareholder by Commonwealth of Pennsylvania statute. The funds are reported as cash equivalents.

The INVEST account has no maximum or minimum balance requirements or limitations or restrictions on withdrawals. Securities are valued at amortized cost which reflects approximate market values.

Credit Risk

The Authority does not have an investment policy that would limit its investment choices to certain credit ratings. As of December 31, 2022, the Authority's investments were all rated as AAAM by a nationally recognized rating organization.

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.

CITY OF READING

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2022

NOTE 4 - RECEIVABLES, UNCOLLECTIBLE ACCOUNTS, AND UNAVAILABLE REVENUE

Governmental Fund Receivables, Uncollectible Accounts, and Unavailable Revenue

Accounts Receivable

	General Fund	Community Development Fund	American Rescue Plan Fund	Shade Tree Fund (Nonmajor fund)	Total Governmental Funds
Accrued registered bills	\$ 2,071,995	\$ -	\$ -	\$ -	\$ 2,071,995
Alarm fees	256,065	-	-	-	256,065
Reading Public Library	300,999	-	-	-	300,999
Franchise fee	171,725	-	-	-	171,725
Other	169,808	114,702	26,295	1,363	312,168
	<u>\$ 2,970,592</u>	<u>\$ 114,702</u>	<u>\$ 26,295</u>	<u>\$ 1,363</u>	<u>\$ 3,112,952</u>

There was no allowance for doubtful accounts related to governmental funds' accounts receivable at December 31, 2022.

Real Estate Taxes and Receivables

Real estate taxes are based on assessed valuations provided by Berks County (County) and are levied on January 1 and billed March 1. The 2022 assessed value of real property totaled \$1,427,967,600. These taxes are billed and collected by the County of Berks. Taxes paid through April 30 are given a 2% discount. Amounts paid after June 30 are assessed a 10% penalty. Any uncollected balances as of January 15 in the year following the billings are sent to the delinquent tax collector to be lienied. Current tax collections for the year ended December 31, 2022, were 92.5% of the tax levy.

For 2022, the City real estate taxes were levied at 18.129 mills; 17.729 mills for general purposes, .200 mills for Shade Tree activity, and .200 mills for the Library.

CITY OF READING

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2022

NOTE 4 - RECEIVABLES, UNCOLLECTIBLE ACCOUNTS, AND UNAVAILABLE REVENUE - CONTINUED

Governmental Fund Receivables, Uncollectible Accounts, and Unavailable Revenue - continued

Real Estate Taxes and Receivables - continued

The City's real estate taxes at December 31, 2022, are as follows:

	<u>Gross Taxes Receivable</u>	<u>Allowance for Uncollectible Taxes</u>	<u>Net Estimated to be Collectible</u>	<u>Tax Revenue Recognized</u>	<u>Unavailable Revenue</u>
General Fund:					
Property tax (including library)	\$ 3,380,904	\$ 270,757	\$ 3,110,147	\$ 673,332	\$ 2,707,572
Earned income tax	1,602,695	-	1,602,695	1,602,695	-
Real estate transfer tax	512,936	-	512,936	512,936	-
Admissions tax	124,640	-	124,640	124,640	-
Other	505,617	-	505,617	505,617	-
General Fund Total	6,126,792	270,757	5,856,035	3,419,220	2,707,572
Nonmajor Funds:					
Property tax (Shade Tree)	36,822	3,151	33,671	5,316	31,506
Total	<u>\$ 6,163,614</u>	<u>\$ 273,908</u>	<u>\$ 5,889,706</u>	<u>\$ 3,424,536</u>	<u>\$ 2,739,078</u>

Business-Type Activities Receivables, Uncollectible Accounts, and Unavailable Revenue

Significant receivables include amounts due from customers primarily for utility services. An allowance for uncollectible accounts is estimated using accounts receivable outstanding for more than 60 to 90 days depending on the fund. Related amounts are shown in the following table:

	<u>Major Enterprise</u>			<u>Total Enterprise Funds</u>	<u>Component Unit Reading Parking Authority</u>
	<u>Water</u>	<u>Sewer</u>	<u>Solid Waste</u>		
Accounts receivable, gross	\$ 8,709,071	\$ 7,578,825	\$ 3,823,907	\$ 20,111,803	\$ 1,462,116
Less: allowance for uncollectible accounts	(3,027,277)	(3,505,120)	(2,241,532)	(8,773,929)	(142,412)
Net accounts receivable	<u>\$ 5,681,794</u>	<u>\$ 4,073,705</u>	<u>\$ 1,582,375</u>	<u>\$ 11,337,874</u>	<u>\$ 1,319,704</u>

Included in the Water Fund accounts receivable is \$1,033,025 of unbilled water usage as of December 31, 2022.

CITY OF READING

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2022

NOTE 5 - TAX ABATEMENTS

Real estate taxes attach an enforceable lien on property on January 1. Taxes are billed on or about March 1st, payable under the following terms: 2% discount, March through April 30; face amount, May through June 30, and 10% penalty between July 1 and January 15 of the subsequent year. After January 15 of the subsequent year, the levies are sent to the Berks County Tax Claim Bureau. The 2022 adopted rate of taxation was 18.129 mills.

City of Reading property tax revenues were reduced by approximately \$293,000 because of legislation enacted by the Commonwealth of Pennsylvania under the following programs:

Keystone Opportunity Zone (KOZ) Program

The KOZ Program provides 100% abatement of real property taxation on the assessed valuation of deteriorated property in an area designated as a subzone within this Commonwealth. The real property tax abatements under this program are authorized under Act 92 of 1998, P.L. 705, as amended (the "Act"), which was passed by the General Assembly of Pennsylvania.

For a business to qualify each year for property tax abatement under the Act, a business shall own or lease real property in a Subzone from which the business actively conducts a trade, profession or business. The qualified business shall receive certification from the Pennsylvania Department of Revenue that the business is located and is in the active conduct of a trade, profession or business, within the Subzone. The business shall obtain annual renewal of the certification from the Department to continue to qualify as a qualified business. For a property owner to qualify each year for property tax abatement under the Act, the property owner must apply annually to the Department in order to receive approval for property tax abatement, as required by Section 907 of the Act. The deadline to file a KOZ application is December 31 of the year for which benefits are to be received. Applicants must be in full compliance with all state and local tax laws and building and housing code provisions, in order to claim property tax abatements offered in the Act. Compliant applications will receive an approval letter from the Department. The approval letter is verification of eligibility to receive KOZ benefits from state and local entities. Property tax abatement is applied by way of exemption of assessed value. The Pennsylvania Department of Revenue reserves the right to conduct an audit of an applicant for benefits to ensure full compliance with the Act. Any party improperly receiving KOZ tax benefits must return all tax benefits received and will be subject to the applicable interest, civil and criminal penalty provisions in the Act.

The City's forgone real estate tax revenue as a result of KOZ tax abatement agreements entered into by the Commonwealth of Pennsylvania was approximately \$251,000 for the year ended December 31, 2022.

CITY OF READING

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2022

NOTE 5 - TAX ABATEMENTS - CONTINUED

Local Economic Revitalization Tax Assistance (LERTA) Program

The LERTA Program authorizes local taxing authorities within the County to exempt property taxes of new construction in deteriorated areas of economically distressed communities and improvements to certain deteriorated industrial, commercial and other business property. The LERTA tax exemptions are authorized under Act 76 of 1977 (72 P.S. section 4722 et seq.) which was passed by the General Assembly of Pennsylvania. A local taxing authority by ordinance or resolution may exempt from real property taxation the assessed valuation of improvements to deteriorated properties and the assessed valuation of new construction within designated deteriorated areas. The City recognizes, supports, and approves any LERTA within the boundaries of the City that has established a standard LERTA from property tax for certain deteriorated industrial, commercial or other business property. Application to each local taxing authority for a tax exemption under a LERTA ordinance is to be made at the same time a building permit is secured or other official notification is made. A copy of the exemption request shall be forwarded to the County Board of Assessment. The assessment office shall assess separately the new construction or improvement and calculate the amounts of the assessment eligible for tax exemption in accordance with the limits established by the local taxing authorities and notify the taxpayer and the local taxing authorities of the reassessment and amounts of the assessment eligible for exemption. For the first year immediately following the date upon which the improvement becomes assessable, 100% of the assessed valuation of the eligible improvement shall be exempted from real estate tax. In subsequent years, the amount exempted from real estate tax is reduced by 10% each year and after the tenth year, the exemption shall terminate.

The exempted portion of the assessable improvement is not included on the property owner's tax bill. The exemption from taxes is upon the eligible property and does not terminate upon the sale or exchange of the property.

The exemption from real estate taxes provided for herein shall be forfeited by the applicant and/or any subsequent owner of the real estate upon the occurrence of failure to pay any non-exempt real estate taxes by the last day of the time period to pay such taxes in the penalty period.

The City's forgone real estate tax revenue as a result of LERTA tax abatement agreements entered into by the Commonwealth of Pennsylvania was approximately \$42,000 for the year ended December 31, 2022.

CITY OF READING

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2022

NOTE 6 - RESTRICTED ASSETS - LIMITED AS TO USE

Pursuant to an Indenture of Trust agreed to by the primary government and discretely presented component unit, or by law, the following restricted cash and investments are held at December 31, 2022:

	Governmental Activities		Business-Type Activities	Component Unit
	General Fund	Grant Fund	Water Fund	Reading Parking Authority
Construction account	\$ -	\$ -	\$ -	\$ 6,331,676
Debt service account	-	-	7,500	-
Debt service reserve account	-	-	2,553,761	-
Clearing account	-	-	8	-
Fire escrow	-	745,980	-	-
Potteiger Trust	-	42,473	-	-
Zoning escrow	19,471	-	-	-
Other required reserves	-	-	225,708	3,921,613
Total	<u>\$ 19,471</u>	<u>\$ 788,453</u>	<u>\$ 2,786,977</u>	<u>\$ 10,253,289</u>

NOTE 7 - LONG-TERM RECEIVABLES/ DEFERRED INFLOWS OF RESOURCES

Future Lease Rental Receivable

The City has entered into various lease agreements as lessor for the use of City land and property. The leases have interest rates of 5% and varying repayment terms through maturity in the year ended December 31, 2048. Included within these leases is a lease agreement related to First Energy Stadium. During the year ended December 31, 2011, the City issued the 2010 term note in the amount of \$3,245,566 to provide a source of funds for the renovation of First Energy Stadium. In 2013, the note was refinanced by the General Obligation Note Series B of 2012 in the principal amount of \$3,111,000. The Stadium is owned by the City and leased to a third party. The lease was amended in December 2012 to provide, among other things, annual rentals of varying amounts to be paid to the City for a term of 15 years coinciding with the life of the term note from the third party (December 31, 2027). The lease also provides the option to extend for up to two additional five-year periods. The proceeds of these lease payments are then used primarily to satisfy the annual debt service on the term note.

An initial lease receivable and deferred inflow of resources for lease revenue related to all qualifying lessor arrangements was recorded in the amount of \$2,425,856 as of January 1, 2022 with the implementation of GASB Statement No. 87, Leases. As of December 31, 2022, the value of the lease receivable is \$2,088,329 with a related deferred inflow of \$2,280,344. The City recognized lease revenue of \$205,021 during the year ended December 31, 2022, including interest revenue of \$59,510 and variable lease revenue of \$21,624.

CITY OF READING

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2022

NOTE 7 - LONG-TERM RECEIVABLES/ DEFERRED INFLOWS OF RESOURCES - CONTINUED

Loans and Notes Receivable

The City of Reading, Pennsylvania, has issued various loans and notes receivable to promote community development activity within the City. The loans and notes have varying repayment schedules based on timing and complexity of the related project. The City has also estimated an allowance for doubtful accounts of \$3,610,390 included in notes receivable on the statement of net position. Total loans and notes outstanding at December 31, 2022, are \$221,361 and \$6,801,086, respectively, net of allowance.

NOTE 8 - INTERFUND RECEIVABLES AND PAYABLES AND TRANSFERS

The City had interfund receivables and payables balances for the following accounts at December 31, 2022:

	Interfund Receivables	Interfund Payables
Governmental Activities		
Major funds:		
General	\$ 903,222	\$ 544,564
Community Development	350,363	404,537
Grant Fund	47,695	1,292,756
American Rescue Plan	259,144	-
Capital Projects	269,332	6,410
Nonmajor governmental funds	7,270	-
Business-Type Activities		
Major funds:		
Water	87,072	13,776
Sewer	105,037	-
Solid waste	203,505	4,127
Internal Service	120,000	27,915
Fiduciary Funds	2,189	60,744
	<u>\$ 2,354,829</u>	<u>\$ 2,354,829</u>

Interfund receivables and payables are a result of timing differences between when a cost is incurred and when it is paid or the result of interfund charges not yet reimbursed. Accounts are satisfied as resources become available, which may not be within one year.

CITY OF READING

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2022

NOTE 8 - INTERFUND RECEIVABLES AND PAYABLES AND TRANSFERS - CONTINUED

The City had transfers in and out for the following amounts at December 31, 2022:

	Current Year	
	Transfers In	Transfers Out
Governmental Activities		
General	\$ 3,000,000	\$ 419,323
General - lease payments	10,604,268	-
Capital projects	419,323	-
Business-Type Activities		
Water - lease payments	-	10,604,268
Sewer	-	3,000,000
	<u>\$ 14,023,591</u>	<u>\$ 14,023,591</u>

Current year transfers and payments within the reporting entity are for the purpose of transferring lease payments, future capital spending, and subsidizing operating functions.

CITY OF READING

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2022

NOTE 9 - CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2022, was as follows:

	Beginning Balance (Restated)	Increase	Decrease/ Reclassifications	Ending Balance
GOVERNMENTAL ACTIVITIES				
Capital assets not being depreciated:				
Land	\$ 2,348,681	\$ -	\$ -	\$ 2,348,681
Construction in progress	16,434,804	17,599,131	(11,394,718)	22,639,217
Total capital assets not being depreciated	18,783,485	17,599,131	(11,394,718)	24,987,898
Capital assets being depreciated:				
Infrastructure	6,643,201	186,296	5,773,597	12,603,094
Buildings	30,898,073	-	-	30,898,073
Improvements	43,112,626	692,249	4,072,614	47,877,489
Machinery and equipment	34,933,631	2,095,914	(1,947,144)	35,082,401
Totals at historical cost	115,587,531	2,974,459	7,899,067	126,461,057
Less accumulated depreciation for:				
Infrastructure	4,877,601	248,944	-	5,126,545
Buildings	20,348,088	600,837	-	20,948,925
Improvements	22,348,097	1,661,762	(230,289)	23,779,570
Machinery and equipment	24,097,279	1,728,491	(3,265,362)	22,560,408
Total accumulated depreciation	71,671,065	4,240,034	(3,495,651)	72,415,448
Total capital assets being depreciated, net	43,916,466	(1,265,575)	11,394,718	54,045,609
Right-to-use lease assets being amortized:				
Vehicles	131,261	-	-	131,261
Furniture	38,915	-	-	38,915
Buildings	534,891	-	-	534,891
Equipment	5,061	-	-	5,061
Total lease assets being amortized	710,128	-	-	710,128
Less accumulated amortization for:				
Vehicles	-	35,159	-	35,159
Furniture	-	4,717	-	4,717
Buildings	-	246,873	-	246,873
Equipment	-	3,374	-	3,374
Total accumulated amortization	-	290,123	-	290,123
Total right-to-use lease assets being amortized, net	710,128	(290,123)	-	420,005
GOVERNMENTAL ACTIVITIES, CAPITAL ASSETS, NET	\$ 63,410,079	\$ 16,043,433	\$ -	\$ 79,453,512

CITY OF READING

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2022

NOTE 9 - CAPITAL ASSETS - CONTINUED

	Beginning Balance	Increase	Decrease/ Reclassifications	Ending Balance
BUSINESS-TYPE ACTIVITIES				
Capital assets not being depreciated:				
Land	\$ 2,136,073	\$ -	\$ -	\$ 2,136,073
Construction in progress	189,989,498	4,653,964	(801,835)	193,841,627
Total capital assets not being depreciated	192,125,571	4,653,964	(801,835)	195,977,700
Capital assets being depreciated:				
Buildings	45,944,060	-	-	45,944,060
Improvements	173,528,075	435,722	801,835	174,765,632
Machinery and equipment	32,213,320	849,585	(1,439,533)	31,623,372
Totals at historical cost	251,685,455	1,285,307	(637,698)	252,333,064
Less accumulated depreciation for:				
Buildings	38,165,025	915,598	-	39,080,623
Improvements	87,053,117	5,933,821	-	92,986,938
Machinery and equipment	22,842,000	1,634,845	(1,439,533)	23,037,312
Total accumulated depreciation	148,060,142	8,484,264	(1,439,533)	155,104,873
Total capital assets being depreciated, net	103,625,313	(7,198,957)	801,835	97,228,191
BUSINESS-TYPE ACTIVITIES, CAPITAL ASSETS, NET	<u>\$ 295,750,884</u>	<u>\$ (2,544,993)</u>	<u>\$ -</u>	<u>\$ 293,205,891</u>

CITY OF READING

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2022

NOTE 9 - CAPITAL ASSETS - CONTINUED

Depreciation and amortization expense was charged to functions of the primary government as follows:

Governmental Activities		Business-type Activities		
General government	\$ 1,300,585	Water system	\$ 4,923,233	
Public safety:		Sewer system	3,486,584	
Police	966,337	Recycling	74,447	
Fire	666,415			
Public works - highway and streets	398,254			\$ 8,484,264
Public works - other	13,720			
Community development	505,441			
Culture and recreation	679,405			
	<u>\$ 4,530,157</u>			
	Beginning Balance	Increase	Decrease/ Reclassifications	Ending Balance
COMPONENT UNIT - READING				
PARKING AUTHORITY				
Capital assets not being depreciated:				
Land	\$ 3,102,067	\$ 166,679	\$ -	\$ 3,268,746
Construction in progress	4,656,841	1,898,150	(4,927,266)	1,627,725
Total capital assets not being depreciated	7,758,908	2,064,829	(4,927,266)	4,896,471
Capital assets being depreciated:				
Buildings	59,376,334	5,696,158	-	65,072,492
Improvements	64,962	-	-	64,962
Machinery and equipment	3,887,456	632,580	-	4,520,036
Totals at historical cost	63,328,752	6,328,738	-	69,657,490
Less accumulated depreciation	36,189,084	1,644,739	-	37,833,823
Total capital assets being depreciated, net	27,139,668	4,683,999	-	31,823,667
COMPONENT UNIT, CAPITAL ASSETS, NET	<u>\$ 34,898,576</u>	<u>\$ 6,748,828</u>	<u>\$ (4,927,266)</u>	<u>\$ 36,720,138</u>

CITY OF READING

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2022

NOTE 10 - LONG-TERM LIABILITIES

The City's bonds and notes payable outstanding are secured by the pledge of the full faith, credit, and taxing power of the City of Reading.

Governmental Activities	Balance at Beginning of Year	Additions	Reductions	Balance at End of Year	Due Within One Year
<u>Bonds Payable and Notes Payable</u>					
General Obligation Note Series B of 2012, with 4.8% fixed interest rate through February 2018, converting to a variable rate equal to the Bank's prime rate through 2027, which shall not fall below 4.0% nor exceed 12.0%. Proceeds were used to refinance the term loan of 2010 and pay note issuance costs. The net cash savings from the refunding was \$175,580.	\$ 1,521,000	\$ -	\$ 224,000	\$ 1,297,000	\$ 235,000
General Obligation Bonds Series C of 2012, with 1.50% - 5.13% interest payable through 2022. Proceeds were used to currently refund the Federally Taxable General Obligation Bonds, Series E of 2008 and pay bond issuance costs. The net cash savings from the refunding was \$654,622.	374,400	-	374,400	-	-
General Obligation Bonds Series of 2014, with 1.427% - 5.300% interest payable through 2033. Proceeds were used to currently refund the remaining General Obligation Bonds Series C, D, and E of 2008 and pay bond issuance costs. The net cash savings from the refunding was \$4,012,417.	2,886,269	-	1,071,000	1,815,269	957,764
General Obligation Bonds Series A of 2015 with .40% - 4.00% interest payable through 2033. Proceeds were used to currently refund the Redevelopment Authority of the City of Reading's Guaranteed Lease Revenue Bonds, Series of 2003, advance refund a portion of the City's General Obligation Bonds Series of 2008, and pay bond issuance costs. The combined net cash savings from the refunding, including savings from the issuance of General Obligation Bonds Series B of 2015, was \$2,985,436.	12,410,000	-	865,000	11,545,000	880,000

CITY OF READING

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2022

NOTE 10 - LONG-TERM LIABILITIES - CONTINUED

Governmental Activities	Balance at Beginning of Year	Additions	Reductions	Balance at End of Year	Due Within One Year
<u>Bonds Payable and Notes Payable - continued:</u>					
General Obligation Bonds Series B of 2015 with .95% - 4.67% interest payable through 2031. Proceeds were used to advance refund the City's General Obligation Bonds, Series of 2006 and pay bond issuance costs. The combined net cash savings from the refunding, including savings from the issuance of General Obligation Bonds Series A of 2015 was \$2,985,436.	28,885,000	-	2,420,000	26,465,000	2,510,000
Federally Taxable Guaranteed Lease Revenue Notes, Series of 2015, with 3.50% interest payable through 2026. Proceeds were used to refinance the Federally Taxable Guaranteed Lease Revenue Note, Series of 2006. The net cash savings from the refinancing was \$606,142.	2,569,000	-	479,000	2,090,000	496,000
General Obligation Bonds Series A of 2017, with 2.00% - 5.00% interest payable through 2029. Proceeds were used to advance refund a portion of the General Obligation Bonds Series of 2009 and pay bond issuance costs. The present value of net cash savings from the refunding was \$1,670,817 and total cash savings of \$1,986,211.	21,490,000	-	1,800,000	19,690,000	1,975,000
General Obligation Bonds Series of 2019, with 2.206% - 2.982% interest payable through 2031. Proceeds were used to advance refund a portion of the General Obligation Bonds Series C of 2012 and pay bond issuance costs. The present value of net cash savings from the refunding, which includes a portion allocated to business-type activities, was \$403,904.	7,221,600	-	108,000	7,113,600	518,400
General Obligation Bonds Series of 2020, with 0.897% - 2.949% interest payable through 2033. Proceeds were used to advance refund a portion of the General Obligation Bonds Series of 2014 and 2015 and pay bond issuance costs. The present value of net cash savings from the refunding, which includes a portion allocated to business-type activities, was \$725,043.	30,426,421	-	425,210	30,001,211	433,630
Total Governmental Activities	<u>\$ 107,783,690</u>	<u>\$ -</u>	<u>\$ 7,766,610</u>	<u>\$ 100,017,080</u>	<u>\$ 8,005,794</u>

CITY OF READING

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2022

NOTE 10 - LONG-TERM LIABILITIES - CONTINUED

Business-Type Activities	Balance at Beginning of Year	Additions	Reductions	Balance at End of Year	Due Within One Year
<u>Bonds Payable and Notes Payable</u>					
General Obligation Bonds Series C of 2012, variable interest payable through 2022. Proceeds were used to currently refund Federally Taxable General Obligation Bonds Series E of 2008 and pay bond issuance costs. The net cash savings from the refunding was \$163,656.	\$ 145,600	\$ -	\$ 145,600	\$ -	\$ -
General Obligation Bonds Series of 2014, with 1.427% - 5.300% interest payable through 2033. Proceeds were used to currently refund the remaining General Obligation Bonds Series C, D, and E of 2008 and pay bond issuance costs. The net cash savings from the refunding was \$578,228.	543,749	-	204,000	339,749	182,236
Water Revenue Bonds Series of 2015, initial issue \$25,130,000 with interest rates ranging from 3.00% to 5.00%, payable through 2027. This refinanced the Water Revenue Bonds Series of 2007.	21,050,000	-	3,155,000	17,895,000	3,310,000
Note payable to Pennsylvania Infrastructure Investment Authority, maximum drawdown of \$10,013,950, interest-only payments through April 2014. Principal and interest due monthly thereafter; interest at 1.007% for first five years and 2.013% thereafter.	4,720,418	-	330,520	4,389,898	337,235
Note payable to Pennsylvania Infrastructure Investment Authority, maximum drawdown of \$6,550,000 interest only for first 36 months. Principal and interest due monthly thereafter; interest at 1.274% for first five years and 2.547% thereafter. This Reading Area Water Authority obligation is guaranteed by the City of Reading.	3,110,945	-	299,093	2,811,852	306,801

CITY OF READING

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2022

NOTE 10 - LONG-TERM LIABILITIES - CONTINUED

Business-Type Activities	Balance at Beginning of Year	Additions	Reductions	Balance at End of Year	Due Within One Year
<u>Bonds Payable and Notes Payable - continued</u>					
General Obligation Bonds Series of 2017, with 3.0% - 5.0% interest payable through 2033. Proceeds were used to advance refund a portion of the General Obligation Bonds Series of 2008 and pay bond issuance costs. The present value of net cash savings from the refunding was \$2,794,824 with total cash savings of \$3,690,601.	20,305,000	-	1,280,000	19,025,000	1,345,000
Note payable to Pennsylvania Infrastructure Investment Authority, maximum drawdown of \$108,161,309, interest-only payments through October 2020. Principal and interest due monthly thereafter; interest at 1.00%. As of December 31, 2019, there is \$10,010,086 left to be drawn.	97,573,583	159,791	5,027,532	92,705,842	5,065,248
Note payable to Pennsylvania Infrastructure Investment Authority, maximum drawdown of \$40,747,008, interest-only payments through October 2020. Principal and interest due monthly thereafter; interest at 1.00%. As of December 31, 2019, there is \$6,200,878 left to be drawn.	37,433,199	-	1,894,914	35,538,285	1,902,037
General Obligation Bonds Series of 2019, with 2.206% - 2.982% interest payable through 2031. Proceeds were used to advance refund a portion of the General Obligation Bonds Series C of 2012 and pay bond issuance costs. The present value of net cash savings from the refunding, which includes a portion allocated to governmental activities, was \$403,904.	2,808,400	-	42,000	2,766,400	201,600
Water Revenue Bonds, Series of 2020, initial issue \$50,195,000, various interest rates ranging from 1.5% to 3.00%, maturing in amounts ranging from \$575,000 to \$6,245,000 through 2036. Proceeds were used to refund Water Revenue Bonds, Series of 2011.	48,665,000	-	590,000	48,075,000	600,000

CITY OF READING

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2022

NOTE 10 - LONG-TERM LIABILITIES - CONTINUED

Business-Type Activities	Balance at Beginning of Year	Additions	Reductions	Balance at End of Year	Due Within One Year
<u>Bonds Payable and Notes Payable - continued</u>					
General Obligation Bonds Series of 2020, with 0.897% - 2.949% interest payable through 2033. Proceeds were used to advance refund a portion of the General Obligation Bonds Series of 2014 and 2015 and pay bond issuance costs. The present value of net cash savings from the refunding, which includes a portion allocated to business-type activities, was \$725,043.	5,703,579	-	79,790	5,623,789	81,370
Total Business-Type Activities	<u>\$ 242,059,473</u>	<u>\$ 159,791</u>	<u>\$ 13,048,449</u>	<u>\$ 229,170,815</u>	<u>\$ 13,331,527</u>

Direct Borrowings

The City's obligations from direct borrowings contain a provision that in the event of default for non-payment of principal and interest, all unpaid principal and accrued interest becomes immediately due and payable. The lender may take rights to collateral pledged under the agreement to make payments. Additionally, the following specific provisions apply to certain borrowings:

General Obligation Note, Series B of 2012

The City's outstanding General Obligation Note, Series B of 2012 from direct borrowings related to governmental activities is secured by an assignment of the lease agreement between the City of Reading and Reading Baseball, LP, which relates to First Energy Stadium located at 1900 Centre Avenue, Reading Pennsylvania. In the event of default, the note is subject to a default rate of interest at a variable rate of 5% per annum in excess of the then-current rate.

Guaranteed Lease Revenue Note, Series of 2015

The City's outstanding Guaranteed Lease Revenue Note, Series of 2015 from direct borrowings related to governmental activities is secured by an assignment of the lease agreement between the City of Reading and the Reading Redevelopment Authority. In the event of default, all amounts as evidenced by the note may be declared due and payable.

CITY OF READING

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2022

NOTE 10 - LONG-TERM LIABILITIES - CONTINUED

Direct Borrowings - continued

Pennsylvania Infrastructure Investment Authority Note Payables

The City's outstanding notes from direct borrowings related to business-type activities of \$2,811,852 are secured by a lien on the Reading Area Water Authority's water revenues and the guaranty of the City secured by an assignment of the lease between the Reading Area Water Authority and the City regarding the operation of the Reading Area Water Authority's Water System.

The City's outstanding notes from direct borrowings related to business-type activities of \$4,389,898, \$92,705,842, and \$35,538,285 are secured by a lien on the City's sewer revenues. The outstanding note of \$4,389,898 also contains a provision allowing for a late charge of 4% of any unpaid amount.

Leases

The City has entered into lease agreements for vehicles, furniture, parking spaces, and equipment. The leases have various termination dates through November 2025. These leases include monthly payments of principal and interest at rates ranging from 4.95% to 6.76%.

Future lease maturities as of December 31 are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2023	\$ 311,494	\$ 15,453	\$ 326,947
2024	82,483	3,285	85,768
2025	<u>20,370</u>	<u>626</u>	<u>20,996</u>
	<u>\$ 414,347</u>	<u>\$ 19,364</u>	<u>\$ 433,711</u>

Covenants

The Water Revenue Bonds, Series of 2015, are subject to financial covenants, including a rate covenant. In addition, the Reading Area Water Authority covenants that at all times it will maintain the Water System in good and operating condition, continuously operate the same, maintain adequate service, and maintain adequate insurance coverage. At December 31, 2022, the Reading Area Water Authority was in compliance with these financial and operational covenants.

Unused Line of Credit

The Reading Area Water Authority has a line of credit agreement with a bank of \$4,500,000. There were no borrowings against the line of credit at December 31, 2022.

CITY OF READING

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2022

NOTE 10 - LONG-TERM LIABILITIES - CONTINUED

Component Unit - Reading Parking Authority	Balance at Beginning of Year	Additions	Reductions	Balance at End of Year	Due Within One Year
<u>Revenue Bonds Payable</u>					
<u>Parking Revenue Bonds, Series of 2019</u>					
Series A of 2019 Bonds:					
The bonds bear interest at a fixed rate of 3.51% through November 14, 2029. Commencing on November 15, 2029, the bonds bear interest at a floating rate per annum which is calculated at LIBOR plus 185 basis points, multiplied by 83%; provided, however that the interest rate shall not exceed 5.0%. Interest is due monthly on the 15th of each month. Monthly principal payments are due on the 15th of each month, commencing January 15, 2025 through maturity in 2036.	\$ 12,180,000	\$ -	\$ -	\$ 12,180,000	\$ -
Series B of 2019 Bonds:					
The bonds bear interest at a fixed rate of 3.51% through November 14, 2029. Commencing on November 15, 2029, the bonds bear interest at a floating rate per annum which is calculated at LIBOR plus 185 basis points, multiplied by 83%; provided, however that the interest rate shall not exceed 5.0% Interest is due monthly on the 15th of each month. Monthly principal payments are due on the 15th of each month, commencing January 15, 2025 through maturity in 2026.	10,580,000	-	-	10,580,000	-
Series C of 2019 Bonds:					
The bonds bear interest at a fixed rate of 3.30%. Interest is due monthly on the 15th of each month. Monthly principal payments are due on the 15th of each month, commencing on January 15, 2020 through maturity in 2025.	5,682,670	-	1,554,703	4,127,967	1,606,638
	<u>\$ 28,442,670</u>	<u>\$ -</u>	<u>\$ 1,554,703</u>	<u>\$ 26,887,967</u>	<u>\$ 1,606,638</u>

CITY OF READING

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2022

NOTE 10 - LONG-TERM LIABILITIES - CONTINUED

The annual requirements to pay principal and interest on long-term debt outstanding at December 31, 2022, are as follows:

	Governmental Activities					
	Direct Borrowings		General Obligation Bonds		Total	
	Principal	Interest ^	Principal	Interest	Principal	Interest ^
2023	\$ 731,000	\$ 131,592	\$ 7,274,794	\$ 3,337,380	\$ 8,005,794	\$ 3,468,972
2024	760,000	102,557	7,500,945	3,118,977	8,260,945	3,221,534
2025	791,000	71,741	7,805,980	2,816,805	8,596,980	2,888,546
2026	821,000	39,938	8,101,990	2,517,340	8,922,990	2,557,278
2027	284,000	6,854	8,986,650	2,205,670	9,270,650	2,212,524
2028 - 2032	-	-	47,372,120	6,115,454	47,372,120	6,115,454
2033	-	-	9,587,601	289,369	9,587,601	289,369
	<u>\$ 3,387,000</u>	<u>\$ 352,682</u>	<u>\$ 96,630,080</u>	<u>\$ 20,400,995</u>	<u>\$ 100,017,080</u>	<u>\$ 20,753,677</u>

^ Assumes a consistent interest rate of 4.8% over the life of GON 2012B.

	Business-Type Activities					
	Direct Borrowings		Bonds		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2023	\$ 7,611,321	\$ 1,403,888	\$ 5,720,206	\$ 2,989,629	\$ 13,331,527	\$ 4,393,517
2024	7,696,071	1,319,136	5,909,072	2,766,251	13,605,143	4,085,387
2025	7,781,868	1,233,339	6,114,020	2,533,727	13,895,888	3,767,066
2026	7,868,726	1,146,482	6,333,010	2,296,612	14,201,736	3,443,094
2027	7,956,660	1,058,547	6,588,350	2,094,522	14,545,010	3,153,069
2028 - 2032	40,503,600	3,947,679	38,027,880	7,198,538	78,531,480	11,146,217
2033 - 2037	39,971,841	1,821,584	25,032,400	1,524,461	65,004,241	3,346,045
2038 - 2040	16,055,790	166,599	-	-	16,055,790	166,599
	<u>\$ 135,445,877</u>	<u>\$ 12,097,254</u>	<u>\$ 93,724,938</u>	<u>\$ 21,403,740</u>	<u>\$ 229,170,815</u>	<u>\$ 33,500,994</u>

The above maturity schedule includes interest for bank notes estimated at stated rates and a full draw down for funds still available at December 31, 2022. Accrued interest is not recorded for business-type activities as the amount is not materially different from expense on the cash basis.

CITY OF READING

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2022

NOTE 10 - LONG-TERM LIABILITIES - CONTINUED

Year Ending December 31	Parking Revenue Bonds			Total Principal	Interest Maturities*
	Series A of 2019	Series B of 2019	Series C of 2019		
2023	\$ -	\$ -	\$ 1,606,638	\$ 1,606,638	\$ 910,797
2024	-	-	1,660,287	1,660,287	856,966
2025	783,000	681,000	861,042	2,325,042	788,211
2026	952,000	826,000	-	1,778,000	718,886
2027	985,000	856,000	-	1,841,000	655,465
2027 - 2032	5,191,000	4,507,000	-	9,698,000	2,802,896
2033 - 2036	4,269,000	3,710,000	-	7,979,000	744,113
	<u>\$ 12,180,000</u>	<u>\$ 10,580,000</u>	<u>\$ 4,127,967</u>	<u>\$ 26,887,967</u>	<u>\$ 7,477,334</u>

* Interest payable for variable rate periods is calculated using the maximum rate of 5%.

The following is a summary of governmental long-term liability activity for the year ended December 31, 2022:

	Beginning Balance (Restated)	Additions	Reductions	Ending Balance	Due Within One Year
Governmental Activities					
General obligation debt:					
Bonds payable	\$ 103,693,690	\$ -	\$ 7,063,610	\$ 96,630,080	\$ 7,274,794
Discounts	(248,162)	-	(35,314)	(212,848)	-
Premiums	1,155,461	-	141,737	1,013,724	-
Net general obligation debt	<u>104,600,989</u>	<u>-</u>	<u>7,170,033</u>	<u>97,430,956</u>	<u>7,274,794</u>
Direct borrowings	4,090,000	-	703,000	3,387,000	731,000
Other liabilities:					
Lease payable	710,128	-	295,781	414,347	311,494
Compensated absences	1,384,173	82,656	-	1,466,829	-
Net pension liability	45,864,077	50,206,799	-	96,070,876	-
OPEB liability	63,084,976	-	16,677,571	46,407,405	-
	<u>\$ 219,734,343</u>	<u>\$ 50,289,455</u>	<u>\$ 24,846,385</u>	<u>\$ 245,177,413</u>	<u>\$ 8,317,288</u>

CITY OF READING

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2022

NOTE 10 - LONG-TERM LIABILITIES - CONTINUED

The following is a summary of business-type long-term liability activity for the year ended December 31, 2022:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Business-Type Activities					
General obligation bonds payable	\$ 29,506,328	\$ -	\$ 1,751,390	\$ 27,754,938	\$ 1,810,206
Water revenue bonds	69,715,000	-	3,745,000	65,970,000	3,910,000
Discounts	(163,546)	-	(14,938)	(148,608)	-
Premiums	2,517,299	-	308,815	2,208,484	-
Other	(98,588)	-	(5,505)	(93,083)	-
Net bonds payable	101,476,493	-	5,784,762	95,691,731	5,720,206
Direct borrowings	142,838,145	159,791	7,552,059	135,445,877	7,611,321
Net pension liability	436,345	5,576,852	-	6,013,197	-
OPEB liability	931,863	-	147,368	784,495	-
	<u>\$ 245,682,846</u>	<u>\$ 5,736,643</u>	<u>\$ 13,484,189</u>	<u>\$ 237,935,300</u>	<u>\$ 13,331,527</u>

The following is a summary of long-term liability activity for the Component Unit (Reading Parking Authority) for the year ended December 31, 2022:

	Balance December 31, 2021	Additions	Deletions	Balance December 31, 2022	Due Within One Year
Revenue bonds payable	\$ 28,442,670	\$ -	\$ 1,554,703	\$ 26,887,967	\$ 1,606,638
Control card deposits	67,871	-	1,085	66,786	-
	<u>\$ 28,510,541</u>	<u>\$ -</u>	<u>\$ 1,555,788</u>	<u>\$ 26,954,753</u>	<u>\$ 1,606,638</u>

Total interest paid for the year ended December 31, 2022 was \$3,710,141 for governmental activities and \$4,701,952 for business-type activities. Liabilities will be liquidated by resources received in governmental enterprise funds as appropriate.

CITY OF READING

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2022

NOTE 10 - LONG-TERM LIABILITIES - CONTINUED

Defeasance of Debt

During the year ended December 31, 2020, the City issued General Obligation Bonds, Series of 2020 to provide resources to purchase securities that were placed in an irrevocable trust for the purpose of generating resources for future debt service payments of General Obligation Bonds, Series of 2014 and General Obligation Bonds, Series B of 2015. As a result, the refunded bonds were considered to be defeased and the liability has been removed from the governmental activities column of the statement of net position. As of December 31, 2022, outstanding general obligation bonds of the City in the amount of \$29,945,000 were considered to be defeased with a related \$28,796,588 held in escrow funds.

NOTE 11 - CITY OF READING RETIREMENT PLANS

Plan Description

The City administers three single employer defined benefit pension plans covering all full-time police officers, full-time paid firemen, and nonuniform employees; the City of Reading Police Pension Plan (PPP), the City of Reading Paid Firemen's Pension Plan (PFPP), and the City of Reading Officers' and Employees' Pension Plan (O&E), respectively. The Plans are included in the financial statements of the City as a pension trust fund and do not issue a separate financial statement. Plan provisions are established and amended by City ordinance with the authority for municipal contribution required by the Commonwealth of Pennsylvania Act 205 of 1984 (the Act). The PPP is administered by a six-member board consisting of the Mayor, director of finance, city auditor, police chief, and two active police officers; the PFPP is administered by a six-member board consisting of the Mayor, director of finance, city auditor, fire chief, and two active fire employees; the O&E is administered by a six-member board consisting of the Mayor, director of finance, city auditor, and three active employees.

Membership of each plan consisted of the following at January 1, 2022, the date of the latest actuarial valuation:

	<u>PPP</u>	<u>PFPP</u>	<u>O&E</u>
Inactive plan members or beneficiaries currently receiving benefits	318	167	278
Inactive plan members entitled to, but not yet receiving benefits	1	8	30
Active plan members	<u>144</u>	<u>112</u>	<u>225</u>
Total plan members	<u>463</u>	<u>287</u>	<u>533</u>

At December 31, 2022, there were no individual investments that constituted more than 5% of plan net position available for benefits that were required to be reported. The Plans did not have any investment transactions with related parties during the year.

CITY OF READING

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2022

NOTE 11 - CITY OF READING RETIREMENT PLANS - CONTINUED

Benefits Provided - City of Reading Police Pension Plan (PPP)

Retirement Benefit - The PPP is a contributory plan available to all full-time City police officers. Pension benefits become 100% vested after the completion of 12 years of service. For police officers hired prior to January 1, 2012, eligibility for the normal retirement benefit is attained after completing 20 years of service, including any service purchased. These members may purchase up to five years of additional service credit for non-intervening military service as well as five years of police service. The monthly pension benefit is equal to 60% of "average monthly pay" plus 2.0% of "average monthly pay" for each year of service in excess of 20 years to a maximum of five years. An additional benefit of 2.5% (1/40th) of the pension benefit determined for each year of service in excess of 20 years to a maximum of \$500 per month is also payable. "Average monthly pay" is the greater of monthly average compensation over the highest five years of service or monthly rate of pay at retirement, if greater. Compensation is defined as the sum of basic monthly salary plus longevity and holiday pay, excluding overtime and any other extra forms of compensation.

For police officers hired on or after January 1, 2012, eligibility for the normal retirement benefit is attained after completing 20 years of service and reaching the age of 50. The monthly pension benefit is equal to 50% of "average monthly pay." An additional benefit of 2.5% (1/40th) of the pension benefit determined for each year of service in excess of 20 years to a maximum of \$500 per month is also payable. These members may not purchase any intervening or non-intervening military time.

Disability Benefit - For police officers hired prior to January 1, 2012, if a participant becomes totally and permanently disabled as a result of accident or sickness occurring in the line of duty or non-service-related after 10 years of service or greater, they are entitled to a monthly disability benefit equal to normal retirement calculated as of the date of disablement. If the event is non-service-related before the participant has 10 years of service, then they are entitled to 50% of normal retirement benefits.

For police officers hired after January 1, 2012, if a participant becomes totally and permanently disabled as a result of accident or sickness occurring in the line of duty, they are entitled to a monthly disability benefit equal to normal retirement calculated as of the date of disablement.

Death Benefit - For police officers hired prior to January 1, 2012, if a participant suffers a non-service-related death before 10 years of service, 50% of the normal retirement benefit is payable to the spouse for life. Upon the spouse's death, or if there is no spouse, the participant's children, if any, will share the benefit until age 18. If the participant's death occurs after 10 years of service, they are killed-in-service or after retirement, the normal retirement benefit is payable to the spouse for life. Upon the spouse's death, or if there is no spouse, the participant's children, if any, will share the benefit until age 18.

For police officers hired after January 1, 2012, if the participant is killed-in-service or after retirement eligibility, 50% of the normal retirement benefit is payable to the spouse for life. Upon the spouse's death, or if there is no spouse, the participant's children, if any, will share the benefit until age 18.

CITY OF READING

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2022

NOTE 11 - CITY OF READING RETIREMENT PLANS - CONTINUED

Benefits Provided - City of Reading Paid Firemen's Pension Plan (PFPP)

Retirement Benefit - The PFPP is a contributory plan available to all full-time City firefighters. Pension benefits become 100% vested after the completion of 12 years of service. Eligibility for the normal retirement benefit is attained for employees completing 20 years of service and attaining the age of 50. The monthly pension benefit is equal to 50% of "average monthly compensation" plus an incremental pension equal to 2.5% (1/40th) of the pension benefit determined for each year of service in excess of 20 years, and prior to attainment of age 65. The maximum incremental pension is \$500 per month. "Average monthly compensation" is the higher of average compensation over the highest five consecutive years of employment or the rate of compensation during the 12-month period prior to retirement. Members hired after December 31, 2010, will exclude overtime paid by the employer from the compensation calculation. Retirement benefits are payable monthly during the member's lifetime.

Disability Benefit - A participant is entitled to a disability benefit for a service-related injury or accident or non-service-related injury or accident after five years of service that leaves the member totally and permanently disabled. For a service-related incident, the participant is entitled to normal retirement benefit calculated as of the date of disablement. For a nonservice-related incident after five years of service, the participant is entitled to a benefit of 2.5 percent of average monthly compensation for each year of service (maximum 50%).

Death Benefit - If a participant dies after retirement eligibility, after retirement, or is killed in the line of duty, a monthly benefit equal to normal retirement is payable to the spouse for life. Upon the spouse's death, the participant's children will share the benefit until the age of 18.

Benefits Provided - Officers' and Employees' Pension Plan (O&E)

Retirement Benefit - The O&E is a contributory plan available to any person appointed or elected to regular service for the City of Reading who is not a police officer or a firefighter.

Officers and employees hired prior to January 1, 1988, become 100% vested after the completion of 12 years of service. Eligibility for the normal retirement benefit is attained for employees completing 20 years of service and attaining the age of 60. The monthly pension benefit is equal to 50% of "average monthly compensation" plus a service increment equal to 2.5% (1/40th) of the monthly retirement benefit for each completed year of service in excess of 20 years, provided the employee elected to contribute an additional 0.5% of compensation to be covered by this provision. "Average monthly compensation" is the higher of average total compensation over the highest five years of employment or the rate of compensation during the month of retirement. The retirement benefits will be reduced by 40% of the social security benefit. The reduction will commence the month following eligibility for social security benefits. The offset can be eliminated if the member elects to contribute an extra 1.5% of compensation, retroactive to their date of participation. Pension benefits are paid monthly for the member's lifetime. Compensation is defined as total wages paid by the employer.

Officers and employees hired before November 7, 1987, may retire with a normal retirement benefit after 20 years of service and age 55.

CITY OF READING

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2022

NOTE 11 - CITY OF READING RETIREMENT PLANS - CONTINUED

Benefits Provided - Officers' and Employees' Pension Plan (O&E) - continued

Officers and employees hired on or after January 1, 1988, become 100% vested after the completion of 10 years of service. Eligibility for the normal retirement benefit is attained for employees completing 10 years of service and attaining the age of 65. The monthly pension benefit is equal to 2% of "average monthly compensation" multiplied by years of service (up to a maximum of 25) plus a service increment equal to 1.25% of the monthly retirement benefit multiplied by years of service in excess of 25. "Final average monthly compensation" is the higher of average compensation over the highest five consecutive years of employment of the last 10 that produce the greatest average. Pension benefits are paid monthly for the member's lifetime. Compensation is defined as base pay plus longevity, excluding overtime pay, educational incentive payments, bonuses, payments in lieu of dependent's health insurance, and other special forms of pay.

Officers and employees hired on or after January 1, 1988, can also elect early retirement after age 50 and 10 years of service. The accrued benefit at the date of actual retirement is reduced by 1/3 of 1% for each month early.

Disability Benefit - For officers and employees hired prior to January 1, 1988, if a participant in the plan becomes totally and permanently disabled after 15 years of service, they are entitled to a disability benefit equal to normal retirement with no social security benefit offset. Officers and employees hired on or after January 1, 1988, are entitled to the accrued benefit at the date of disablement with a minimum benefit of 20% average monthly compensation.

Death Benefit - For officers and employees hired prior to January 1, 1988, participants who are vested in the plan are eligible for death benefits. A monthly benefit equal to 50% of the benefit the participant was receiving or entitled to receive at the time of death is payable to the spouse for life or until remarriage, provided the employee was contributing the additional 0.5% of compensation for spousal benefit coverage. Payment of benefits to the spouse of a participant who had not reached normal retirement eligibility is subject to vesting provisions regarding deferral of payments and continued contributions, where applicable.

Officers and employees hired on or after January 1, 1988, are entitled to a death benefit equal to 50% of the pension the participant was receiving or entitled to receive on the day of the participant's death. The benefit is payable to the participants spouse, provided the participant was married to the spouse for at least one year prior to the date of death. This benefit is subject to reduction for early commencement as under vesting.

CITY OF READING

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2022

NOTE 11 - CITY OF READING RETIREMENT PLANS - CONTINUED

Contributions

PA Act 205 of 1984 requires that annual contributions be based upon the calculation of the Minimum Municipal Obligation (MMO). The MMO calculation is based upon the biennial actuarial valuation. The January 1, 2019 valuation was used in the calculation of the City's 2022 MMO.

Employees are not required to contribute under the Act; such contributions are subject to collective bargaining.

City of Reading Police Pension Plan (PPP): Plan members who were hired prior to January 1, 2012, are required to contribute 6.5% of salary, plus \$1 per month. Members who elect to participate in the DROP after November 15, 2012, also contribute 5.0% of compensation. Plan members who were hired on or after January 1, 2012 are required to contribute 5.0% of salary. Member contributions are not credited with interest.

City of Reading Paid Firemen's Pension Plan (PFPP): Plan members are required to contribute 5.0% of compensation, plus \$5 per month. Members who elect to participate in the DROP after April 1, 2011, also contribute 5.0% of compensation. Member contributions are not credited with interest.

Officers' and Employees' Pension Plan (O&E): Plan members who were hired prior to January 1, 1988, are required to contribute 3.5% of compensation subject to social security taxation, plus 5.0% of the excess. Members who elect dual coverage (no offset to pension for social security benefits) contribute 5.0% of all compensation. Married participants contribute an additional 0.5% of compensation. Participants who elected to be covered by the service increment provision contribute an additional 0.5% of compensation. Member contributions are not credited with interest. Plan members who were hired after January 1, 1988, are required to contribute 3.0% of compensation. Member contributions are credited with a 5.0% interest compounded annually.

Refund of Contributions: In the event of the termination of employment prior to being eligible for pension, member contributions without interest are refunded. If termination is due to death and no pension benefits are provided, there is refunded member contributions without interest. The exception is for O&E plan members hired after January 1, 1988, whose member contributions are credited with 5.0% interest compounded annually.

CITY OF READING

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2022

NOTE 11 - CITY OF READING RETIREMENT PLANS - CONTINUED

Contributions - continued

The Commonwealth of Pennsylvania allocates certain funds to assist in pension funding. Any financial requirement established by the MMO, which exceeds the Commonwealth allocation, must be funded by the City (and could include employee contributions). Payments made to the Plans were sufficient to meet the MMOs in 2022. The following table reflects contribution information for 2022:

	PPP	PFPP	O&E	Total
MMO	<u>\$ 11,300,512</u>	<u>\$ 3,963,275</u>	<u>\$ 3,364,313</u>	<u>\$ 18,628,100</u>
Contributions:				
City	\$ 9,834,918	\$ 2,786,671	\$ 2,058,696	\$ 14,680,285
Allocation of state aid	<u>1,465,594</u>	<u>1,176,604</u>	<u>1,305,617</u>	<u>3,947,815</u>
Total	11,300,512	3,963,275	3,364,313	18,628,100
Employee	<u>836,041</u>	<u>506,975</u>	<u>412,515</u>	<u>1,755,531</u>
Total contributions	<u>\$ 12,136,553</u>	<u>\$ 4,470,250</u>	<u>\$ 3,776,828</u>	<u>\$ 20,383,631</u>
Covered payroll	<u>\$ 11,641,075</u>	<u>\$ 8,202,849</u>	<u>\$ 12,586,805</u>	<u>\$ 32,430,729</u>
Employee contributions as a percent of covered payroll	<u>7.18%</u>	<u>6.18%</u>	<u>3.28%</u>	<u>5.41%</u>

Administrative costs, including investment, custodial trustee, and actuarial services are charged to the appropriate plan and funded from investment earnings.

Deferred Retirement Option Program

City of Reading Police Pension Plan (PPP)

Members who are eligible to retire and were hired before January 1, 2012, may elect to enter into the DROP (Deferred Retirement Option Program) for no more than five years. Officers in the DROP have their retirement benefit calculated as of the date of entry into the DROP and accrue no further benefit under the plan. The retirement benefit is paid from the plan and deposited into an account established for the officer, which will be paid in full upon retirement. The City remains the fiduciary for these funds until full retirement of the officers. At December 31, 2022, the balance of DROP accounts for the PPP held by the City was \$1,317,365.

CITY OF READING

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2022

NOTE 11 - CITY OF READING RETIREMENT PLANS - CONTINUED

Deferred Retirement Option Program - continued

City of Reading Paid Firemen's Pension Plan (PFPP)

Members who were hired before January 1, 2011, and who had met the eligibility requirements for normal retirement may elect to participate in the DROP (Deferred Retirement Option Program) for no more than five years. The member's monthly pension benefit shall be calculated as of the date of entry into the DROP and shall be accumulated with annual interest and distributed in a lump sum at retirement. Members who elect to participate in DROP after January 1, 2011, will be required to continue their member contributions to the plan. The City remains the fiduciary for these funds until full retirement of the member. There shall be a limit of 10 bargaining unit members added to the DROP each year. At December 31, 2022, the balance of DROP accounts for the PFPP held by the City was \$1,876,800.

Net Pension Liability

The components of the net pension liability of the Plans at December 31, 2022, were as follows:

	<u>PPP</u>	<u>PFPP</u>	<u>O&E</u>	<u>Total</u>
Total pension liability	\$ 191,748,124	\$ 92,858,447	\$ 82,376,433	\$ 366,983,004
Plan fiduciary net position	<u>(126,731,112)</u>	<u>(71,361,939)</u>	<u>(66,805,880)</u>	<u>(264,898,931)</u>
Net pension liability	<u>\$ 65,017,012</u>	<u>\$ 21,496,508</u>	<u>\$ 15,570,553</u>	<u>\$ 102,084,073</u>
Plan fiduciary net position as a percentage of total pension liability	<u>66.09%</u>	<u>76.85%</u>	<u>81.10%</u>	<u>72.18%</u>

CITY OF READING

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2022

NOTE 11 - CITY OF READING RETIREMENT PLANS - CONTINUED

Net Pension Liability - continued

Changes in the Net Pension Liability

The changes in the net pension liability of the City for the year ended December 31, 2022, were as follows:

	Increases/Decreases		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
Balances at December 31, 2021	\$ 359,077,167	\$ 312,776,745	\$ 46,300,422
Changes for the year:			
Service cost	5,030,480	-	5,030,480
Interest	26,497,922	-	26,497,922
Differences between expected and actual experience	-	-	-
Changes of assumptions	-	-	-
Contributions - employer	-	18,628,100	(18,628,100)
Contributions - employee	-	1,755,531	(1,755,531)
Net investment income	-	(44,593,045)	44,593,045
Benefit payments, including refunds	(23,622,565)	(23,622,565)	-
Administrative expenses	-	(45,835)	45,835
Net changes	7,905,837	(47,877,814)	55,783,651
Balances at December 31, 2022	<u>\$ 366,983,004</u>	<u>\$ 264,898,931</u>	<u>\$ 102,084,073</u>
Plan fiduciary net position as a percentage of the total pension liability			<u>72.18%</u>

CITY OF READING

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2022

NOTE 11 - CITY OF READING RETIREMENT PLANS - CONTINUED

Net Pension Liability - continued

Actuarial Assumptions - The total pension liability was determined by an actuarial valuation performed on January 1, 2021, and rolled forward to December 31, 2022, using the following actuarial assumptions, applied to all periods in the measurement:

	PPP	PFPP	O&E
Actuarial assumptions:			
Investment rate of return	7.25%	7.25%	7.25%
Projected salary increases	4.75%	5.25%	4.75%
Inflation rate	2.75%	2.75%	2.75%
Mortality	PubG-2010 Mortality Table, including rates for disabled retirees and contingent survivors. Incorporated into the table are rates projected generationally using Scale MP-2020 to reflect mortality improvement.	PubG-2010 Mortality Table, including rates for disabled retirees and contingent survivors. Incorporated into the table are rates projected generationally using Scale MP-2020 to reflect mortality improvement.	PubG-2010 Mortality Table, including rates for disabled retirees and contingent survivors. Incorporated into the table are rates projected generationally using Scale MP-2020 to reflect mortality improvement.

CITY OF READING

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2022

NOTE 11 - CITY OF READING RETIREMENT PLANS - CONTINUED

Net Pension Liability - continued

Investment Policy - The pension trust funds' investments are held separately from those of other City funds. Assets in the pension trust funds are stated at fair value. Any premiums or discounts are recognized as a gain or loss upon disposition. The City maintains investment policies that summarize the investment philosophy of the City and establishes investment guidelines and performance objectives for the Police, Paid Firemen, and Officers' and Employees' Pension Funds. The core objectives of the police pension fund investment statement are as follows: (1) to maximize returns without exposure to undue risk, (2) to attain "real" growth over a market cycle consistent with the level of risk assumed by the Fund, and (3) to have the relative investment return over a market cycle of three to five years exceed the rate of return that would have been achieved by a statically allocated and passively managed portfolio at the same risk. The core objectives of the paid firemen pension fund statement are as follows: (1) to maintain a fully funded status with regard to accumulated benefits obligation, (2) to maximize return within reasonable and prudent levels of risk in order to minimize municipal and employee contributions, (3) to maintain flexibility in determining the future level of contributions, and (4) to have the ability to pay all benefits and expense obligations when due. The core objectives of the officers' and employees' pension fund statement are as follows: (1) to maximize returns without exposure to undue risk, (2) to attain "real" growth over a market cycle consistent with the level of risk assumed by the fund, and (3) for the relative investment return over a market cycle of three to five years to exceed the rate of return that would have been achieved by a statically allocated and passively managed portfolio at the same risk in accordance with the long-term asset allocation policy set forth in the statement.

Long Term Expected Rate of Return - The long-term expected rate of return on Plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of investment expenses and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

CITY OF READING

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2022

NOTE 11 - CITY OF READING RETIREMENT PLANS - CONTINUED

Net Pension Liability - continued

The following was the asset allocation policy and best estimates of arithmetic real rates of return for each major asset class included in the Plan's target asset allocation as of December 31, 2022:

Asset Class	Target Allocation			Long-Term Expected Real Rate of Return		
	PPP	PFPP	O&E	PPP	PFPP	O&E
Equity:						
Large Cap	32.0%	32.0%	32.0%	8.4%	8.4%	8.4%
Mid Cap	7.0%	7.0%	7.0%	9.1%	9.1%	9.1%
Small Cap	4.0%	4.0%	4.0%	10.2%	10.2%	10.2%
International	17.0%	17.0%	17.0%	8.2%	8.2%	8.2%
Fixed income:						
Core	12.0%	12.0%	12.0%	4.0%	4.0%	4.0%
Short-term	20.0%	20.0%	20.0%	2.9%	2.9%	2.9%
Global	3.0%	3.0%	3.0%	4.1%	4.1%	4.1%
Real estate	5.0%	5.0%	5.0%	9.3%	9.3%	9.3%
	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>			

Rate of Return - The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested. For the year ended December 31, 2022, the annual money-weighted rate of return on the PPP, PFPP, and O&E investments, net of investment expenses, was (14.28%), (14.29)%, and (14.31)%, respectively.

Discount Rate - The discount rate used to measure the total pension liability for the PPP, PFPP, and O&E was 7.25%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that the City's contributions will be made based on the yearly MMO calculation. Based on those assumptions, the Plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

CITY OF READING

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2022

NOTE 11 - CITY OF READING RETIREMENT PLANS - CONTINUED

Net Pension Liability - continued

Sensitivity of the Net Pension Liability to Changes in the Discount Rate - The following presents the net pension liability (asset) of the Plans calculated using the discount rates described previously, as well as what the Plan's net pension liabilities (assets) would be if they were calculated using a discount rate that is one-percentage point lower or one-percentage point higher than the current rates:

	1% Decrease (6.25%)	Current Discount Rate (7.25%)	1% Increase (8.25%)
City of Reading Police Pension Plan	\$ 87,241,421	\$ 65,017,012	\$ 46,643,011
City of Reading Paid Firemen's Pension Plan	\$ 31,877,333	\$ 21,496,508	\$ 12,841,275
Officers' and Employees' Pension Plan	\$ 25,423,213	\$ 15,570,553	\$ 7,362,892

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

For the year ended December 31, 2022, the City recognized pension expense of \$14,643,671 (\$13,524,233 - governmental activities; \$1,119,438 - business-type activities). At December 31, 2022, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	PPP	PFPP	O&E	Total
<u>Deferred Outflows of Resources:</u>				
Internal change in proportion allocated	\$ -	\$ -	\$ 100,530	\$ 100,530
Changes of assumptions	312,531	92,927	795,630	1,201,088
Net difference between projected and actual earnings on pension plan investments	25,822,114	14,395,566	13,502,548	53,720,228
Total deferred outflows of resources	\$ 26,134,645	\$ 14,488,493	\$ 14,398,708	\$ 55,021,846
<u>Deferred Inflows of Resources:</u>				
Internal change in proportion allocated	\$ -	\$ -	\$ 100,530	\$ 100,530
Difference between expected and actual experience	585,358	1,137,249	2,225,086	3,947,693
Net difference between projected and actual earnings on pension plan investments	10,115,163	5,824,412	5,183,194	21,122,769
Total deferred inflows of resources	\$ 10,700,521	\$ 6,961,661	\$ 7,508,810	\$ 25,170,992

CITY OF READING

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2022

NOTE 11 - CITY OF READING RETIREMENT PLANS - CONTINUED

Net Pension Liability - continued

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense for the years ending December 31 as follows:

2023	\$ 1,762,942
2024	5,882,014
2025	9,209,837
2026	13,098,228
2027	(51,083)
Thereafter	<u>(51,084)</u>
Total	<u>\$ 29,850,854</u>

Pension Trust Fund Financial Information

Plan Net Position

	Police Pension Fund	Paid Firemen's Pension Fund	Officers' and Employees' Pension Fund	Total Pension Trust Funds
ASSETS				
Cash and cash equivalents	\$ 788,904	\$ 437,878	\$ 2,224,234	\$ 3,451,016
Investments (at fair value):				
Equities	30,684,961	16,324,740	15,850,268	62,859,969
Fixed income	13,412,321	7,580,506	6,817,786	27,810,613
Exchange traded products/mutual funds	57,564,140	31,580,625	29,211,149	118,355,914
U.S. Government issues	14,001,402	7,898,682	7,091,995	28,992,079
Other	10,308,709	7,556,712	5,624,521	23,489,942
Interfund receivable	-	-	142	142
TOTAL ASSETS	126,760,437	71,379,143	66,820,095	264,959,675
LIABILITIES				
Interfund payable	29,325	17,204	14,215	60,744
NET POSITION HELD IN TRUST FOR PENSION BENEFITS	<u>\$ 126,731,112</u>	<u>\$ 71,361,939</u>	<u>\$ 66,805,880</u>	<u>\$ 264,898,931</u>

CITY OF READING

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2022

NOTE 11 - CITY OF READING RETIREMENT PLANS - CONTINUED

Pension Trust Fund Financial Information - continued

Changes in Plan Net Position

	Police Pension Fund	Paid Firemen's Pension Fund	Officers' and Employees' Pension Fund	Total Pension Trust Funds
ADDITIONS				
Contributions:				
Employer (including state aid)	\$ 11,300,512	\$ 3,963,275	\$ 3,364,313	\$ 18,628,100
Employee	836,041	506,975	412,515	1,755,531
Investment income:				
Interest and dividends	2,694,422	1,537,918	1,397,396	5,629,736
Net change in fair value of investments	(23,841,501)	(13,231,453)	(12,375,844)	(49,448,798)
Other	162,642	84,621	105,284	352,547
TOTAL ADDITIONS	(8,847,884)	(7,138,664)	(7,096,336)	(23,082,884)
DEDUCTIONS				
Benefits, including tax withheld	12,338,627	5,962,328	5,137,585	23,438,540
Administrative expenses	546,842	311,058	314,465	1,172,365
Refunds paid	96,175	12,524	75,326	184,025
TOTAL DEDUCTIONS	12,981,644	6,285,910	5,527,376	24,794,930
CHANGE IN NET POSITION	(21,829,528)	(13,424,574)	(12,623,712)	(47,877,814)
NET POSITION HELD IN TRUST FOR PENSION BENEFITS, BEGINNING OF YEAR	148,560,640	84,786,513	79,429,592	312,776,745
NET POSITION HELD IN TRUST FOR PENSION BENEFITS, END OF YEAR	<u>\$ 126,731,112</u>	<u>\$ 71,361,939</u>	<u>\$ 66,805,880</u>	<u>\$ 264,898,931</u>

CITY OF READING

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2022

NOTE 11 - CITY OF READING RETIREMENT PLANS - CONTINUED

Pension Trust Fund Financial Information - continued

Net Change in Fair Value of Investments

The composition of net change in fair value of investments reported on the statement of changes in plan net position is as follows:

	<u>PPP</u>	<u>PFPP</u>	<u>O&E</u>	<u>Total</u>
Realized loss	\$ (673,840)	\$ (214,884)	\$ (52,309)	\$ (941,033)
Unrealized loss	<u>(23,167,661)</u>	<u>(13,016,569)</u>	<u>(12,323,535)</u>	<u>(48,507,765)</u>
	<u>\$ (23,841,501)</u>	<u>\$ (13,231,453)</u>	<u>\$ (12,375,844)</u>	<u>\$ (49,448,798)</u>

The calculation of realized gains and losses is independent of the calculation of the net change in the fair value of investments.

Realized gains and losses on investments that have been held in more than one fiscal year and sold in the current year were included as part of the change in the fair value of investments reported in the prior year(s) and the current year.

Other Retirement Plans

During 2011, the Reading Area Water Authority adopted a retirement plan covering salary deferral for those employees who meet the eligibility requirements set forth in the plan. The amount of the contribution for salary deferral is at the discretion of the employee, subject to the provisions of Section 457(b) of the Internal Revenue Code. Under the terms of the plan, the Authority may make discretionary matching contributions. The contributions are reflected as an operating expense. For the year ended December 31, 2022, \$138,162 was contributed to the plan.

CITY OF READING

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2022

NOTE 12 - OTHER POSTEMPLOYMENT BENEFITS

Employee Defined Benefit Other Postemployment Benefits Plan

General Information About the OPEB Plan

Plan Description

The City of Reading administers a single-employer defined benefit healthcare plan (the OPEB Plan). The City OPEB Plan provides medical, prescription drug, and life insurance for eligible retirees and their spouses through the City's health insurance plan, which covers both active and retired members until the member reaches Medicare age. Benefit provisions are established through negotiation with the City and the unions representing the City's employees. The OPEB Plan does not issue a publicly available financial report and no assets are accumulated in a trust that meets the criteria in Governmental Accounting Standards Board Statement No. 75 to pay related benefits, as of the measurement date of the liability presented. Subsequent to the measurement date, and during the current year, the City contributed \$1,000,000 to a trust which will be used to fund future other postemployment benefit liabilities.

Benefits Provided

The City classifies employees in the following categories: AFSCME First Level, AFSCME Rank and File, Non-Fire Management, Police Officers, and Firefighters and Fire Management. Contribution requirements are negotiated between the City and union representatives. Below is a summary of the postemployment benefits provided to each of these groups:

AFSCME First Level

Eligibility for Benefits: First level AFSCME members hired prior to January 1, 1988, are eligible to receive medical and prescription drug coverage upon reaching age 55 with at least 20 years of service or upon disability with at least 15 years of service. First Level members hired after January 1, 1988, and prior to June 11, 2010, are eligible to receive medical and prescription drug coverage upon reaching age 65 with at least 10 years of service or upon disability. First Level AFSCME members hired on or after June 11, 2010, are not eligible to receive coverage.

CITY OF READING

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2022

NOTE 12 - OTHER POSTEMPLOYMENT BENEFITS - CONTINUED

Employee Defined Benefit Other Postemployment Benefits Plan - continued

General Information About the OPEB Plan - continued

Benefits Provided - continued

AFSCME First Level - continued

Benefits Payable Upon Retirement or Disability: First Level AFSCME members retiring between January 1, 2007, and June 11, 2010, contribute a fixed dollar amount based on the year of retirement. The contribution for those retiring in 2007 is \$26 and increases by \$5 for members retiring in the years 2008-2010. First Level AFSCME members retiring on or after June 11, 2010, must contribute the difference between the premium and a fixed amount based on the year of retirement for medical and prescription drug coverage. The monthly fixed amount for retirement years 2011 to 2022 follow the below table:

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Single	\$450	\$473	\$497	\$521	\$548	\$575	\$604	\$634	\$666	\$734	\$770	\$809
Dual	\$914	\$960	\$1,008	\$1,058	\$1,111	\$1,167	\$1,225	\$1,287	\$1,351	\$1,486	\$1,560	\$1,638

Duration: Retirees are able to continue coverage until age 65 and qualification for Medicare. Spouses are eligible to receive coverage until the earlier of member death, age 65 and qualification for Medicare, or retiree coverage ends. If the member dies while active, the spouse is not eligible to continue coverage.

AFSCME Rank and File and Non-Fire Management

Eligibility for Benefits: Members hired prior to January 1, 1988, are eligible to receive medical and prescription drug coverage upon reaching age 55 with at least 20 years of service or upon disability with at least 15 years of service. Members hired after January 1, 1988, and prior to January 1, 2012, are eligible to receive medical and prescription drug coverage upon reaching age 65 with at least 10 years of service or upon disability. Members hired on or after January 1, 2012, are not eligible to receive coverage.

CITY OF READING

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2022

NOTE 12 - OTHER POSTEMPLOYMENT BENEFITS - CONTINUED

Employee Defined Benefit Other Postemployment Benefits Plan - continued

General Information About the OPEB Plan - continued

Benefits Provided - continued

AFSCME Rank and File and Non-Fire Management - continued

Benefits Payable upon Retirement or Disability: Members retiring between January 1, 2008, and January 1, 2012, must contribute 2% of their salary at retirement towards medical and prescription drug coverage. Members retiring on or after January 1, 2012, must contribute the difference between the premium and a fixed amount based on the year of retirement for medical and prescription drug coverage. The monthly fixed amount for retirement years 2011 to 2022 follow the below table:

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Single	\$450	\$473	\$497	\$521	\$548	\$575	\$604	\$634	\$666	\$734	\$770	\$809
Dual	\$914	\$960	\$1,008	\$1,058	\$1,111	\$1,167	\$1,225	\$1,287	\$1,351	\$1,486	\$1,560	\$1,638

Duration: Retirees are able to continue coverage until age 65 and qualification for Medicare. Spouses are eligible to receive coverage until the earlier of member death, age 65 and qualification for Medicare, or retiree coverage ends. If the member dies while active, the spouse is not eligible to continue coverage.

Police Officers

Eligibility for Benefits: Officers hired prior to January 1, 2012, are eligible to receive medical and prescription drug coverage upon reaching 20 years of service or upon disability. Officers hired on or after January 1, 2012, are not eligible to receive coverage.

Benefits Payable upon Retirement or Disability: Officers that retired prior to January 1, 2007, do not contribute anything towards coverage. Officers that retired after January 1, 2007, and prior to January 1, 2013, must contribute a fixed amount of \$36 per month for single coverage and \$62 per month for family coverage. Officers retiring between January 1, 2013, and January 1, 2018, must contribute a percentage of the premium based on the plan elected (5% for Premier Plan, 10% for Preferred Plan, 15% for Police PPO Plan). Officers retiring on or after January 1, 2018, must contribute the difference between the premium and a fixed amount each year for medical and prescription drug. For 2020, 2021, and 2022, the fixed amount was \$734, \$770, and \$809 for single coverage and \$1,486, \$1,560, and \$1,638 for employee/spouse coverage, respectively.

Duration: Retirees are able to continue coverage until age 65 and qualification for Medicare. Spouses are eligible to receive coverage until the earlier of member death, age 65 and qualification for Medicare, or retiree coverage ends. For officers hired prior to January 1, 2012, if the officer dies while active, the surviving spouse is eligible to continue coverage until age 65 and qualification for Medicare.

CITY OF READING

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2022

NOTE 12 - OTHER POSTEMPLOYMENT BENEFITS - CONTINUED

Employee Defined Benefit Other Postemployment Benefits Plan - continued

General Information About the OPEB Plan - continued

Benefits Provided - continued

Firefighters and Fire Management

Eligibility for Benefits: Firefighters hired prior to January 1, 2011, are eligible to receive medical and prescription drug coverage upon reaching age 50 with at least 20 years of service, upon in-service disability, or upon ordinary disability with at least 5 years of service. Firefighters hired on or after January 1, 2011, are not eligible to receive coverage.

Benefits Payable upon Retirement or Disability: Firefighters that retired prior to January 1, 2011, do not contribute anything towards coverage. Firefighters retiring on or after January 1, 2011, must contribute the difference between the premium and a fixed amount based on the year of retirement for medical and prescription drug coverage. The monthly fixed amount for retirement years 2011 to 2022 follow the below table.

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Single	\$450	\$473	\$497	\$521	\$548	\$575	\$604	\$634	\$666	\$734	\$770	\$809
Dual	\$914	\$960	\$1,008	\$1,058	\$1,111	\$1,167	\$1,225	\$1,287	\$1,351	\$1,486	\$1,560	\$1,638

Duration: Retirees are able to continue coverage until age 65 and qualification for Medicare. Spouses are eligible to receive coverage until the earlier of member death, age 65 and qualification for Medicare, or retiree coverage ends. For Firefighters hired prior to January 1, 2011, if the firefighter dies while active, the surviving spouse is eligible to continue coverage until age 65 and qualification for Medicare.

Life Insurance: Firefighters hired prior to January 1, 2011, that meet the eligibility requirements above are eligible to receive life insurance in the amount of \$50,000 until age 70. Firefighters hired on or after January 1, 2011, are not eligible to receive life insurance.

CITY OF READING

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2022

NOTE 12 - OTHER POSTEMPLOYMENT BENEFITS - CONTINUED

Employee Defined Benefit Other Postemployment Benefits Plan - continued

General Information About the OPEB Plan - continued

Employees Covered by Benefit Terms

At January 1, 2022, the date of the most recent actuary valuation, the following employees were covered by the benefit terms:

	AFSCME First Level	Management	AFSCME Rank and File	Police	Fire	Total
Active participants	11	21	72	63	52	219
Retired participants	2	-	21	116	72	211
Total	13	21	93	179	124	430

OPEB Liability

Actuarial Assumptions and Other Inputs

The net OPEB liability as of December 31, 2022, was determined by rolling forward the City's total OPEB liability as of January 1, 2022 to December 31, 2022, using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

- Actuarial cost method - Entry Age Normal
- Salary increases - annual salary increases are assumed to be 5.0%
- Discount rate - 4.31%
- Mortality rates - PubS-2010 Generational mortality table including rates for contingent survivors and disabled retirees for Police and Fire. PubG-2010 Generational mortality table including rates for contingent survivors and disabled retirees for all other employees.
- Healthcare cost trend rates - 6.5% in 2022, 7.0% in 2023, with 0.5% decrease per year until 5.5% in 2026. Rates gradually decrease from 5.4% in 2027 to 4.1% in 2075 and later based on the Society of Actuaries Long-Run Medical Cost Trend Model.
- Participation rates - 90% of employees are assumed to elect coverage.

The actuarial assumptions were selected using input from the City based on actual experience.

CITY OF READING

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2022

NOTE 12 - OTHER POSTEMPLOYMENT BENEFITS - CONTINUED

Employee Defined Benefit Other Postemployment Benefits Plan - continued

Net OPEB Liability

Total OPEB liability	\$ 48,191,900
Plan fiduciary net position	<u>(1,000,000)</u>
Net OPEB liability	<u>\$ 47,191,900</u>
Plan fiduciary net position as a percentage of total OPEB liability	<u>2.08%</u>

Changes in Net OPEB Liability

	AFSCME First Level	Management	AFSCME Rank and File	Police	Fire	Total OPEB Liability
Balance at January 1, 2022	<u>\$ 90,066</u>	<u>\$ 173,976</u>	<u>\$ 2,468,362</u>	<u>\$ 44,695,415</u>	<u>\$ 17,589,020</u>	<u>\$ 65,016,839</u>
Changes for the year:						
Service cost	2,107	7,972	21,735	946,358	514,795	1,492,967
Interest	1,843	3,978	52,029	993,308	393,237	1,444,395
Differences between expected and actual experience	(9,620)	(145,483)	379,777	(5,201,643)	(2,008,422)	(6,985,391)
Changes of assumptions or other inputs	(3,919)	(1,116)	(324,123)	(5,541,778)	(2,633,359)	(8,504,295)
Benefit payments	<u>(18,929)</u>	<u>(9,517)</u>	<u>(328,032)</u>	<u>(2,759,349)</u>	<u>(1,156,788)</u>	<u>(4,272,615)</u>
Net changes	<u>(28,518)</u>	<u>(144,166)</u>	<u>(198,614)</u>	<u>(11,563,104)</u>	<u>(4,890,537)</u>	<u>(16,824,939)</u>
Balance at December 31, 2022	<u>\$ 61,548</u>	<u>\$ 29,810</u>	<u>\$ 2,269,748</u>	<u>\$ 33,132,311</u>	<u>\$ 12,698,483</u>	<u>\$ 48,191,900</u>

Plan net position of \$1,000,000 had no activity in the current year.

Changes of assumptions or other inputs reflect the following changes: (1) the discount rate changed from 2.25% to 4.31% (2) the retiree election assumption was lowered to 90%.

CITY OF READING

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2022

NOTE 12 - OTHER POSTEMPLOYMENT BENEFITS - CONTINUED

Employee Defined Benefit Other Postemployment Benefits Plan - continued

Changes in Net OPEB Liability - continued

Sensitivity of the Net OPEB Liability to Changes in the Discount Rate

The following presents the net OPEB liability of the City, as well as what the City's net OPEB liability would be if it were calculated using a discount rate that is one-percentage point lower (3.31%) or one-percentage point higher (5.31%) than the current discount rate:

	1% Decrease 3.31%	Current Discount Rate 4.31%	1% Increase 5.31%
AFSCME First Level	\$ 61,854	\$ 60,271	\$ 58,651
Management	30,102	29,191	28,099
AFSCME Rank and File	2,374,004	2,222,650	2,088,221
Fire	13,306,701	12,434,985	11,636,782
Police	34,797,341	32,444,803	30,319,417
Net OPEB Liability	<u>\$ 50,570,002</u>	<u>\$ 47,191,900</u>	<u>\$ 44,131,170</u>

Sensitivity of the Net OPEB Liability to Changes in the Healthcare Cost Trend Rates

The following presents net OPEB liability of the City, as well as what the City's net OPEB liability would be if it were calculated using healthcare cost trend rates that are one-percentage point lower or one-percentage point higher than the current healthcare cost trend rates:

	1% Decrease	Current Healthcare Cost Trend Rate	1% Increase
AFSCME First Level	\$ 57,040	\$ 60,271	\$ 63,773
Management	25,475	29,191	33,203
AFSCME Rank and File	2,069,097	2,222,650	2,393,146
Fire	11,532,203	12,434,985	13,434,955
Police	30,190,610	32,444,803	34,927,177
Net OPEB Liability	<u>\$ 43,874,425</u>	<u>\$ 47,191,900</u>	<u>\$ 50,852,254</u>

CITY OF READING

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2022

NOTE 12 - OTHER POSTEMPLOYMENT BENEFITS - CONTINUED

Employee Defined Benefit Other Postemployment Benefits Plan - continued

OPEB Expense and Deferred Outflows and Inflows of Resources Related to OPEB

For the year ended December 31, 2022, the City recognized a reduction in OPEB expense of \$183,194 (\$111,982 - governmental activities; \$71,212 - business-type activities). At December 31, 2022, the City reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	AFSCME First Level	AFSCME Management	AFSCME Rank and File	Police	Fire	Total
<u>Deferred Outflows of Resources:</u>						
Changes of assumptions	\$ 1,866	\$ 3,294	\$ 171,385	\$ 2,400,355	\$ 985,202	\$ 3,562,102
<u>Deferred Inflows of Resources:</u>						
Differences between projected and actual experience	\$ 5,681	\$ 128,048	\$ (376,929)	\$ 5,292,026	\$ 1,507,233	\$ 6,556,059
Changes of assumptions	3,555	1,747	300,650	5,152,815	2,315,993	7,774,760
Net difference between projected and actual earnings	(319)	(1,532)	4,837	956	(3,942)	-
Total deferred inflows of resources	\$ 8,917	\$ 128,263	\$ (71,442)	\$ 10,445,797	\$ 3,819,284	\$ 14,330,819

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows for the years ending December 31:

2023	\$ (3,120,555)
2024	(3,566,504)
2025	(4,081,658)
Total	\$ (10,768,717)

CITY OF READING

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2022

NOTE 13 - COMMITMENTS AND CONTINGENCIES

In the normal course of business, the City is subject to various contingent liabilities arising from litigation. The City does not anticipate future losses resulting from these transactions to be material to the City's financial statements.

Grant Programs

The City participates in state or federally assisted grant programs. These programs are subject to program compliance audits by the grantors or their representatives. The City is potentially liable for any expenditures which may be disallowed pursuant to the terms of these grant programs. Any adjustments resulting from subsequent examination are recognized in the year in which the results of such examinations are known. The City does not expect any significant adjustments as a result of these examinations.

Concentration of Labor

The City has in effect four labor agreements, which cover approximately 90% of the total labor force. The collective bargaining agreement with AFSCME - The American Federation of State, County, and Municipal Employees Local 3799 was renewed in 2021 and was effective through December 31, 2022. In October 2022, a new agreement was signed effective January 1, 2023, through December 31, 2026. AFSCME Local 2763 was renewed in 2021 and is effective through December 31, 2022. Subsequent to year end, a new agreement was signed and is effective through December 31, 2026. The Reading Lodge #9 Fraternal Order of Police's labor agreement was renewed in 2021 and is effective through December 31, 2022. In December 2022, a new agreement was signed effective January 1, 2023, through December 31, 2026. The labor agreement with the International Association of Firefighters, Local 1803 was renewed in 2021 and is effective through December 31, 2022. In December 2022, a new agreement was signed effective January 1, 2023, through December 31, 2026.

CITY OF READING

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2022

NOTE 13 - COMMITMENTS AND CONTINGENCIES - CONTINUED

Construction Commitments

The City has entered into contracts for capital improvements. At December 31, 2022, the balance of open contracts was as follows:

Project	Commitment Remaining
19th Ward Pump Station	\$ 3,023,776
9th & Marion Fire Station	2,683,600
River Road Extension	2,543,799
Wastewater Treatment Plant	2,331,271
2021-2023 Paving & LFT Projects	2,017,435
RPL Mechanical/ Electrical Upgrades	902,007
Traffic Signal Repairs & Maintenance	883,826
6th & Canal Pump Station	750,727
6th & Amity Playground Project	574,000
3rd & Spruce Rec Center HVAC Project	519,375
Pagoda Wall Replacement	469,368
3rd & Spruce Roofing	443,070
3rd & Spruce Playground	418,600
PennDOT ARLE	372,309
Collection System	351,972
Total	<u>\$ 18,285,135</u>

Open commitments will be funded by cash on hand as well as PennVest loans.

United States Department of Justice Consent Decree

In November 2005, the City entered into a consent order with the United States Department of Justice (DOJ), United States Environmental Protection Agency (EPA), and the Pennsylvania Department of Environmental Protection (DEP) regarding alleged violations by the City of the Clean Water Act, 33 U.S.C.A. § 1319 and the Pennsylvania Clean Streams Law, 35 P.S. § 691-1001. The decree requires the City to identify and rehabilitate priority areas of its sanitary sewer system. These areas include operational improvements at the plant, investigate the condition of infrastructure and upgrade recommendations, perform plant and sewer system upgrades, and perform supplemental environmental projects. The City has completed most of the consent decree projects with the final improvements to the 19th Ward Pump Station expected to be completed by the end of 2025. Under the consent decree, the City is also limited to a \$3,000,000 transfer annually from the sewer fund to the general fund until all projects are complete; however, the City is optimistic based on discussions with the DOJ, EPA, and DEP that the amount will be increased to \$4,500,000 in 2023.

CITY OF READING

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2022

NOTE 13 - COMMITMENTS AND CONTINGENCIES - CONTINUED

Conduit Debt

The City is involved in conduit debt transactions for which the City issued the debt but retains no obligation for the repayment. The responsibility for repayment belongs to the private borrowers. These loans noted below were issued under the U.S. Department of Housing and Urban Development Section 108 loan program. Under this program, the City guarantees the debt through pledging future funding from Community Development Block Grants. The City had the following conduit debt activities during 2022:

Balance at January 1, 2022	Borrowings	Repayments	Balance at December 31, 2022
\$ 5,229,449	\$ -	\$ 610,501	\$ 4,618,948

Included in the above activity is a Section 108 loan that was drawn down by the City, but not currently issued. This amount is reported as an unearned revenue in the Community Development Fund until the loan is issued or is declared in default and needs to be repaid. The balance of this loan was \$1,400,000 and \$1,300,000 as of December 31, 2022 and 2021, respectively.

Intermunicipal Sewer Agreements

The City is in the process of performing the required analysis under the intermunicipal agreements through December 31, 2022, to sewer expenses for certain municipalities. The report was not finalized before the audit report date.

The Reading Area Water Authority (RAWA) has entered into the following agreements:

Letters of Credit

The Reading Area Water Authority has a letter of credit of \$800,000 available for general RAWA matters. The Water Authority also has letters of credit required by the Commonwealth of Pennsylvania in connection with capital improvement projects in the amount of \$77,609. The maximum amount that can be drawn on the letters of credit is \$4,500,000. The Water Authority is the beneficiary of a letter of credit of \$697,406 in connection with capital improvement projects. At December 31, 2022, all letters of credit were unused.

Concentration of Labor

The Water Authority has entered into a collective bargaining agreement with the employees who operate and maintain the Water Authority's facilities. Of RAWA's total workforce, 87% is covered by the agreement. As of December 31, 2019, the Forman Collective Bargaining Agreement is effective through 2023 and the Rank and File Collective Bargaining Agreement is effective through 2022.

CITY OF READING

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2022

NOTE 14 - RISK MANAGEMENT AND SELF-INSURANCE

The City is exposed to various risks of losses related to torts; theft, damage, destruction of assets, errors and omissions; injuries to employees; and natural disasters. The City manages these risks through self-insurance and coverage from commercial insurance companies for excess liabilities. The table below outlines the limits and deductibles for these lines of coverage at December 31, 2022:

	Limit	Deductible
Property	\$ 243,894,944	\$ 100,000
Liability	1,000,000	150,000
Crime	1,000,000	10,000
Auto Liability	1,000,000	150,000
Auto Property Damage	Cash value or cost to repair	5,000
Excess Liability	4,000,000	10,000
Law Enforcement	2,000,000	150,000
Employment Practices	1,000,000	150,000
Public Officials	1,000,000	150,000
Excess Workers Comp	1,000,000	650,000
Excess Workers Comp Police/Fire	1,000,000	1,000,000
Pollution Liability	5,000,000	25,000 - 50,000

The City of Reading is recognized and meets the qualifications of the Pennsylvania Department of Labor and Industry as a Self-Insured Workers' Compensation Employer. As part of the qualifications to maintain self-insured status, the City of Reading purchases excess workers' compensation coverage for police and firefighter claims that exceed \$1,000,000, and all other claims that exceed \$650,000. This insurance policy is underwritten by Safety National Casualty Corporation. The City is also required to maintain a trust for outstanding liabilities for workers' compensation. That trust is in the amount of \$2,218,153.

Activity of the self-insurance program including liability exposure is accounted for in the Self-Insurance Internal Service Fund (the Fund). The Fund is responsible for collecting interfund premiums, paying claim settlements, and purchasing other specified insurance policies. Claims settled and loss expense are accrued in the Fund for estimated reported claims. This fund has a net position balance of \$120,000 for a sick leave pool.

CITY OF READING

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2022

NOTE 14 - RISK MANAGEMENT AND SELF-INSURANCE - CONTINUED

The City had an actuarial study performed to estimate the workers' compensation liability. Based on past experience, management of the City believes incurred, but not reported claims, to be immaterial and, therefore, has not established an accrual for such claims at December 31, 2022. An analysis of claims activity is presented below:

	Beginning of Year Liabilities	Estimated Current Year Claims	Actual Claim Payments	Balance at Fiscal Year End
2022	<u>\$ 1,743,791</u>	<u>\$ 4,513,102</u>	<u>\$ 4,715,359</u>	<u>\$ 1,541,534</u>
2021	<u>\$ 1,516,969</u>	<u>\$ 3,469,713</u>	<u>\$ 3,242,891</u>	<u>\$ 1,743,791</u>
2020	<u>\$ 1,548,296</u>	<u>\$ 3,829,603</u>	<u>\$ 3,860,930</u>	<u>\$ 1,516,969</u>

Employee Benefit

The City pays premiums for certain employee benefits such as health and life insurance, in accordance with stipulations of collective bargaining agreements. Such expenditures are not accounted for through the self-insurance fund, but rather are allocated to the particular fund that records the related payroll expenditures.

NOTE 15 - FUND BALANCE

Primary Government

Details of the City's governmental fund balance reporting and policy can be found in Note 1, *Summary of Significant Accounting Policies*. Fund balance classifications for the year ended December 31, 2022, were as follows:

General Fund: The general fund has a nonspendable fund balance of \$96,194 for prepaid expenditures, a committed fund balance of \$375,000 for settlements received, an assigned fund balance of \$18,622,340 consisting of \$3,622,340 appropriated for the 2023 budget, and \$15,000,000 for various capital projects including \$4,000,000 for a new HVAC system in City Hall, \$2,000,000 each for public building and parks improvements, \$1,000,000 each for fire and police department vehicle replacements, \$1,000,000 for the restoration of the Pagoda, and \$4,000,000 for various other capital projects, and unassigned fund balance of \$29,137,206.

Community Development Fund: The community development fund has restricted funds of \$2,448,454 consisting primarily of unspent federal and state grant funds restricted by federal or state law.

CITY OF READING

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2022

NOTE 15 - FUND BALANCE - CONTINUED

Primary Government - continued

Grant Fund: The grant fund has restricted funds of \$679,500 consisting primarily of unspent funds granted by various parties which are to be used according to the grantor's wishes.

American Rescue Plan Fund: The fund balance in the American Rescue Plan fund represents interest income generated from the grant funding held. The balance of \$103,592 is assigned for grant purposes at year end.

Capital Projects Fund: The capital projects fund has restricted funds of \$9,842,102 consisting primarily of unspent tax revenue and committed funds of \$4,464,194 consisting of \$1,500,000 for street paving, \$1,964,194 for facility construction, and \$1,000,000 for housing improvements.

Nonmajor Funds:

Shade Tree Fund: The special revenue fund has a deficit in unassigned funds of \$118,978 resulting from excess expenditures for contracted services over real estate revenues collected.

Liquid Fuels Fund: The liquid fuels fund has a restricted fund balance of \$4,031,881, consisting primarily of unspent state grant funds restricted by state law.

The City has established and will maintain reservations of fund balance in accordance with GASB 54. This policy applies to the City's general fund and all governmental funds. Fund balance is composed of nonspendable, restricted, committed, assigned, and unassigned amounts.

Fund balance information is used to identify the available resources to repay long-term debt, reduce property taxes, add new governmental programs, expand existing programs, or enhance the financial position of the City in accordance with policies established by the members of council.

CITY OF READING

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2022

NOTE 16 - NEW ACCOUNTING STANDARDS

The Governmental Accounting Standards Board (GASB) has issued the following standards which have not yet been implemented:

- Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements* - As used in this Statement, a public-private and public-public partnership arrangement (PPP) is an arrangement in which a government contracts with an operator (a governmental or nongovernmental entity) to provide public services by conveying control of the right to operate or use a nonfinancial asset, such as infrastructure or other capital asset, for a period of time in an exchange or exchange-like transaction. This statement requires that PPPs that meet the definition of a lease apply the guidance in Statement No. 87 if existing assets of the transferor that are not required to be improved by the operator as part of the PPP arrangement are the only underlying PPP assets and the PPP does not meet the definition of a service concession arrangement. The Statement also provides accounting and financial reporting requirements for all other PPPs. The Statement also defines and provides guidance for accounting and financial reporting for availability payment arrangements (APAs). This statement is effective for the City's fiscal year ending December 31, 2023.
- Statement No. 96, *Subscription-Based IT Arrangements* - This statement establishes guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users. This statement (1) defines a SBITA; (2) establishes that a SBITA results in a right-to-use subscription asset - an intangible asset - and a corresponding subscription liability; (3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) requires note disclosures regarding a SBITA. This statement is effective for the City's fiscal year ending December 31, 2023.
- Statement No. 100, *Accounting Changes and Error Corrections - an Amendment of Statement No. 62* - The primary objective of this statement is to enhance accounting and financial reporting requirements for accounting changes and error corrections to provide more understandable, reliable, relevant, consistent, and comparable information for making decisions or assessing accountability. The requirements of this statement are effective for accounting changes and error corrections made in fiscal years beginning after June 15, 2023, and all reporting periods thereafter. Earlier application is encouraged.
- Statement No. 101, *Compensated Absences* - The primary objective of this statement is to better meet the information needs of financial statement users by updating the recognition and measurement guidance for compensated absences. That objective is achieved by aligning the recognition and measurement guidance under a unified model and by amending certain previously required disclosures. The requirements of this statement are effective for fiscal years beginning after December 15, 2023, and all reporting periods thereafter. Earlier application is encouraged.

Although the City has not yet completed the analysis necessary to determine the actual financial statement impact of these new pronouncements, it does believe the new standards will have a negative impact on the City's net position.

CITY OF READING

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2022

NOTE 17 - SUBSEQUENT EVENTS

In May 2023, City Council enacted Bill 43-2023 authorizing the City to purchase a parcel of property from Alvernia University for \$2.5 million. The City's preliminary ideas are to use the building on the property for a police training facility and would also provide fire service storage and other uses for the City's Fire and Rescue Services and Public Works departments, and to use ARPA funds for this purchase. In September 2023, the City has proceeded with finalizing this purchase and paying the necessary balance due.

In May 2023, City Council enacted Bill 48-2023 approving a new lease agreement with the Reading Area Water Authority ("RAWA") for the City's water system. The term of the lease is January 1, 2023 through November 30, 2046, unless earlier terminated as provided in Article VIII of the agreement. RAWA shall pay to the City for year 2023 \$10,292,303, which has been determined to be the fair rental value of the water system. For each of the lease years 2024 through 2027 the amount of the lease payment for such calendar year shall be increased on January 1st of each year by 2%. Between July and December 2027, the City and RAWA shall engage in good faith negotiations regarding any further annual increases in the lease payments. If the City and RAWA are unable to agree on the amount of further increases, then the annual increase starting January 1, 2028 shall be 1.5%. This lease agreement also mandates that RAWA shall pay to the City \$1,700,000 annually as a meter surcharge and make the City responsible for half of the bank fees incurred by RAWA annually (City's share for 2023 is estimated to be \$225,000 and shall be paid by the City's water fund.). Either the City or RAWA may terminate this lease by serving written notice on the other of its intent and desire to terminate on the date specified in such notice, which shall not be earlier than 180 days from and including the date of such notice.

In June 2023, City Council authorized the sale of its 50+ acre site in Northwest Reading, known locally as the 'Dana' site (named after the former Dana Corporation years ago), for \$4.5 million. The proposed buyer is a European-based company that plans to locate one of its automated warehouse and cold-chain logistics companies to this site. The proposed buyer has one year to clear hurdles of zoning and planning commission approvals. The City purchased this property in November 2019 for approximately \$1.55 million.

In August 2023, City Council authorized Ordinance 74-2023 for the creation of a new accounting fund for the purpose of recording all financial transactions of the City's Officers and Employees Deferred Compensation Plan (DCP), and with it authorized the openings of a corresponding bank account and an investment account.

On September 11, 2023, City Council authorized Emergency Ordinance Bill No. 1-2023 authorizing cash transfers up to \$4,000,000 from the City's general fund to the City's sewer fund. Such transfer for \$4,000,000 was made on September 14, 2023 and shall be considered as a loan to the sewer fund. The sewer fund is expected to repay the general fund plus interest of 4.0% per annum. Repayments to the general fund are expected to commence once the sewer fund begins to receive payments from two certain sewer treatment and transportation customers who owe the City's sewer fund a gross, estimated amount of \$10,486,000 as of December 31, 2022. This amount is included in the sewer fund's accounts receivable as of the audit date.

CITY OF READING

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2022

NOTE 17 - SUBSEQUENT EVENTS - CONTINUED

In November 2023, the City's Fire Department entered into a lease-purchase agreement for five pieces of large fire apparatus. The net amount financed is \$5,300,609 in total and delivery of the apparatus is expected to occur around November 2026. Annual interest-only payments at 6.57% will be required in November 2024 and 2025 of \$348,250, with annual principal and interest payments being required of \$830,539 in November 2026 through 2032. At the end of the lease-purchase agreement in November 2033, the City will either return the equipment (with the intent on entering into new agreements) or make balloon payments totaling \$1,258,940 to purchase the equipment. At this time, City management believes that only one piece of equipment will be purchased, requiring a balloon payment of \$139,900.

City Council authorized such agreement at the regular October 23, 2023 meeting, Res. 101-2023. The City's Capital Improvement Fund will be used to make required annual payments.

In November 2023, the City adopted Bill 102-2023 which authorizes the City to enter into an agreement with the Borough of Kenhorst ('Borough') to authorize the City's police department to provide police services within the corporate limits of the Borough. This agreement commences January 1, 2024 and continues through December 31, 2027. The Borough will pay these minimum amounts to the City of Reading for police services over the next four years:

2024	\$516,991
2025	\$553,181
2026	\$591,903
2027	\$621,498 (estimated)*

* Actual amount will be determined in 2026 or 2027 depending on the result of the future Reading police officers bargaining agreement in 2027.

Throughout the term of this agreement, the City's Police Department shall provide police services to the residents of the Borough and shall enforce the laws of the Commonwealth and the Ordinances of the Borough within the Borough, in the same manner and degree as for the City of Reading. Two patrol officers shall be dedicated to patrolling the Borough five days per week with two eight-ours shifts each day. A monthly report of crime and police activities will be prepared and submitted to Borough officials.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF READING

BUDGETARY COMPARISON SCHEDULE FOR THE GENERAL FUND

Year Ended December 31, 2022

	General Fund			
	Original Budget	Final Budget	Actual	Variance
REVENUES				
Real estate taxes	\$ 25,631,683	\$ 25,631,683	\$ 26,312,878	\$ 681,195
Earned income taxes	21,012,120	21,012,120	24,792,634	3,780,514
Other taxes	8,806,010	8,806,010	12,835,663	4,029,653
Licenses, permits, and fines	5,750,780	5,750,780	4,796,980	(953,800)
Intergovernmental	6,099,020	6,099,020	6,421,742	322,722
Charges for services	6,970,296	7,031,496	8,228,777	1,197,281
Interest and rent	2,206,300	2,206,300	2,471,077	264,777
Other	1,077,435	1,077,435	3,820,243	2,742,808
TOTAL REVENUES	77,553,644	77,614,844	89,679,994	12,065,150
EXPENDITURES				
Current:				
General government	7,323,357	7,792,669	7,477,926	314,743
Public safety:				
Police	37,078,227	37,224,427	39,228,931	(2,004,504)
Fire	15,149,214	15,214,214	15,954,233	(740,019)
Emergency medical services	5,149,860	5,193,859	5,861,575	(667,716)
Public works - highways and streets	1,696,841	1,699,841	1,463,713	236,128
Public works - other	7,187,569	7,513,069	6,447,845	1,065,224
Community development	4,767,700	4,808,700	4,542,653	266,047
Culture and recreation	838,768	838,768	875,646	(36,878)
Other (employee benefits, debt issuance costs)	2,896,731	3,050,319	2,372,588	677,731
Debt service - principal	7,766,610	7,766,610	8,009,597	(242,987)
Debt service - interest	3,708,690	3,708,690	3,732,384	(23,694)
TOTAL EXPENDITURES	93,563,567	94,811,166	95,967,091	(1,155,925)
DEFICIENCY OF REVENUES OVER EXPENDITURES	(16,009,923)	(17,196,322)	(6,287,097)	10,909,225
OTHER FINANCING SOURCES (USES)				
Transfers in - lease payments	10,441,372	10,441,372	10,604,268	162,896
Transfers in	3,000,000	3,000,000	3,000,000	-
Transfers out	-	-	(419,323)	(419,323)
TOTAL OTHER FINANCING SOURCES (USES)	13,441,372	13,441,372	13,184,945	(256,427)
NET CHANGE IN FUND BALANCE	\$ (2,568,551)	\$ (3,754,950)	6,897,848	\$ 10,652,798
FUND BALANCE - BEGINNING OF YEAR			41,332,892	
FUND BALANCE - END OF YEAR			\$ 48,230,740	

See notes to required supplementary information.

CITY OF READING

**SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS -
POLICE PENSION FUND**

LAST TEN FISCAL YEARS

	2022	2021	2020	2019	2018	2017	2016	2015	2014
Total Pension Liability									
Service cost	\$ 2,231,232	\$ 2,130,054	\$ 2,341,543	\$ 2,235,363	\$ 3,007,401	\$ 2,957,882	\$ 2,878,084	\$ 2,741,032	\$ 2,714,223
Interest	13,566,354	13,510,108	13,750,945	12,897,122	12,303,991	12,020,675	11,587,287	11,415,541	11,159,506
Differences between expected and actual experience	-	(1,170,718)	-	19,733	-	1,151,403	-	372,746	-
Changes of assumptions	-	625,061	-	-	-	7,157,130	-	-	-
Benefit payments, including refunds of employee contributions	(12,434,802)	(11,685,101)	(11,112,003)	(11,595,232)	(10,959,749)	(11,275,270)	(11,805,479)	(12,194,828)	(9,571,570)
Net change in total pension liability	3,362,784	3,409,404	4,980,485	3,556,986	4,351,643	12,011,820	2,659,892	2,334,491	4,302,159
Total pension liability, beginning	188,385,340	184,975,936	179,995,451	176,438,465	172,086,822	160,075,002	157,415,110	155,080,619	150,778,460
Total pension liability, ending	<u>\$ 191,748,124</u>	<u>\$ 188,385,340</u>	<u>\$ 184,975,936</u>	<u>\$ 179,995,451</u>	<u>\$ 176,438,465</u>	<u>\$ 172,086,822</u>	<u>\$ 160,075,002</u>	<u>\$ 157,415,110</u>	<u>\$ 155,080,619</u>
Plan Fiduciary Net Position									
Contributions - employer	\$ 11,300,512	\$ 11,303,371	\$ 11,337,885	\$ 11,575,020	\$ 11,453,968	\$ 9,996,690	\$ 9,729,933	\$ 8,398,475	\$ 6,052,629
Contributions - employee	836,041	824,451	967,487	919,638	718,724	892,168	875,026	740,779	665,036
Net investment income	(21,518,279)	17,902,724	16,057,436	16,558,784	(6,632,149)	13,536,087	6,268,079	(1,183,711)	4,329,423
Benefit payments, including refunds of employee contributions	(12,434,802)	(11,685,101)	(11,112,003)	(11,595,232)	(10,959,749)	(11,275,270)	(11,805,479)	(12,194,828)	(9,571,570)
Administrative expenses	(13,000)	(3,575)	(66,169)	(59,182)	(468,345)	(425,728)	(400,163)	(484,484)	(295,053)
Net change in plan fiduciary net position	(21,829,528)	18,341,870	17,184,636	17,399,028	(5,887,551)	12,723,947	4,667,396	(4,723,769)	1,180,465
Plan fiduciary net position, beginning	148,560,640	130,218,770	113,034,134	95,635,106	101,522,657	88,798,710	84,131,314	88,855,083	87,674,618
Plan fiduciary net position, ending	<u>\$ 126,731,112</u>	<u>\$ 148,560,640</u>	<u>\$ 130,218,770</u>	<u>\$ 113,034,134</u>	<u>\$ 95,635,106</u>	<u>\$ 101,522,657</u>	<u>\$ 88,798,710</u>	<u>\$ 84,131,314</u>	<u>\$ 88,855,083</u>
Net Pension Liability	<u>\$ 65,017,012</u>	<u>\$ 39,824,700</u>	<u>\$ 54,757,166</u>	<u>\$ 66,961,317</u>	<u>\$ 80,803,359</u>	<u>\$ 70,564,165</u>	<u>\$ 71,276,292</u>	<u>\$ 73,283,796</u>	<u>\$ 66,225,536</u>
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	<u>66.09%</u>	<u>78.86%</u>	<u>70.40%</u>	<u>62.80%</u>	<u>54.20%</u>	<u>59.00%</u>	<u>55.47%</u>	<u>53.45%</u>	<u>57.30%</u>
Covered Payroll	<u>\$ 11,641,075</u>	<u>\$ 10,713,580</u>	<u>\$ 10,602,424</u>	<u>\$ 10,110,784</u>	<u>\$ 12,237,673</u>	<u>\$ 11,537,808</u>	<u>\$ 11,472,383</u>	<u>\$ 10,745,475</u>	<u>\$ 10,995,148</u>
Net Pension Liability as a Percentage of Covered Payroll	<u>558.51%</u>	<u>371.72%</u>	<u>516.46%</u>	<u>662.28%</u>	<u>660.28%</u>	<u>611.59%</u>	<u>621.29%</u>	<u>682.00%</u>	<u>602.32%</u>

Note: This schedule is to present the requirement to show information for 10 years. However, until a full 10-year trend is compiled, information for only those years available is shown.

CITY OF READING

SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS -
PAID FIREMEN'S PENSION FUND

LAST TEN FISCAL YEARS

	2022	2021	2020	2019	2018	2017	2016	2015	2014
Total Pension Liability									
Service cost	\$ 1,531,026	\$ 1,454,657	\$ 1,474,679	\$ 1,401,120	\$ 1,583,339	\$ 1,537,256	\$ 1,545,376	\$ 1,494,096	\$ 1,606,792
Interest	7,186,804	6,391,984	6,365,191	6,553,907	5,966,533	5,784,370	5,534,661	5,346,065	5,377,405
Differences between expected and actual experience	-	(1,895,415)	-	(2,021,076)	-	(628,536)	-	(3,239,956)	-
Changes of assumptions	-	154,877	-	-	-	3,807,415	-	-	-
Benefit payments, including refunds of employee contributions	(5,974,852)	(5,319,243)	(4,935,167)	(4,999,032)	(5,453,682)	(4,277,152)	(4,244,639)	(4,504,335)	(3,610,654)
Net change in total pension liability	2,742,978	786,860	2,904,703	934,919	2,096,190	6,223,353	2,835,398	(904,130)	3,373,543
Total pension liability, beginning	90,115,469	89,328,609	86,423,906	85,488,987	83,392,797	77,169,444	74,334,046	75,238,176	71,864,633
Total pension liability, ending	<u>\$ 92,858,447</u>	<u>\$ 90,115,469</u>	<u>\$ 89,328,609</u>	<u>\$ 86,423,906</u>	<u>\$ 85,488,987</u>	<u>\$ 83,392,797</u>	<u>\$ 77,169,444</u>	<u>\$ 74,334,046</u>	<u>\$ 75,238,176</u>
Plan Fiduciary Net Position									
Contributions - employer	\$ 3,963,275	\$ 3,894,670	\$ 3,526,477	\$ 3,567,944	\$ 3,536,370	\$ 3,025,070	\$ 2,811,430	\$ 2,957,060	\$ 2,282,336
Contributions - employee	506,975	521,217	489,210	463,727	460,023	480,346	466,719	463,696	456,196
Net investment income	(11,902,607)	10,120,202	8,966,368	11,031,604	(3,224,441)	7,856,603	3,427,585	(116,829)	2,495,024
Other additions	-	-	-	-	-	-	-	-	6,732
Benefit payments, including refunds of employee contributions	(5,974,852)	(5,319,243)	(4,935,167)	(4,999,032)	(5,453,682)	(4,277,152)	(4,244,639)	(4,504,335)	(3,610,654)
Administrative expenses	(17,365)	(3,900)	(42,825)	(66,973)	(110,122)	(112,983)	(114,338)	(129,985)	(85,450)
Net change in plan fiduciary net position	(13,424,574)	9,212,946	8,004,063	9,997,270	(4,791,852)	6,971,884	2,346,757	(1,330,393)	1,544,184
Plan fiduciary net position, beginning	84,786,513	75,573,567	67,569,504	57,572,234	62,364,086	55,392,202	53,045,445	54,375,838	52,831,654
Plan fiduciary net position, ending	<u>\$ 71,361,939</u>	<u>\$ 84,786,513</u>	<u>\$ 75,573,567</u>	<u>\$ 67,569,504</u>	<u>\$ 57,572,234</u>	<u>\$ 62,364,086</u>	<u>\$ 55,392,202</u>	<u>\$ 53,045,445</u>	<u>\$ 54,375,838</u>
Net Pension Liability	<u>\$ 21,496,508</u>	<u>\$ 5,328,956</u>	<u>\$ 13,755,042</u>	<u>\$ 18,854,402</u>	<u>\$ 27,916,753</u>	<u>\$ 21,028,711</u>	<u>\$ 21,777,242</u>	<u>\$ 21,288,601</u>	<u>\$ 20,862,338</u>
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	<u>76.85%</u>	<u>94.09%</u>	<u>84.60%</u>	<u>78.18%</u>	<u>67.34%</u>	<u>74.78%</u>	<u>71.78%</u>	<u>71.36%</u>	<u>72.27%</u>
Covered Payroll	<u>\$ 8,202,849</u>	<u>\$ 8,290,663</u>	<u>\$ 7,921,095</u>	<u>\$ 8,931,512</u>	<u>\$ 8,641,768</u>	<u>\$ 8,265,535</u>	<u>\$ 7,959,803</u>	<u>\$ 8,126,767</u>	<u>\$ 7,197,001</u>
Net Pension Liability as a Percentage of Covered Payroll	<u>262.06%</u>	<u>64.28%</u>	<u>173.65%</u>	<u>211.10%</u>	<u>323.04%</u>	<u>254.41%</u>	<u>273.59%</u>	<u>261.96%</u>	<u>289.88%</u>

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CITY OF READING

SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS -
OFFICERS' AND EMPLOYEES' PENSION FUND

LAST TEN FISCAL YEARS

	2022	2021	2020	2019	2018	2017	2016	2015	2014
Total Pension Liability									
Service cost	\$ 1,268,222	\$ 1,210,713	\$ 1,242,592	\$ 1,186,245	\$ 1,287,800	\$ 1,249,541	\$ 1,165,580	\$ 1,135,512	\$ 1,218,457
Interest	5,744,764	5,624,229	5,541,420	5,431,165	5,486,219	5,375,550	5,219,129	5,126,628	5,110,331
Differences between expected and actual experience	-	(1,469,505)	-	(2,245,913)	-	(2,301,879)	-	(1,054,281)	-
Changes of assumptions	-	1,060,840	-	-	-	5,496,078	-	-	-
Benefit payments, including refunds of employee contributions	(5,212,911)	(5,246,892)	(5,155,644)	(5,150,351)	(5,131,721)	(5,141,823)	(5,068,045)	(5,049,970)	(4,901,267)
Net change in total pension liability	1,800,075	1,179,385	1,628,368	(778,854)	1,642,298	4,677,467	1,316,664	157,889	1,427,521
Total pension liability, beginning	80,576,358	79,396,973	77,768,605	78,547,459	76,905,161	72,227,694	70,911,030	70,753,141	69,325,620
Total pension liability, ending	<u>\$ 82,376,433</u>	<u>\$ 80,576,358</u>	<u>\$ 79,396,973</u>	<u>\$ 77,768,605</u>	<u>\$ 78,547,459</u>	<u>\$ 76,905,161</u>	<u>\$ 72,227,694</u>	<u>\$ 70,911,030</u>	<u>\$ 70,753,141</u>
Plan Fiduciary Net Position									
Contributions - employer	\$ 3,364,313	\$ 3,353,417	\$ 3,500,466	\$ 3,476,030	\$ 3,532,555	\$ 3,135,808	\$ 3,005,282	\$ 3,179,616	\$ 2,780,193
Contributions - employee	412,515	423,599	443,026	408,664	411,457	391,888	412,951	416,374	422,154
Net investment income	(11,172,159)	9,690,974	8,617,267	8,189,937	(3,191,004)	8,051,525	4,112,997	598,813	2,806,966
Other additions	-	-	-	-	-	-	-	-	3,686
Benefit payments, including refunds of employee contributions	(5,212,911)	(5,246,892)	(5,155,644)	(5,150,351)	(5,131,721)	(5,141,823)	(5,068,045)	(5,049,970)	(4,901,267)
Administrative expenses	(15,470)	(3,575)	(60,560)	(55,711)	(455,561)	(428,049)	(392,538)	(448,751)	(402,879)
Net change in plan fiduciary net position	(12,623,712)	8,217,523	7,344,555	6,868,569	(4,834,274)	6,009,349	2,070,647	(1,303,918)	708,853
Plan fiduciary net position, beginning	79,429,592	71,212,069	63,867,514	56,998,945	61,833,219	55,823,870	53,753,223	55,057,141	54,348,288
Plan fiduciary net position, ending	<u>\$ 66,805,880</u>	<u>\$ 79,429,592</u>	<u>\$ 71,212,069</u>	<u>\$ 63,867,514</u>	<u>\$ 56,998,945</u>	<u>\$ 61,833,219</u>	<u>\$ 55,823,870</u>	<u>\$ 53,753,223</u>	<u>\$ 55,057,141</u>
Net Pension Liability	<u>\$ 15,570,553</u>	<u>\$ 1,146,766</u>	<u>\$ 8,184,904</u>	<u>\$ 13,901,091</u>	<u>\$ 21,548,514</u>	<u>\$ 15,071,942</u>	<u>\$ 16,403,824</u>	<u>\$ 17,157,807</u>	<u>\$ 15,696,000</u>
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	<u>81.10%</u>	<u>98.58%</u>	<u>89.69%</u>	<u>82.13%</u>	<u>72.57%</u>	<u>80.40%</u>	<u>77.29%</u>	<u>75.80%</u>	<u>77.82%</u>
Covered Payroll	<u>\$ 12,045,901</u>	<u>\$ 13,318,635</u>	<u>\$ 13,284,117</u>	<u>\$ 12,522,275</u>	<u>\$ 13,931,821</u>	<u>\$ 13,832,568</u>	<u>\$ 14,240,701</u>	<u>\$ 14,403,603</u>	<u>\$ 14,233,277</u>
Net Pension Liability as a Percentage of Covered Payroll	<u>129.26%</u>	<u>8.61%</u>	<u>61.61%</u>	<u>111.01%</u>	<u>154.67%</u>	<u>108.96%</u>	<u>115.19%</u>	<u>119.12%</u>	<u>109.02%</u>

Note: This schedule is to present the requirement to show information for 10 years. However, until a full 10-year trend is compiled, information for only those years available is shown.

CITY OF READING

SCHEDULE OF CITY CONTRIBUTIONS AND INVESTMENT RETURNS

LAST TEN FISCAL YEARS

	2022	2021	2020	2019	2018	2017	2016	2015	2014	2013
POLICE PENSION PLAN										
Schedule of City Contributions										
Actuarial determined contributions	\$ 11,300,512	\$ 11,303,371	\$ 11,337,885	\$ 11,508,252	\$ 11,453,968	\$ 9,820,271	\$ 9,678,338	\$ 8,398,280	\$ 6,051,235	\$ 6,057,188
Contributions in relation to the actuarially determined contribution	<u>11,300,512</u>	<u>11,303,371</u>	<u>11,337,885</u>	<u>11,575,020</u>	<u>11,453,968</u>	<u>9,996,690</u>	<u>9,729,933</u>	<u>8,398,475</u>	<u>6,052,629</u>	<u>6,057,188</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (66,768)</u>	<u>\$ -</u>	<u>\$ (176,419)</u>	<u>\$ (51,595)</u>	<u>\$ (195)</u>	<u>\$ (1,394)</u>	<u>\$ -</u>
Covered payroll	\$ 11,641,075	\$ 10,713,580	\$ 10,602,424	\$ 10,110,784	\$ 12,237,673	\$ 11,537,808	\$ 11,472,383	\$ 10,745,475	\$ 10,995,148	\$ 10,948,012
Contributions as a percentage of covered payroll	97.07%	105.51%	106.94%	114.48%	93.60%	86.64%	84.81%	78.16%	55.05%	55.33%
Investment Returns										
Annual money-weighted rate of return, net investment expense	(14.28%)	13.91%	14.16%	16.32%	(4.99%)	16.27%	8.61%	(1.52%)	5.39%	
PAID FIREMEN'S PENSION PLAN										
Schedule of City Contributions										
Actuarial determined contributions	\$ 3,963,275	\$ 3,894,670	\$ 3,526,477	\$ 3,567,944	\$ 3,533,964	\$ 2,891,616	\$ 2,811,430	\$ 2,956,620	\$ 2,282,337	\$ 2,286,857
Contributions in relation to the actuarially determined contribution	<u>3,963,275</u>	<u>3,894,670</u>	<u>3,526,477</u>	<u>3,567,944</u>	<u>3,536,370</u>	<u>3,025,070</u>	<u>2,811,430</u>	<u>2,957,060</u>	<u>2,282,336</u>	<u>2,286,857</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (2,406)</u>	<u>\$ (133,454)</u>	<u>\$ -</u>	<u>\$ (440)</u>	<u>\$ 1</u>	<u>\$ -</u>
Covered payroll	\$ 8,202,849	\$ 8,290,663	\$ 7,921,095	\$ 8,931,512	\$ 8,641,768	\$ 8,265,535	\$ 7,959,803	\$ 8,126,767	\$ 7,197,001	\$ 7,216,688
Contributions as a percentage of covered payroll	48.32%	46.98%	44.52%	39.95%	40.92%	36.60%	35.32%	36.39%	31.71%	31.69%
Investment Returns										
Annual money-weighted rate of return, net investment expense	(14.29%)	13.90%	13.72%	17.49%	(5.57%)	15.46%	7.12%	(0.28%)	5.49%	
OFFICERS' AND EMPLOYEES' PENSION PLAN										
Schedule of City Contributions										
Actuarial determined contributions	\$ 3,364,313	\$ 3,353,417	\$ 3,500,466	\$ 3,446,705	\$ 3,532,555	\$ 3,033,047	\$ 3,005,282	\$ 3,173,811	\$ 2,769,963	\$ 2,836,234
Contributions in relation to the actuarially determined contribution	<u>3,364,313</u>	<u>3,353,417</u>	<u>3,500,466</u>	<u>3,476,030</u>	<u>3,532,555</u>	<u>3,135,808</u>	<u>3,005,282</u>	<u>3,179,616</u>	<u>2,780,193</u>	<u>2,860,603</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (29,325)</u>	<u>\$ -</u>	<u>\$ (102,761)</u>	<u>\$ -</u>	<u>\$ (5,805)</u>	<u>\$ (10,230)</u>	<u>\$ (24,369)</u>
Covered payroll	\$ 12,586,805	\$ 13,318,635	\$ 13,284,117	\$ 12,522,275	\$ 13,931,821	\$ 13,832,568	\$ 14,240,701	\$ 14,403,603	\$ 14,233,277	\$ 14,888,776
Contributions as a percentage of covered payroll	26.73%	25.18%	26.35%	27.76%	25.36%	22.67%	21.10%	22.08%	19.53%	19.21%
Investment Returns										
Annual money-weighted rate of return, net investment expense	(14.31%)	14.03%	13.67%	13.38%	(5.34%)	15.19%	8.11%	1.08%	5.93%	

Other Information:

Note: Covered payroll for even number years is based on the actuarial valuation completed in the odd number years.

See notes to required supplementary information.

CITY OF READING

SCHEDULE OF CHANGES IN NET OPEB LIABILITY AND RELATED RATIOS

LAST TEN FISCAL YEARS

	2022	2021	2020	2019	2018
Total OPEB Liability:					
Service cost	\$ 1,492,967	\$ 1,499,985	\$ 2,449,051	\$ 1,227,102	\$ 1,061,045
Interest	1,444,395	1,286,342	4,357,120	2,109,469	2,424,195
Differences between expected and actual experience	(6,985,391)	-	(3,292,537)	-	-
Changes of assumptions	(8,504,295)	(1,046,190)	7,790,386	(2,306,473)	2,675,677
Benefit payments	(4,272,615)	(4,087,329)	(8,509,298)	(4,340,011)	(5,592,000)
Net change in total OPEB liability	(16,824,939)	(2,347,192)	2,794,722	(3,309,913)	568,917
Total OPEB liability, beginning	65,016,839	67,364,031	64,569,309	67,879,222	67,310,305
Total OPEB liability, ending	<u>\$ 48,191,900</u>	<u>\$ 65,016,839</u>	<u>\$ 67,364,031</u>	<u>\$ 64,569,309</u>	<u>\$ 67,879,222</u>
Plan Fiduciary Net Position:					
Contributions - employer	\$ -	\$ -	\$ 1,000,000	\$ -	\$ -
Plan fiduciary net position, beginning	1,000,000	1,000,000	-	-	-
Plan fiduciary net position, ending	<u>\$ 1,000,000</u>	<u>\$ 1,000,000</u>	<u>\$ 1,000,000</u>	<u>\$ -</u>	<u>\$ -</u>
Net OPEB Liability	<u>\$ 47,191,900</u>	<u>\$ 64,016,839</u>	<u>\$ 66,364,031</u>	<u>\$ 64,569,309</u>	<u>\$ 67,879,222</u>
Plan Fiduciary Net Position as a Percentage of Total OPEB Liability	<u>2.08%</u>	<u>1.54%</u>	<u>1.48%</u>	<u>0.00%</u>	<u>0.00%</u>
Covered Employee Payroll	<u>\$ 14,721,628</u>	<u>\$ 15,439,848</u>	<u>\$ 15,439,848</u>	<u>\$ 18,072,245</u>	<u>\$ 18,072,245</u>
Net OPEB Liability as a Percentage of Covered Employee Payroll	<u>320.56%</u>	<u>414.62%</u>	<u>429.82%</u>	<u>357.28%</u>	<u>375.60%</u>

NOTES TO SCHEDULE

Changes of Benefit Terms

None.

Changes of Assumptions

Significant changes in assumptions for the December 31, 2022 measurement date are as follows:

- The discount rate changed from 2.25% to 4.31%.
- The trend and mortality assumptions were updated.
- The retiree election assumption was lowered to 90%.

This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, information for only those years available is shown.

CITY OF READING

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

December 31, 2022

NOTE 1 - BUDGETARY COMPARISON SCHEDULE

The budgetary comparison schedule for the general fund is prepared using the modified accrual basis of accounting which is the same basis used to report actual expenditures.

The Community Development, Grant, and American Rescue Plan funds are major special revenue funds, but have no legally adopted budget; therefore, no schedules are included in this report.

NOTE 2 - PENSION SCHEDULES

The information presented in the required supplementary schedules related to the pension funds was determined as part of the actuarial valuations at the dates indicated. Methods and assumptions used to determine contribution rates for the PPP, PFPP, and O&E required under Act 205 are as follows:

	PPP	PFPP	O&E
Actuarial valuation date	01/01/19	01/01/19	01/01/19
Actuarial cost method	Entry age normal	Entry age normal	Entry age normal
Amortization method	Level dollar, closed	Level dollar, closed	Level dollar, closed
Remaining amortization period	9 years	7 years	10 years
Asset valuation method	Smoothed value with a corridor of 80% to 120% of market value	Smoothed value with a corridor of 80% to 120% of market value	Smoothed value with a corridor of 80% to 120% of market value
Actuarial assumptions:			
Investment rate of return	7.25%	7.25%	7.25%
Projected salary increases	4.75%	5.25%	4.75%
Inflation rate	2.75%	2.75%	2.75%
Mortality table	RP-2014 table	RP-2014 table	RP-2014 table

Changes in Actuarial Assumptions

None noted.

SUPPLEMENTARY INFORMATION

CITY OF READING

**SCHEDULE OF REVENUES AND OTHER FINANCING SOURCES - BUDGETARY BASIS -
GENERAL FUND**

Year Ended December 31, 2022

	Original Budget	Final Budget	Actual	Variance
REVENUES				
TAXES:				
Real estate taxes	\$ 25,631,683	\$ 25,631,683	\$ 26,312,878	\$ 681,195
Earned income taxes	21,012,120	21,012,120	24,792,634	3,780,514
Other taxes:				
Per capita tax	250,000	250,000	296,847	46,847
Per capita tax - prior years	200,000	200,000	345,853	145,853
Real estate transfer tax	5,500,000	5,500,000	8,917,892	3,417,892
Occupation tax	1,016,410	1,016,410	1,135,305	118,895
Occupation tax - prior years	50,000	50,000	21,836	(28,164)
Business privilege tax	1,708,800	1,708,800	2,054,433	345,633
Business privilege tax - prior years	80,800	80,800	63,497	(17,303)
Total Other Taxes	<u>8,806,010</u>	<u>8,806,010</u>	<u>12,835,663</u>	<u>4,029,653</u>
TOTAL TAXES	<u>55,449,813</u>	<u>55,449,813</u>	<u>63,941,175</u>	<u>8,491,362</u>
LICENSES, PERMITS, AND FINES:				
Food permits	150,000	150,000	116,243	(33,757)
Building and electrical	1,120,000	1,120,000	1,345,904	225,904
Trades licenses	100,000	100,000	115,270	15,270
Business privilege	280,000	280,000	340,653	60,653
Street and pavement	500,000	500,000	195,611	(304,389)
Zoning and land development	75,000	75,000	125,785	50,785
Housing	1,616,000	1,616,000	1,421,958	(194,042)
Tax administration licenses	13,600	13,600	14,670	1,070
Franchise fees	825,000	825,000	728,211	(96,789)
No parking signs	300	300	480	180
Traffic fines	200,000	200,000	-	(200,000)
Penalties and interest	78,380	78,380	28,896	(49,484)
District court	342,950	342,950	186,264	(156,686)
Other	449,550	449,550	177,035	(272,515)
TOTAL LICENSES, PERMITS, AND FINES	<u>5,750,780</u>	<u>5,750,780</u>	<u>4,796,980</u>	<u>(953,800)</u>
INTERGOVERNMENTAL:				
Payments in lieu of taxes	193,105	193,105	146,740	(46,365)
Malt and liquor tax	34,000	34,000	28,000	(6,000)
Public utility tax	55,000	55,000	57,677	2,677
Snow and ice control	60,000	60,000	107,866	47,866
Reading Public Library	927,086	927,086	863,545	(63,541)
School guard	140,000	140,000	119,313	(20,687)
Pension - state aid	3,674,719	3,674,719	3,963,046	288,327
Police training	415,110	415,110	291,947	(123,163)
Grant reimbursement - code enforcement	325,000	325,000	287,377	(37,623)
Grant reimbursement - police	275,000	275,000	556,231	281,231
TOTAL INTERGOVERNMENTAL	<u>6,099,020</u>	<u>6,099,020</u>	<u>6,421,742</u>	<u>322,722</u>

CITY OF READING

**SCHEDULE OF REVENUES AND OTHER FINANCING SOURCES - BUDGETARY BASIS -
GENERAL FUND - CONTINUED**

Year Ended December 31, 2022

	Original Budget	Final Budget	Actual	Variance
REVENUES - CONTINUED				
CHARGES FOR SERVICES:				
Pagoda and tower	1,000	1,000	-	(1,000)
School district tax collection	6,110	6,110	2,304	(3,806)
Admissions fee/tax	200,500	200,500	831,648	631,148
Police services	1,039,311	1,039,311	866,667	(172,644)
Fire services	270,900	270,900	369,211	98,311
Ambulance services	3,137,000	3,146,000	3,224,939	78,939
Housing Authority	250,000	250,000	292,791	42,791
Public works	153,425	153,425	166,800	13,375
Meter surcharge	1,700,000	1,700,000	1,700,000	-
Other	212,050	264,250	774,417	510,167
TOTAL CHARGES FOR SERVICES	6,970,296	7,031,496	8,228,777	1,197,281
INTEREST AND RENT:				
Interest	20,300	20,300	462,999	442,699
Stadium rental	350,000	350,000	-	(350,000)
Building rental	75,000	75,000	38,371	(36,629)
Parking Authority	1,761,000	1,761,000	1,761,000	-
Loan repayments	-	-	63,195	63,195
Lease revenue	-	-	145,512	145,512
TOTAL INTEREST AND RENT	2,206,300	2,206,300	2,471,077	264,777
OTHER:				
Sale of city property	22,000	22,000	3,822	(18,178)
Indirect cost reimbursement:				
Community development	203,634	203,634	203,634	-
Recycling	203,889	203,889	203,889	-
Sewer	1,226,236	1,226,236	1,226,236	-
Water	-	-	116,837	116,837
Solid waste	182,723	182,723	182,723	-
Direct cost reimbursement:				
Code services	-	-	145	145
Pension	-	-	11,820	11,820
Sewer	125,000	125,000	896	(124,104)
Grants and gifts	150,700	150,700	228,750	78,050
Other shared revenues	25,000	25,000	13,575	(11,425)
Miscellaneous	(1,061,747)	(1,061,747)	1,627,916	2,689,663
TOTAL OTHER	1,077,435	1,077,435	3,820,243	2,742,808
TOTAL REVENUES	77,553,644	77,614,844	89,679,994	12,065,150
OTHER FINANCING SOURCES				
Transfers in:				
Water Fund - lease payments	10,441,372	10,441,372	10,604,268	162,896
Sewer Fund	3,000,000	3,000,000	3,000,000	-
TOTAL OTHER FINANCING SOURCES	13,441,372	13,441,372	13,604,268	162,896
TOTAL REVENUES AND OTHER FINANCING SOURCES	\$ 90,995,016	\$ 91,056,216	\$ 103,284,262	\$ 12,228,046

CITY OF READING

**SCHEDULE OF EXPENDITURES AND OTHER FINANCING USES - BUDGETARY BASIS -
GENERAL FUND**

Year Ended December 31, 2022

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
EXPENDITURES				
GENERAL GOVERNMENT:				
Office of the Mayor:				
Personnel	\$ 372,026	\$ 371,226	\$ 393,677	\$ (22,451)
Other operating expenditures	14,000	19,300	17,993	1,307
City Council:				
Personnel	304,297	304,297	347,865	(43,568)
Other operating expenditures	155,000	220,000	141,735	78,265
City Auditor:				
Personnel	192,965	192,965	208,037	(15,072)
Other operating expenditures	11,500	11,500	3,738	7,762
Office of the Managing Director:				
Personnel	404,065	404,065	490,474	(86,409)
Other operating expenditures	59,900	68,690	29,363	39,327
Department of Finance:				
Office of the Director:				
Personnel	459,665	459,665	454,211	5,454
Other operating expenditures	38,900	45,900	47,145	(1,245)
Purchasing:				
Personnel	193,547	193,547	185,587	7,960
Other operating expenditures	170,500	170,500	111,690	58,810
Accounting:				
Personnel	568,995	574,995	587,527	(12,532)
Other operating expenditures	105,500	105,500	124,023	(18,523)
Information Technology:				
Personnel	816,901	816,901	927,854	(110,953)
Other operating expenditures	976,615	941,825	803,296	138,529
Department of Human Resources:				
Personnel	389,466	389,466	496,608	(107,142)
Other operating expenditures	325,500	480,312	472,053	8,259
Citizens Service Center:				
Personnel	769,208	767,208	839,658	(72,450)
Other operating expenditures	141,250	151,250	139,466	11,784
Department of Law:				
Personnel	425,057	425,057	383,580	41,477
Other operating expenditures	428,500	678,500	272,346	406,154
TOTAL GENERAL GOVERNMENT	7,323,357	7,792,669	7,477,926	314,743

CITY OF READING

SCHEDULE OF EXPENDITURES AND OTHER FINANCING USES - BUDGETARY BASIS -
GENERAL FUND - CONTINUED

Year Ended December 31, 2022

	Original Budget	Final Budget	Actual	Variance
EXPENDITURES - CONTINUED				
PUBLIC SAFETY:				
Police:				
Police - Criminal Investigation:				
Personnel	7,132,498	7,132,498	8,024,607	(892,109)
Other operating expenditures	140,220	140,220	126,955	13,265
Police - Special Services:				
Personnel	3,711,629	3,711,629	4,393,137	(681,508)
Other operating expenditures	1,011,637	1,011,637	829,319	182,318
Police - Patrol:				
Personnel	23,559,370	23,349,371	24,162,081	(812,710)
Other operating expenditures	474,490	830,689	651,002	179,687
Police - Administration:				
Personnel	853,483	853,483	922,309	(68,826)
Other operating expenditures	194,900	194,900	119,521	75,379
Fire:				
Fire Administration:				
Personnel	1,080,510	1,080,510	1,258,203	(177,693)
Other operating expenditures	200,840	200,854	158,792	42,062
Fire Special Services:				
Personnel	655,125	655,125	681,915	(26,790)
Other operating expenditures	109,800	109,800	72,023	37,777
Fire Suppression:				
Personnel	12,606,100	12,606,100	13,269,535	(663,435)
Other operating expenditures	496,839	561,825	513,765	48,060
Fire Emergency Medical Services:				
Personnel	4,570,572	4,568,263	5,275,008	(706,745)
Other operating expenditures	579,288	625,596	586,567	39,029
TOTAL PUBLIC SAFETY	57,377,301	57,632,500	61,044,739	(3,412,239)
PUBLIC WORKS:				
Department of Public Works:				
Fleet Management:				
Personnel	797,555	797,555	836,891	(39,336)
Other operating expenditures	617,400	617,400	542,013	75,387
Traffic Engineering:				
Other operating expenditures	1,408,000	1,633,000	1,252,032	380,968
Public Works Administration:				
Personnel	656,677	656,677	376,421	280,256
Other operating expenditures	490,450	511,877	324,017	187,860
Engineering:				
Personnel	14,847	14,847	-	14,847
Other operating expenditures	32,500	32,500	-	32,500
Streets:				
Personnel	1,503,641	1,506,641	1,388,139	118,502
Other operating expenditures	193,200	193,200	75,574	117,626
Parks:				
Personnel	662,548	662,548	722,791	(60,243)
Other operating expenditures	142,850	142,850	98,603	44,247
Recreation:				
Personnel	23,753	23,753	-	23,753
Public Property:				
Personnel	778,939	778,939	790,129	(11,190)
Other operating expenditures	1,562,050	1,641,123	1,504,948	136,175
TOTAL PUBLIC WORKS	8,884,410	9,212,910	7,911,558	1,301,352

CITY OF READING

SCHEDULE OF EXPENDITURES AND OTHER FINANCING USES - BUDGETARY BASIS -
GENERAL FUND - CONTINUED

Year Ended December 31, 2022

	Original Budget	Final Budget	Actual	Variance
EXPENDITURES - CONTINUED				
COMMUNITY DEVELOPMENT:				
Administration:				
Personnel	298,077	298,077	269,142	28,935
Other operating expenditures	103,500	103,500	(39,555)	143,055
Zoning:				
Personnel	578,063	578,063	452,544	125,519
Other operating expenditures	200,350	400,350	211,732	188,618
Trades:				
Personnel	790,767	790,767	1,029,473	(238,706)
Other operating expenditures	327,400	162,400	80,504	81,896
Codes:				
Personnel	2,287,843	2,287,843	2,407,588	(119,745)
Other operating expenditures	181,700	187,700	131,225	56,475
TOTAL COMMUNITY DEVELOPMENT	4,767,700	4,808,700	4,542,653	266,047
CULTURE AND RECREATION:				
Library:				
Personnel	838,768	838,768	875,646	(36,878)
TOTAL CULTURE AND RECREATION	838,768	838,768	875,646	(36,878)
NONDEPARTMENTAL:				
Payroll and benefits	211,915	201,915	211,462	(9,547)
Risk management	2,332,360	2,332,360	2,332,360	-
Other	352,456	516,044	(171,234)	687,278
TOTAL NONDEPARTMENTAL	2,896,731	3,050,319	2,372,588	677,731
DEBT SERVICE:				
Principal	7,766,610	7,766,610	8,009,597	(242,987)
Interest	3,708,690	3,708,690	3,732,384	(23,694)
TOTAL DEBT SERVICE	11,475,300	11,475,300	11,741,981	(266,681)
TOTAL EXPENDITURES	93,563,567	94,811,166	95,967,091	(1,155,925)
OTHER FINANCING USES				
Transfers out	-	-	419,323	(419,323)
TOTAL EXPENDITURES AND OTHER FINANCING USES	\$ 93,563,567	\$ 94,811,166	\$ 96,386,414	\$ (1,575,248)

CITY OF READING

COMBINING BALANCE SHEET -
NONMAJOR GOVERNMENTAL FUNDS

December 31, 2022

	Shade Tree	Liquid Fuels	Totals
ASSETS			
Cash	\$ (115,987)	\$ 5,197,472	\$ 5,081,485
Accounts receivable	1,363	-	1,363
Taxes receivable, net	36,822	-	36,822
Interfund receivables	-	7,270	7,270
TOTAL ASSETS	<u>\$ (77,802)</u>	<u>\$ 5,204,742</u>	<u>\$ 5,126,940</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES			
LIABILITIES			
Accounts payable	\$ 9,670	\$ 1,172,861	\$ 1,182,531
DEFERRED INFLOWS OF RESOURCES			
Unavailable revenue - property taxes	31,506	-	31,506
FUND BALANCES			
Restricted for:			
Liquid Fuels	-	4,031,881	4,031,881
Unassigned	(118,978)	-	(118,978)
TOTAL FUND BALANCES (DEFICIT)	<u>(118,978)</u>	<u>4,031,881</u>	<u>3,912,903</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES	<u>\$ (77,802)</u>	<u>\$ 5,204,742</u>	<u>\$ 5,126,940</u>

CITY OF READING

**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -
NONMAJOR GOVERNMENTAL FUNDS**

Year Ended December 31, 2022

	Shade Tree	Liquid Fuels	Totals
REVENUES			
Real estate taxes	\$ 294,303	\$ -	\$ 294,303
Intergovernmental	-	2,077,423	2,077,423
Interest and rent	-	9,868	9,868
TOTAL REVENUES	294,303	2,087,291	2,381,594
EXPENDITURES			
Current:			
Public works - highways and streets	-	3,047,762	3,047,762
Culture and recreation	353,467	-	353,467
TOTAL EXPENDITURES	353,467	3,047,762	3,401,229
NET CHANGES IN FUND BALANCES	(59,164)	(960,471)	(1,019,635)
FUND BALANCES (DEFICIT) - BEGINNING OF YEAR	(59,814)	4,992,352	4,932,538
FUND BALANCES (DEFICIT) - END OF YEAR	<u>\$ (118,978)</u>	<u>\$ 4,031,881</u>	<u>\$ 3,912,903</u>

CITY OF READING

COMBINING SCHEDULE OF NET POSITION - WATER FUNDS

December 31, 2022

	City Water Fund	Reading Area Water Authority	Eliminations	Total Water Fund
ASSETS				
Current assets:				
Cash	\$ 40,691	\$ 17,892,202	\$ -	\$ 17,932,893
Investments	120,049	-	-	120,049
Accounts receivable, net	5,805	5,675,989	-	5,681,794
Interfund receivables	87,072	154,040	(154,040)	87,072
Inventory	-	334,406	-	334,406
Restricted assets - cash and investments	-	2,786,977	-	2,786,977
Total current assets	253,617	26,843,614	(154,040)	26,943,191
Noncurrent assets:				
Capital assets not being depreciated	2,091,773	298,848	-	2,390,621
Capital assets, net of accumulated depreciation	6,768,165	57,132,459	-	63,900,624
Total capital assets, net	8,859,938	57,431,307	-	66,291,245
Rights to leased land	-	868,113	-	868,113
Total noncurrent assets	8,859,938	58,299,420	-	67,159,358
TOTAL ASSETS	9,113,555	85,143,034	(154,040)	94,102,549
DEFERRED OUTFLOWS OF RESOURCES				
Deferred charge on bond refunding	366,303	4,924,291	-	5,290,594
Deferred outflows of resources for pension	1,136,909	-	-	1,136,909
Deferred outflows of resources for other postemployment benefits	5,633	-	-	5,633
TOTAL DEFERRED OUTFLOWS OF RESOURCES	1,508,845	4,924,291	-	6,433,136
LIABILITIES				
Current liabilities:				
Accounts payable	3,266	60,013	(3,272)	60,007
Interfund payables	164,544	-	(150,768)	13,776
Accrued interest	-	176,809	-	176,809
Accrued payroll and compensated absences	-	736,900	-	736,900
Escrow deposits	-	278,641	-	278,641
Current portion notes and bonds payable	169,045	4,216,801	-	4,385,846
Total current liabilities	336,855	5,469,164	(154,040)	5,651,979
Noncurrent liabilities:				
Notes and Bonds payable, net	3,017,388	65,097,110	-	68,114,498
Net pension liability	1,304,963	-	-	1,304,963
Total noncurrent liabilities	4,322,351	65,097,110	-	69,419,461
TOTAL LIABILITIES	4,659,206	70,566,274	(154,040)	75,071,440
DEFERRED INFLOWS OF RESOURCES				
Deferred inflows of resources for pension	532,263	-	-	532,263
Deferred inflows of resources for other postemployment benefits	70,499	-	-	70,499
TOTAL DEFERRED INFLOWS OF RESOURCES	602,762	-	-	602,762
NET POSITION				
Net investment in capital assets	6,039,808	(6,958,313)	-	(918,505)
Restricted for debt service	-	2,561,269	-	2,561,269
Unrestricted	(679,376)	23,898,095	-	23,218,719
TOTAL NET POSITION	\$ 5,360,432	\$ 19,501,051	\$ -	\$ 24,861,483

See note to supplementary information.

CITY OF READING

**COMBINING SCHEDULE OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION -
WATER FUNDS**

Year Ended December 31, 2022

	City Water Fund	Reading Area Water Authority	Eliminations	Total Water Fund
OPERATING REVENUES				
Charges for services	\$ 12,653,398	\$ 34,334,418	\$ (12,653,398)	\$ 34,334,418
Other	492,431	8,552	-	500,983
TOTAL OPERATING REVENUES	13,145,829	34,342,970	(12,653,398)	34,835,401
OPERATING EXPENSES				
Lease payments	-	12,670,536	(12,670,536)	-
Personnel	314,342	6,697,502	-	7,011,844
Depreciation and amortization	525,106	4,432,222	-	4,957,328
Risk management	65,800	-	-	65,800
Contracted services	-	936,570	-	936,570
Chemicals and supplies	-	1,658,599	-	1,658,599
Utilities	-	1,036,602	-	1,036,602
Other	1,816,836	3,230,564	17,138	5,064,538
TOTAL OPERATING EXPENSES	2,722,084	30,662,595	(12,653,398)	20,731,281
OPERATING INCOME	10,423,745	3,680,375	-	14,104,120
NONOPERATING REVENUES (EXPENSES)				
Interest income	2,099	159,958	-	162,057
Other	-	(64,322)	-	(64,322)
Gain on sale of solid waste accounts receivable	-	83,468	-	83,468
Interest expense	(130,992)	(2,093,536)	-	(2,224,528)
NET NONOPERATING REVENUES (EXPENSES)	(128,893)	(1,914,432)	-	(2,043,325)
INCOME BEFORE TRANSFERS	10,294,852	1,765,943	-	12,060,795
Transfers out - lease payments	(10,604,268)	-	-	(10,604,268)
CHANGES IN NET POSITION	(309,416)	1,765,943	-	1,456,527
NET POSITION - BEGINNING OF YEAR	5,669,848	17,735,108	-	23,404,956
NET POSITION - END OF YEAR	\$ 5,360,432	\$ 19,501,051	\$ -	\$ 24,861,483

CITY OF READING

COMBINING STATEMENT OF NET POSITION - FIDUCIARY FUNDS - TRUST FUNDS

December 31, 2022

	Police Pension Fund	Paid Firemen's Pension Fund	Officers' and Employees' Pension Fund	Total Pension Trust Funds	Other Postemployment Benefits (OPEB) Trust Fund	Total Pension/OPEB Trust Funds
ASSETS						
Cash	\$ 788,904	\$ 437,878	\$ 2,224,234	\$ 3,451,016	\$ 1,000,000	\$ 4,451,016
Investments	125,971,533	70,941,265	64,595,719	261,508,517	-	261,508,517
Interest receivable	-	-	-	-	526	526
Interfund receivable	-	-	142	142	2,047	2,189
TOTAL ASSETS	126,760,437	71,379,143	66,820,095	264,959,675	1,002,573	265,962,248
LIABILITIES						
Interfund payable	29,325	17,204	14,215	60,744	-	60,744
NET POSITION						
Held in trust for pension benefits	126,731,112	71,361,939	66,805,880	264,898,931	-	264,898,931
Held in trust for other postemployment benefits	-	-	-	-	1,002,573	1,002,573
TOTAL NET POSITION	\$ 126,731,112	\$ 71,361,939	\$ 66,805,880	\$ 264,898,931	\$ 1,002,573	\$ 265,901,504

CITY OF READING

COMBINING STATEMENT OF CHANGES IN NET POSITION - FIDUCIARY FUNDS - TRUST FUNDS

Year Ended December 31, 2022

	Police Pension Fund	Paid Firemen's Pension Fund	Officers' and Employees' Pension Fund	Total Pension Trust Funds	Other Postemployment Benefits (OPEB) Trust Fund	Total Pension/OPEB Trust Funds
ADDITIONS						
Contributions:						
Employer (including state aid)	\$ 11,300,512	\$ 3,963,275	\$ 3,364,313	\$ 18,628,100	\$ -	\$ 18,628,100
Employee	836,041	506,975	412,515	1,755,531	-	1,755,531
Investment income:						
Interest and dividends	2,694,422	1,537,918	1,397,396	5,629,736	2,573	5,632,309
Net change in fair value of investments	(23,841,501)	(13,231,453)	(12,375,844)	(49,448,798)	-	(49,448,798)
Other	162,642	84,621	105,284	352,547	-	352,547
TOTAL ADDITIONS	(8,847,884)	(7,138,664)	(7,096,336)	(23,082,884)	2,573	(23,080,311)
DEDUCTIONS						
Benefits, including tax withheld	12,338,627	5,962,328	5,137,585	23,438,540	-	23,438,540
Administrative expenses	546,842	311,058	314,465	1,172,365	-	1,172,365
Refunds paid	96,175	12,524	75,326	184,025	-	184,025
TOTAL DEDUCTIONS	12,981,644	6,285,910	5,527,376	24,794,930	-	24,794,930
CHANGES IN NET POSITION	(21,829,528)	(13,424,574)	(12,623,712)	(47,877,814)	2,573	(47,875,241)
NET POSITION HELD IN TRUST FOR PENSION BENEFITS - BEGINNING OF YEAR	148,560,640	84,786,513	79,429,592	312,776,745	1,000,000	313,776,745
NET POSITION HELD IN TRUST FOR PENSION BENEFITS - END OF YEAR	\$ 126,731,112	\$ 71,361,939	\$ 66,805,880	\$ 264,898,931	\$ 1,002,573	\$ 265,901,504

CITY OF READING

NOTE TO SUPPLEMENTARY INFORMATION

December 31, 2022

NOTE 1 - OPERATING LEASE

The City has entered into a 99-year operating lease, effective June 1, 1994, with the Reading Area Water Authority (RAWA) for the operations of the water system through 2093. Under the original lease, the lease payments were the sum of agreed-upon administrative expenses, operating expenses, debt service expenses, and financing fees of the City. In addition, RAWA 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, RAWA receives an annual reconciliation statement, which reflects a credit due to RAWA or a payment due to the City. Total lease expense for the year ended December 31, 2022, was \$12,538,372.

In December 2010, a Second Addendum to the lease was agreed upon by the City and RAWA. The Addendum authorized the Authority to directly employ the City's Water Department employees at various dates beginning in January 2011, as defined therein. During 2012, RAWA began to directly pay and record operating expenses. Prior to 2012, the various operating expenses were paid by the City and reimbursed by the Authority through the lease payment.

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 RAWA's prior written approval, the City cannot voluntarily convey or transfer any property interest in the approximate 120-acre parcel of land located in Ontelaunee Township.

In June 2012, a Third Addendum to the lease was agreed upon by the City and RAWA to facilitate additional payments to the City by the Authority to assist in the Act 47 of 1987 recovery program of the City. In addition to the lease payment to the City for operational and administrative expenses, the Authority is to pay a financing fee and meter surcharge payment.

In November 2014, a Fourth Addendum to the lease was agreed upon by the City and RAWA. The Addendum states that beginning January 1, 2015, the financing fee component of the lease payment shall be \$9,275,000, which reflects the fair rental value of the Water System. Beginning January 1, 2020, the fee shall be increased by an amount equal to the positive change in the Consumer Price Index for the most recently completed 12 month period multiplied by the amount of the financing fee component of the lease payment for the immediately preceding January 1st or 2.5% per annum, whichever is greater. The meter surcharge payment shall continue annually in accordance with the original amended agreement (\$1,700,000 per year).

CITY OF READING

NOTE TO SUPPLEMENTARY INFORMATION

December 31, 2022

NOTE 1 - OPERATING LEASE - CONTINUED

During June 2017, the City entered into a new lease agreement with RAWA to repeal and replace the original lease agreement and all addendums in an effort to organize all proceeding agreements and addendums into one complete document. The new lease agreement was effective January 1, 2017, and shall continue until November 30, 2046. The lease payment under the new agreement for 2017 is \$9,275,000, increased by 2% on January 1 of each respective year for 2018 and 2019. For 2020, 2021, and 2022, the amount of the lease payment shall be increased by 1.5% on January 1 of each respective year. For subsequent years, the City and RAWA shall engage in good faith negotiations regarding any further annual increases in the lease payments. In the event that both parties are unable to agree on an amount of any further increase, beginning January 1, 2023, and for each year thereafter, the amount of the lease payment shall be increased by 1.5% effective January 1 of each respective year. Either the City or the Authority may terminate the lease by signing a written notice on the other with 180 days' notice.

In addition, if RAWA enters into a contract to supply new commercial customers with water in excess of 10% of the current permitted capacity, RAWA shall pay to the City 25% of the net annual revenues generated by the contract.

The following is a schedule of the future minimum lease payments under this 2017 lease agreement:

2023	\$ 10,241,850
2024	10,395,478
2025	10,551,410
2026	10,709,681
2027	10,870,327
Thereafter	<u>240,491,492</u>
	<u>\$ 293,260,238</u>

RAWA is reported as a blended component unit within the water fund. The lease revenue and expense are eliminated with this presentation. A transfer was reported for the financing fee paid to the general fund in 2021 totaling \$10,604,269, which includes a base fee of \$10,090,493 and additional payments from new commercial customers and past lease payments received totaling \$513,776. In May 2023, City Council enacted Bill 48-2023 approving a new lease agreement with the Reading Area Water Authority ("RAWA") for the City's water system. Refer to Note 16 for further information.

CITY OF READING

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

December 31, 2022

Federal Grantor/Pass Through Grantor/Program Title	Source Code	Assistance Listing Number (ALN)	Grant Period	Grant Contract	Total Award	Accrued (Unearned) 12/31/21	Amount Received	Revenue/ Expenditures	Accrued (Unearned) 12/31/22	Passed Through to Subrecipients
U.S. DEPARTMENT OF HOUSING										
Community Development Block Grant/Entitlement Grant	D	14.218		B-18-MC-42-0013	\$ 2,604,014	\$ 12,593	\$ 46,673	\$ 34,080	\$ -	\$ -
Community Development Block Grant/Entitlement Grant	D	14.218		B-19-MC-42-0013	2,553,505	105,570	232,764	127,194	-	-
Community Development Block Grant/Entitlement Grant	D	14.218		B-20-MC-42-0013	2,560,654	61,997	279,753	218,420	664	-
Community Development Block Grant/Entitlement Grant	D	14.218		B-21-MC-42-0013	2,576,835	282,839	937,680	738,197	83,356	-
Community Development Block Grant/Entitlement Grant	D	14.218		B-22-MC-42-0013	2,398,525	-	660,784	1,007,669	346,885	-
COVID-19 - Community Development Block Grant/Entitlement Grant	D	14.218		B-20-MW-42-0013	2,082,307	8,065	24,131	81,648	65,582	-
Subtotal - ALN 14.218						471,064	2,181,785	2,207,208	496,487	-
Community Development Block Grant - Section 108 Loan Guarantee	D	14.248			N/A	(1,400,000)	-	3,029,449	(1,300,000)	-
Emergency Shelter Grant	D	14.231		E-20-MC-42-0013	224,371	17,899	64,495	46,596	-	-
Emergency Shelter Grant	D	14.231		E-21-MC-42-0013	218,413	-	149,910	149,910	-	-
Emergency Shelter Grant	D	14.231		E-22-MC-42-0013	216,610	-	-	16,313	16,313	-
COVID-19 Emergency Shelter Grant	D	14.231		E-20-MW-42-0013	2,200,060	53,415	562,384	725,704	216,735	-
Subtotal - ALN 14.231						71,314	776,789	938,523	233,048	-
HOME Investment Partnership Program	D	14.239		M-16-MC-42-0204	761,698	-	116,060	116,060	-	-
HOME Investment Partnership Program	D	14.239		M-17-MC-42-0204	745,445	-	170,118	175,746	5,628	-
HOME Investment Partnership Program	D	14.239		M-19-MC-42-0204	937,491	-	-	493,003	493,003	-
HOME Investment Partnership Program	D	14.239		M-20-MC-42-0204	981,338	5,220	5,220	-	-	-
HOME Investment Partnership Program	D	14.239		M-21-MC-42-0204	988,013	15,404	15,404	-	-	-
HOME Investment Partnership Program	D	14.239		M-22-MC-42-0204	1,043,814	-	-	97,810	97,810	-
Subtotal - ALN 14.239						20,624	306,802	882,619	596,441	-
Fair Housing	D	14.401	10/01/12-09/30/13	FF-203-K-13-3012	65,058	(32,749)	-	-	(32,749)	-
Fair Housing	D	14.401	10/01/13-09/30/14	FF-203-K-14-3012	34,386	-	-	124	124	-
Fair Housing	D	14.401	10/01/14-09/30/15	FF-203-K-15-3012	33,800	(14,413)	-	-	(14,413)	-
Fair Housing	D	14.401	10/01/15-09/30/16	FF-203-K-16-3012	14,000	(13,828)	-	-	(13,828)	-
Subtotal - ALN 14.401						(60,990)	-	124	(60,866)	-
U.S. DEPARTMENT OF HOUSING, Office of Lead Hazard Control and Healthy Homes										
Lead-Based Paint Hazard Reduction Grant Program	D	14.900	11/01/21-04/30/25	PALHD0466-21	3,300,000	-	-	15,031	15,031	-
Passed through the Commonwealth of Pennsylvania Department of Health:										
Lead Hazard Control Program	I	14.900	07/01/21-06/30/23	4100090348	152,500	-	2,805	5,255	2,450	-
Subtotal - ALN 14.900						-	2,805	20,286	17,481	-
TOTAL U.S. DEPARTMENT OF HOUSING						(897,988)	3,268,181	7,078,209	(17,409)	-

See notes to schedule of expenditures of federal awards.

CITY OF READING
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

December 31, 2022

Federal Grantor/Pass Through Grantor/Program Title	Source Code	Assistance Listing Number (ALN)	Grant Period	Grant Contract	Total Award	Accrued (Unearned) 12/31/21	Amount Received	Revenue/ Expenditures	Accrued (Unearned) 12/31/22	Passed Through to Subrecipients
U.S. DEPARTMENT OF JUSTICE										
COVID-19 - Coronavirus Emergency Supplemental Funding Program	D	16.034	01/20/20-01/31/22	2020-VD-BX-0608	199,104	80,880	128,712	47,832	-	-
Edward Byrne Memorial Justice Assistance Program	D	16.738	10/01/18-09/30/22	2019-DJ-BX-0578	76,892	16,497	76,407	59,910	-	-
Edward Byrne Memorial Justice Assistance Program	D	16.738	10/01/19-09/30/23	2020-DJ-BX-0233	65,564	31,907	50,638	32,011	13,280	-
Edward Byrne Memorial Justice Assistance Program	D	16.738	10/01/20-09/30/24	15PBJA-21-GG-01781-JAGX	63,303	-	12,661	12,661	-	-
Subtotal - ALN 16.738						48,404	139,706	104,582	13,280	-
COPS Office COPS Hiring Program	D	16.710	07/01/20-06/30/23	2020UMWX0172	500,000	-	-	72,834	72,834	-
US Department of Justice - Drug Forfeiture	D	16.922	Unknown			10,407	26,095	-	(15,688)	-
DEA (DEA Admin reimbursement)	D	16.999	Unknown			2,422	6,847	4,425	-	-
CBP JOPREIM (US Treasury Dept Joint Ops Reimb)	D	16.999	Unknown			-	17,377	17,662	285	-
US Department of Justice - Joint Law Enforcement Operations	D	16.999	Unknown			-	4,212	6,067	1,855	-
US Department of Justice	D	16.999	Unknown			(2,800)	-	-	(2,800)	-
US Department of Justice - USMS	D	16.999	Unknown			-	9,845	9,845	-	-
Subtotal - ALN 16.999						(378)	38,281	37,999	(660)	-
TOTAL U.S. DEPARTMENT OF JUSTICE						139,313	332,794	263,247	69,766	-
U.S. EQUAL EMPLOYMENT OPPORTUNITY COMMISSION										
Equal Employment Opportunity Commission	D	30.001		EECCN110067	21,700	(11,822)	-	-	(11,822)	-
U.S. DEPARTMENT OF TRANSPORTATION										
Passed through the Commonwealth of Pennsylvania Department of Transportation:										
Highway Planning and Construction Cluster:										
Transportation Enhancement Funds	I	20.205		057342	8,021,601	148,527	1,610,363	2,247,484	785,648	-
Transportation Enhancement Funds	I	20.205		R18050013	910,099	-	682,997	777,006	94,009	-
Transportation Enhancement Funds	I	20.205		057087B	147,974	147,974	147,974	-	-	-
TOTAL HIGHWAY PLANNING AND CONSTRUCTION CLUSTER AND U.S. DEPARTMENT OF TRANSPORTATION						296,501	2,441,334	3,024,490	879,657	-
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES										
Community Programs to Improve Minority Health	D	93.137	07/01/21-06/30/23	1 CPIMP211290-01-00	3,999,382	39,788	792,261	1,344,631	592,158	506,580
Passed through Pennsylvania Department of Health and Pennsylvania Downtown Center:										
WalkWorks subaward	I	93.439	10/01/21-09/30/22	4100089047	20,000	-	20,000	20,000	-	-
TOTAL U.S. HEALTH AND HUMAN SERVICES						39,788	812,261	1,364,631	592,158	506,580
ENVIRONMENTAL PROTECTION AGENCY										
Passed through Pennsylvania Infrastructure Investment Authority										
Clean Water State Revolving Fund Cluster:										
Capitalization Grants for Clean Water State Revolving Funds	D	66.458	12/01/16-12/01/35	71419	108,161,309	1,514,059	449,521	159,791	1,224,329	-
Capitalization Grants for Clean Water State Revolving Funds	D	66.458	12/01/16-09/01/40	71420	40,747,008	1,185,821	-	-	1,185,821	-
TOTAL CLEAN WATER STATE REVOLVING FUND CLUSTER AND ENVIRONMENTAL PROTECTION AGENCY						2,699,880	449,521	159,791	2,410,150	-
U.S. DEPARTMENT OF THE TREASURY										
American Rescue Plan	D	21.027	03/03/21-12/31/24	none	61,134,970	(27,567,485)	30,567,485	8,934,914	(49,200,056)	-
TOTAL FEDERAL AWARDS						<u>\$ (25,301,813)</u>	<u>\$ 37,871,576</u>	<u>\$ 20,825,282</u>	<u>\$ (45,277,556)</u>	<u>\$ 506,580</u>

Source Codes - I = Indirect; D = Direct

* Corrections made to accrued (unearned) balances as of 12/31/2021.

See notes to schedule of expenditures of federal awards.

CITY OF READING

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

December 31, 2022

NOTE 1 - BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal awards activity of the City of Reading under programs of the federal government for the year ended December 31, 2022. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the City of Reading, it is not intended to and does not present the financial position, changes in net position, or cash flows of the City of Reading.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to the reimbursement. Negative amounts shown on the Schedule represent adjustment or credits made in the normal course of business amounts reported as expenditures in prior years.

NOTE 3 - DE MINIMIS RATE FOR INDIRECT COSTS

The City did not elect to use the de minimis rate for indirect costs.

NOTE 4 - LOAN/LOAN GUARANTEE PROGRAMS

As a Community Development Block Grant (CDBG) entitlement community, the City participates in the Department of Housing and Urban Development's Section 108 loan program. The City submits an application, often in conjunction with a third party who will ultimately receive the loan, to obtain a low interest loan. The proceeds from this loan must be used to meet one of the national objectives for the CDBG program and be allowable costs under the CDBG Program. The loans are secured through collateral of the third party as well as the pledging of future CDBG entitlement funds. As of December 31, 2022, the City had the following Section 108 loan activity:

Outstanding Loans At 12/31/2021	Proceeds	Payments	Outstanding Loans at 12/31/2022
\$ 3,029,449	\$ -	\$ (310,501)	\$ 2,718,948

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON
AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH GOVERNMENT AUDITING STANDARDS**

**Members of the Council
City of Reading, Pennsylvania
Reading, Pennsylvania**

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Reading, Pennsylvania, as of and for the year ended December 31, 2022, and the related notes to the financial statements, which collectively comprise the City of Reading, Pennsylvania's basic financial statements, and have issued our report thereon dated December 18, 2023. We did not audit the financial statements of the Reading Area Water Authority, a component unit of the City of Reading, Pennsylvania. Those statements were audited by other auditors whose report has been furnished to us. The financial statements of the Reading Area Water Authority were not audited in accordance with *Government Auditing Standards*.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City of Reading, Pennsylvania's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Reading, Pennsylvania's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Reading, Pennsylvania's internal control.

Our consideration of the internal control was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal controls that we consider to be a material weaknesses and significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as items 2022-001 and 2022-002 to be material weaknesses.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as items 2022-003 through 2022-005 to be significant deficiencies.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Reading, Pennsylvania's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

City of Reading, Pennsylvania's Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on the City of Reading, Pennsylvania's response to the findings identified in our audit and described in the accompanying schedule of findings and questioned costs. The City of Reading, Pennsylvania's response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Herbein + Company, Inc.

**Reading, Pennsylvania
December 18, 2023**

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON
INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE**

**Members of the Council
City of Reading, Pennsylvania
Reading, Pennsylvania**

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited the City of Reading, Pennsylvania's compliance with the types of compliance requirements identified as subject to audit in the *OMB Compliance Supplement* that could have a direct and material effect on each of the City of Reading, Pennsylvania's major federal programs for the year ended December 31, 2022. The City of Reading, Pennsylvania's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, the City of Reading, Pennsylvania complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2022.

Basis for Opinion on Each Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the City of Reading, Pennsylvania and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of the City of Reading, Pennsylvania's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to the City of Reading, Pennsylvania's federal programs.

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the City of Reading, Pennsylvania's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the City of Reading, Pennsylvania's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the City of Reading, Pennsylvania's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of the City of Reading, Pennsylvania's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of the City of Reading, Pennsylvania's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as items 2022-006 and 2022-007. Our opinion on each major federal program is not modified with respect to these matters.

Government Auditing Standards requires the auditor to perform limited procedures on the City of Reading, Pennsylvania's response to the noncompliance findings identified in our audit described in the accompanying schedule of findings and questioned costs. The City of Reading, Pennsylvania's response was not subjected to the other auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control Over Compliance

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, as discussed below, we did identify certain deficiencies in internal control over compliance that we consider to be significant deficiencies.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2022-006 and 2022-007 to be significant deficiencies.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

Government Auditing Standards requires the auditor to perform limited procedures on the City of Reading, Pennsylvania's response to the internal control over compliance findings identified in our audit described in the accompanying schedule of findings and questioned costs. The City of Reading, Pennsylvania's response was not subjected to the other auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Herbein + Company, Inc.

**Reading, Pennsylvania
December 18, 2023**

CITY OF READING

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

December 31, 2022

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

Material weakness(es) identified? X yes no

Significant deficiency(s) identified not considered to be material weaknesses? X yes none reported

Noncompliance material to financial statements noted? yes X no

Federal Awards

Internal Control over major programs:

Material weakness(es) identified? yes X no

Significant deficiency(s) identified not considered to be material weaknesses? X yes none reported

Type of auditor's report issued on compliance for major programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR Section 200.516(a)? X yes no

Identification of major programs:

<u>Assistance Listing Number(s)</u>	<u>Name of Federal Program or Cluster</u>
21.027	COVID-19 - Coronavirus State and Local Fiscal Recovery Funds
93.137	Community Programs to Improve Minority Health

Dollar threshold used to distinguish between Type A and Type B programs: \$ 750,000

Auditee qualified as low-risk auditee? yes X no

CITY OF READING

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

December 31, 2022

Section II - Financial Statement Findings

2022-001 MATERIAL ADJUSTMENTS POSTED AS A RESULT OF THE AUDIT - MATERIAL WEAKNESS

Criteria

AU-C Section 265 indicates that the "Identification by the auditor of a material misstatement of the financial statements under audit in circumstances that indicate that the misstatement would not have been detected and corrected by the entity's internal control" should be considered a material weakness in internal controls.

Condition

Material audit adjustments were proposed during the audit and recorded to properly reflect accounts within various funds. Specifically, there were three areas where material adjustments were required: (1) accurate accounts receivable accruals including grant activity, (2) proper reporting of self-insurance fund activity, and (3) accurate accounts payable accruals.

Cause

A lack of understanding the accrual process, as well as adjusting to the new accounting software allowed material misstatements to go undetected. Additionally, the City did not request certain reports from outside parties that are needed to reflect self insurance activity and balances.

Effect

Significant adjustments were posted at year end to bring numerous accounts into compliance with reporting under U.S. generally accepted accounting standards.

Recommendation

We recommend that the City continue developing standard operating procedures for the reporting of year-end accrual-related transactions. It is also important to develop the proper oversight and accountability for completing the tasks assigned. This includes the assignment of responsibility, as well as a review of documentation to ensure completion.

Management Response

See corrective action plan included in this report package.

CITY OF READING

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

December 31, 2022

Section II - Financial Statement Findings - continued

2022-002 BANK RECONCILIATIONS - MATERIAL WEAKNESS

Criteria

An important aspect of internal control is the timely and accurate reconciling of the cash accounts in all funds. Performing and reviewing these bank reconciliations is a key control in properly reporting activity and detecting potential material misstatements or misappropriation of assets.

Condition

During our audit procedures, several unusual reconciling items were noted on the community development fund bank reconciliation. There were multiple transactions that were reported as “deposit not reported in Munis”. Munis is the City’s financial software package. Additionally, the general disbursement account reconciliation contained a reconciling item for accounts payable batches from before year end noted “not recorded in Munis until after 1/1”. There was also no evidence of any review of the completed reconciliations.

Cause

A lack of understanding related to the reconciliation process, as well as adjusting to the new accounting software. There was also no formal review process in place for reconciling items to ensure unusual items on the reconciliations are followed up on timely.

Effect

A proposed audit adjustment in excess of \$600,000 was needed to properly reconcile the community development bank account and the related accounts receivable balance sheet account. The adjustment is material to the community development fund. Reclassification adjustments were proposed to properly report invoices paid before year end, which had still been shown as open accounts payable.

Recommendation

All bank reconciliations should be prepared timely and accurately with reconciling items vetted for their validity. Once completed, the reconciliations should be reviewed by an independent party.

Management Response

See corrective action plan included in this report package.

CITY OF READING

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

December 31, 2022

Section II - Financial Statement Findings - continued

2022-003 CASH DISBURSEMENT CONTROLS - SIGNIFICANT DEFICIENCY

Criteria

Establishment of proper cash disbursement controls are an integral part of the internal controls of an organization. The City's cash disbursement controls are designed to have at least one level of approval on all disbursements before they are issued.

Condition

In our sample of 40 disbursements for testing, 2 instances of refunds were included. These refunds did not contain the proper approvals before the disbursement was issued.

Cause

The process for issuing refunds in Munis was to use the "One Time Vendor" vendor profile within the system. Any user that has the ability to create a purchase order in the system is able to create a payment to the "One Time Vendor." There was no approval flow set up for this vendor after the payment was created and before payments were issued.

Effect

The 2 refunds selected from our sample were paid without any documented approval. This set-up also would allow any user authorized to create a purchase order to generate a payment request.

Recommendation

The City should continually evaluate the new accounting system for proper mapping and approvals. This process also includes monitoring the rights that users have for steps in the disbursement process.

Management Response

See corrective action plan included in this report package.

CITY OF READING

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

December 31, 2022

Section II - Financial Statement Findings - continued

2022-004 PAYROLL CONTROLS - SIGNIFICANT DEFICIENCY

Criteria

The establishment of internal control procedures over payroll is vital to ensure payroll is processed accurately and timely.

Condition

In our sample of 40 disbursements for testing, one individual was not paid the proper hourly overtime rate.

Cause

Currently, certain payroll rates are manually input into the payroll software. Without proper review, an incorrect rate was entered into the system.

Effect

The individual within our testing was paid at the incorrect rate for overtime hours worked. Although the deviation was not material, a larger incorrect rate could have led to a larger deviation.

Recommendation

The City should review the process for entering payroll rates and assigning responsibility for reviewing those rates to ensure their accuracy.

Management Response

See corrective action plan included in this report package.

CITY OF READING

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

December 31, 2022

Section II - Financial Statement Findings - continued

2022-005 PENSION REPORTING - SIGNIFICANT DEFICIENCY

Criteria

The City reports annual wages and employee contributions related to their active pension plans on Form AG-385 and submits the form to the Commonwealth of Pennsylvania. The form is used to assist in the calculation of the annual pension subsidy the City receives from the Commonwealth.

Condition

The information reported on the 2022 AG-385 report contained multiple errors. During audit testing, the following items were noted: (1) Kelly days were included as pensionable wages but shouldn't be; (2) Beeper pay was improperly included in wages for one employee; (3) overtime was improperly excluded for one employee; (4) one employee had contributions \$15 higher than they should have been; (5) one individual whose calculation was incorrect and could not be reconciled by management. It was also noted that the City had to file an amended report after it was noted that individuals in the defined contribution plan were included on the form when the plan was ineligible for aid.

Cause

Turnover in City personnel and not understanding how to report the newly created defined contribution plan led to these errors going undetected.

Effect

It is important that pensionable wages and related withholdings are properly calculated to be in compliance with the various collective bargaining agreements in place. Furthermore, failure to withhold proper amounts from employees could adversely impact the funded status of the plans.

Recommendation

We recommend a member of management continues to obtain the proper training to be able to assist in completing and reviewing Form AG-385 with the proper supporting documentation. This reporting is very complex in a larger municipality that includes multiple collective bargaining units as well as outsourced payroll processing. This is a critical function and the continued training of the staff is crucial with continuous changes in pension regulations.

Management Response

See corrective action plan included in this report package.

CITY OF READING

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

December 31, 2022

Section III - Federal Award Findings and Questioned Costs

2022-006 SUBRECIPIENT MONITORING - SIGNIFICANT DEFICIENCY

Federal Program

Community Programs to Improve Minority Health - 93.137, Contract 1 CPIMP211290-01-00

Criteria

Each entity that passes federal funds to a subrecipient must evaluate each subrecipient's risk of noncompliance for purposes of determining the appropriate subrecipient monitoring related to the subaward and monitor the activities of the subrecipient as necessary to ensure that the subaward is used for authorized purposes per 2 CFR, Section 200.332(d).

Condition

The City did not perform a risk assessment or any additional monitoring of subrecipients beyond reviewing requests for payment.

Cause

This is a new grant for the City in 2022 and there was turnover in the grant director position during the year.

Effect

If subrecipient monitoring procedures were performed, the City would be able to ensure that funds were used to carry out the subaward for the intended purpose.

Questioned Costs

None.

Context

The City was awarded a grant to be used for improving minority health. To carry out part of the grant programs, the City has contracted with subrecipients' organizations. The City has a process where all applications for reimbursement from the subrecipients is reviewed with proper documentation before approval for payment. The City does not perform a risk assessment of the subrecipient agencies nor any further monitoring such as site visits.

Repeat Finding

Yes.

Recommendation

We recommend that the City continue developing standard operating procedures for subrecipient monitoring of grant activities. This is especially important for grants handled outside the community development office.

Management Response

See corrective action plan included in this report package.

CITY OF READING

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

December 31, 2022

Section III - Federal Award Findings and Questioned Costs - continued

2022-007 REPORTING - SIGNIFICANT DEFICIENCY

Federal Program

COVID-19 - American Rescue Plan - State and Local Fiscal Recovery Funds - 21.027

Criteria

The City is required to submit project and expenditure reports quarterly to the Department of Treasury.

Condition

The reports filed by the City were unable to be tested as the backup was not available to verify the key line items noted in the Compliance Supplement.

Cause

The Director of Finance filed the reports as required with the assistance of a third-party consultant. When the reports were filed, no backup was maintained to support the reports.

Effect

Without the backup for the reports filed, the City was unable to support and verify key line items as required by the Compliance Supplement.

Questioned Costs

None.

Context

The City is required to submit project and expenditure reports to the Department of Treasury through their portal quarterly. Our testing noted that the reports were submitted in a timely fashion. The Director of Finance indicated that the reports are filed based on a general ledger report run at the time the report is completed. There was no backup or evidence maintained to support the reports that were run for the report filings. The lack of audit evidence did not allow us to complete the required testing.

Repeat Finding

No.

Recommendation

We recommend the City update its report filing procedures to include the saving or printing of backup documentation to support the amount reported. The report should also be reviewed by a separate individual than the one compiling the information.

Management Response

See corrective action plan included in this report package.



CITY OF READING, PENNSYLVANIA

815 WASHINGTON STREET
READING, PA 19601-3690

STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS

December 31, 2022

Section II - Financial Statement Findings

2021-001 ACCOUNT RECONCILIATIONS/MATERIAL ADJUSTMENTS POSTED AS A RESULT OF THE AUDIT - MATERIAL WEAKNESS

Criteria

AU-C Section 265 indicates that the "Identification by the auditor of a material misstatement of the financial statements under audit in circumstances that indicate that the misstatement would not have been detected and corrected by the entity's internal control" should be considered a material weakness in internal controls.

Condition

Material audit adjustments were proposed during the audit and recorded to properly reflect accounts within various funds. Specifically, there were three areas where material adjustments were required: (1) accurate accounts receivable accruals including grant activity, (2) proper reporting of self-insurance fund activity, and (3) accurate accounts payable accruals.

Recommendation

We recommend that the City continue developing standard operating procedures for the reporting of year-end accrual-related transactions. The City should also evaluate the training needs of staff within the department. It is also important to develop the proper oversight and accountability for completing the tasks assigned. This includes the assignment of responsibility, as well as a review of documentation to ensure completion.

Current Status of Corrective Action Plan

See current year finding 2022-001

CITY OF READING

STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS

December 31, 2022

Section III - Federal Award Findings and Questioned Costs

2021-002 SUBRECIPIENT MONITORING - SIGNIFICANT DEFICIENCY

Federal Program

Home Investment Partnership Program - 14.239, Contracts M-15-MC-42-0204, M-16-MC-42-0204, M-17-MC-42-0204, M-19-MC-42-0204, M-20-MC-42-0204, and M-21-MC-42-0204; Community Development Block Grant - Section 108 Loan Guarantee - 14.248.

Criteria

Each entity that passes federal funds to a subrecipient must evaluate each subrecipient's risk of noncompliance for purposes of determining the appropriate subrecipient monitoring related to the subaward and monitor the activities of the subrecipient as necessary to ensure that the subaward is used for authorized purposes per 2 CFR, Section 200.332(d). Additionally, regular monitoring of rental activities funded with Section 108 loans are required to be performed. For one of the outstanding Section 108 loans, this includes HOME program monitoring for the project that was funded.

Condition

The City did not perform a risk assessment or document subrecipient monitoring activities under the HOME program as required.

Context

The Section 108 continuing monitoring requirements relate to 4 outstanding Section 108 loans. The City properly monitored 3 of the 4 loans, which related to job creation, but failed to monitor 1 of the 4 loans related to the HOME monitoring program.

Recommendation

We recommend that the City continue developing standard operating procedures for subrecipient monitoring of grant activities. The City should also evaluate the training needs of staff within the department. It is also important to develop the proper oversight and accountability for completing the tasks assigned. This includes the assignment of responsibility, as well as a review of documentation to ensure completion.

Current Status of Corrective Action Plan

See current year finding 2022-006



CITY OF READING, PENNSYLVANIA

CORRECTIVE ACTION PLAN December 31, 2022

815 WASHINGTON STREET
READING, PA 19601-3690

The City of Reading respectfully submits the following corrective action plan for the year ended December 31, 2022.

Name and address of independent public accounting firm: Herbein + Company, Inc., 2763 Century Boulevard, Reading, PA 19610.

Audit period: December 31, 2022

Contact: Michael Oppenheimer, City Controller

The findings from the December 31, 2022 schedule of findings and questioned costs are discussed below. The findings are numbered consistently with the numbers assigned in the schedule.

Section II - Financial Statement Findings

2022-001 MATERIAL ADJUSTMENTS POSTED AS A RESULT OF THE AUDIT - MATERIAL WEAKNESS

Condition

Material audit adjustments were proposed during the audit and recorded to properly reflect accounts within various funds. Specifically, there were three areas where material adjustments were required: (1) accurate accounts receivable accruals including grant activity, (2) proper reporting of self-insurance fund activity, and (3) accurate accounts payable accruals.

Cause

Adjusting to the new accounting software and insufficient training provided to some employees and departments on the new software allowed material misstatements to go undetected. Additionally, the City did not timely request certain reports from outside parties that are needed to reflect self-insurance activity and balances.

Recommendation

We recommend that the City continue developing standard operating procedures for the reporting of year-end accrual-related transactions. It is also important to develop the proper oversight and accountability for completing the tasks assigned. This includes the assignment of responsibility, as well as a review of documentation to ensure completion.

Management Response

City management agrees with this finding. The City aims to develop internal policies and procedures with respect to recording accurate accounts receivable and accounts payable accruals for year end. Note, the City is already reasonably able to reconcile its grants each year, which is instrumental in identifying and recording necessary grant-related receivable and payable accruals before commencement of the annual audit. The Accounting Manager will review the self-insurance fund balances at least annually so as to better record certain transactions and reconcile material balances recorded in the fund more efficiently. The Accounting Manager ultimately oversees the City's accounting department. The Director of Finance will oversee the work of the Accounting Manager with respect to this audit finding. Note, the Accounting Manager position is vacant as of November 2023.

CITY OF READING

CORRECTIVE ACTION PLAN

December 31, 2022

Section II - Financial Statement Findings - continued

2022-002 BANK RECONCILIATIONS - MATERIAL WEAKNESS

Anticipated Completion Date - Ongoing

Condition

During our audit procedures, several unusual reconciling items were noted on the community development fund bank reconciliation. There were multiple transactions that were reported as “deposit not reported in Munis”. Additionally, the general disbursement account reconciliation contained a reconciling item for accounts payable batches from before year end noted “not recorded in Munis until after 1/1”. There was also no evidence of any review of the completed reconciliations.

Cause

A lack of understanding related to the reconciliation process, as well as adjusting to the new accounting software. There was also no formal review process in place for reconciling items to ensure unusual items on the reconciliations are followed up on timely.

Recommendation

All bank reconciliations should be prepared timely and accurately with reconciling items vetted for their validity. Once completed, the reconciliations should be reviewed by an independent party.

Management Response

City management agrees with this finding. As noted in the management response for Finding 2022-001, the Accounting Manager position is currently vacant but the City is hopeful to fill the position in the near future. Once the position is filled, this person will be tasked with reviewing all monthly bank reconciliations performed by the Accounting department and to not allow any such unusual reconciling items on the bank reconciliations. The Accounting Manager ultimately oversees the City’s accounting department. The Director of Finance will oversee the work of the Accounting Manager with respect to this audit finding.

Anticipated Completion Date - Late 2023/early 2024, depending on when vacancy can reasonably be filled.

2022-003 CASH DISBURSEMENT CONTROLS - SIGNIFICANT DEFICIENCY

Condition

In our sample of 40 disbursements for testing, 2 instances of refunds were included. These refunds did not contain the proper approvals before the disbursement was issued.

Cause

The process for issuing refunds in Munis was to use the “One Time Vendor” vendor profile within the system. Any user that has the ability to create a purchase order in the system is able to create a payment to the “One Time Vendor.” There was no approval flow set up for this vendor after the payment was created and before payments were issued.

CITY OF READING

CORRECTIVE ACTION PLAN

December 31, 2022

Section II - Financial Statement Findings - continued

2022-003 CASH DISBURSEMENT CONTROLS - SIGNIFICANT DEFICIENCY - CONTINUED

Recommendation

The City should continually evaluate the new accounting system for proper mapping and approvals. This process also includes monitoring the rights that users have for steps in the disbursement process.

Management Response

City management agrees with this finding. 2022 was the first full year the City's new financial software ('Munis') was live. The City contacted Munis support to better understand the options available to restricting access, they were both all or nothing. The City decided to go with the option to apply workflows for all invoices. Munis will send the user manual to advise how to configure the workflow setup for invoices by department, segment, and amount. This process distinction was not made clear, nor did it come up during the initial system configuration. Now that the deficiency has been identified, a solution will be instituted to remedy the learning curve as the City adjusts to this new financial system.

Anticipated Completion Date - December 2023

2022-004 PAYROLL CONTROLS - SIGNIFICANT DEFICIENCY

Condition

In our sample of 40 disbursements for testing, one individual was not paid the proper hourly overtime rate.

Cause

Currently, certain payroll rates are manually input into the payroll software. Without proper review, an incorrect rate was entered into the system.

Recommendation

The City should review the process for entering payroll rates and assigning responsibility for reviewing those rates to ensure their accuracy.

Management Response

City management agrees with this finding. The Compensation Administrator must manually enter overtime rates for certain classes of employees. Going forward, after the Compensation Administrator enters all applicable overtime rates into the system, the Human Resources Director, or their delegate, will review the data entry work of the Compensation Administrator. If there are any input errors, they will be brought to the attention of, and timely corrected by, the Compensation Administrator. This second level of review should ensure that all payroll rates are entered correctly.

Anticipated Completion Date - December 2023

CITY OF READING

CORRECTIVE ACTION PLAN

December 31, 2022

Section II - Financial Statement Findings - continued

2022-005 PENSION REPORTING - SIGNIFICANT DEFICIENCY

Condition

The information reported on the 2022 AG-385 report contained multiple errors. During audit testing, the following items were noted: (1) Kelly days were included as pensionable wages but shouldn't be; (2) Beeper pay was improperly included in wages for one employee; (3) overtime was improperly excluded for one employee; (4) one employee had contributions \$15 higher than they should have been; (5) one individual whose calculation was incorrect and could not be reconciled by management. It was also noted that the City had to file an amended report after it was noted that individuals in the defined contribution plan were included on the form when the plan was ineligible for aid.

Cause

Turnover in City personnel and not understanding how to report the newly created defined contribution plan led to these errors going undetected.

Recommendation

We recommend a member of management continues to obtain the proper training to be able to assist in completing and reviewing Form AG-385 with the proper supporting documentation. This reporting is very complex in a larger municipality that includes multiple collective bargaining units as well as outsourced payroll processing. This is a critical function and the continued training of the staff is crucial with continuous changes in pension regulations.

Management Response

City management agrees with this finding. The Pension Coordinator has been advised to seek out opportunities for training and learning about pensions and the laws associated with them. The Director of Finance will work with the Pension Coordinator to review the AG-385 form for accuracy.

Anticipated Completion Date - Ongoing

CITY OF READING

CORRECTIVE ACTION PLAN

December 31, 2022

Section III - Federal Award Findings and Questioned Costs

2022-006 SUBRECIPIENT MONITORING - SIGNIFICANT DEFICIENCY

Federal Program

Community Programs to Improve Minority Health - 93.137, Contract 1 CPIMP211290-01-00

Condition

The City did not perform a risk assessment or any additional monitoring of subrecipients beyond reviewing requests for payment.

Cause

This is a new grant for the City in 2022 and there was turnover in the grant director position during the year.

Recommendation

We recommend that the City continue developing standard operating procedures for subrecipient monitoring of grant activities. This is especially important for grants handled outside the community development office.

Management Response

City management agrees with this finding. We have an assessment tool from the ARPA Small business program that can be repurposed as a risk assessment for this program. Both the City's Director and employee assigned to this Federal award understand subrecipient monitoring is required for sub awardees. There are monthly subgrant reports and quarterly HUD reports to back up all the work being done under the grant. The Director of Finance will oversee the work of these two City employees.

Anticipated Completion Date - Ongoing

2022-007 REPORTING - SIGNIFICANT DEFICIENCY

Federal Program

COVID-19 - American Rescue Plan - State and Local Fiscal Recovery Funds - 21.027

Condition

The reports filed by the City were unable to be tested as the backup was not available to verify the key line items noted in the Compliance Supplement.

Cause

The Director of Finance filed the reports as required with the assistance of a third-party consultant. When the reports were filed, no backup was maintained to support the reports.

CITY OF READING

CORRECTIVE ACTION PLAN

December 31, 2022

Section III - Federal Award Findings and Questioned Costs - continued

2022-007 REPORTING - SIGNIFICANT DEFICIENCY - CONTINUED

Recommendation

We recommend the City update its report filing procedures to include the saving or printing of backup documentation to support the amount reported. The report should also be reviewed by a separate individual than the one compiling the information.

Management Response

City management agrees with this finding. Since we were made aware of the deficiency, the Director of Finance retains the supporting files which are saved in the ARPA folder on the City's shared drive.

Anticipated Completion Date - Ongoing

Sincerely,

Michael R. Oppenheimer

Michael R. Oppenheimer
City Controller
City of Reading