

CITY OF READING

FINANCIAL AND COMPLIANCE AUDIT REPORT

Year Ended December 31, 2015

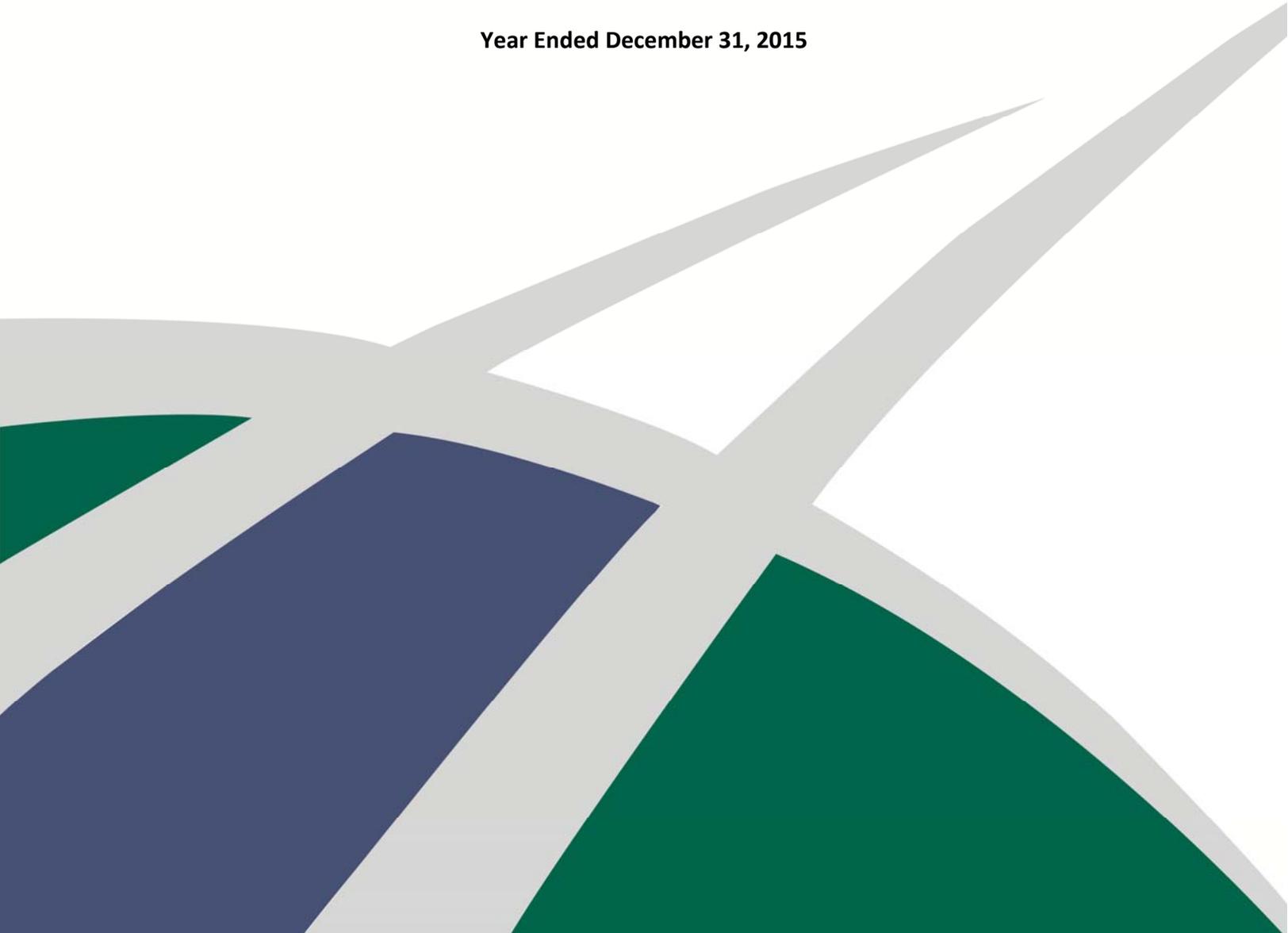


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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

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, 2015, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility 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; this includes 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.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Reading Area Water Authority and the Reading Redevelopment Authority. The Reading Area Water Authority represents 85 percent, 25 percent, and 98 percent, respectively, of the assets, net position, and revenues of the water fund. Those statements were audited by other auditors whose reports have been furnished to us and, our opinion, insofar as it relates to the amounts included for Reading Area Water Authority and the Reading Redevelopment Authority is based solely on the reports of the other auditors. 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. Those standards require that we plan and perform the audit to obtain a reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risks assessments, the auditor considers internal control relevant to the City's preparation and fair presentation of the financial statements 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's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, based on our audit and the report of the other auditors, 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, 2015, 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.

Change in Accounting Principle

As described in Note 1 to the financial statements, the City adopted Governmental Accounting Standards Board (GASB) Statement No. 68, "Accounting and Financial Reporting for Pensions," and GASB Statement No. 71, "Pension Transition for Contributions Made Subsequent to the Measurement Date," which requires the City to record its net pension liability and related items on the government-wide financial statements. Our opinion is not modified with respect to that matter.

Other Matters

Distressed City - Financial Recovery Plan

As more fully discussed in Note 2, the City is considered a distressed community under the provisions of the “Municipalities Financial Recovery Act” (Act 47) of the Commonwealth of Pennsylvania. Under the provisions of Act 47, the City adopted a financial recovery plan (Plan), which among other things, permits the City to increase certain tax rates and fees, levy new taxes, and requires reduction of certain spending levels. The Plan is intended to enable the City to maintain services at the current level. The implementation of the Plan is subject to periodic review by the Pennsylvania Department of Community and Economic Development.

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, pension and other postemployment benefit information on pages 88 through 93 be presented to supplement the basic financial statements. Such information, 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.

Other 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 revenue 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 and fiduciary funds financial statements, 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 (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a part of the basic financial statements.

The general fund budgetary basis schedules, the combining financial statements, and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such 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. In our opinion, based on our audit and the procedures performed as described above, the general fund budgetary basis schedules, the combining financial statements, 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 October 24, 2016, 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 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
October 24, 2016**

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the City of Reading (City), we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended December 31, 2015. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in the City's basic financial statements that immediately follow this section.

FINANCIAL HIGHLIGHTS

- The City's net position (assets plus deferred outflows of resources less liabilities and deferred inflows of resources) increased as a result of this year's operations. On a government-wide basis including all governmental activities and business-type activities (see descriptions which follow), but excluding component units of the Reading Redevelopment Authority (RRA) and the Reading Parking Authority (RPA), the liabilities and deferred inflows of resources of the City exceeded its assets and deferred outflows of resources resulting in total net position deficit at the close of the fiscal year of \$20.1 million. This represents an increase of 47.1% over last fiscal year's net position deficit, as restated for the change in pension liability reporting, of \$38.0 million.
- At the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$34.6 million. Approximately 84% of this total amount, \$21.5 million, is available for spending at the government's discretion (unassigned fund balance).
- In the City's business-type activities, revenues increased slightly, going from \$65.2 million to \$66.5 million 2.0% while expenses decreased, going from \$47.3 million to \$44.4 million (6.2%), excluding the indirect cost allocation. The increase in revenues is attributed to normal variances in the population of customers that utilize services. The decrease in expenses is attributed to cost decreases, most notably in the water fund.
- Actual general government expenses (Mayor, City Council, City Auditor, Managing Director, Administrative Services, and Law operating areas) in the General Fund totaled \$5.3 million in 2015, as compared with a budget of \$5.7 million; reflecting a 7% favorable budget variance.
- The general fund continued to report substantial improvement in the collection of Act 511 taxes due to the City. The City collected \$28.3 million in Act 511 taxes in 2015, as compared with \$27.0 million in 2014 and \$25.2 million in 2013.
- In the current year, the City implemented GASB Statement No. 68, "Accounting and Financial Reporting for Pensions," and Statement No. 71, "Pension Transition for Contributions Made Subsequent to the Measurement Date." These statements establish new financial reporting requirements for most governments that provide their employees with pension benefits. As a result of this implementation, the government-wide net position for governmental activities as of January 1, 2015 was restated with a decrease of \$125,326,163 to record the City's net pension liability.

The government-wide net position for business-type activities was restated with a total decrease of \$5,942,519 consisting of net position decreases of \$1,291,850 in the water fund; \$3,668,861 in the sewer fund; and \$981,808 in the trash/recycling (nonmajor enterprise) fund.

OVERVIEW OF THE FINANCIAL STATEMENTS

This Management's Discussion and Analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements are comprised of three components: government-wide financial statements, fund financial statements, and notes to the financial statements. This report also contains other supplementary information in addition to the financial statements.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The government-wide financial statements are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business. The Statement of Net Position presents information on all of the City's assets, deferred outflows of resources, liabilities, and deferred inflows of resources, with the difference between the three reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating. The Statement of Net Position combines and consolidates the governmental funds' current financial resources (short-term spendable resources) with capital assets and long-term obligations.

Other non-financial factors should also be taken into consideration, such as changes in the City's property tax base and the condition of the City's infrastructure (i.e. roads, drainage, improvements, water and sewer lines, etc.), to assess the overall health or financial condition of the City. The Statement of Activities presents information showing how the City's net position changed during the most recent fiscal year. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future periods (e.g., uncollected taxed and earned but not used sick leave at termination.) Both the Statement of Net Position and the Statement of Activities are prepared utilizing the accrual basis of accounting.

In the Statement of Net Position and the Statement of Activities, the City is divided into three kinds of activities:

- **Governmental Activities** – Most of the City's basic services are reported here, including general government, public safety, public works, culture and recreation, community development, and other expenses including interest payments on long-term debt.
- **Business-type Activities** – The City charges a fee to customers to help it cover all or most of the cost of certain services that it provides. The City's Water, Sewer, and Recycling/Trash activities are reported here.
- **Component Units** – The City includes two separate discretely presented component units in its report – the Reading Parking Authority and the Reading Redevelopment Authority. Although legally separate, these component units are important because the City is financially accountable for them. Separately-issued statements are available for both the component units.

REPORTING THE CITY'S MOST SIGNIFICANT FUNDS

FUND FINANCIAL STATEMENTS

The fund financial statements provide detailed information about the most significant funds – not the City as a whole. Some funds are required to be established by state law and by bond covenants. However, the City establishes many other funds to help it to control and manage money for particular purposes or to show that it is meeting legal responsibilities for certain taxes, grants and other money. The City's two funds – governmental and proprietary – utilize different accounting approaches.

Governmental Funds – The majority of the City's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using the modified accrual basis of accounting, which measures cash and all other financial assets that can readily be converted into cash. The governmental fund statements provide a detailed short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. By comparing information presented for governmental activities in the government-wide statements, readers may better understand the long-term effect of the government's near-term financing decisions.

The City maintains three (3) major governmental funds, including: the General Fund, Community Development Fund, and the Agency Fund. All other funds are combined in the Nonmajor Funds column.

Proprietary Funds – The City charges customers for the services it provides, whether to outside customers or to other units within the City. These services, also reported as business activities, are generally reported in proprietary funds. The proprietary funds are broken down into Water Fund, Sewer Fund, Internal Service Funds and Nonmajor Enterprise Funds (Recycling/Trash). The fund financial statements consist of the balance sheets and income statements for all of the above listed funds.

THE CITY AS TRUSTEE

REPORTING THE CITY'S FIDUCIARY RESPONSIBILITIES

The City is trustee, or fiduciary, for the retirement funds of its various employee units. All of the City's fiduciary activities are reported in separate Statements of Net Position – Fiduciary Funds and Changes in Net Position – Fiduciary Funds. The activities of these funds are excluded from the City's government-wide financial statements because the City cannot use these assets to finance its operations. The City is responsible for ensuring that the assets reported in these funds are used for their intended purpose.

NOTES TO THE BASIC FINANCIAL STATEMENTS

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the basic financial statements can be found immediately following the basic financial statements.

THE CITY AS A WHOLE – GOVERNMENT-WIDE FINANCIAL ANALYSIS

The City's combined net position deficit was \$20.1 million as of December 31, 2015. Analyzing the net position of governmental and business-type activities separately, the governmental activities reflect a structural deficit of - \$148.8 million and the business-type activities are \$128.7 million. The analysis focuses on the net position (Table 1) and changes in net position (Table 2) of the City's governmental and business-type activities.

The City's total assets reflect a relatively equal split between current assets (cash, investments, accounts receivable) and capital assets (e.g. land, buildings, machinery and equipment). With specific regard to the General Fund portion of current assets, the City's liquid assets (cash, investments) are approximately \$25.2 million. In light of the structural deficit, Management believes that it is important to maintain an adequate cash reserve/fund balance of not less than two months of ongoing governmental operations needs. Based on the results of the December 31, 2015 audit, this amount would be approximately \$14.1 million. Management will continue to review threshold levels as it begins to prepare for a refreshed Act 47 plan, which was approved in 2014.

TABLE 1
City of Reading, Pennsylvania
Net Position
(amounts expressed in thousands)

	Governmental Activities			Business-Type Activities			Total		
	2015	2014	% Change	2015	2014	% Change	2015	2014	% Change
Current & Other Assets	65,475	87,419	-25.1%	125,086	117,467	6.5%	190,561	204,886	-7.0%
Capital Assets	50,356	53,770	-6.3%	146,821	143,176	2.5%	197,177	196,946	0.1%
Total Assets	115,831	141,189	-18.0%	271,907	260,643	4.3%	387,738	401,832	-3.5%
Deferred Outflows of Resources	18,946	2,870	560.1%	2,708	56	4735.7%	21,654	2,926	640.1%
Current & Other Liabilities	16,754	18,953	-11.6%	7,862	10,234	-23.2%	24,616	29,187	-15.7%
Long-Term Liabilities	263,490	156,577	68.3%	137,713	125,771	9.5%	401,203	282,348	42.1%
Total Liabilities	280,244	175,530	59.7%	145,575	136,005	7.0%	425,819	311,535	36.7%
Deferred Inflows of Resources	3,298	-	-	370	-	-	3,668	-	-
Net Position:									
Net Investment in Capital Assets	-	-	0.0%	43,424	45,211	-4.0%	43,424	45,211	-4.0%
Restricted	4,587	4,151	10.5%	4,128	4,149	-0.5%	8,715	8,300	5.0%
Unrestricted	(153,352)	(35,622)	330.5%	81,118	75,334	7.7%	(72,234)	39,712	-281.9%
Total Net Position	(148,765)	(31,471)	372.7%	128,670	124,694	3.2%	(20,095)	93,223	-121.6%

GOVERNMENTAL ACTIVITIES

To aid in understanding of the Statement of Activities, some additional explanation is given. Of particular interest is the format that is significantly different than a Statement of Revenues, Expenses, and Changes in Fund Balance.

You will notice that expenses are listed in the first column with revenues from that particular program reported to the right. The result is a Net (Expense)/Revenue. The reason for this kind of format is to highlight the relative financial burden of each of the functions on the City's taxpayers. It also identifies how much each function draws from the general revenues or if it is self-financing through fees and grants.

Table 3 presents the cost of each of the City's seven programs – General Government, Public Safety, Highways and Streets, Public Works – Other, Community Development, Culture and Recreation, Other Governmental Expenses and Debt Service – as well as each program's net cost (total cost less revenues generated by the activities) and whether each program area results in a surplus or deficit to the City's governmental funds. The net cost shows the financial burden that was placed on the City's taxpayers by each of these functions. Of note, the City saw expense reductions in most operating areas, with exceptions being a large increase in community development costs.

TABLE 2
City of Reading, Pennsylvania
Changes in Net Position
(amounts expressed in thousands)

	Governmental Activities			Business-Type Activities			Total		
	2015	2014	% Change	2015	2014	% Change	2015	2014	% Change
Revenues:									
Program Revenues:									
Charges for services	14,382	13,700	5.0%	67,204	66,675	0.8%	81,586	80,375	1.5%
Operating Grants and Contributions	27,043	22,146	22.1%	685	99	591.9%	27,728	22,245	24.6%
General Revenues:									
Property Tax	22,220	21,874	1.6%	-	-	0.0%	22,220	21,874	1.6%
Act 511 Taxes	28,540	27,258	4.7%	-	-	0.0%	28,540	27,258	4.7%
Indirect Cost Allocation	1,951	1,798	8.5%	(1,951)	(1,798)	8.5%	-	-	0.0%
Other	3,894	2,312	68.4%	610	250	144.0%	4,504	2,562	75.8%
Total Revenues:	<u>98,030</u>	<u>89,088</u>	10.0%	<u>66,548</u>	<u>65,226</u>	2.0%	<u>164,578</u>	<u>154,314</u>	6.7%
Expenses									
General Government	6,202	6,669	-7.0%	-	-	0.0%	6,202	6,669	-7.0%
Public Safety	53,926	53,898	0.1%	-	-	0.0%	53,926	53,898	0.1%
Highway and Streets	2,313	2,374	-2.6%	-	-	0.0%	2,313	2,374	-2.6%
Public Works - Other	8,305	6,673	24.5%	-	-	0.0%	8,305	6,673	24.5%
Community Development	21,653	19,613	10.4%	-	-	0.0%	21,653	19,613	10.4%
Culture and Recreation	1,654	1,771	-6.6%	-	-	0.0%	1,654	1,771	-6.6%
Other	2,050	1,078	90.2%	-	-	0.0%	2,050	1,078	90.2%
Interest Expense	6,170	8,121	-24.0%	-	-	0.0%	6,170	8,121	-24.0%
Sewer	-	-	0.0%	17,199	17,540	-1.9%	17,199	17,540	-1.9%
Water	-	-	0.0%	21,945	24,515	-10.5%	21,945	24,515	-10.5%
Trash and Recycling	-	-	0.0%	5,210	5,223	-0.2%	5,210	5,223	-0.2%
Total Expenses	<u>102,273</u>	<u>100,197</u>	2.1%	<u>44,354</u>	<u>47,278</u>	-6.2%	<u>146,627</u>	<u>147,475</u>	-0.6%
Excess (deficiency) of revenues over expenses before capital contributions and transfers	(4,243)	(11,109)	-61.8%	22,194	17,948	23.7%	17,951	6,839	162.5%
Transfers	<u>12,275</u>	<u>8,170</u>	50.2%	<u>(12,275)</u>	<u>(8,170)</u>	50.2%	<u>-</u>	<u>-</u>	0.0%
Increase (decrease) in net position	8,032	(2,939)	-373.3%	9,919	9,778	1.4%	17,951	6,839	162.5%
Net position-Beginning of Year (restated)	<u>(156,797)</u>	<u>(28,532)</u>	449.5%	<u>118,751</u>	<u>114,916</u>	3.3%	<u>(38,046)</u>	<u>86,384</u>	-144.0%
Net position-End of Year	(148,765)	(31,471)	372.7%	128,670	124,694	3.2%	(20,095)	93,223	-121.6%

TABLE 3
City of Reading, Pennsylvania
Governmental Activities
(amounts expressed in thousands)

	Total Cost of Services		% Change	Net (Expense)/Revenue Generated		Surplus/Deficit
	2015	2014		2015	2014	
Expenses						
General Government	6,202	6,669	-7%	659	(2,410)	Surplus
Public Safety	53,926	53,898	0%	(43,807)	(44,529)	Deficit
Highway and Streets	2,313	2,374	-3%	(288)	(398)	Deficit
Public Works - Other	8,305	6,673	24%	(7,772)	(4,290)	Deficit
Community Development	21,653	19,613	10%	522	(1,337)	Surplus
Culture and Recreation	1,654	1,771	-7%	(374)	(589)	Deficit
Other	2,050	1,078	90%	(1,667)	(879)	Deficit
Debt Service	6,170	8,121	-24%	(6,170)	(8,121)	Deficit
Total Expenses	102,273	100,197	2%	(58,897)	(62,553)	

BUSINESS-TYPE ACTIVITIES

Revenues of the City's business-type activities (see Table 2) increased by 2.0% (\$66.5 million in 2015 compared to \$65.2 million in 2014). At the same time, expenses decreased by 6.2% (\$44.4 million in 2015 compared with \$47.3 million in 2014). Management has noted that the Trash and Recycling component has experienced a reversal of prior year trends, showing a surplus in the current year. However, the ongoing litigation of fees and the change in the contractual billing and collection agreement with the Reading Area Water Authority may result in a negative impact in the future.

TABLE 4
City of Reading, Pennsylvania
Business Activities
(amounts expressed in thousands)

	Total Cost of Services		% Change	Net (Expense)/Revenue Generated		Surplus/Deficit
	2015	2014		2015	2014	
Business Type Activities:						
Water	21,945	24,515	-10.5%	6,057	2,234	Surplus
Sewer	17,199	17,540	-1.9%	15,144	14,460	Surplus
Trash and Recycling	5,210	5,223	0%	382	1,003	Surplus
Total Expenses	44,354	47,278	-6%	21,583	17,697	

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets. The City's investment in capital assets as of December 31, 2015, amounted to \$197.2 million (net of accumulated depreciation). This investment, detailed in Table 5, is a broad range of capital assets including police and fire equipment, buildings, streets, water and sewer lines. This amount represents a net increase (including additions and deductions) of \$0.2 million or a 0% increase over the prior year.

TABLE 5
City of Reading, Pennsylvania
Capital Assets (net of depreciation)
(amounts expressed in thousands)

	Governmental Activities		% Change	Business - Type Activities		% Change	Total		% Change
	2015	2014		2015	2014		2015	2014	
Land	281	281	0%	2,104	2,104	0%	2,385	2,385	0%
Buildings	17,422	18,338	-5%	15,773	16,695	-6%	33,195	35,033	-5%
Machinery and Equipment	7,520	8,443	-11%	9,277	9,389	-1%	16,797	17,832	-6%
Improvements	24,002	25,416	-6%	80,739	66,787	21%	104,741	92,203	14%
Infrastructure	1,131	1,292	-12%	0	0	0%	1,131	1,292	-12%
Construction in Progress	0	0	0%	38,928	48,251	-19%	38,928	48,251	-19%
Total Net position	50,356	53,770	-6%	146,821	143,226	0%	197,177	196,996	0%

Additional information regarding the City's capital assets can be found in Note 7 of the basic financial statements.

Long-Term Liabilities. At the end of the current year, the City's total long-term liabilities are as follows:

	Government Activities	Business Activities
Bonds/Notes/Leases Payable, net	\$ 146,198,388	\$ 134,952,684
Net Pension Liability	105,082,975	6,647,229
Other Postemployment Benefits	18,465,505	633,286
Compensated Absences	792,848	-
	<u>\$ 270,539,716</u>	<u>\$ 142,233,199</u>

Bond Rating. The City's debt rating was Baa1 by Moody's as of December 31, 2015. Insurance has been purchased to guarantee repayment of certain of the City's indentures. Additional information regarding the City's long-term liabilities can be found in Notes 9, 10 and 11 of the basic financial statements.

ACT 47 STATUS

The City maintained its status within Act 47 for the fiscal year ending December 31, 2015. In partnership with the City's Act 47 coordinator, Public Financial Management (PFM), the City continued to take positive steps to reduce spending and improve revenues. However, the City still faces significant financial challenges which will force difficult choices to overcome long-term structural deficits.

Among the most pressing areas of concern are: 1) expected yearly increases in the City's Minimum Municipal Obligation, which totaled approximately \$14.5 million in 2015, 2) year-over-year increases in the cost of Public Safety operations, which totaled \$53.9 million in 2015, and 3) legal expenses related to ongoing litigation.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT TEAM

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 Glenn Steckman, Managing Director at (610) 655-6222, Josephina Encarnacion, Acting Director of Administrative Services at (610) 655-6227, or Donald Pottiger, Controller at (610) 655-2583. Written inquiries may be made to City of Reading, 815 Washington Street, Room 2-48, Reading, PA 19601.

CITY OF READING

STATEMENT OF NET POSITION

December 31, 2015

	Primary Government			Component Units	
	Governmental Activities	Business-type Activities	Total	Reading Parking Authority	Reading Redevelopment Authority
ASSETS					
Cash	\$ 23,402,387	\$ 48,005,055	\$ 71,407,442	\$ 3,040,840	\$ 698,317
Investments	14,575,590	41,618,783	56,194,373	-	-
Accounts receivable, net	3,342,520	8,787,652	12,130,172	264,560	3,146
Taxes receivable, net	2,838,690	-	2,838,690	-	-
Internal balances	1,005,043	(1,005,043)	-	-	-
Intergovernmental receivables	3,260,743	2,316,032	5,576,775	-	-
Inventory	-	215,376	215,376	-	2,131,509
Other current assets	-	137,811	137,811	178,489	-
Restricted cash and investments	-	23,989,566	23,989,566	5,397,318	28,891
Capital assets not being depreciated	280,960	41,031,397	41,312,357	2,462,356	-
Capital assets, net of accumulated depreciation	50,075,182	105,789,835	155,865,017	34,285,050	-
Other noncurrent assets:					
Lease rental receivable due within one year	167,000	-	167,000	-	-
Lease rental receivable	2,489,000	-	2,489,000	-	-
Notes receivable	14,394,276	-	14,394,276	-	-
Lease receivable	-	-	-	-	293,757
Leased land rights	-	1,020,000	1,020,000	-	-
TOTAL ASSETS	115,831,391	271,906,464	387,737,855	45,628,613	3,155,620
DEFERRED OUTFLOWS OF RESOURCES					
Deferred charge on bond refunding	7,590,217	1,500,668	9,090,885	1,761,749	-
Deferred outflows of resources for pension	11,355,719	1,207,758	12,563,477	-	-
TOTAL DEFERRED OUTFLOWS OF RESOURCES	18,945,936	2,708,426	21,654,362	1,761,749	-
LIABILITIES					
Accounts payable	6,298,000	2,332,650	8,630,650	238,975	8,597
Accrued interest	984,047	300,208	1,284,255	54,689	10,000
Unearned revenue	2,266,497	-	2,266,497	16,823	1,628
Other current liabilities	155,574	709,231	864,805	19,575	28,891
Noncurrent liabilities:					
Long-term debt due within one year	7,049,837	4,520,175	11,570,012	3,033,388	1,599,650
Notes and bonds payable, net	139,148,551	130,432,509	269,581,060	25,109,240	-
Other liabilities	-	-	-	70,032	-
Net pension liability	105,082,975	6,647,229	111,730,204	-	-
Other postemployment benefits	18,465,505	633,286	19,098,791	-	-
Compensated absences	792,848	-	792,848	-	-
TOTAL LIABILITIES	280,243,834	145,575,288	425,819,122	28,542,722	1,648,766
DEFERRED INFLOWS OF RESOURCES					
Deferred inflows of resources for pension	3,298,333	369,836	3,668,169	-	-
NET POSITION					
Net investment in capital assets	-	43,424,390	43,424,390	10,366,526	293,757
Restricted for:					
Community development	303,840	-	303,840	-	-
Donor or regulatory restricted	797,134	-	797,134	-	-
Shade tree	322,536	-	322,536	-	-
Liquid fuels	1,380,691	-	1,380,691	-	-
Capital projects	1,618,844	-	1,618,844	-	-
Debt service	163,693	4,127,420	4,291,113	5,397,318	-
Unrestricted (deficit)	(153,351,578)	81,117,956	(72,233,622)	3,083,796	1,213,097
TOTAL NET POSITION (DEFICIT)	\$ (148,764,840)	\$ 128,669,766	\$ (20,095,074)	\$ 18,847,640	\$ 1,506,854

See accompanying notes.

CITY OF READING
STATEMENT OF ACTIVITIES
Year Ended December 31, 2015

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	\$ 6,201,713	\$ (2,141,276)	\$ 4,367,871	\$ 351,676	\$ -	\$ 659,110	\$ -	\$ 659,110	\$ -	\$ -
Public safety:										
Police	35,723,781	-	2,078,077	2,727,106	-	(30,918,598)	-	(30,918,598)	-	-
Fire	14,123,281	-	207,013	1,761,488	-	(12,154,780)	-	(12,154,780)	-	-
Emergency medical services	4,078,625	-	3,117,868	226,989	-	(733,768)	-	(733,768)	-	-
Public works - highways and streets	2,313,728	-	263,462	1,762,523	-	(287,743)	-	(287,743)	-	-
Public works - other	8,304,771	-	147,946	384,423	-	(7,772,402)	-	(7,772,402)	-	-
Community development	21,652,948	189,996	3,780,874	18,584,072	-	522,002	-	522,002	-	-
Culture and recreation	1,653,738	-	419,471	860,535	-	(373,732)	-	(373,732)	-	-
Other (employee benefits, debt issuance costs)	2,050,617	-	-	383,740	-	(1,666,877)	-	(1,666,877)	-	-
Debt service - interest	6,170,054	-	-	-	-	(6,170,054)	-	(6,170,054)	-	-
Total governmental activities	102,273,256	(1,951,280)	14,382,582	27,042,552	-	(58,896,842)	-	(58,896,842)	-	-
Business-type activities:										
Water	21,945,565	169,230	28,171,401	-	-	-	6,056,606	6,056,606	-	-
Sewer	17,198,705	1,142,700	32,928,493	557,389	-	-	15,144,477	15,144,477	-	-
Trash and recycling	5,210,026	639,350	6,103,746	127,515	-	-	381,885	381,885	-	-
Total business-type activities	44,354,296	1,951,280	67,203,640	684,904	-	-	21,582,968	21,582,968	-	-
Total Primary Government	\$ 146,627,552	\$ -	\$ 81,586,222	\$ 27,727,456	\$ -	(58,896,842)	21,582,968	(37,313,874)	-	-
Component Units										
Reading Parking Authority	\$ 10,736,722	\$ -	\$ 7,595,267	\$ -	\$ -	-	-	-	(3,141,455)	-
Reading Redevelopment Authority	613,667	-	698,852	-	-	-	-	-	-	85,185
Total Component Units	\$ 11,350,389	\$ -	\$ 8,294,119	\$ -	\$ -	-	-	-	(3,141,455)	85,185
General Revenues										
Taxes:										
Property taxes						22,220,097	-	22,220,097	-	-
Earned income taxes						22,100,601	-	22,100,601	-	-
Franchise and other taxes						6,439,848	-	6,439,848	-	-
Grants and contributions not restricted to specific programs						3,878,556	-	3,878,556	-	-
Investment earnings						14,947	593,644	608,591	91,032	212
Miscellaneous income						-	16,849	16,849	394	-
Transfers - internal activities						12,275,000	(12,275,000)	-	-	-
Total General Revenues and Transfers						66,929,049	(11,664,507)	55,264,542	91,426	212
Change in Net Position						8,032,207	9,918,461	17,950,668	(3,050,029)	85,397
Net Position (Deficit) - Beginning of Year, as Restated						(156,797,047)	118,751,305	(38,045,742)	21,897,669	1,421,457
Net Position (Deficit) - End of year						\$ (148,764,840)	\$ 128,669,766	\$ (20,095,074)	\$ 18,847,640	\$ 1,506,854

See accompanying notes.

CITY OF READING
BALANCE SHEET - GOVERNMENTAL FUNDS

December 31, 2015

	General	Community Development	Agency Fund	Total Nonmajor Funds	Total Governmental Funds
ASSETS					
Cash	\$ 14,094,436	\$ 2,190,864	\$ 1,950,641	\$ 2,803,179	\$ 21,039,120
Investments	11,098,676	-	45,820	572	11,145,068
Accounts receivable	3,338,770	-	-	3,750	3,342,520
Taxes receivable, net	2,668,789	-	-	41,661	2,710,450
Interfund receivables	7,140,550	445,288	79,709	1,081,106	8,746,653
Intergovernmental receivable	71,877	443,977	2,744,889	-	3,260,743
Lease rental receivable	2,656,000	-	-	-	2,656,000
TOTAL ASSETS	\$ 41,069,098	\$ 3,080,129	\$ 4,821,059	\$ 3,930,268	\$ 52,900,554
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES					
LIABILITIES					
Accounts payable	\$ 1,441,290	\$ 107,585	\$ 2,086,626	\$ 277,805	\$ 3,913,306
Interfund payables	4,225,716	1,166,625	1,270,568	125,038	6,787,947
Unearned revenue	97,687	1,502,079	666,731	-	2,266,497
Other liabilities	155,574	-	-	-	155,574
TOTAL LIABILITIES	5,920,267	2,776,289	4,023,925	402,843	13,123,324
DEFERRED INFLOWS OF RESOURCES					
Unavailable revenue - property taxes	2,457,212	-	-	41,661	2,498,873
Unavailable revenue - lease rental receivable	2,656,000	-	-	-	2,656,000
TOTAL DEFERRED INFLOWS OF RESOURCES	5,113,212	-	-	41,661	5,154,873
FUND BALANCES					
Assigned for:					
2016 budget deficit	957,015	-	-	-	957,015
Other postemployment benefits	1,000,000	-	-	-	1,000,000
Payoff of GOB Series 2010 C	6,570,000	-	-	-	6,570,000
Restricted for:					
Community development	-	303,840	-	-	303,840
Donor or regulatory restricted	-	-	797,134	-	797,134
Shade tree	-	-	-	322,536	322,536
Liquid fuels	-	-	-	1,380,691	1,380,691
Capital projects	-	-	-	1,618,844	1,618,844
Debt service	-	-	-	163,693	163,693
Unassigned	21,508,604	-	-	-	21,508,604
TOTAL FUND BALANCES	30,035,619	303,840	797,134	3,485,764	34,622,357
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES	\$ 41,069,098	\$ 3,080,129	\$ 4,821,059	\$ 3,930,268	\$ 52,900,554

See accompanying notes.

CITY OF READING

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

December 31, 2015

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

TOTAL FUND BALANCES - GOVERNMENTAL FUNDS \$ 34,622,357

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 \$116,834,009 and the accumulated depreciation is \$66,477,867. 50,356,142

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. Included within the unavailable revenue is a short-term allowance for doubtful accounts of \$420,253. 2,919,126

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. 20,610,428

Establish allowance for doubtful accounts - property taxes receivable (\$292,013) and other long-term asset receivables (\$3,560,152). (3,852,165)

The net pension liability and other postemployment benefit liability are not reflected on the fund statements. (123,548,480)

Deferred outflows and inflows of resources for pensions are recorded and amortized in the statement of net position. 8,057,386

Internal service funds used by management 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 in the governmental activities on the statement of net position. 2,455,432

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 consists of:

Bonds/notes payable	\$ (147,048,336)	
Accrued interest	(984,047)	
Unamortized bond discount	1,053,650	
Unamortized bond premium	(203,702)	
Deferred charge on bond refunding	7,590,217	
Compensated absences	(792,848)	(140,385,066)

TOTAL NET POSITION (DEFICIT) - GOVERNMENTAL ACTIVITIES \$ (148,764,840)

CITY OF READING

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

Year Ended December 31, 2015

	General	Community Development	Agency Fund	Total Nonmajor Funds	Total Governmental Funds
REVENUES					
Real estate taxes	\$ 21,878,131	\$ -	\$ -	\$ 281,642	\$ 22,159,773
Earned income taxes	22,100,601	-	-	-	22,100,601
Other taxes	6,202,845	-	-	-	6,202,845
Licenses, permits, and fines	6,135,367	-	-	-	6,135,367
Intergovernmental	6,643,040	6,239,917	12,968,294	1,665,473	27,516,724
Charges for services	7,072,896	1,161,858	-	-	8,234,754
Interest and rent	1,674,553	100	237,574	188	1,912,415
Other	6,430,864	-	-	5,105	6,435,969
TOTAL REVENUES	78,138,297	7,401,875	13,205,868	1,952,408	100,698,448
EXPENDITURES					
Current:					
General government	5,276,949	-	13,626	-	5,290,575
Public safety:					
Police	32,059,502	-	389,099	-	32,448,601
Fire	12,832,914	-	999,583	-	13,832,497
Emergency medical services	4,002,093	-	-	-	4,002,093
Public works - highways and streets	940,321	-	-	1,130,239	2,070,560
Public works - other	8,186,426	-	156,453	-	8,342,879
Community development	4,216,899	7,651,006	11,548,366	-	23,416,271
Culture and recreation	866,047	-	-	236,136	1,102,183
Other (employee benefits, debt issuance costs)	4,472,208	-	-	-	4,472,208
Debt service - principal	6,491,041	-	-	-	6,491,041
Debt service - interest	5,466,453	-	-	-	5,466,453
TOTAL EXPENDITURES	84,810,853	7,651,006	13,107,127	1,366,375	106,935,361
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(6,672,556)	(249,131)	98,741	586,033	(6,236,913)
OTHER FINANCING SOURCES (USES)					
Issuance of refunding bonds	58,788,000	-	-	-	58,788,000
Bond premium on refunding bonds issued	208,990	-	-	-	208,990
Bond discount on refunding bonds issued	(316,756)	-	-	-	(316,756)
Issuance of equipment note	228,786	-	-	-	228,786
Payment to escrow agent for bonds refunded	(57,637,063)	-	-	-	(57,637,063)
Transfers in	12,275,000	-	-	-	12,275,000
TOTAL OTHER FINANCING SOURCES (USES)	13,546,957	-	-	-	13,546,957
NET CHANGE IN FUND BALANCES	6,874,401	(249,131)	98,741	586,033	7,310,044
FUND BALANCES - BEGINNING OF YEAR	23,161,218	552,971	698,393	2,899,731	27,312,313
FUND BALANCES - END OF YEAR	\$ 30,035,619	\$ 303,840	\$ 797,134	\$ 3,485,764	\$ 34,622,357

See accompanying notes.

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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, 2015

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

NET CHANGE IN FUND BALANCES - GOVERNMENTAL FUNDS		\$ 7,310,044
<p>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.</p>		
Capital outlays	\$ 586,404	
Less: depreciation expense	<u>(4,000,233)</u>	(3,413,829)
<p>Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.</p>		
		1,114,604
<p>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.</p>		
Issuance of refunding bonds	(58,788,000)	
Issuance of equipment note	(228,786)	
Bond discount on refunding bonds issued	316,756	
Bond premium on refunding bonds issued	(208,990)	
Amortization of bond discount	(70,007)	
Amortization of bond premium	8,289	
Amortization of deferred charge on bond refunding	(707,637)	
Payment of bond/note principal	7,184,952	
Payment to escrow agent for bonds refunded	<u>57,637,063</u>	5,143,640
<p>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.</p>		
		65,754
<p>In the statement of activities, certain operating expenses - compensated absences (vacations and sick days) are measured by the amounts earned during the year.</p>		
		73,423
<p>Internal service funds are used by management to charge the cost of insurance bond related claims to individual funds. Net revenues over expenditures were allocated back equitably to governmental activities.</p>		
		188,378
<p>The change in other postemployment benefits does not consume current resources and, therefore, is not reflected on the fund statements.</p>		
		(2,265,573)
<p>The change in the net pension liability and related deferred outflows and inflows of resources are reflected as an adjustment to expense on the statement of activities, but not included in the fund statements.</p>		
		<u>(184,234)</u>
CHANGE IN NET POSITION (DEFICIT) OF GOVERNMENTAL ACTIVITIES		<u><u>\$ 8,032,207</u></u>

CITY OF READING

STATEMENT OF NET POSITION
PROPRIETARY FUNDS

Year Ended December 31, 2015

	Business-Type Activities				Governmental
	Water Fund	Sewer Fund	Nonmajor Enterprise Fund	Total Enterprise Funds	Internal Service Funds
ASSETS					
Current assets					
Cash	\$ 14,691,208	\$ 31,463,575	\$ 1,850,272	\$ 48,005,055	\$ 2,363,267
Investments	115,262	41,503,521	-	41,618,783	3,430,522
Accounts receivable, net of allowance of \$4,546,364	5,437,195	3,330,141	20,316	8,787,652	-
Interfund receivables	1,863,917	3,521,658	341,172	5,726,747	120,000
Intergovernmental receivables	-	2,316,032	-	2,316,032	-
Inventory	215,376	-	-	215,376	-
Prepaid expenses	137,811	-	-	137,811	-
Total current assets	<u>22,460,769</u>	<u>82,134,927</u>	<u>2,211,760</u>	<u>106,807,456</u>	<u>5,913,789</u>
Restricted assets					
Cash and investments	23,989,566	-	-	23,989,566	-
Noncurrent assets					
Capital assets not being depreciated:					
Land	2,059,359	44,300	-	2,103,659	-
Construction in progress	4,284,146	34,643,592	-	38,927,738	-
Capital assets being depreciated:					
Buildings	7,789,674	38,240,779	-	46,030,453	-
Improvements	87,628,886	46,315,138	17,523	133,961,547	-
Machinery and equipment	17,488,681	10,916,627	536,193	28,941,501	-
Less: accumulated depreciation	(54,275,321)	(48,410,347)	(457,998)	(103,143,666)	-
Total capital assets, net	<u>64,975,425</u>	<u>81,750,089</u>	<u>95,718</u>	<u>146,821,232</u>	<u>-</u>
Leased land rights	1,020,000	-	-	1,020,000	-
Total noncurrent assets	<u>65,995,425</u>	<u>81,750,089</u>	<u>95,718</u>	<u>147,841,232</u>	<u>-</u>
TOTAL ASSETS	<u>112,445,760</u>	<u>163,885,016</u>	<u>2,307,478</u>	<u>278,638,254</u>	<u>5,913,789</u>
DEFERRED OUTFLOWS OF RESOURCES					
Deferred charge on bond refunding	1,500,668	-	-	1,500,668	-
Deferred outflows of resources for pension	232,491	812,186	163,081	1,207,758	-
TOTAL DEFERRED OUTFLOWS OF RESOURCES	<u>1,733,159</u>	<u>812,186</u>	<u>163,081</u>	<u>2,708,426</u>	<u>-</u>

See accompanying notes.

	Business-Type Activities				Governmental
	Water Fund	Sewer Fund	Nonmajor Enterprise Fund	Total Enterprise Funds	Internal Service Funds
LIABILITIES					
Current liabilities					
Accounts payable	810,078	1,236,524	286,048	2,332,650	113,827
Interfund payables	4,522,946	598,528	1,610,316	6,731,790	1,073,663
Accrued interest	300,208	-	-	300,208	-
Accrued payroll and compensated absences	567,245	-	-	567,245	-
Accrued claims	-	-	-	-	2,270,867
Escrow deposits	141,986	-	-	141,986	-
Current portion notes and bonds payable	3,116,600	1,403,575	-	4,520,175	-
Total current liabilities	9,459,063	3,238,627	1,896,364	14,594,054	3,458,357
Noncurrent liabilities					
Notes and bonds payable, net	93,414,667	37,017,842	-	130,432,509	-
Net pension liability	1,420,348	4,204,231	1,022,650	6,647,229	-
Other postemployment benefits	174,067	400,431	58,788	633,286	-
Total noncurrent liabilities	95,009,082	41,622,504	1,081,438	137,713,024	-
TOTAL LIABILITIES	104,468,145	44,861,131	2,977,802	152,307,078	3,458,357
DEFERRED INFLOWS OF RESOURCES					
Deferred inflows of resources for pension	71,113	210,494	88,229	369,836	-
NET POSITION					
Net investment in capital assets	-	43,328,672	95,718	43,424,390	-
Restricted for debt service	4,127,420	-	-	4,127,420	-
Unrestricted net position (deficit)	5,512,241	76,296,905	(691,190)	81,117,956	2,455,432
TOTAL NET POSITION (DEFICIT)	\$ 9,639,661	\$ 119,625,577	\$ (595,472)	\$ 128,669,766	\$ 2,455,432

CITY OF READING

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

Year Ended December 31, 2015

	Business-Type Activities				Governmental
	Water Fund	Sewer Fund	Nonmajor Enterprise Fund	Total Enterprise Funds	Internal Service Funds
OPERATING REVENUES					
Charges for services	\$ 27,671,117	\$ 32,928,493	\$ 6,341,082	\$ 66,940,692	\$ 3,047,756
Other	500,284	-	72	500,356	27,021
TOTAL OPERATING REVENUES	28,171,401	32,928,493	6,341,154	67,441,048	3,074,777
OPERATING EXPENSES					
Personnel	5,864,161	6,349,784	1,269,073	13,483,018	85,248
Depreciation	3,677,713	2,623,047	45,575	6,346,335	-
Risk management	42,203	493,205	96,850	632,258	-
Contracted services	1,482,298	667,842	2,762,705	4,912,845	-
Chemicals and supplies	1,516,325	576,419	-	2,092,744	-
Utilities	671,628	1,083,595	-	1,755,223	-
Claims incurred	-	-	-	-	1,450,805
Administrative expenses	-	-	-	-	1,355,314
Other	4,383,109	4,650,047	1,425,173	10,458,329	-
TOTAL OPERATING EXPENSES	17,637,437	16,443,939	5,599,376	39,680,752	2,891,367
OPERATING INCOME (LOSS)	10,533,964	16,484,554	741,778	27,760,296	183,410
NONOPERATING REVENUES (EXPENSES)					
Intergovernmental revenue	-	557,389	127,515	684,904	-
Interest income	557,305	36,339	-	593,644	4,968
Interest expense	(4,400,918)	(1,897,466)	-	(6,298,384)	-
Gain (loss) on sale of trash and recycling accounts receivable	237,408	-	(237,408)	-	-
Settlement expense	-	-	(250,000)	(250,000)	-
Other	(313,848)	16,849	-	(296,999)	-
TOTAL NONOPERATING REVENUES (EXPENSES)	(3,920,053)	(1,286,889)	(359,893)	(5,566,835)	4,968
INCOME (LOSS) BEFORE TRANSFERS	6,613,911	15,197,665	381,885	22,193,461	188,378
Transfers out	(9,275,000)	(3,000,000)	-	(12,275,000)	-
CHANGE IN NET POSITION	(2,661,089)	12,197,665	381,885	9,918,461	188,378
NET POSITION (DEFICIT) - BEGINNING OF YEAR AS RESTATED	12,300,750	107,427,912	(977,357)	118,751,305	2,267,054
NET POSITION (DEFICIT) - END OF YEAR	\$ 9,639,661	\$ 119,625,577	\$ (595,472)	\$ 128,669,766	\$ 2,455,432

CITY OF READING

STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS

Year Ended December 31, 2015

	Business-Type Activities			Total Enterprise Funds	Governmental
	Water Fund	Sewer Fund	Nonmajor Enterprise Fund		Internal Service Fund
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts from customers	\$ 28,121,493	\$ 33,495,787	\$ 6,695,822	\$ 68,313,102	\$ 27,021
Receipts from interfund charges for risk management services	-	-	-	-	3,047,756
Payments to employees	(5,897,041)	(6,382,672)	(1,296,714)	(13,576,427)	(85,248)
Payments to suppliers for goods and services	(10,172,658)	(7,336,486)	(4,239,808)	(21,748,952)	(3,697,791)
NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES	12,051,794	19,776,629	1,159,300	32,987,723	(708,262)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES					
Nonoperating revenues/expenses, net	(15,888)	16,849	-	961	-
Gain (loss) on sale of receivables	237,408	-	(237,408)	-	-
Grants	-	557,389	127,515	684,904	-
Settlement expense	-	-	(250,000)	(250,000)	-
Transfers out	(9,275,000)	(3,000,000)	-	(12,275,000)	-
NET CASH PROVIDED BY (USED FOR) NONCAPITAL FINANCING ACTIVITIES	(9,053,480)	(2,425,762)	(359,893)	(11,839,135)	-
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Advances on PennVest loan, net	-	6,748,745	-	6,748,745	-
Decrease in restricted assets, net	5,462,171	-	-	5,462,171	-
Acquisition and construction of capital assets	(3,613,280)	(6,292,729)	(35,949)	(9,941,958)	-
Interest paid	(3,363,882)	(1,871,832)	-	(5,235,714)	-
Issuance of refunding bonds, net	24,832,040	-	-	24,832,040	-
Premium on refunding bonds issued	2,318,963	-	-	2,318,963	-
Payments to escrow agent, refunding bonds	(27,138,072)	-	-	(27,138,072)	-
Principal payments of notes and bonds	(3,110,269)	(1,327,238)	-	(4,437,507)	-
NET CASH PROVIDED BY (USED FOR) CAPITAL AND RELATED FINANCING ACTIVITIES	(4,612,329)	(2,743,054)	(35,949)	(7,391,332)	-
CASH FLOWS FROM INVESTING ACTIVITIES					
Interest earnings	557,305	36,339	-	593,644	4,968
Net (purchase) redemption of investments	(230)	(22,634,377)	-	(22,634,607)	(4,216)
NET CASH PROVIDED BY (USED FOR) INVESTING ACTIVITIES	557,075	(22,598,038)	-	(22,040,963)	752
NET INCREASE (DECREASE) IN CASH	(1,056,940)	(7,990,225)	763,458	(8,283,707)	(707,510)
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	15,748,148	39,453,800	1,086,814	56,288,762	3,070,777
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 14,691,208	\$ 31,463,575	\$ 1,850,272	\$ 48,005,055	\$ 2,363,267

See accompanying notes.

CITY OF READING

STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS - CONTINUED

Year Ended December 31, 2015

	Business-Type Activities				Governmental
	Water Fund	Sewer Fund	Nonmajor Enterprise Fund	Total Enterprise Funds	Internal Service Fund
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES					
Operating income (loss)	\$ 10,533,964	\$ 16,484,554	\$ 741,778	\$ 27,760,296	\$ 183,410
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:					
Depreciation expense	3,677,713	2,623,047	45,575	6,346,335	-
Net (increase) decrease in assets:					
Accounts receivable	(131,029)	567,294	338,260	774,525	-
Interfund receivables	(371,064)	435,425	62,172	126,533	-
Intergovernmental receivables	-	(41,542)	-	(41,542)	-
Other receivables	81,121	-	-	81,121	-
Inventory	(16,163)	-	-	(16,163)	-
Prepaid expenses	78,982	-	-	78,982	-
Net (increase) decrease in deferred outflows of resources:					
Deferred pension expense	(232,491)	(812,186)	(163,081)	(1,207,758)	-
Net increase (decrease) in liabilities:					
Accounts payable	(2,070,455)	(299,701)	(11,270)	(2,381,426)	24,873
Accrued payroll and compensated absences	70,802	-	-	70,802	-
Interfund payables	230,803	40,440	10,426	281,669	(76,823)
Net pension liability	128,498	535,370	40,842	704,710	-
Other postemployment benefits	-	33,434	6,369	39,803	-
Accrued claims	-	-	-	-	(839,722)
Net increase (decrease) in deferred inflows of resources:					
Deferred pension expense	71,113	210,494	88,229	369,836	-
NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES	<u>\$ 12,051,794</u>	<u>\$ 19,776,629</u>	<u>\$ 1,159,300</u>	<u>\$ 32,987,723</u>	<u>\$ (708,262)</u>

CITY OF READING

STATEMENT OF NET POSITION - FIDUCIARY FUNDS - TRUST FUNDS

December 31, 2015

	<u>Pension Trust Funds</u>
ASSETS	
Cash	\$ 4,485,322
Investments	<u>186,647,276</u>
TOTAL ASSETS	191,132,598
LIABILITIES	
Accounts payable	179,768
Other current liabilities	<u>22,848</u>
TOTAL LIABILITIES	<u>202,616</u>
NET POSITION HELD IN TRUST FOR PENSION BENEFITS	<u><u>\$ 190,929,982</u></u>

CITY OF READING

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

Year Ended December 31, 2015

	<u>Pension Trust Funds</u>
ADDITIONS	
Contributions:	
Employer (including state aid)	\$ 14,535,151
Employees	1,620,849
Investment income:	
Interest and dividends	2,905,897
Net appreciation/(depreciation) in fair value of investments	(3,710,786)
Other	103,161
	<u>103,161</u>
TOTAL ADDITIONS	15,454,272
DEDUCTIONS	
Benefits, including tax withheld	21,535,613
Administrative expenses	1,063,219
Refunds paid	213,520
	<u>213,520</u>
TOTAL DEDUCTIONS	22,812,352
CHANGE IN NET POSITION	(7,358,080)
NET POSITION HELD IN TRUST FOR PENSION BENEFITS - BEGINNING OF YEAR	<u>198,288,062</u>
NET POSITION HELD IN TRUST FOR PENSION BENEFITS - END OF YEAR	<u><u>\$ 190,929,982</u></u>

CITY OF READING

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2015

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 all 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 financial statements and the accompanying notes.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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. The criteria used by the City for inclusion are financial accountability and the nature and significance of the relationships. In determining financial accountability in a given case, the City reviews the applicability of the following criteria. The City is financially accountable for:

- Organizations that make up the legal City entity.
- Legally separate organizations if City officials appoint a voting majority of the organizations' governing body and the City is able to impose its will on the organization, or if there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the City as defined below.

Impose its will - If the City can significantly influence the programs, projects or activities of, or the level of services performed or provided by, the organization.

Financial benefit or burden - exists if the City (1) is entitled to the organization's resources; (2) is legally obligated or has otherwise assumed the obligation to finance the deficits of, or provide support to, the organization; or (3) is obligated in some manner for the debt of the organization.

- Organizations that are fiscally dependent on the City. Fiscal dependency is established if the organization is unable to adopt its budget, levy taxes, set rates or charges, or issue bonded debt without approval by the City.

CITY OF READING

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

A. Reporting Entity - continued

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.

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. 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 enterprise funds 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 City has agreed to guarantee all of the existing revenue bonds of the Authority. 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. The City is presently financing operations of the Redevelopment Authority. The Authority publishes a separate financial statement.

CITY OF READING

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

A. Reporting Entity - continued

3. 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 insure compliance with various rules and regulations. The City has no financial accountability over the Authority's operations.

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

School Board and Other Entities

The reporting entity excludes the Reading School District and Reading Area Community College (RACC), both of which operate within the City's geographic boundaries. The School District is a governmental unit with its own elected governing body, and RACC is governed by a board of trustees whose members are appointed by the County of Berks.

4. 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

The amounts the City appropriated to these organizations during the year ended December 31, 2015 were immaterial to the basic financial statements taken as a whole.

CITY OF READING

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2015

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 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.

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 columns on the fund financial statements

CITY OF READING

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

C. Basis of Presentation - Fund Financial Statements - continued

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.

Agency Fund: These special revenue funds are established for the purpose of accumulating special purpose grants and other resources for purposes (other than for community development of capital projects) that are restricted to expenditures for specified purposes as imposed by outside parties.

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, 2015.

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.

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).

Debt Service Fund: This fund is established for the purpose of accumulating resources for the payment of interest and principal on long-term general obligation debt other than those payable from Enterprise Funds.

CITY OF READING

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

C. Basis of Presentation - Fund Financial Statements - continued

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 sewer services to City residents.

The City has the Following Nonmajor Enterprise Fund:

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

These 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.

Additionally, the City Reports the Following Fund Types:

Internal Service Fund: Internal Service Fund (Self-Insurance) is 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.

Pension Trust Funds: These 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).

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.

CITY OF READING

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

C. Basis of Presentation - Fund Financial Statements - continued

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.

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

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 and acquisitions under capital leases are reported as other financing sources.

CITY OF READING

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

D. Measurement Focus and Basis of Accounting - continued

Property taxes, sales taxes, franchise taxes, licenses, and interest 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 (within 60 days of year end). All other revenue items are considered to be measurable and available only when cash is received by the City.

The proprietary and pension trust funds are reported using the *economic resources measurement focus* and the *accrual basis of accounting*.

E. Assets, Liabilities, Deferred Inflows/Outflows of Resources, and Net Position/Fund Balance

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. Exceptions include the three pension funds which classify cash as cash equivalents in order to appropriately report investment activity.

2. Investments

For funds other than Pension Trust Funds, state law 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 State also imposes limitations with respect to the amount of investments in certificates of deposit to the extent that such deposits may not exceed 20 percent of a bank's total capital surplus or 20 percent of a savings and loan association's or savings bank's net assets.

The City may also invest in shares of registered investment companies, provided that investments of such companies are in authorized investments as noted above.

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 10 for further discussion of the City's investment policy related to the Pension Trust Funds.

CITY OF READING

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

E. Assets, Liabilities, Deferred Inflows/Outflows of Resources, and Net Position/Fund Balance - continued

2. Investments - continued

Temporary cash investments and investments for all funds, except the Pension Trust Funds, are stated at market value. Investments of the Pension Trust Funds are stated at fair value, in accordance with the provisions of Statement 67 of the Governmental Accounting Standards Board.

3. Receivables/Payables

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."

4. Inventories and Prepaid Items

Inventories are valued at cost using the first-in/first-out (FIFO) method and consist of expendable supplies and vehicle repair parts. The cost of such inventories is recorded as expenditures/expenses when consumed rather than when purchased. Inventories also consist of property held by the Component Unit (Reading Redevelopment Authority) that will be used for future land development and is held for rental purposes.

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 costs of prepaid items is recorded as expenditures/expenses when consumed rather than when purchased.

5. Capital Assets, Depreciation, and Amortization

The City's property, plant, 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. In the case of the initial capitalization of general infrastructure assets (i.e., those reported by governmental activities), the government chose to include all such items regardless of their acquisition date or amount. The government was able to estimate the historical cost for the initial reporting of these assets through backtrending (i.e., estimating the current replacement cost of the infrastructure to be capitalized and using an appropriate price-level index to deflate the cost to the acquisition year or estimated acquisition year). 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. In the case of donations, the government values these capital assets at the estimated fair value of the item at the date of its donation.

CITY OF READING

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

E. Assets, Liabilities, Deferred Inflows/Outflows of Resources, and Net Position/Fund Balance - continued

5. Capital Assets, Depreciation, and Amortization - continued

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. Capital assets, including those of component units, are depreciated using the straight-line method. When capital assets are disposed, the cost and applicable accumulated depreciation are removed from the respective accounts, and the resulting gain or loss is recorded in operations.

Land and construction in progress are not depreciated. Building improvements, machinery and equipment, and infrastructure are depreciated using the straight-line method as follows:

<u>Assets</u>	<u>Years</u>
Buildings	10 - 40
Improvements	5 - 75
Machinery and equipment	3 - 25
Infrastructure	30 - 50

Interest costs incurred during the construction phase of capital assets are capitalized when incurred by proprietary funds and similar component units on debt where proceeds were used to finance the construction of assets. Interest earned on proceeds of tax-exempt borrowing arrangements restricted to the acquisition of qualifying assets is offset against interest costs in determining the amount to be capitalized.

CITY OF READING

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

E. Assets, Liabilities, Deferred Inflows/Outflows of Resources, and Net Position/Fund Balance - continued

6. 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 two types of items that qualify for reporting in this category, which are a deferred charge on bond refunding and deferred pension expense, both reported in the government-wide statement of net position as well as the proprietary fund statements. The first item, 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. The second item, deferred pension expense, relates to the City's net pension liability and pension expense and arises 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 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.

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 two types of items that qualify for reporting this category, which are unavailable revenue and deferred pension expense. The first item, unavailable revenue, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenue from property taxes and lease rental receivable. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available. The second item, deferred pension expense, relates to the City's net pension liability and pension expense and arises 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.

CITY OF READING

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

E. Assets, Liabilities, Deferred Inflows/Outflows of Resources, and Net Position/Fund Balance - continued

7. Unearned Revenues

Revenues that are received but not earned are reported as unearned revenues in the government-wide, governmental funds, and enterprise funds 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. Net Position

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. 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.

9. 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).

CITY OF READING

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

E. Assets, Liabilities, Deferred Inflows/Outflows of Resources, and Net Position/Fund Balance - continued

9. Fund Balance Policies and Flow Assumptions - continued

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.

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. 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 a reserve containing a minimum of two months of regular general fund operating expenditures. Should the level of the reserve fall below the value of two months of regular general fund operating expenditures, non-recurring revenues and budget surpluses should replenish reserve levels to the above minimum level.

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.

CITY OF READING

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

F. Revenues and Expenditures/Expenses

1. Program Revenues

Amounts reported as *program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions (including special assessments) that are restricted to meeting the operations or capital requirements of a particular function or segment. All taxes, including those dedicated for specific purposes, and other internally dedicated resources are reported as general revenues rather than as program revenues.

2. Indirect Costs, Central Government Services

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.

3. Compensated Absences

The City allows employees to accumulate sick leave based on contractual agreements. Police accumulate a maximum of 30 days; firemen accumulate a maximum of 105 days; nonuniformed employees accumulate a maximum of 45 days of sick leave. Upon termination, police are paid their accumulated sick leave at their hourly rate. Firemen and nonuniformed employees, upon retirement only, are paid at the rate of \$30 per day and \$20 per day, respectively, for accumulated sick leave. Earned vacation time is generally required to be used within one year of accrual. Additionally, all employees are permitted to accrue compensatory time, paid at their standard hourly rate upon termination.

4. Proprietary Funds Operating and Nonoperating Revenues and Expenses

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, trash and recycling fund, and internal service funds are charges to customers for sales and services. 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.

CITY OF READING

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

G. Other 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.

H. Adoption of Accounting Pronouncements

The requirements of the following GASB Statements were adopted for the City's 2015 financial statements:

GASB Statement No. 68, "Accounting and Financial Reporting for Pensions," and Statement No. 71, "Pension Transition for Contributions Made Subsequent to the Measurement Date." These statements establish new financial reporting requirements for most governments that provide their employees with pension benefits (see Note 10). As a result of this implementation, the government-wide net position for governmental activities as of January 1, 2015 was restated with a decrease of \$125,326,163 to record the City's net pension liability.

The government-wide net position for business-type activities was restated with a total decrease of \$5,942,519 consisting of net position decreases of \$1,291,850 in the water fund; \$3,668,861 in the sewer fund; and \$981,808 in the trash/recycling (nonmajor enterprise) fund. See the table below:

	Net Position (Deficit)		
	December 31, 2014	Restatement	January 1, 2015
	Ending		Restated
Governmental Activities	\$ (31,470,884)	\$ (125,326,163)	\$ (156,797,047)
Business-Type Activities:			
Water Fund	13,592,600	(1,291,850)	12,300,750
Sewer Fund	111,096,773	(3,668,861)	107,427,912
Trash/Recycling Fund	4,451	(981,808)	(977,357)
Total	\$ 93,222,940	\$ (131,268,682)	\$ (38,045,742)

CITY OF READING

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2015

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, 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 administrative services 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.

Within 31 days subsequent to the legal adoption of the budget, the administrative services director files a copy of the budget with the Department of Community and Economic Development of the Commonwealth of Pennsylvania. 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 and general agency fund, which are both 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.

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, 2015

NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY - CONTINUED

Deficit Fund Balance or Net Position of Individual Funds

Deficit Net Position - Trash and Recycling Fund

For the year ended December 31, 2015, the implementation of GASB No. 68, *Accounting and Financial Reporting for Pensions* created a deficiency in net position at year end of \$595,472 in the trash and recycling fund. The City will fund this deficit in future years through contributions to the pension plans as calculated by the minimum municipal obligation.

Excess of Expenditures over Appropriations

No individual fund, which had a legally adopted budget, had an excess of expenditures over appropriations.

Net Position Deficit and Liquidity

As of December 31, 2015, the City, in its statement of net position, shows a total net deficit of \$148,764,840 for governmental activities, due largely to the implementation of GASB No. 68, *Accounting and Financial Reporting for Pensions*. Additionally, a structural imbalance has been growing over years as a result of demographic shifts of residents and businesses, nonprofit legislation and a stagnant taxation authority for the City which has led to this deficit. The largest components of the unrestricted deficit, besides the net pension liability, 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 \$11,957,494, 11.2 percent of its total expenditures, and the City used 23.7 percent 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 the Commonwealth of Pennsylvania. The Act 47 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 status through 2019. During 2015, the City continued efforts to control costs, improve collections, and maintain solvency. The cash balance available for general operations of the City as of December 31, 2015 was \$25,193,112. This was sufficient to maintain normal functions of the City until tax revenues were received. Currently, the Act 47 coordinators will provide continued oversight to ensure compliance with the operating budget and the approved plan.

CITY OF READING

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2015

NOTE 3 - CASH AND INVESTMENTS

The carrying amount of cash, restricted cash, and investments at December 31, 2015 consist of the following:

	Primary Government	Blended Component Unit	Total
Petty cash	\$ 3,675	\$ 550	\$ 4,225
Demand deposit accounts	61,513,020	14,517,505	76,030,525
Pooled cash and investments	11,877,549	-	11,877,549
Investments	230,964,100	23,847,580	254,811,680
			\$ 342,723,979
Classification per statement of net position and trust statements:			
Unrestricted cash			\$ 71,407,442
Investments			56,194,373
Restricted cash			141,986
Restricted investments			23,847,580
Trust cash			4,485,322
Trust investments			186,647,276
			\$ 342,723,979

Custodial Credit Risk - Deposit

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, 2015, the carrying amount of the City's deposits was \$76,030,525 and the bank balance was \$79,003,979. Of the balance, \$1,023,567 was covered by federal depository insurance and \$77,980,412 was exposed to custodial credit risk, but covered by the collateralization requirements in accordance with Act 72.

A portion of the City's deposits are in the Pennsylvania School District Liquid Asset Fund (PSDLAF) and the Pennsylvania Local Government Investment Trust (PLGIT). Although not registered with the Securities and Exchange Commission and not subject to regulatory oversight, the funds act like money market mutual funds in that their objectives are to maintain a stable net asset value of \$1 per share, are rated by a nationally recognized statistical rating organization, and are subject to an independent annual audit. The carrying amount and bank balance amount was \$11,877,549.

CITY OF READING

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2015

NOTE 3 - CASH AND INVESTMENTS - CONTINUED

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 Pennsylvania State Legislature, 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.

Investments

As of December 31, 2015, the City had the following nonpension investments:

Investment Type	Fair Market Value	Investment Maturities from December 31, 2015 0-5 Years
Federal Treasury Obligation Funds	\$ 22,627,963	\$ 22,627,963
Federal National Mortgage Association Notes	1,219,617	1,219,617
US Treasury Bonds	27,641	27,641
Other Government Issues	249,350	249,350
	24,124,571	\$ 24,124,571
Money Market Funds	2,602,576	
Certificates of Deposits	41,437,257	
	\$ 68,164,404	

CITY OF READING

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2015

NOTE 3 - CASH AND INVESTMENTS - CONTINUED

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.

Credit Risk

The City does have an investment policy that would limit its investment choices to certain credit ratings. As of December 31, 2015, the City's investments were rated as:

<u>Investments</u>	<u>Standard & Poor's (Moody's & Fitch)</u>
Federal Treasury Obligation Funds	AAA
Federal National Mortgage Association Notes	AAA
US Treasury Notes	AAA
US Treasury Bonds	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. At December 31, 2015, the City's investments consisted of 33 percent of Federal Treasury Obligation Funds and 61 percent of certificates of deposit.

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. The City's \$41,437,257 of certificates of deposit are fully covered by federal depository insurance. There are no other funds exposed to custodial credit risk.

Pension Trust Fund

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, 2015

NOTE 3 - CASH AND INVESTMENTS - CONTINUED

As of December 31, 2015, the City had the following cash and investments in its pension trust funds:

<u>Police</u>	Fair Market Value
<u>Cash or Investment Type</u>	<u>Market Value</u>
Cash and cash equivalents	\$ 2,668,647
Fixed income mutual funds	31,152,388
Equity mutual funds	45,193,323
Other assets	5,209,053
Total Cash and Investments	\$ 84,223,411
<u>Paid Firemen</u>	Fair Market Value
<u>Cash or Investment Type</u>	<u>Market Value</u>
Cash and cash equivalents	\$ 1,116,062
Equity mutual funds	30,889,044
Equity - common stock	1,750,568
Fixed income mutual funds	18,273,723
Short-term investments	1,033,395
Due to brokers	(1,729)
Total Cash and Investments	\$ 53,061,063
<u>Officers & Employees</u>	Fair Market Value
<u>Cash or Investment Type</u>	<u>Market Value</u>
Cash and cash equivalents	\$ 948,556
Short-term investments	45,902
Fixed funds	16,669,765
Equity funds	36,183,901
Total Cash and Investments	\$ 53,848,124

CITY OF READING

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2015

NOTE 3 - CASH AND INVESTMENTS - 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, 2015, 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 five percent of any of the pension plan net assets available for benefits at December 31, 2015. 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)

Cash is carried at cost and investments are carried at market. Cash and investments consist of the following at December 31, 2015:

Unrestricted	
Deposits	\$ 2,015,891
Investments	1,006,521
Petty cash	18,428
	<u>\$ 3,040,840</u>
Restricted	
Deposits	\$ 1,097
Money market funds	2,038,239
Investments	3,357,982
	<u>\$ 5,397,318</u>

CITY OF READING

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2015

NOTE 3 - CASH AND INVESTMENTS - CONTINUED

Custodial Credit Risk

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, 2015, the carrying amount of the Authority's deposits was \$2,016,988 and the bank balance was \$2,046,714. As of December 31, 2015, \$260,826 was covered by federal depository insurance and the rest was exposed to custodial credit risk, but covered by collateralization requirements in accordance with Act 72.

Investments

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.

As of December 31, 2015, the Authority had the following investments:

	<u>Maturities</u>	<u>Fair Value</u>
Bank Certificates of Deposit (8 < \$250,000)	2 months - 2 years	\$ 1,006,521
U.S. Government Issues		
Resolution FDG Corp Fed 0% Cpn Strips	4 months - 5 years	708,936
U.S. Treasury Bond	5 years	<u>2,649,046</u>
		<u>\$ 4,364,503</u>

Investments classified as U.S. Government Issues are securities of the U.S. government that have an implied but not explicit guarantee.

The Authority also has funds invested in First American Government Obligation Fund Class A money market funds. These funds are reported at amortized cost. For the year ended December 31, 2015, the Authority's total investment in these funds was \$2,038,239.

CITY OF READING

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2015

NOTE 3 - CASH AND INVESTMENTS - CONTINUED

Interest Rate Risk

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

Credit Risk

The Authority does not have an investment policy that would limit its investment choices to certain credit ratings. As of December 31, 2015, the Authority's investments were all rated as AAA by a nationally recognized rating organization. Certificates of deposit held were covered 100 percent under federal depository insurance.

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, 2015, 60.7 percent of the Authority's investments are in U.S. Treasury Bonds.

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, 2015 was \$638,136 and the bank balance was \$653,886. 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 of \$257,103 included in the above total. 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.

Custodial Credit Risk

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, 2015, all of the bank balances were covered by federal depository insurance.

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, 2015

NOTE 4 - RECEIVABLES, UNCOLLECTIBLE ACCOUNTS, AND UNAVAILABLE REVENUE

Government Fund Receivables, Uncollectible Accounts, and Unavailable Revenue

Accounts Receivable

	General Fund	Nonmajor Fund (Shade Tree)	Total Governmental Funds
Grants and accounts receivable	\$ 3,338,770	\$ 3,750	\$ 3,342,520
Less allowance	-	-	-
Accounts receivable	\$ 3,338,770	\$ 3,750	\$ 3,342,520

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 2015 assessed value of real property totaled \$1,413,699,300. These taxes are billed and collected by the County of Berks. Taxes paid through April 30 are given a two percent discount. Amounts paid after June 30 are assessed a 10 percent 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, 2015 were 91.5 percent of the tax levy.

For 2015, City real estate taxes were levied at 15.689 mills; 15.489 mills for general purposes and .2 mills for shade tree activity.

The City's real estate taxes at December 31, 2015 are as follows:

	Governmental Funds			Governmental Activities			
	Taxes Receivable, Net	Allowance for Uncollectible Taxes	Gross Taxes Receivable	Allowance for Uncollectible Taxes	Net Estimated to be Collectible	Tax Revenue Recognized	Unavailable Revenue
General Fund	\$ 2,668,789	\$ 420,253	\$ 3,089,042	\$ 289,069	\$ 2,799,973	\$ 342,761	\$ 2,457,212
Shade Tree Fund	41,661	-	41,661	2,944	38,717	(2,944)	41,661
Total	\$ 2,710,450	\$ 420,253	\$ 3,130,703	\$ 292,013	\$ 2,838,690	\$ 339,817	\$ 2,498,873

CITY OF READING

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2015

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

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 more than 60 to 90 days depending on the fund. Related amounts are shown in the following table:

	Major Enterprise		Nonmajor Enterprise	Total Primary Government	Component Units	
	Water	Sewer			Reading Parking Authority	Reading Redevelopment Authority
	<u>Water</u>	<u>Sewer</u>			<u>Authority</u>	<u>Authority</u>
Accounts receivable, gross	\$ 7,045,684	\$ 4,586,380	\$ 1,701,952	\$ 13,334,016	\$ 264,560	\$ 3,146
Less: allowance for uncollectible accounts	<u>(1,608,489)</u>	<u>(1,256,239)</u>	<u>(1,681,636)</u>	<u>(4,546,364)</u>	-	-
Net accounts receivable	<u>\$ 5,437,195</u>	<u>\$ 3,330,141</u>	<u>\$ 20,316</u>	<u>\$ 8,787,652</u>	<u>\$ 264,560</u>	<u>\$ 3,146</u>

Included in the Water Fund accounts receivable is \$1,075,561 of unbilled water usage as of December 31, 2015.

NOTE 5 - RESTRICTED ASSETS - LIMITED AS TO USE

Pursuant to an Indenture of Trust agreed to by the Redevelopment Fund, blended and discretely presented component units, or by law, the following restricted cash and investments are held at December 31, 2015:

	Primary Government		Component Units	
	Reading Area Water Authority	Total	Reading Parking Authority	Reading Redevelopment Authority
	<u>Authority</u>	<u>Total</u>	<u>Authority</u>	<u>Authority</u>
Construction account	\$ 16,336,018	\$ 16,336,018	\$ 1,097	\$ -
Debt service account	101,741	101,741	-	-
Debt service reserve account	7,386,954	7,386,954	5,396,212	-
Clearing account	22,867	22,867	9	-
Other	141,986	141,986	-	28,891
Total	<u>\$ 23,989,566</u>	<u>\$ 23,989,566</u>	<u>\$ 5,397,318</u>	<u>\$ 28,891</u>

CITY OF READING

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2015

NOTE 6 - FUTURE LEASE RENTALS RECEIVABLE

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 \$300,000 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. In the current year, the City received lease payments totaling \$300,000 of which \$159,000 was used to reduce the lease rentals receivable account and also to reduce the outstanding principal obligation on the General Obligation Note Series B of 2012. Future lease rental receivables total \$2,656,000 at December 31, 2015.

NOTE 7 - CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2015 was as follows:

	Beginning Balance	Increase	Decrease	Reclassifi- cation	Ending Balance
Governmental Activities					
Capital assets not being depreciated:					
Land	\$ 280,960	\$ -	\$ -	\$ -	\$ 280,960
TOTAL CAPITAL ASSETS NOT BEING DEPRECIATED	280,960	-	-	-	280,960
Capital assets being depreciated:					
Buildings	38,044,632	-	-	-	38,044,632
Improvements	32,888,546	-	-	-	32,888,546
Machinery and equipment	39,976,069	586,404	-	-	40,562,473
Infrastructure	5,057,398	-	-	-	5,057,398
Totals at historical cost	115,966,645	586,404	-	-	116,553,049
Less accumulated depreciation for:					
Buildings	19,707,134	916,236	-	-	20,623,370
Improvements	7,472,505	1,414,459	-	-	8,886,964
Machinery and equipment	31,533,420	1,508,508	-	-	33,041,928
Infrastructure	3,764,575	161,030	-	-	3,925,605
Total accumulated depreciation	62,477,634	4,000,233	-	-	66,477,867
TOTAL CAPITAL ASSETS BEING DEPRECIATED, NET	53,489,011	(3,413,829)	-	-	50,075,182
GOVERNMENTAL ACTIVITIES CAPITAL ASSETS, NET	<u>\$ 53,769,971</u>	<u>\$ (3,413,829)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 50,356,142</u>

CITY OF READING

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2015

NOTE 7 - CAPITAL ASSETS - CONTINUED

Business-Type Activities	Beginning Balance	Increase	Decrease	Reclassifi- cation	Ending Balance
Capital assets not being depreciated:					
Land	\$ 2,103,659	\$ -	\$ -	\$ -	\$ 2,103,659
Construction in progress	48,250,905	8,378,686	-	(17,701,853)	38,927,738
TOTAL CAPITAL ASSETS NOT BEING DEPRECIATED	50,354,564	8,378,686	-	(17,701,853)	41,031,397
Capital assets being depreciated:					
Buildings	46,030,453	-	-	-	46,030,453
Improvements	116,117,193	142,501	-	17,701,853	133,961,547
Machinery and equipment	27,520,730	1,420,771	-	-	28,941,501
Totals at historical cost	189,668,376	1,563,272	-	17,701,853	208,933,501
Less accumulated depreciation for:					
Buildings	29,335,383	921,464	-	-	30,256,847
Improvements	49,329,734	3,893,056	-	-	53,222,790
Machinery and equipment	18,132,214	1,531,815	-	-	19,664,029
Total accumulated depreciation	96,797,331	6,346,335	-	-	103,143,666
TOTAL CAPITAL ASSETS BEING DEPRECIATED, NET	92,871,045	(4,783,063)	-	17,701,853	105,789,835
BUSINESS-TYPE ACTIVITIES, CAPITAL ASSETS, NET	<u>\$ 143,225,609</u>	<u>\$ 3,595,623</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 146,821,232</u>

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

<u>Governmental Activities</u>		<u>Business-type Activities</u>	
General government	\$ 1,794,986	Water system	\$ 3,677,713
Public safety:		Sewer system	2,623,047
Police	326,161	Recycling	45,575
Fire	450,414		
Public works - highway and streets	104,039		<u>\$ 6,346,335</u>
Community development	744,213		
Culture and recreation	580,420		
	<u>\$ 4,000,233</u>		

CITY OF READING

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2015

NOTE 7 - CAPITAL ASSETS - CONTINUED

	Beginning Balance	Increase	Decrease	Reclassifi- cation	Ending Balance
Component Unit - Reading					
Parking Authority					
Capital assets not being depreciated:					
Land	\$ 2,462,356	\$ -	\$ -	\$ -	\$ 2,462,356
Construction in progress	29,364	-	-	(29,364)	-
TOTAL CAPITAL ASSETS NOT BEING DEPRECIATED	2,491,720	-	-	(29,364)	2,462,356
Capital assets being depreciated:					
Buildings	59,303,874	34,132	-	-	59,338,006
Improvements	52,962	-	-	-	52,962
Machinery and equipment	1,834,338	113,254	-	29,364	1,976,956
Totals at historical cost	61,191,174	147,386	-	29,364	61,367,924
Less accumulated depreciation for:					
Buildings	24,139,974	1,411,418	-	-	25,551,392
Improvements	52,162	457	-	-	52,619
Machinery and equipment	1,358,997	119,866	-	-	1,478,863
Total accumulated depreciation	25,551,133	1,531,741	-	-	27,082,874
TOTAL CAPITAL ASSETS BEING DEPRECIATED, NET	35,640,041	(1,384,355)	-	29,364	34,285,050
COMPONENT UNIT, CAPITAL ASSETS, NET	<u>\$ 38,131,761</u>	<u>\$ (1,384,355)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 36,747,406</u>

CITY OF READING

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2015

NOTE 8 - INTERFUND RECEIVABLES AND PAYABLES AND TRANSFERS

The City had interfund receivables and payables balances for the following accounts at December 31, 2015:

	Interfund Receivables	Interfund Payables
Governmental Activities		
Major Funds:		
General	\$ 7,140,550	\$ 4,225,716
Community Development	445,288	1,166,625
Agency Fund	79,709	1,270,568
Nonmajor Governmental Funds	1,081,106	125,038
Business-Type Activities		
Major Funds:		
Water	1,863,917	4,522,946
Sewer	3,521,658	598,528
Nonmajor Proprietary Fund	341,172	1,610,316
	14,473,400	13,519,737
Internal Service	120,000	1,073,663
	\$ 14,593,400	\$ 14,593,400

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.

The City had transfers in and out for the following amounts at December 31, 2015:

	Transfers In	Transfers Out
Governmental Activities		
General	\$ 12,275,000	\$ -
Business-Type Activities		
Water	-	9,275,000
Sewer	-	3,000,000
	\$ 12,275,000	\$ 12,275,000

Transfers and payments within the reporting entity are for the purpose of subsidizing operating functions and maintaining debt service on a routine basis.

CITY OF READING

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2015

NOTE 9 - LIABILITIES

Governmental Activities <u>Bonds Payable and Other Long-Term Liabilities</u>	Balance at Beginning of Year	Additions	Reductions	Balance at End of Year	Due Within One Year
Federally Taxable General Obligation Bonds, Series of 2006, with 4.85% - 5.42% interest payable through 2031. Proceeds of the notes were used to fund the City's unfunded pension fund actuarial accrued liabilities. A portion of the bonds were advance refunded in 2008, and the remainder were advance refunded in 2015.	\$ 32,905,000	\$ -	\$ 32,905,000	\$ -	\$ -
General Obligation Bonds, Series of 2008, with 2.5% - 6.25% interest payable through 2033. Proceeds of the bonds were used to currently refund a portion of the General Obligation Note Series A of 2006, terminate a forward fixed payer swap, fund various capital projects, and pay bond issuance costs. The bonds were advanced refunded in 2015.	11,585,437	-	11,585,437	-	-
General Obligation Bonds, Series of 2009, with 3.0% - 5.0% interest payable through 2029. Proceeds were used to currently refund the General Obligation Line of Credit of 2006, fund various capital projects of the City, and fund the termination payment for fixed payer swap and pay bond issuance costs.	24,980,000	-	5,000	24,975,000	5,000
General Obligation Bonds, Series C of 2010, with 7.5% interest payable through 2020. Proceeds were used to pay unfunded debt of the City and pay bond issue costs.	7,780,000	-	1,210,000	6,570,000	630,000
General Obligation Note Series A of 2011, with 0.65% - 5.25% interest payable through 2019. Proceeds were used to advance refund the General Obligation Bonds (Capital Appreciation Bonds) Series of 2002, to pay termination costs of an interest rate management agreement and pay bond issuance costs. The net cash savings from the refunding was \$275,267.	15,430,000	-	2,930,000	12,500,000	3,405,000
General Obligation Bonds Series of 2012, with 2.00% - 2.25% interest payable through 2018. Proceeds were used to currently refund the General Obligation Bonds Series A of 2008 and pay bond issuance costs. The net cash savings from the refunding was \$237,770.	2,495,000	-	605,000	1,890,000	615,000

CITY OF READING

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2015

NOTE 9 - LIABILITIES - CONTINUED

Governmental Activities	Balance at Beginning of Year	Additions	Reductions	Balance at End of Year	Due Within One Year
<u>Bonds Payable and Other Long-Term Liabilities - continued:</u>					
General Obligation Bonds Series A of 2012, with 3.50% - 3.75% interest payable through 2016. Proceeds were used to currently refund the General Obligation Bonds Series of 2005 and pay bond issuance costs. The net cash savings from the refunding was \$104,797.	1,565,000	-	630,000	935,000	935,000
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.	2,815,000	-	159,000	2,656,000	167,000
General Obligation Bonds Series C of 2012, with 1.50% - 5.13% interest payable through 2031. 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.	8,146,800	-	68,400	8,078,400	68,400
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.	29,678,069	-	46,200	29,631,869	46,208
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.	-	16,875,000	180,000	16,695,000	285,000
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.	-	37,150,000	520,000	36,630,000	145,000

CITY OF READING

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2015

NOTE 9 - LIABILITIES - CONTINUED

Governmental Activities	Balance at Beginning of Year	Additions	Reductions	Balance at End of Year	Due Within One Year
<u>Bonds Payable and Other Long-Term Liabilities - continued:</u>					
Federally Taxable Guaranteed Lease Revenue Notes, Series of 2006 (Redevelopment Authority) with 6.10% interest payable through 2026. Proceeds were used to finance the City's 2006 pension costs. The lease revenue note was refunded in 2015.	4,782,615	-	4,782,615	-	-
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.	-	4,763,000	-	4,763,000	34,000
Equipment note with advances up to \$3,600,000 to be used for new IT equipment. The note bears interest at 2.9% interest with monthly payment of principal and interest through maturity in March 2019. The note is secured through the equipment purchased. As of December 31, 2015, there is \$674,575 left to be drawn.	2,189,192	228,786	693,911	1,724,067	714,229
Capital lease payable to the Redevelopment Authority with 2.5% - 4.25% interest payable through 2033. Proceeds were used to finance construction of public waste facility. The lease was currently refunded in 2015.	3,090,000	-	3,090,000	-	-
Compensated absences	866,271	4,623	78,046	792,848	-
Total Governmental Activities	<u>\$ 148,308,384</u>	<u>\$ 59,021,409</u>	<u>\$ 59,488,609</u>	<u>\$ 147,841,184</u>	<u>\$ 7,049,837</u>

CITY OF READING

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2015

NOTE 9 - LIABILITIES - CONTINUED

Business-Type Activities	Balance at Beginning of Year	Additions	Reductions	Balance at End of Year	Due Within One Year
<u>Bonds and Notes Payable</u>					
General Obligation Bonds Series of 2008, with 2.5% - 6.25% interest payable through 2033. Proceeds of the bonds were used to currently refund a portion of the General Obligation Note Series A of 2006, terminate a forward fixed payer swap, fund various capital projects, and pay bond issuance costs.	\$ 27,494,564	\$ -	\$ 874,123	\$ 26,620,441	\$ 911,153
General Obligation Bonds Series of C of 2012, variable interest payable through 2031. 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.	3,168,200	-	26,600	3,141,600	26,600
Guaranteed Water Revenue Bonds Series of 2003 (Capital Appreciation Bonds), with 3.60% - 4.62% interest payable through 2020.	14,475,000	-	2,030,000	12,445,000	2,185,000
Guaranteed Water Revenue Bonds, Series of 2007, with 4.25% - 5.00% interest payable through 2027. The bonds were refunded in 2015.	24,460,000	-	24,460,000	-	-
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.	5,646,928	-	8,800	5,638,128	8,792
Guaranteed Water Revenue Bonds, Series of 2011, initial issue \$50,000,000, with interest rates ranging from 2.35% to 5.25%.	50,000,000	-	315,000	49,685,000	165,000

CITY OF READING

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2015

NOTE 9 - LIABILITIES - CONTINUED

	Balance at Beginning of Year	Additions	Reductions	Balance at End of Year	Due Within One Year
Business-Type Activities					
<u>Bonds and Notes Payable - continued</u>					
Water Revenue Note Series of 2012, initial issue \$2,459,000, interest payable at 2.100% through 2017.	1,453,024	-	472,999	980,025	488,000
Water Revenue Note 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.	-	25,130,000	-	25,130,000	-
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.	356,042	6,748,746	430,461	6,674,327	469,771
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.	5,042,792	-	279,525	4,763,267	265,859
	132,096,550	31,878,746	28,897,508	135,077,788	4,520,175
Less: unamortized interest on Capital Appreciation Bonds	(2,137,609)	-	(546,241)	(1,591,368)	-
Total	<u>\$ 129,958,941</u>	<u>\$ 31,878,746</u>	<u>\$ 28,351,267</u>	<u>\$ 133,486,420</u>	<u>\$ 4,520,175</u>

CITY OF READING

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2015

NOTE 9 - LIABILITIES - CONTINUED

	Balance at Beginning of Year	Additions	Reductions	Balance at End of Year	Due Within One Year
Component Unit - Reading Parking Authority:					
Bonds Payable and Other Long-Term Liabilities					
Guaranteed Authority Revenue Bonds Series of 1993. The bonds were current interest and capital appreciation bonds (CAB). In 2003, \$9,550,000 of remaining current interest bonds were refunded. The remaining CABs have imputed interest of 5.85% to 6.10%. Final payment is due in 2020.	\$ 16,555,000	\$ -	\$ 2,745,000	\$ 13,810,000	\$ 2,740,000
On December 22, 2011, the Series A of 2011 Parking Revenue Note was issued by a local bank for \$1,570,000. The note was issued to refinance the Series of 2006 Guaranteed Parking Revenue Note. Repayment of the note is due November 15, 2024. Interest on the note is stated at 3.15% per annum from the date of issue through November 15, 2021, and thereafter at an interest rate equal to 65% of the bank's prime rate, but in no event less than 2.85% or more than 6.00% per annum. The Authority will realize an estimated present value savings of \$69,145.	1,570,000	-	-	1,570,000	-
On December 19, 2011, the Series of 2011 Parking Revenue Note was issued by a local bank for \$5,570,000. The note was issued to refinance the Federally Taxable Parking Revenue Note - Series of 2009 (Build America Bond - Direct Payment). Repayment of the note began in 2012 in varying amounts, and the maturity of the note is November 15, 2025. Interest on the note is stated at 3.15% per annum from the date of issue through November 15, 2021, and thereafter at an interest rate equal to 65% of the bank's prime rate, but in no event less than 2.85% or more than 6.00% per annum. The Authority will realize an estimated present value savings of \$332,483 on the fixed rate amount.	5,570,000	-	60,000	5,510,000	195,000

CITY OF READING

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2015

NOTE 9 - LIABILITIES - CONTINUED

	Balance at Beginning of Year	Additions	Reductions	Balance at End of Year	Due Within One Year
Component Unit - Reading Parking Authority:					
<u>Bonds Payable and Other Long-Term Liabilities - continued:</u>					
On January 12, 2012, the Series of 2012 Parking Revenue Note was issued by a local bank for \$9,570,000. The note was issued to refinance the Series of 2004 Guaranteed Parking Revenue note. Repayment of the note is due November 15, 2024. Interest on the note is stated at 3.15% per annum from the date of the issue through November 15, 2012, and thereafter at an interest rate equal to 65% of the bank's prime rate, but in no event less than the 2.85% or more than 6.00% per annum. The Authority estimates a present value savings of \$361,678 on the fixed rate amount.	9,250,000	-	60,000	9,190,000	65,000
Capital lease with the Reading Redevelopment Authority, whereby the Authority will pay \$1,667 monthly to the RRA for a term of 25 years for a parcel of land at 2nd & Washington Streets.	278,273	-	31,893	246,380	33,388
	33,223,273	-	2,896,893	30,326,380	3,033,388
Less: unamortized interest on Capital Appreciation Bonds	(3,012,276)	-	(828,524)	(2,183,752)	-
Total Long-term Liabilities	<u>\$ 30,210,997</u>	<u>\$ -</u>	<u>\$ 2,068,369</u>	<u>\$ 28,142,628</u>	<u>\$ 3,033,388</u>

Component unit - Reading Redevelopment Authority has the following debt outstanding as of December 31, 2015:

On December 19, 2013, the Redevelopment Authority purchased a property for \$1,655,000. This purchase was funded through private financing from an individual. This debt was repaid in May 2014 through a long-term debt issued with a financial institution (Bank Loan). At December 31, 2015, the remaining balance on the bank loan was \$1,599,650.

CITY OF READING

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2015

NOTE 9 - LIABILITIES - CONTINUED

The annual requirements to pay principal and interest on long-term debt outstanding at December 31, 2015 are as follows:

	Governmental Activities		Business-Type Activities		Component Units Reading Parking Authority	
	Principal	Interest ^	Principal	Interest	Principal	Interest^^
	2016	\$ 7,049,837	\$ 6,278,316	\$ 4,520,175	\$ 5,058,028	\$ 3,044,000
2017	8,391,377	6,050,550	4,798,838	5,121,814	3,044,000	417,375
2018	8,709,124	5,732,457	4,956,282	5,399,743	2,904,000	413,135
2019	8,431,911	5,366,999	5,099,208	5,427,704	3,064,000	407,703
2020	7,876,121	5,028,589	5,215,071	7,212,420	3,049,000	402,668
2021 - 2025	37,388,822	20,941,257	29,269,018	21,114,908	15,260,333	812,533
2026 - 2030	44,172,366	12,441,956	36,401,515	17,337,963	-	-
2031 - 2035	25,703,353	2,459,361	39,649,099	7,813,643	-	-
2036	-	-	6,975,000	366,188	-	-
Less unamortized interest	-	-	(1,591,368)	-	(2,183,752)	-
Less capital lease interest	-	-	-	-	(38,953)	-
Less amount not drawn down	(674,575)	-	(1,806,418)	-	-	-
	<u>\$ 147,048,336</u>	<u>\$ 64,299,485</u>	<u>\$ 133,486,420</u>	<u>\$ 74,852,411</u>	<u>\$ 28,142,628</u>	<u>\$ 2,877,679</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, 2015.

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

^^ Interest on bank notes is calculated using stated rates.

The following is a summary of governmental long-term liability activity for the year ended December 31, 2015:

Governmental Activities	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
General obligation debt:					
Notes and bonds payable	\$ 144,352,113	\$ 59,016,786	\$ 56,320,563	\$ 147,048,336	\$ 7,049,837
Less deferred amounts:					
For issuance discounts	(823,542)	(316,756)	(86,648)	(1,053,650)	-
For issuance premiums	3,001	208,990	8,289	203,702	-
Other liabilities:					
Lease payable	3,090,000	-	3,090,000	-	-
Compensated absences	866,271	4,623	78,046	792,848	-
	<u>\$ 147,487,843</u>	<u>\$ 58,913,643</u>	<u>\$ 59,410,250</u>	<u>\$ 146,991,236</u>	<u>\$ 7,049,837</u>

CITY OF READING

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2015

NOTE 9 - LIABILITIES - CONTINUED

The following is a summary of business-type long-term liability activity for the year ended December 31, 2015:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Business-Type Activities:					
General obligation bonds payable	\$ 36,309,692	\$ -	\$ 909,523	\$ 35,400,169	\$ 946,545
Water revenue bonds and notes payable	95,786,858	31,878,746	27,987,985	99,677,619	3,573,630
Less deferred amounts:					
For issuance discounts	(736,979)	-	(37,693)	(699,286)	-
For issuance premiums	579,327	2,318,963	732,740	2,165,550	-
For unamortized accreted interest	(2,137,609)	-	(546,241)	(1,591,368)	-
	<u>\$ 129,801,289</u>	<u>\$ 34,197,709</u>	<u>\$ 29,046,314</u>	<u>\$ 134,952,684</u>	<u>\$ 4,520,175</u>

The following is a summary of long-term liability activity for the Component Unit (Reading Parking Authority) for the year ended December 31, 2015:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Component Unit (Reading Parking Authority)					
Revenue bonds payable	\$ 16,555,000	\$ -	\$ 2,745,000	\$ 13,810,000	\$ 2,740,000
Notes payable	16,390,000		120,000	16,270,000	260,000
Less deferred amounts:					
For unamortized accreted interest	(3,012,276)	-	(828,524)	(2,183,752)	-
Other liabilities:					
Capital lease payable	278,273		31,893	246,380	33,388
	<u>\$ 30,210,997</u>	<u>\$ -</u>	<u>\$ 2,068,369</u>	<u>\$ 28,142,628</u>	<u>\$ 3,033,388</u>

Defeasance of Debt

During the year ended December 31, 2008, the City issued variable rate General Obligation Refunding Bonds Series C, D, and E of 2008 to provide resources to purchase securities that were placed in an irrevocable trust for the purpose of generating resources for all future debt service payments of General Obligation Bonds Series of 2002, a portion of the General Obligation Notes Series of 2005, and a portion of the federally taxable General Obligation Bonds Series of 2006. As a result, the refunded bonds are 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, 2015, outstanding general obligation bonds of the City in the amount of \$4,910,000 were considered defeased with a related \$4,989,107 held in escrow funds.

CITY OF READING

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2015

NOTE 9 - LIABILITIES - CONTINUED

During the year ended December 31, 2015, the City issued General Obligation Bonds Series A of 2015 to provide resources to purchase securities that were placed in an irrevocable trust for the purpose of generating resources for all future debt service payments of General Obligation Bonds Series of 2008. 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, 2015, outstanding general obligation bonds of the City in the amount of \$11,195,000 were considered defeased with a related \$12,656,217 held in escrow funds.

During the year ended December 31, 2015, the City issued General Obligation Bonds Series B of 2015 to provide resources to purchase securities that were placed in an irrevocable trust for the purpose of generating resources for all future debt service payments of General Obligation Bonds Series of 2006. 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, 2015, outstanding general obligation bonds of the City in the amount of \$32,905,000 were considered defeased with a related \$34,448,344 held in escrow funds.

Lease Agreement

The City of Reading entered into a master lease agreement for an energy management system which is being treated as an operating lease. Terms of the lease agreement require 28 semi-annual payments beginning March 2009 through September 2022. Payments range from \$83,000 to \$119,500 during the term of the lease. Total cost of the system and services is \$2,000,000. The City satisfied the remaining balance owed on the lease in November 2015.

Approved Loans

In April 2015, the City was approved for two PennVest loans in the amounts of \$84,586,034 and \$37,214,485 to fund the Fritz Island Waste Water Treatment Plant Facilities Upgrade. The funding arrangements provide for up to 36 monthly interest-only payments, followed by 240 monthly payments of \$389,006 and \$171,147, respectively. The loans bear interest at a rate of one percent. The notes are secured by a lien on the City's sewer revenues and a pledge of the City's taxing authority. Construction contract awards for the treatment plant upgrade have not yet been awarded, and as of December 31, 2015 these loans have not yet closed.

CITY OF READING

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2015

NOTE 10 - CITY OF READING RETIREMENT PLANS

Summary of Significant Accounting Policies

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.

At December 31, 2015, there were no individual investments that constituted more than five percent 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.

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, respectively; 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). 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, administrative services director, city auditor, police chief, and two active police officers; the PFPP is administered by a six-member board consisting of the mayor, administrative services director, city auditor, fire chief, and two active fire employees; the O&E is administered by a six-member board consisting of the mayor, administrative services director, city auditor, and three active employees.

Membership of each plan consisted of the following at January 1, 2015, 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	307	137	314
Inactive plan members entitled to but not yet receiving benefits	4	3	20
Active plan members	<u>140</u>	<u>122</u>	<u>278</u>
Total plan members	<u><u>451</u></u>	<u><u>262</u></u>	<u><u>612</u></u>

CITY OF READING

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2015

NOTE 10 - 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 percent 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 anytime service. The monthly pension benefit is equal to 60 percent of "average monthly pay" plus 2.00 percent of "average monthly pay" for each year of service in excess of 20 years to a maximum of five years. An additional benefit of 2.50 percent (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 percent of "average monthly pay." An additional benefit of 2.50 percent (1/40th) of the pension benefit determined for each year of service in excess of 20 years to a maximum of \$100 per month is also payable.

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 percent 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 percent 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 percent 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, 2015

NOTE 10 - 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 percent 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 percent of "average monthly compensation" plus an incremental pension equal to 2.50 percent (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.

CITY OF READING

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2015

NOTE 10 - CITY OF READING RETIREMENT PLANS - CONTINUED

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 percent 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 percent of "average monthly compensation" plus a service increment equal to 2.50 percent (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 percent 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 percent 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 percent 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.

Officers and employees hired on or after January 1, 1988 become 100 percent 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 two percent of "average monthly compensation" multiplied by years of service (up to a maximum of 25) plus a service increment equal to 1.25 percent 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 one percent 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 percent average monthly compensation.

CITY OF READING

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2015

NOTE 10 - CITY OF READING RETIREMENT PLANS - CONTINUED

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 percent 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 percent 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 percent 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.

Contributions

PA Act 205 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, 2013 valuation was used in the calculation of the City's 2015 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 percent of salary, plus \$1 per month. Members who elect to participate in the DROP after November 15, 2012, also contribute 5.0 percent of compensation. Plan members who were hired on or after January 1, 2012 are required to contribute 5.0 percent of salary, plus \$1 per month. Member contributions are not credited with interest.

City of Reading Paid Firemen's Pension Plan (PFPP): Plan members are required to contribute 5.0 percent of compensation, plus \$5 per month. Members who elect to participate in the DROP after April 1, 2011, also contribute 5.0 percent 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 percent of compensation subject to social security taxation, plus 5.0 percent of the excess. Members who elect dual coverage (no offset to pension for social security benefits) contribute 5.0 percent of all compensation. Married participants contribute an additional 0.5 percent of compensation. Participants who elected to be covered by the service increment provision contribute an additional 0.5 percent of compensation. Member contributions are not credited with interest. Plan members who were hired after January 1, 1988 are required to contribute 3.0 percent of compensation. Member contributions are credited with a 5.0 percent interest compounded annually.

CITY OF READING

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2015

NOTE 10 - CITY OF READING RETIREMENT PLANS - 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 2015. The following table reflects contribution information for 2015:

	<u>PPP</u>	<u>PFPP</u>	<u>O&E</u>	<u>Total</u>
MMO	<u>\$ 8,398,280</u>	<u>\$ 2,956,620</u>	<u>\$ 3,173,811</u>	<u>\$ 14,528,711</u>
Contributions:				
City	\$ 7,261,433	\$ 1,984,693	\$ 2,054,336	\$ 11,300,462
Allocation of state aid	<u>1,137,042</u>	<u>972,367</u>	<u>1,125,280</u>	<u>3,234,689</u>
Total	8,398,475	2,957,060	3,179,616	14,535,151
Employee	<u>740,779</u>	<u>463,696</u>	<u>416,374</u>	<u>1,620,849</u>
Total contributions	<u>\$ 9,139,254</u>	<u>\$ 3,420,756</u>	<u>\$ 3,595,990</u>	<u>\$ 16,156,000</u>
Covered payroll	<u>\$ 10,745,475</u>	<u>\$ 8,126,767</u>	<u>\$ 14,403,603</u>	<u>\$ 33,275,845</u>
Employee contributions as a percent of covered payroll	<u>6.89%</u>	<u>5.71%</u>	<u>2.89%</u>	<u>4.87%</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, 2015, the balance of DROP accounts for the PPP held by the City was \$2,023,113.

CITY OF READING

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2015

NOTE 10 - CITY OF READING RETIREMENT PLANS - 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 contribute five percent of compensation. The City remains the fiduciary for these funds until full retirement of the member. At December 31, 2015, the balance of DROP accounts for the PFPP held by the City was \$2,180,142.

Net Pension Liability

The components of the net pension liability of the Plans at December 31, 2015 were as follows:

	PPP	PFPP	O&E	Total
Total pension liability	\$ 157,415,110	\$ 74,334,046	\$ 70,911,030	\$ 302,660,186
Plan fiduciary net position	(84,131,314)	(53,045,445)	(53,753,223)	(190,929,982)
Net pension liability	\$ 73,283,796	\$ 21,288,601	\$ 17,157,807	\$ 111,730,204
Plan fiduciary net position as a percentage of total pension liability	53.45%	71.36%	75.80%	63.08%

CITY OF READING

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2015

NOTE 10 - CITY OF READING RETIREMENT PLANS - CONTINUED

Changes in the Net Pension Liability

The changes in the net pension liability of the City for the year ended December 31, 2015 were as follows:

	Increases/Decreases		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
Balances at December 31, 2014	\$ 301,071,936	\$ 198,288,062	\$ 102,783,874
Changes for the year:			
Service cost	5,370,640	-	5,370,640
Interest	21,888,234	-	21,888,234
Differences between expected and actual experience	(3,921,491)	-	(3,921,491)
Contributions - employer	-	14,535,151	(14,535,151)
Contributions - employee	-	1,620,849	(1,620,849)
Net investment income	-	(701,727)	701,727
Benefit payments, including refunds	(21,749,133)	(21,749,133)	-
Administrative expenses	-	(1,063,220)	1,063,220
Net changes	1,588,250	(7,358,080)	8,946,330
Balances at December 31, 2015	\$ 302,660,186	\$ 190,929,982	\$ 111,730,204
Plan fiduciary net position as a percentage of the total pension liability			63.08%

CITY OF READING

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2015

NOTE 10 - CITY OF READING RETIREMENT PLANS - CONTINUED

Actuarial Assumptions - The total pension liability was determined by an actuarial valuation performed on January 1, 2015 and rolled forward to December 31, 2015, using the following actuarial assumptions, applied to all periods in the measurement:

	PPP	PFPP	O&E
Actuarial assumptions:			
Investment rate of return	7.5%	7.5%	7.5%
Projected salary increases	5%	5.5%	5%
Inflation rate	3%	3%	3%
Includes social security wage inflation at	-	-	4%
Mortality	RP-2000 Combined Healthy Mortality Table with Blue Collar Adjustment; rates are set forward 5 years for disabled members	RP-2000 Combined Healthy Mortality Table with Blue Collar Adjustment; rates are set forward 5 years for disabled members	RP-2000 Combined Healthy Mortality Table with Blue Collar Adjustment; rates are set forward 7 years for disabled members

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.

CITY OF READING

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2015

NOTE 10 - CITY OF READING RETIREMENT PLANS - CONTINUED

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.

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, 2015:

Asset Class	Target Allocation			Long-Term Expected Real Rate of Return		
	PPP	PFPP	O&E	PPP **	PFPP	O&E *
Cash	0.0%	0.0%	0.5%	N/A	N/A	7.5%
Fixed income	23.0%	40.0%	32.2%	10.6%	5.8%	7.5%
Domestic equity	35.0%	39.0%	38.6%	8.1%	9.0%	7.5%
International equity	29.0%	21.0%	19.4%	11.9%	9.1%	7.5%
Bank loans	0.0%	0.0%	0.0%	N/A	N/A	N/A
Emerging debt	0.0%	0.0%	0.0%	N/A	N/A	N/A
Real estate	0.0%	0.0%	0.0%	N/A	N/A	N/A
Other	13.0%	0.0%	9.3%	10.7%	N/A	7.5%
	100%	100%	100%			

* 20 year expected return for the total Plan

** Includes inflation rate at 2.5%

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, 2015, the annual money-weighted rate of return on the PPP, PFPP, and O&E investments, net of investment expenses, was -1.52 percent, -0.28 percent, and 1.08 percent, respectively.

Discount Rate - The discount rate used to measure the total pension liability for the PPP, PFPP, and O&E was 7.50 percent. 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, 2015

NOTE 10 - CITY OF READING RETIREMENT PLANS - CONTINUED

Sensitivity of the Net Pension Liability to Changes in the Discount Rate - The following presents the net pension liability of the Plans calculated using the discount rates described previously, as well as what the Plan's net pension liabilities 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 (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
City of Reading Police Pension Plan	\$ 91,400,979	\$ 73,283,796	\$ 58,255,211
City of Reading Paid Firemen's Pension Plan	\$ 29,651,042	\$ 21,288,601	\$ 14,271,520
Officers' and Employees' Pension Plan	\$ 25,325,506	\$ 17,157,807	\$ 10,290,957

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

For the year ended December 31, 2015, the City recognized pension expense of \$14,586,173. At December 31, 2015, 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>				
Change in proportion allocated	\$ -	\$ -	\$ 147,733	\$ 147,733
Differences between expected and actual experience	298,197	-	-	298,197
Net difference between projected and actual earnings on pension plan investments	6,090,529	3,290,887	2,736,131	12,117,547
Total deferred outflows of resources	\$ 6,388,726	\$ 3,290,887	\$ 2,883,864	\$ 12,563,477
<u>Deferred Inflows of Resources</u>				
Change in proportion allocated	\$ -	\$ -	\$ 147,733	\$ 147,733
Differences between expected and actual experience	-	2,661,392	859,044	3,520,436
Total deferred inflows of resources	\$ -	\$ 2,661,392	\$ 1,006,777	\$ 3,668,169

CITY OF READING

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2015

NOTE 10 - CITY OF READING RETIREMENT PLANS - CONTINUED

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended December 31	
2016	\$ 2,330,135
2017	2,330,135
2018	2,330,135
2019	2,330,135
2020	<u>(425,232)</u>
Total	<u>\$ 8,895,308</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	\$ 2,420,815	\$ 1,115,951	\$ 948,556	\$ 4,485,322
Investments (at fair value)				
Equities	45,193,323	32,639,612	36,183,901	114,016,836
Fixed income	31,152,388	18,273,723	16,669,765	66,095,876
Short-term funds	247,832	1,031,777	45,902	1,325,511
Other	<u>5,209,053</u>	<u>-</u>	<u>-</u>	<u>5,209,053</u>
TOTAL ASSETS	<u>84,223,411</u>	<u>53,061,063</u>	<u>53,848,124</u>	<u>191,132,598</u>
LIABILITIES				
Accounts payable	75,188	15,476	89,104	179,768
Due to other funds	-	142	(142)	-
Other current liabilities	<u>16,909</u>	<u>-</u>	<u>5,939</u>	<u>22,848</u>
TOTAL LIABILITIES	<u>92,097</u>	<u>15,618</u>	<u>94,901</u>	<u>202,616</u>
NET POSITION HELD IN TRUST FOR PENSION BENEFITS	<u>\$ 84,131,314</u>	<u>\$ 53,045,445</u>	<u>\$ 53,753,223</u>	<u>\$ 190,929,982</u>

CITY OF READING

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2015

NOTE 10 - CITY OF READING RETIREMENT PLANS - CONTINUED

Changes in Plan Net Position

	<u>Police Pension Fund</u>	<u>Paid Firemen's Pension Fund</u>	<u>Officers' and Employees' Pension Fund</u>	<u>Total Pension Trust Funds</u>
ADDITIONS				
Contributions:				
Employer (including state aid)	\$ 8,398,475	\$ 2,957,060	\$ 3,179,616	\$ 14,535,151
Employee	740,779	463,696	416,374	1,620,849
Investment income:				
Interest and dividends	1,821,277	1,084,498	122	2,905,897
Net appreciation (depreciation) in fair value of investments	(3,099,385)	(1,210,082)	598,681	(3,710,786)
Other	94,396	8,755	10	103,161
TOTAL ADDITIONS	7,955,542	3,303,927	4,194,803	15,454,272
DEDUCTIONS				
Benefits, including tax withheld	12,143,481	4,479,280	4,912,852	21,535,613
Administrative expenses	484,483	129,985	448,751	1,063,219
Refunds paid	51,347	25,055	137,118	213,520
TOTAL DEDUCTIONS	12,679,311	4,634,320	5,498,721	22,812,352
CHANGE IN NET POSITION	(4,723,769)	(1,330,393)	(1,303,918)	(7,358,080)
NET POSITION HELD IN TRUST FOR PENSION BENEFITS, BEGINNING OF YEAR	88,855,083	54,375,838	55,057,141	198,288,062
NET POSITION HELD IN TRUST FOR PENSION BENEFITS, END OF YEAR	\$ 84,131,314	\$ 53,045,445	\$ 53,753,223	\$ 190,929,982

CITY OF READING

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2015

NOTE 10 - CITY OF READING RETIREMENT PLANS - CONTINUED

Net Appreciation (Depreciation) in Fair Value of Investments

The composition of net appreciation (depreciation) 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 gain (loss)	\$ 2,375,726	\$ 963,999	\$ 1,324,425	\$ 4,664,150
Unrealized gain (loss)	<u>(5,475,111)</u>	<u>(2,174,081)</u>	<u>(725,744)</u>	<u>(8,374,936)</u>
	<u>\$ (3,099,385)</u>	<u>\$ (1,210,082)</u>	<u>\$ 598,681</u>	<u>\$ (3,710,786)</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.

CITY OF READING

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2015

NOTE 11 - OTHER POSTEMPLOYMENT BENEFITS

Plan Description

The City of Reading sponsors a single-employer defined benefit healthcare plan (the Retiree Health Plan). The plan provides medical and pharmacy benefits plus life insurance for eligible retirees and their dependents through the City's health insurance plan, which covers both active and retired members. Benefit provisions are established through negotiation with the City and the unions representing the City's employees. The Retiree Health Plan does not issue a publicly available financial report and the City is implementing GASB Statement 45 prospectively.

Funding Policy

Contribution requirements are negotiated between the City and union representatives. The required contribution is based on pay-as-you-go financing. For nonuniform employees retired prior to 2004, the City contributes 100 percent of the cost of the current year premiums for eligible retired plan members and their dependents. For nonuniform employees retired after 2004 to current, the retired plan member pays the retiree contribution rate supplied by the City, and the balance of the remaining premium is paid by the City. For fire department employees hired prior to January 1, 2011, the City contributes 100 percent of the cost of the current year premiums for eligible retired plan members and their dependents. For police department employees retired prior to 2007, the City contributes 100 percent of the cost of the current year premiums for eligible retired plan members and their dependents. For police department employees retired after 2007 and before January 1, 2013, the retired plan member pays a set retiree contribution rate supplied by the City. For police department employees retired after January 1, 2013 to the present, the retired plan member pays a percentage of premium based on the plan selected. The balance of the remaining premiums are paid by the City. Certain employees hired on or after June 1, 2010 and firefighters hired on or after January 1, 2011 are not eligible for benefits. For the fiscal year ended December 31, 2015, the City contributed \$4,600,000 to the plan related to retirees.

CITY OF READING

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2015

NOTE 11 - OTHER POSTEMPLOYMENT BENEFITS - CONTINUED

Annual OPEB Cost and Net OPEB Obligation

The City's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years. The following table shows the components of the City's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the City's net OPEB obligation as of December 31, 2015:

Annual required contribution	\$ 7,244,296
Interest on net OPEB obligation	545,786
Adjustment to annual required contribution	<u>(884,706)</u>
Annual OPEB Cost	6,905,376
Contributions made	<u>(4,600,000)</u>
Increase in net OPEB obligation	2,305,376
Net OPEB obligation - beginning of year	<u>16,793,415</u>
 Net OPEB obligation - end of year	 <u><u>\$ 19,098,791</u></u>

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation as of December 31, 2015 was as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
12/31/2015	\$ 6,905,376	66.6%	\$ 19,098,791
12/31/2014	6,730,434	60.9%	16,793,415
12/31/2013	6,878,737	64.0%	14,162,981

Funded Status and Funding Progress

As of December 31, 2014, the most recent actuarial valuation date, the plan was unfunded. The actuarial accrued liability for benefits was \$93,448,538, and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability (UAAL) of \$93,448,538. The covered payroll (annual payroll of active employees covered by the plan) was \$0, and the ratio of the UAAL to the covered payroll was zero percent.

CITY OF READING

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2015

NOTE 11 - OTHER POSTEMPLOYMENT BENEFITS - CONTINUED

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents information about the actuarial value of plan assets and actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the December 31, 2014 actuarial valuation, the Projected Unit Credit Cost Method was used. The actuarial assumptions included a 3.25 percent investment rate of return (net of administrative expenses) and an annual healthcare cost trend based on the Society of Actuaries-Getzen Model version 2014 utilizing the baseline assumptions included in the model, except for a real GDP growth assumption of 1.8 percent. The unfunded actuarial accrued liability is being amortized over a 30-year period using the Projected Unit Credit Cost Method.

NOTE 12 - 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.

CITY OF READING

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2015

NOTE 12 - COMMITMENTS AND CONTINGENCIES - CONTINUED

Concentration of Labor

The City has in effect four labor agreements, which cover approximately 90 percent 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 2010 and was effective through December 31, 2014. AFSCME Local 2763 was renewed in 2011 and is effective through December 31, 2016. The Reading Lodge #9 Fraternal Order of Police's labor agreement was amended in arbitration in 2012 and is effective through December 31, 2016. The labor agreement with the International Association of Fire Fighters, Local 1803 was amended in 2011 and is effective through December 31, 2015.

Construction Commitments

The City has entered into contracts for capital improvements. All open commitments will be satisfied by cash on hand. At December 31, 2015, the balance of open contracts was as follows:

<u>Project</u>	<u>Commitment Remaining</u>
Wastewater Treatment Plant	\$ 2,785,498
Information Improvement	180,812
42" Force Main Break	708,992
Collection System	351,972
Digester Rehab	988,012
6th & Canal Pump Station 2	<u>205,309</u>
Total	<u>\$ 5,220,595</u>

United States Department of Justice Consent Decree

In November 2005, the City entered into a consent order with the United States Department of Justice, United States Environmental Protection Agency, and the Pennsylvania Department of Environmental Protection 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 improvements to the plant are to be completed by February 28, 2018. The City has completed parts of the project and has secured funding for the remainder of the project. There have been no contracts awarded for main construction to date. 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.

CITY OF READING

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2015

NOTE 12 - COMMITMENTS AND CONTINGENCIES - CONTINUED

Intermunicipal Agreements

On December 24, 2012, the City entered into several interest-free promissory notes with the County of Berks, Pennsylvania, for public safety system hardware and accessory hardware. Payments made under this agreement were \$197,145 for the year ended December 31, 2015. The notes and minimum future payments are summarized as follows for the year ended December 31:

	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>Total</u>
Emergency Medical Services	\$ 7,114	\$ 7,114	\$ 7,114	\$ 7,114	\$ 28,456
Fire	52,456	52,456	52,456	52,456	209,824
Police	93,278	93,278	93,278	93,278	373,112
General	1,075	1,075	1,075	1,075	4,300
Code Enforcement	1,717	1,717	1,717	1,717	6,868
Downtown					
Improvement District	4,114	4,114	4,114	4,114	16,456
Public Works	30,465	30,465	30,465	30,465	121,860
Water Authority	4,132	4,132	4,132	4,132	16,528
Reading Recreation					
Commission	<u>2,794</u>	<u>2,794</u>	<u>2,794</u>	<u>2,794</u>	<u>11,176</u>
Total	<u>\$ 197,145</u>	<u>\$ 197,145</u>	<u>\$ 197,145</u>	<u>\$ 197,145</u>	<u>\$ 788,580</u>

During 2013, the City entered into a lease with a financing institution for two Ford E-450 ambulances. Total lease expense for the year ended December 31, 2015 was \$60,349. Minimum future payments for this lease are summarized as follows for the years ending December 31:

2016	\$ 60,349
2017	<u>60,349</u>
	<u>\$ 120,698</u>

CITY OF READING

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2015

NOTE 12 - COMMITMENTS AND CONTINGENCIES - CONTINUED

Trash and Recycling Billing Agreement

In April 2013, the City of Reading entered into a Memorandum of Understanding with the Reading Area Water Authority related to receivables for trash and recycling billing. The Water Authority assumed the billing and collection of billings, at no charge to the City, beginning after January 1, 2013. The City transferred, conveyed, assigned, and released to the Water Authority the accounts receivable that result from the billing of such trash and recycling service charges. In exchange for the transfer of receivables, the Water Authority made scheduled monthly payments to the City totaling \$5,961,887. The total billings for trash and recycling services provided from January 1, 2015 through December 31, 2015 totaled \$6,146,275. The City and the Water Authority reported a net loss/gain on the sale of receivables of \$237,408 for the 2015 year activity, respectively. The agreement is through December 31, 2014 and, thereafter, on a year to year basis, unless either party notifies the other by August 31 of any calendar year of its intention to terminate the agreement. The agreement was terminated as of January 1, 2016. The Authority continues to bill and collect the trash and recycling charges on behalf of the City and remits the collections to the City as they are received.

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

Management Agreement

The Authority entered into an agreement with Miller Environmental, Inc. for the services of a water filter plant manager and the services of the executive director, who is responsible for the management of all operational and maintenance activities of the water filter plant. The agreement is automatically renewable annually unless one of the parties gives written notice of their intent to terminate the agreement. Total expense under agreement for the year ended December 31, 2015 was \$365,097.

In February 2015, the agreement was amended to include an ending date of January 31, 2018, with automatic three-year renewals and reduced services only to the executive director associated services. During February 2015, the Authority hired a full-time water plant manager and amended the portion of the agreement for these services.

Water Meter Reading Services Agreement

The Authority has entered into an agreement with Miller Environmental, Inc. to perform water meter reading services in the Authority's service area. The agreement was amended in February 2012. Under the terms of the amended agreement, the Authority pays a monthly operating fee of \$44,957 beginning March 1, 2012 plus additional hourly charges for services performed outside the scope of the agreement. The amended agreement expired February 28, 2015. In January 2016, the Authority approved hiring employees internally to perform these services. Total expense under the agreement for the year ended December 31, 2015 was \$539,483.

Capital Improvements

The Reading Area Water Authority has entered into several contracts for capital improvements. At December 31, 2015, the balance of open contracts was approximately \$3,319,000.

CITY OF READING

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2015

NOTE 12 - COMMITMENTS AND CONTINGENCIES - CONTINUED

Letters of Credit

The Reading Area Water Authority has a letter of credit of \$800,000 available for general Authority 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 \$2,566,580. The maximum amount that can be drawn on the letters of credit is \$4,000,000. At December 31, 2015, 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 effective through December 31, 2015. The agreement is currently in the negotiation process. Of the Water Authority's total workforce, 89 percent is covered by the agreement.

NOTE 13 - 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, 2015:

	<u>Carrier</u>	<u>Limit</u>	<u>Deductible</u>
Property	St. Paul Travelers	\$ 238,739,463	\$ 100,000
Liability	St. Paul Travelers	1,000,000	150,000
Crime	St. Paul Travelers	1,000,000	10,000
Auto Liability	St. Paul Travelers	1,000,000	150,000
Auto Property Damage	St. Paul Travelers	Cash value or cost to repair	5,000
Excess Liability	St. Paul Travelers	4,000,000	10,000
Law Enforcement	Scottsdale	2,000,000	150,000
Employment Practices	Scottsdale	1,000,000	150,000
Public Officials	Scottsdale	2,000,000	100,000
Excess Worker Comp	Safety National	1,000,000	650,000
Pollution Liability	Illinois Union	1,000,000	50,000

CITY OF READING

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2015

NOTE 13 - RISK MANAGEMENT AND SELF-INSURANCE - CONTINUED

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 claims that exceed \$1,000,000, US Longshoremen Act claims that exceed \$1,000,000, and all other claims that exceed \$1,000,000. This insurance policy is underwritten by Safety National Casualty Corporation. The City also is required to maintain a trust for outstanding liabilities for workers' compensation. That trust is in the amount of \$3,148,731.

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 reserved for a sick leave pool.

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, 2015. An analysis of claims activity is presented below:

	Beginning of Year Liabilities	Estimated Current Year Claims	Actual Claim Payments	Balance at Fiscal Year End
2015	\$ 3,110,589	\$ 3,085,898	\$ 3,047,756	\$ 3,148,731
2014	\$ 1,991,625	\$ 3,180,782	\$ 2,061,818	\$ 3,110,589

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. Total expense for these employee benefits for the year ended December 31, 2015 was \$12,651,900.

CITY OF READING

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2015

NOTE 14 - FUND EQUITY AND CHANGE IN FUND BALANCES

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, 2015 were as follows:

General Fund: The general fund has an assigned fund balance of \$8,527,015 consisting of \$957,015 for the 2016 budget deficit, \$1,000,000 for other postemployment benefits, and \$6,570,000 for the payoff of General Obligation Bonds Series C of 2010; and an unassigned fund balance of \$21,508,604.

Community Development Fund: The community development fund has restricted funds of \$303,840, consisting primarily of unspent federal and state grant funds restricted by federal or state law.

Agency Fund: The agency fund has restricted funds of \$797,134, consisting primarily of unspent funds donated by various parties which are to be used according to the donor's wishes.

Nonmajor Funds:

Shade Tree Fund: The special revenue fund has restricted funds of \$322,536 consisting of real estate taxes levied for specific purposes.

Liquid Fuels Fund: The liquid fuels fund has a restricted fund balance of \$1,380,691, consisting primarily of unspent state grant funds restricted by state law.

Capital Projects Fund: The capital projects fund has restricted funds of \$1,618,844, consisting primarily of bond proceeds to be used for future capital purchases.

Debt Service: The debt service fund has restricted funds of \$163,693, consisting primarily of unspent monies from debt issuances to be used for future debt payments.

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, 2015

NOTE 15 - NEW ACCOUNTING STANDARDS

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

- *Statement No. 72, Fair Value Measurement and Application* - The requirements of this statement will enhance comparability of financial statements among governments by requiring measurement of certain assets and liabilities at fair value using a consistent and more detailed definition of fair value and accepted valuation techniques. This statement also will enhance fair value application guidance and related disclosures in order to provide information to financial statement users about the impact of fair value measurements on a government's financial position. This statement is effective for fiscal years beginning after June 15, 2015.
- *Statement No. 74, Financial Reporting for Postemployment Benefits Other Than Pension Plans* - The objective of this statement is to improve the usefulness of information about other postemployment benefits other than pensions included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability. This statement is effective for fiscal years beginning after June 15, 2016.
- *Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* - This statement replaces the requirements of *Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. The scope of this statement addresses accounting and financial reporting for OPEB that is provided to the employees of state and local governmental employers. This statement establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. This statement is effective for fiscal years beginning after June 15, 2017.
- *Statement No. 77, Tax Abatement Disclosures* - The requirements of this statement enhance the disclosure of information about the nature and magnitude of tax abatements, which will make these transactions more transparent to financial statement users. As a result, users will be better equipped to understand (1) how tax abatements affect a government's future ability to raise resources and meet its financial obligations, and (2) the impact those abatements have on a government's financial position and economic condition. This statement is effective for fiscal years beginning after December 15, 2015.
- *Statement No. 79, Certain External Investment Pools and Pool Participants* - This statement addresses accounting and reporting for certain external investment pools and pool participants by establishing criteria for an external investment pool to qualify for election to measure all of its investments at amortized cost for financial reporting purposes. The statement also establishes additional note disclosure requirements for qualifying external investment pools that measure their investments at amortized cost and for governments that participate in those pools. This statement is effective for fiscal years beginning after June 15, 2015.

CITY OF READING

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2015

NOTE 15 - NEW ACCOUNTING STANDARDS - CONTINUED

- Statement No. 80, *Blending Requirements for Certain Component Units - an amendment of GASB Statement No. 14* - The requirements of this statement will improve financial reporting by clarifying the financial statement presentation requirements for certain component units. This statement is effective for fiscal years beginning after June 15, 2016.
- Statement No. 82, *Pension Issues - an amendment of GASB Statements No. 67, No. 68, and No. 73* - This statement addresses certain issues that have been raised with respect to GASB Statements No. 67, No. 68, and No. 73 related to (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions of the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. This statement is effective for fiscal years beginning after June 15, 2016.

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.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF READING

BUDGETARY COMPARISON SCHEDULE FOR THE GENERAL FUND

Year Ended December 31, 2015

	General Fund			
	Original Budget	Final Budget	Actual	Variance
REVENUES				
Real estate taxes	\$ 21,487,933	\$ 21,487,933	\$ 21,878,131	\$ 390,198
Earned income taxes	20,565,992	20,565,992	22,100,601	1,534,609
Other taxes	4,915,000	4,915,000	6,202,845	1,287,845
Licenses, permits, and fines	6,119,205	6,100,022	6,135,367	35,345
Intergovernmental	6,543,340	6,543,340	6,643,040	99,700
Charges for services	7,073,988	7,018,171	7,072,896	54,725
Interest and rent	1,555,000	1,555,000	1,674,553	119,553
Other	6,099,573	6,099,573	6,430,864	331,291
TOTAL REVENUES	74,360,031	74,285,031	78,138,297	3,853,266
EXPENDITURES				
Current:				
General government	5,935,544	5,678,350	5,276,949	401,401
Public safety:				
Police	32,915,895	32,915,895	32,059,502	856,393
Fire	13,359,583	13,353,583	12,832,914	520,669
Emergency medical services	4,161,702	4,167,702	4,002,093	165,609
Public works - highways and streets	846,165	846,165	940,321	(94,156)
Public works - other	8,100,191	9,399,207	8,186,426	1,212,781
Community development	4,391,509	4,490,509	4,216,899	273,610
Culture and recreation	835,247	835,247	866,047	(30,800)
Other (employee benefits, bond issuance costs)	3,025,681	3,025,681	4,472,208	(1,446,527)
Debt service - principal	6,279,345	6,491,041	6,491,041	-
Debt service - interest	6,866,619	5,411,770	5,466,453	(54,683)
TOTAL EXPENDITURES	86,717,481	86,615,150	84,810,853	1,804,297
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(12,357,450)	(12,330,119)	(6,672,556)	5,657,563
OTHER FINANCING SOURCES (USES)				
Issuance of refunding bonds	-	-	58,788,000	58,788,000
Bond premium on refunding bonds issued	-	-	208,990	208,990
Bond discount on refunding bonds issued	-	-	(316,756)	(316,756)
Issuance of equipment note	-	-	228,786	228,786
Payment to escrow agent for bonds refunded	-	-	(57,637,063)	(57,637,063)
Transfers in	12,200,000	12,275,000	12,275,000	-
Budgetary Reserve	(2,342,550)	(2,444,881)	-	2,444,881
TOTAL OTHER FINANCING SOURCES (USES)	9,857,450	9,830,119	13,546,957	3,716,838
NET CHANGE IN FUND BALANCES	\$ (2,500,000)	\$ (2,500,000)	6,874,401	\$ 9,374,401
FUND BALANCE - BEGINNING OF YEAR			23,161,218	
FUND BALANCE - END OF YEAR			\$ 30,035,619	

CITY OF READING

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

Years Ended December 31

	2015	2014*
Total Pension Liability		
Service cost	\$ 2,741,032	\$ 2,714,223
Interest	11,415,541	11,159,506
Differences between expected and actual experience	372,746	-
Benefit payments, including refunds of employee contributions	(12,194,828)	(9,571,570)
Net change in total pension liability	2,334,491	4,302,159
Total pension liability, beginning	155,080,619	150,778,460
Total pension liability, ending	\$ 157,415,110	\$ 155,080,619
Plan Fiduciary Net Position		
Contributions - employer	\$ 8,398,475	\$ 6,052,629
Contributions - employee	740,779	665,036
Net investment income	(1,183,711)	4,329,423
Benefit payments, including refunds of employee contributions	(12,194,828)	(9,571,570)
Administrative expenses	(484,484)	(295,053)
Net change in plan fiduciary net position	(4,723,769)	1,180,465
Plan fiduciary net position, beginning	88,855,083	87,674,618
Plan fiduciary net position, ending	\$ 84,131,314	\$ 88,855,083
Net pension liability	\$ 73,283,796	\$ 66,225,536
Plan fiduciary net position as a percentage of total pension liability	53.45%	57.30%
Covered employee payroll	\$ 10,745,475	\$ 10,995,148
Net pension liability as a percentage of covered employee payroll	682.00%	602.32%

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 for which information is available is shown.

* Restated to agree to revised actuary report

CITY OF READING

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

Years Ended December 31

	2015	2014*
Total Pension Liability		
Service cost	\$ 1,494,096	\$ 1,606,792
Interest	5,346,065	5,377,405
Differences between expected and actual experience	(3,239,956)	-
Benefit payments, including refunds of employee contributions	<u>(4,504,335)</u>	<u>(3,610,654)</u>
Net change in total pension liability	(904,130)	3,373,543
Total pension liability, beginning	<u>75,238,176</u>	<u>71,864,633</u>
Total pension liability, ending	<u><u>\$ 74,334,046</u></u>	<u><u>\$ 75,238,176</u></u>
Plan Fiduciary Net Position		
Contributions - employer	\$ 2,957,060	\$ 2,282,336
Contributions - employee	463,696	456,196
Net investment income	(116,829)	2,495,024
Other additions	-	6,732
Benefit payments, including refunds of employee contributions	(4,504,335)	(3,610,654)
Administrative expenses	<u>(129,985)</u>	<u>(85,450)</u>
Net change in plan fiduciary net position	(1,330,393)	1,544,184
Plan fiduciary net position, beginning	<u>54,375,838</u>	<u>52,831,654</u>
Plan fiduciary net position, ending	<u><u>\$ 53,045,445</u></u>	<u><u>\$ 54,375,838</u></u>
Net pension liability	<u><u>\$ 21,288,601</u></u>	<u><u>\$ 20,862,338</u></u>
Plan fiduciary net position as a percentage of total pension liability	<u><u>71.36%</u></u>	<u><u>72.27%</u></u>
Covered employee payroll	<u><u>\$ 8,126,767</u></u>	<u><u>\$ 7,197,001</u></u>
Net pension liability as a percentage of covered employee payroll	261.96%	289.88%

Note:

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* Restated to agree to revised actuary report

CITY OF READING

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

Years Ended December 31

	<u>2015</u>	<u>2014</u>
Total Pension Liability		
Service cost	\$ 1,135,512	\$ 1,218,457
Interest	5,126,628	5,110,331
Differences between expected and actual experience	(1,054,281)	-
Benefit payments, including refunds of employee contributions	<u>(5,049,970)</u>	<u>(4,901,267)</u>
Net change in total pension liability	157,889	1,427,521
Total pension liability, beginning	<u>70,753,141</u>	<u>69,325,620</u>
Total pension liability, ending	<u>\$ 70,911,030</u>	<u>\$ 70,753,141</u>
Plan Fiduciary Net Position		
Contributions - employer	\$ 3,179,616	\$ 2,780,193
Contributions - employee	416,374	422,154
Net investment income	598,813	2,806,966
Other additions	-	3,686
Benefit payments, including refunds of employee contributions	(5,049,970)	(4,901,267)
Administrative expenses	<u>(448,751)</u>	<u>(402,879)</u>
Net change in plan fiduciary net position	(1,303,918)	708,853
Plan fiduciary net position, beginning	<u>55,057,141</u>	<u>54,348,288</u>
Plan fiduciary net position, ending	<u>\$ 53,753,223</u>	<u>\$ 55,057,141</u>
Net pension liability	<u>\$ 17,157,807</u>	<u>\$ 15,696,000</u>
Plan fiduciary net position as a percentage of total pension liability	<u>75.80%</u>	<u>77.82%</u>
Covered employee payroll	<u>\$ 14,403,603</u>	<u>\$ 14,233,277</u>
Net pension liability as a percentage of covered employee payroll	119.12%	109.02%

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 for which information is available is shown.

CITY OF READING

SCHEDULE OF CITY CONTRIBUTIONS AND INVESTMENT RETURNS

Years Ended December 31

Police Pension Plan

	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
Schedule of City Contributions										
Actuarial determined contributions	\$ 8,398,280	\$ 6,051,235	\$ 6,057,188	\$ 3,663,429	\$ 3,932,110	\$ 2,607,362	\$ 2,428,329	\$ 1,705,470	\$ 2,150,234	\$ 2,113,547
Contributions in relation to the actuarially determined contribution	8,398,475	6,052,629	6,057,188	3,663,442	3,952,673	3,206,243	2,442,638	1,705,470	1,095,760	2,113,547
Contribution deficiency (excess)	\$ (195)	\$ (1,394)	\$ -	\$ (13)	\$ (20,563)	\$ (598,881)	\$ (14,309)	\$ -	\$ 1,054,474	\$ -
Covered employee payroll	\$ 10,745,475	\$ 10,995,148	\$ 10,948,012	\$ 10,104,676	\$ 10,247,034	\$ 14,124,752	\$ 11,762,315	\$ 10,048,764	\$ 11,186,195	\$ 10,069,858
Contributions as a percentage of covered employee payroll	78.16%	55.05%	55.33%	36.25%	38.57%	22.70%	20.77%	16.97%	9.80%	20.99%
Investment Returns										
Annual money-weighted rate of return, net investment expense	-1.52%	5.39%								

Paid Firemen's Pension Plan

	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
Schedule of City Contributions										
Actuarial determined contributions	\$ 2,956,620	\$ 2,282,337	\$ 2,286,857	\$ 1,903,883	\$ 1,976,423	\$ 1,380,603	\$ 1,346,126	\$ 1,289,485	\$ 822,235	\$ 941,761
Contributions in relation to the actuarially determined contribution	2,957,060	2,282,336	2,286,857	1,903,873	1,984,463	1,587,874	1,346,495	1,300,247	284,549	941,761
Contribution deficiency (excess)	\$ (440)	\$ 1	\$ -	\$ 10	\$ (8,040)	\$ (207,271)	\$ (369)	\$ (10,762)	\$ 537,686	\$ -
Covered employee payroll	\$ 8,126,767	\$ 7,197,001	\$ 7,216,688	\$ 8,031,312	\$ 8,506,650	\$ 8,392,528	\$ 8,165,493	\$ 7,880,584	\$ 7,187,428	\$ 8,026,617
Contributions as a percentage of covered employee payroll	36.39%	31.71%	31.69%	23.71%	23.33%	18.92%	16.49%	16.50%	3.96%	11.73%
Investment Returns										
Annual money-weighted rate of return, net investment expense	-0.28%	5.49%								

Officers' and Employees' Pension Plan

	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
Schedule of City Contributions										
Actuarial determined contributions	\$ 3,173,811	\$ 2,769,963	\$ 2,836,234	\$ 1,488,269	\$ 1,376,733	\$ 800,416	\$ 775,359	\$ 598,539	\$ 786,148	\$ 432,096
Contributions in relation to the actuarially determined contribution	3,179,616	2,780,193	2,860,603	1,510,837	1,404,139	1,670,803	806,192	626,961	62,685	432,096
Contribution deficiency (excess)	\$ (5,805)	\$ (10,230)	\$ (24,369)	\$ (22,568)	\$ (27,406)	\$ (870,387)	\$ (30,833)	\$ (28,422)	\$ 723,463	\$ -
Covered employee payroll	\$ 14,403,603	\$ 14,233,277	\$ 14,888,776	\$ 15,498,759	\$ 14,850,270	\$ 17,182,014	\$ 16,673,672	\$ 15,024,254	\$ 14,190,597	\$ 11,880,781
Contributions as a percentage of covered employee payroll	22.08%	19.53%	19.21%	9.75%	9.46%	9.72%	4.84%	4.17%	0.44%	3.64%
Investment Returns										
Annual money-weighted rate of return, net investment expense	1.08%	5.93%								

Other Information:

In 2007, the City underfunded the MMO. In 2010, excess contributions were made to account for this underfunding.

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 FUNDING PROGRESS AND EMPLOYER CONTRIBUTIONS -
OTHER POSTEMPLOYMENT BENEFITS PLAN**

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL) - Entry Age	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
12/31/2014	\$ -	\$ 93,448,538	\$ 93,448,538	0.00%	N/A	N/A
12/31/2012	-	90,248,474	90,248,474	0.00%	N/A	N/A
12/31/2010	-	67,683,582	67,683,582	0.00%	N/A	N/A

Schedule of Employer Contributions

Calendar Year	Annual Required Contributions	Actual Employer Contribution	Annual Percentage Contributed
2015	\$ 7,244,296	\$ 4,600,000	63.50%
2014	6,730,434	4,100,000	60.92%
2013	6,878,737	4,400,000	63.97%
2012	6,690,589	4,000,000	59.79%
2011	5,493,466	2,210,000	40.23%
2010	5,943,466	2,210,000	37.18%

CITY OF READING

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

December 31, 2015

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 and Agency 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. Additional information as of the latest actuarial valuation follows:

	PPP	PFPP	O&E
Actuarial valuation date	01/01/15	01/01/15	01/01/15
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	12 years	9 years	13 years
Asset valuation method	Tabular smoothing (120% of market value)	Tabular smoothing (120% of market value)	4-year smoothing
Actuarial assumptions:			
Investment rate of return	7.5%	7.5%	7.5%
Projected salary increases	5%	5.50%	5%
Inflation rate	3%	3%	3%
Includes social security wage inflation at	-	-	4%

SUPPLEMENTARY INFORMATION

CITY OF READING

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

Year Ended December 31, 2015

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
TAXES				
Real estate taxes	\$ 21,487,933	\$ 21,487,933	\$ 21,878,131	\$ 390,198
Earned income taxes	20,565,992	20,565,992	22,100,601	1,534,609
Other taxes				
Per capita tax	200,000	200,000	198,316	(1,684)
Per capita tax - prior years	15,000	15,000	28,043	13,043
Real estate transfer tax	1,900,000	1,900,000	3,204,597	1,304,597
Occupation tax	1,000,000	1,000,000	866,578	(133,422)
Occupation tax - prior years	200,000	200,000	241,185	41,185
Business privilege tax	1,500,000	1,500,000	1,506,435	6,435
Business privilege tax - prior years	100,000	100,000	157,691	57,691
Total Other Taxes	<u>4,915,000</u>	<u>4,915,000</u>	<u>6,202,845</u>	<u>1,287,845</u>
LICENSES, PERMITS, AND FINES				
Food permits	163,874	163,874	97,817	(66,057)
Building and electrical	821,465	821,465	852,303	30,838
Trades licenses	110,000	110,000	109,645	(355)
Business privilege	300,000	300,000	298,810	(1,190)
Street and pavement	263,000	263,000	263,462	462
Zoning and land development	159,485	127,609	143,226	15,617
Housing	1,749,751	1,766,964	1,716,547	(50,417)
Tax administration licenses	16,000	16,000	12,005	(3,995)
Franchise fees	750,000	750,000	838,790	88,790
No parking signs	800	800	720	(80)
Traffic fines	340,000	340,000	410,767	70,767
Penalties and interest	101,750	101,750	82,682	(19,068)
District court	900,000	900,000	941,445	41,445
Other	443,080	438,560	367,148	(71,412)
Total Licenses, Permits, and Fines	<u>6,119,205</u>	<u>6,100,022</u>	<u>6,135,367</u>	<u>35,345</u>
INTERGOVERNMENTAL				
Payments in lieu of taxes	125,000	125,000	148,474	23,474
Malt and liquor tax	30,000	30,000	34,450	4,450
Public utility tax	49,000	49,000	54,079	5,079
Snow and ice control	50,000	50,000	42,770	(7,230)
Reading Public Library	767,644	767,644	809,231	41,587
School guard	200,000	200,000	181,560	(18,440)
Pension - state aid	3,200,000	3,200,000	3,234,689	34,689
Volunteer Fire Relief Aid	3,900	3,900	3,606	(294)
Police training	130,000	130,000	237,296	107,296
Grant reimbursement - code enforcement	725,000	725,000	551,400	(173,600)
Grant reimbursement - fire	847,796	847,796	911,176	63,380
Grant reimbursement - police	415,000	415,000	430,320	15,320
Grant reimbursement - public works	-	-	3,989	3,989
Total Intergovernmental	<u>6,543,340</u>	<u>6,543,340</u>	<u>6,643,040</u>	<u>99,700</u>

CITY OF READING

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

Year Ended December 31, 2015

	Original Budget	Final Budget	Actual	Variance
CHARGES FOR SERVICES				
School district tax collection	25,000	25,000	35,499	10,499
Admissions fee/tax	325,000	325,000	419,471	94,471
Police services	1,002,784	1,002,784	952,720	(50,064)
Fire services	438,500	438,500	207,013	(231,487)
Ambulance services	3,142,500	3,142,500	3,117,868	(24,632)
Housing Authority	225,000	225,000	285,533	60,533
Public works	35,000	35,000	84,785	49,785
Meter surcharge	1,775,000	1,700,000	1,700,000	-
Other	105,204	124,387	270,007	145,620
Total Charges for Services	7,073,988	7,018,171	7,072,896	54,725
INTEREST AND RENT				
Interest	-	-	14,538	14,538
Stadium rental	300,000	300,000	300,000	-
Building rental	65,000	65,000	74,678	9,678
Parking Authority	1,190,000	1,190,000	1,190,004	4
Loan repayments	-	-	95,333	95,333
Total Interest and Rent	1,555,000	1,555,000	1,674,553	119,553
OTHER				
Sale of city property	5,000	5,000	-	(5,000)
Donation from parking authority	3,878,558	3,878,558	3,878,556	(2)
Indirect cost reimbursement:				
Community development	190,000	190,000	189,996	(4)
Recycling	442,000	442,000	469,083	27,083
Sewer	1,042,954	1,042,954	1,142,700	99,746
Water	-	-	169,230	169,230
Trash	142,824	142,824	170,267	27,443
Direct cost reimbursement:				
Pension	70,000	70,000	68,215	(1,785)
Sewer	150,000	150,000	143,957	(6,043)
Grants and gifts	127,000	127,000	64,763	(62,237)
Other shared revenues	33,300	33,300	30,675	(2,625)
Miscellaneous	17,937	17,937	103,422	85,485
Total Other	6,099,573	6,099,573	6,430,864	331,291
TOTAL REVENUES	74,360,031	74,285,031	78,138,297	3,853,266
OTHER FINANCING SOURCES				
Issuance of refunding bonds	-	-	58,788,000	58,788,000
Bond premium on refunding bonds issued	-	-	208,990	208,990
Issuance of equipment note	-	-	228,786	228,786
Transfers in:				
Water Fund	9,200,000	9,275,000	9,275,000	-
Sewer Fund	3,000,000	3,000,000	3,000,000	-
Total Other Financing Sources	12,200,000	12,275,000	71,500,776	59,225,776
TOTAL REVENUES AND OTHER FINANCING SOURCES	<u>\$ 86,560,031</u>	<u>\$ 86,560,031</u>	<u>\$ 149,639,073</u>	<u>\$ 63,079,042</u>

CITY OF READING

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

Year Ended December 31, 2015

	Original Budget	Final Budget	Actual	Variance
GENERAL GOVERNMENT				
Office of the Mayor				
Personnel	\$ 286,188	\$ 276,188	\$ 247,397	\$ 28,791
Other operating expenditures	108,166	118,166	135,525	(17,359)
City Council				
Personnel	273,214	268,214	299,033	(30,819)
Other operating expenditures	127,336	132,336	105,888	26,448
City Auditor				
Personnel	168,326	168,326	146,710	21,616
Other operating expenditures	12,957	12,957	13,355	(398)
Office of the Managing Director				
Personnel	335,679	335,679	363,099	(27,420)
Other operating expenditures	144,433	144,433	63,196	81,237
Department of Finance				
Office of the Director:				
Personnel	393,981	393,981	455,926	(61,945)
Other operating expenditures	29,382	29,382	31,917	(2,535)
Purchasing:				
Personnel	114,363	106,063	87,062	19,001
Other operating expenditures	442,574	193,680	115,595	78,085
Accounting:				
Personnel	335,035	335,035	297,452	37,583
Other operating expenditures	245,743	245,743	222,280	23,463
Information Technology:				
Personnel	(120,855)	(120,855)	(18,284)	(102,571)
Other operating expenditures	410,216	410,216	262,183	148,033
Department of Human Resources:				
Personnel	720,695	720,695	667,069	53,626
Other operating expenditures	149,176	149,176	136,115	13,061
Citizens Service Center:				
Personnel	759,390	747,240	762,578	(15,338)
Other operating expenditures	165,388	177,538	119,665	57,873
Department of Law				
Personnel	431,751	431,751	465,810	(34,059)
Other operating expenditures	402,406	402,406	297,378	105,028
TOTAL GENERAL GOVERNMENT	5,935,544	5,678,350	5,276,949	401,401

CITY OF READING

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

Year Ended December 31, 2015

	Original Budget	Final Budget	Actual	Variance
PUBLIC SAFETY				
Police				
Police - Criminal Investigation:				
Personnel	5,562,158	5,562,158	5,823,760	(261,602)
Other operating expenditures	229,827	229,827	220,978	8,849
Police - Special Services:				
Personnel	2,998,810	2,998,810	3,001,653	(2,843)
Other operating expenditures	889,197	889,197	815,621	73,576
Police - Patrol:				
Personnel	20,985,287	20,985,287	20,286,246	699,041
Other operating expenditures	1,224,556	1,224,556	1,149,614	74,942
Police - Administration:				
Personnel	568,707	568,707	529,229	39,478
Other operating expenditures	457,353	457,353	232,401	224,952
Fire				
Fire Administration:				
Personnel	971,762	971,762	1,055,156	(83,394)
Other operating expenditures	177,930	182,430	126,525	55,905
Fire Special Services:				
Personnel	487,499	487,499	415,604	71,895
Other operating expenditures	51,900	45,900	18,022	27,878
Fire Suppression:				
Personnel	11,065,313	11,065,313	10,684,436	380,877
Other operating expenditures	605,179	600,679	533,171	67,508
Fire Emergency Medical Services				
Personnel	3,595,955	3,595,955	3,464,686	131,269
Other operating expenditures	565,747	571,747	537,407	34,340
TOTAL PUBLIC SAFETY	50,437,180	50,437,180	48,894,509	1,542,671
PUBLIC WORKS				
Department of Public Works				
Fleet Management:				
Personnel	608,451	608,451	615,147	(6,696)
Other operating expenditures	588,577	594,577	628,699	(34,122)
Traffic Engineering:				
Personnel	33,530	33,530	25,287	8,243
Other operating expenditures	1,612,300	1,612,300	1,936,130	(323,830)
Public Works Administration:				
Personnel	204,915	204,915	224,669	(19,754)
Other operating expenditures	988,436	2,281,452	1,605,169	676,283
Engineering:				
Personnel	16,053	16,053	21,578	(5,525)
Streets:				
Personnel	805,250	805,250	876,926	(71,676)
Other operating expenditures	40,915	40,915	63,395	(22,480)
Parks:				
Personnel	776,660	776,660	790,866	(14,206)
Other operating expenditures	86,500	86,500	50,988	35,512
Recreation:				
Personnel	33,530	33,530	22,173	11,357
Other operating expenditures	31,619	31,619	41,901	(10,282)
Public Property:				
Personnel	725,945	725,945	828,099	(102,154)
Other operating expenditures	2,393,675	2,393,675	1,395,720	997,955
TOTAL PUBLIC WORKS	8,946,356	10,245,372	9,126,747	1,118,625

CITY OF READING

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

Year Ended December 31, 2015

	Original Budget	Final Budget	Actual	Variance
COMMUNITY DEVELOPMENT				
Administration				
Personnel	287,928	287,928	206,252	81,676
Other operating expenditures	133,282	133,282	108,207	25,075
Zoning				
Personnel	74,581	74,581	74,466	115
Other operating expenditures	97,544	97,544	105,153	(7,609)
Trades				
Personnel	587,104	587,104	530,577	56,527
Other operating expenditures	137,549	212,549	185,014	27,535
Codes				
Personnel	2,655,110	2,655,110	2,574,666	80,444
Other operating expenditures	418,411	442,411	432,564	9,847
TOTAL COMMUNITY DEVELOPMENT	4,391,509	4,490,509	4,216,899	273,610
CULTURE AND RECREATION				
Library				
Personnel	835,247	835,247	866,047	(30,800)
Other operating expenditures	-	-	-	-
TOTAL CULTURE AND RECREATION	835,247	835,247	866,047	(30,800)
NONDEPARTMENTAL				
Payroll and benefits	294,555	294,555	283,162	11,393
Risk management	2,415,498	2,415,498	2,415,498	-
Refund of prior year revenues	-	-	221,743	(221,743)
Debt issuance costs	-	-	932,030	(932,000)
Other	315,628	315,628	619,775	(304,147)
TOTAL NONDEPARTMENTAL	3,025,681	3,025,681	4,472,208	(1,446,527)
DEBT SERVICE				
Principal	6,279,345	6,491,041	6,491,041	-
Interest	6,866,619	5,411,770	5,466,453	(54,683)
TOTAL DEBT SERVICE	13,145,964	11,902,811	11,957,494	(54,683)
TOTAL EXPENDITURES	86,717,481	86,615,150	84,810,853	1,804,297
OTHER FINANCING USES				
Payment to escrow agent for bonds refunded	-	-	57,637,063	(57,637,063)
Bond discount on refunding bonds issued	-	-	316,756	(316,756)
Budgetary reserve	2,342,550	2,444,881	-	2,444,881
TOTAL OTHER FINANCING USES	2,342,550	2,444,881	57,953,819	(55,508,938)
TOTAL EXPENDITURES AND OTHER FINANCING USES	\$ 89,060,031	\$ 89,060,031	\$ 142,764,672	\$ (53,704,641)

CITY OF READING

COMBINING BALANCE SHEET - NONMAJOR GOVERNMENTAL FUNDS

December 31, 2015

	<u>Shade Tree</u>	<u>Liquid Fuels</u>	<u>Capital Projects</u>	<u>Debt Service</u>	<u>Totals</u>
ASSETS					
Cash	\$ 327,747	\$ 1,647,205	\$ 823,764	\$ 4,463	\$ 2,803,179
Investments	-	-	-	572	572
Accounts receivable	3,750	-	-	-	3,750
Taxes receivable, net	41,661	-	-	-	41,661
Interfund receivables	-	-	922,448	158,658	1,081,106
TOTAL ASSETS	<u>\$ 373,158</u>	<u>\$ 1,647,205</u>	<u>\$ 1,746,212</u>	<u>\$ 163,693</u>	<u>\$ 3,930,268</u>
LIABILITIES, DEFERRED INFLOWS, AND FUND BALANCES					
LIABILITIES					
Accounts payable	\$ 8,961	\$ 193,268	\$ 75,576	\$ -	\$ 277,805
Interfund payables	-	73,246	51,792	-	125,038
TOTAL LIABILITIES	8,961	266,514	127,368	-	402,843
DEFERRED INFLOWS OF RESOURCES					
Unavailable revenue - property taxes	41,661	-	-	-	41,661
FUND BALANCES					
Restricted for:					
Shade tree	322,536	-	-	-	322,536
Liquid fuels	-	1,380,691	-	-	1,380,691
Capital projects	-	-	1,618,844	-	1,618,844
Debt service	-	-	-	163,693	163,693
TOTAL FUND BALANCES	<u>322,536</u>	<u>1,380,691</u>	<u>1,618,844</u>	<u>163,693</u>	<u>3,485,764</u>
TOTAL LIABILITIES, DEFERRED INFLOWS, AND FUND BALANCES	<u>\$ 373,158</u>	<u>\$ 1,647,205</u>	<u>\$ 1,746,212</u>	<u>\$ 163,693</u>	<u>\$ 3,930,268</u>

CITY OF READING

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

Year Ended December 31, 2015

	Shade Tree	Liquid Fuels	Capital Projects	Debt Service	Totals
REVENUES					
Real estate taxes	\$ 281,642	\$ -	\$ -	\$ -	\$ 281,642
Intergovernmental	-	1,665,473	-	-	1,665,473
Interest and rent	-	80	108	-	188
Other	5,105	-	-	-	5,105
TOTAL REVENUES	286,747	1,665,553	108	-	1,952,408
EXPENDITURES					
Public works - highways and streets	-	957,554	172,685	-	1,130,239
Culture and recreation	236,136	-	-	-	236,136
TOTAL EXPENDITURES	236,136	957,554	172,685	-	1,366,375
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	50,611	707,999	(172,577)	-	586,033
FUND BALANCES - BEGINNING OF YEAR	271,925	672,692	1,791,421	163,693	2,899,731
FUND BALANCES - END OF YEAR	\$ 322,536	\$ 1,380,691	\$ 1,618,844	\$ 163,693	\$ 3,485,764

CITY OF READING

COMBINING STATEMENT OF NET POSITION - FIDUCIARY FUNDS - TRUST FUNDS

December 31, 2015

	Police Pension Fund	Paid Firemen's Pension Fund	Officers' and Employees' Pension Fund	Total Pension Trust Funds
ASSETS				
Cash	\$ 2,420,815	\$ 1,115,951	\$ 948,556	\$ 4,485,322
Investments	81,802,596	51,945,112	52,899,568	186,647,276
TOTAL ASSETS	84,223,411	53,061,063	53,848,124	191,132,598
LIABILITIES				
Accounts payable	75,188	15,476	89,104	179,768
Due to other funds	-	142	(142)	-
Other current liabilities	16,909	-	5,939	22,848
TOTAL LIABILITIES	92,097	15,618	94,901	202,616
NET POSITION HELD IN TRUST FOR PENSION BENEFITS	<u>\$ 84,131,314</u>	<u>\$ 53,045,445</u>	<u>\$ 53,753,223</u>	<u>\$ 190,929,982</u>

CITY OF READING

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

Year Ended December 31, 2015

	<u>Police Pension Fund</u>	<u>Paid Firemen's Pension Fund</u>	<u>Officers' and Employees' Pension Fund</u>	<u>Total Pension Trust Funds</u>
ADDITIONS				
Contributions:				
Employer (including state aid)	\$ 8,398,475	\$ 2,957,060	\$ 3,179,616	\$ 14,535,151
Employees	740,779	463,696	416,374	1,620,849
Investment income:				
Interest and dividends	1,821,277	1,084,498	122	2,905,897
Net appreciation/(depreciation) in fair value of investments	(3,099,385)	(1,210,082)	598,681	(3,710,786)
Other	94,396	8,755	10	103,161
TOTAL ADDITIONS	<u>7,955,542</u>	<u>3,303,927</u>	<u>4,194,803</u>	<u>15,454,272</u>
DEDUCTIONS				
Benefits, including tax withheld	12,143,481	4,479,280	4,912,852	21,535,613
Administrative expenses	484,483	129,985	448,751	1,063,219
Refunds paid	51,347	25,055	137,118	213,520
TOTAL DEDUCTIONS	<u>12,679,311</u>	<u>4,634,320</u>	<u>5,498,721</u>	<u>22,812,352</u>
CHANGE IN NET POSITION	(4,723,769)	(1,330,393)	(1,303,918)	(7,358,080)
NET POSITION HELD IN TRUST FOR PENSION BENEFITS - BEGINNING OF YEAR				
	<u>88,855,083</u>	<u>54,375,838</u>	<u>55,057,141</u>	<u>198,288,062</u>
NET POSITION HELD IN TRUST FOR PENSION BENEFITS - END OF YEAR				
	<u>\$ 84,131,314</u>	<u>\$ 53,045,445</u>	<u>\$ 53,753,223</u>	<u>\$ 190,929,982</u>

CITY OF READING

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

December 31, 2015

Federal Grantor/Pass Through Grantor/Program Title	Source Code	Federal CFDA Number	Grant Period	Grant Contract	Total Award	Accrued (Unearned) 12/31/14	Amount Received	Revenue/ Expenditures	Accrued (Unearned) 12/31/15	Pass-through Funds
U.S. DEPARTMENT OF HOUSING										
Community Development Block Grant/Entitlement Grant	D	14.218		B-10-MC-42-0013	\$ 3,360,585	\$ 4,073	\$ -	\$ (4,073)	\$ -	\$ -
Community Development Block Grant/Entitlement Grant	D	14.218		B-13-MC-42-0013	2,549,335	(471)	-	471	-	-
Community Development Block Grant/Entitlement Grant	D	14.218		B-14-MC-42-0013	2,504,142	359,081	677,894	400,512	81,699	-
Community Development Block Grant/Entitlement Grant	D	14.218		B-15-MC-42-0013	2,546,385	-	1,688,662	1,802,733	114,071	-
Subtotal						362,683	2,366,556	2,199,643	195,770	139,581
Community Development Block Grant - Section 108 Loan Guarantee	D	14.248			-	(1,749,930)	1,500,000	5,211,333	(1,500,000)	-
Emergency Shelter Grant	D	14.231		E-11-MC-42-0006	212,738	(17,158)	-	17,158	-	-
Emergency Shelter Grant	D	14.231		E-13-MC-42-0006	170,379	18,725	3,948	(14,777)	-	-
Emergency Shelter Grant	D	14.231		E-14-MC-42-0006	207,105	40,661	128,577	87,916	-	-
Emergency Shelter Grant	D	14.231		E-15-MC-42-0006	223,211	-	74,119	107,997	33,878	-
Subtotal						42,228	206,644	198,294	33,878	154,600
HOME Investment Partnership Program	D	14.239		M-13-MC-42-0204	752,667	57,340	602,483	545,143	-	-
HOME Investment Partnership Program	D	14.239		M-14-MC-42-0204	797,601	60,765	204,245	153,579	10,099	-
HOME Investment Partnership Program	D	14.239		M-15-MC-42-0204	756,936	-	149,491	149,568	77	-
Subtotal						118,105	956,219	848,290	10,176	689,607
Neighborhood Stabilization Program 2 (ARRA)	D	14.256		B-09-CNPA-0014	5,000,000	26,979	73,528	46,549	-	44,135
Fair Housing	D	14.401	10/01/10-09/30/11	FF-203-K-11-3012	93,994	-	60	60	-	-
Fair Housing	D	14.401	10/01/11-09/30/12	FF-203-K-12-3012	56,980	11,449	7,134	-	4,315	-
Fair Housing	D	14.401	10/01/12-09/30/13	FF-203-K-13-3012	65,058	-	35,918	7,500	(28,418)	-
Fair Housing	D	14.401	10/01/13-09/30/14	FF-203-K-14-3012	34,386	-	22,385	8,032	(14,353)	-
Fair Housing	D	14.401	10/01/14-09/30/15	FF-203-K-15-3012	33,800	-	16,800	-	(16,800)	-
Subtotal						11,449	82,297	15,592	(55,256)	-
TOTAL U.S. DEPARTMENT OF HOUSING						(1,188,486)	5,185,244	8,519,701	(1,315,432)	1,027,923
U.S. DEPARTMENT OF JUSTICE										
Edward Byrne Memorial Justice Assistance Program	D	16.738	10/01/11-09/30/15	2012-DJ-BX-0092	77,314	419	419	28,424	28,424	-
Edward Byrne Memorial Justice Assistance Program	D	16.738	10/01/12-09/30/16	2013-DJ-BX-1018	82,999	1,719	1,719	35,648	35,648	-
Edward Byrne Memorial Justice Assistance Program	D	16.738	10/01/13-09/30/17	2014-DJ-BX-0966	91,999	11,740	9,947	29,807	31,600	-
Edward Byrne Memorial Justice Assistance Program	D	16.738	10/01/14-09/30/18	2015-DJ-BX-0966	82,017	-	-	9,240	9,240	-
Edward Byrne Memorial Justice Assistance Program Cluster Subtotal						13,878	12,085	103,119	104,912	-
Bulletproof Vest Partnership	D	16.607		BJA 01004208	11,149	-	11,149	11,149	-	-
TOTAL U.S. DEPARTMENT OF JUSTICE						13,878	23,234	114,268	104,912	-
FEDERAL EMERGENCY MANAGEMENT AGENCY										
Passed through Pennsylvania Emergency Management Agency Staffing for Adequate Fire and Emergency Response Program	D	97.083	03/09/13-03/08/15	EMW-2012-FH-00197	3,301,749	155,758	979,640	911,176	87,294	-

CITY OF READING

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - CONTINUED

December 31, 2015

Federal Grantor/Pass Through Grantor/Program Title	Source Code	Federal CFDA Number	Grant Period	Grant Contract	Total Award	Accrued (Unearned) 12/31/14	Amount Received	Revenue/ Expenditures	Accrued (Unearned) 12/31/15	Pass-through Funds
U.S. EQUAL EMPLOYMENT OPPORTUNITY COMMISSION Equal Employment Opportunity Commission	D	30.001		EECCN110067	23,300	-	6,450	6,450	-	-
DEPARTMENT OF AGRICULTURE Farmers' Market and Local Food Promotion Program	D	10.168	09/30/15-09/29/17	15FMPPPA0164	48,084	-	-	7,585	7,585	7,585
DEPARTMENT OF TRANSPORTATION Passed through the Commonwealth of Pennsylvania Department of Transportation Transportation Enhancement Funds	I	20.205	04/10/12-04/09/17	057231	906,150	-	45,638	82,587	36,949	-
DEPARTMENT OF INTERIOR, NATIONAL PARK SERVICE Passed through the Commonwealth of Pennsylvania Historical and Museum Commission Historical Preservation Fund Grants-In-Aid	I	15.904	08/01/15-07/31/16	42-15-131238	15,000	-	12,800	13,580	780	-
TOTAL FEDERAL AWARDS						<u>\$ (1,018,850)</u>	<u>\$ 6,253,006</u>	<u>\$ 9,655,347</u>	<u>\$ (1,077,912)</u>	<u>\$ 1,035,508</u>

* Prior year receivable reduced by \$12,897

Source Codes - I = Indirect; D = Direct

CITY OF READING

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

December 31, 2015

NOTE 1 - BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal award activity of the City of Reading under programs of the federal government for the year ended December 31, 2015. 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 MINIMUS RATE FOR INDIRECT COSTS

The City did not elect to use the de minimus 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, 2015 the City had the following Section 108 loan activity:

Outstanding Loans at 12/31/2014	Proceeds	Payments	Outstanding Loans at 12/31/2015
\$ 3,461,333	\$ 1,750,000	\$ (796,678)	\$ 4,414,655



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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
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, as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise the City of Reading's basic financial statements, and have issued our report thereon dated October 24, 2016. We did not audit the financial statements of the Reading Area Water Authority or the Reading Redevelopment Authority. Those statements were audited by other auditors whose reports have been furnished to us.

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) to determine the 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 preceding 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 cost, we identified certain deficiencies in internal control that we consider to be 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 these deficiencies described in the accompanying schedule of findings and questioned costs to be material weaknesses: 2015-001, 2015-003, and 2015-005 through 2015-007.

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 these deficiencies described in the accompanying schedule of findings and questioned costs to be significant deficiencies, 2015-002, 2015-004, and 2015-008 through 2015-010.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Reading'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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as items 2015-003, 2015-005, 2015-006, 2015-009, and 2015-010.

City of Reading's Response to Findings

The City of Reading's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The City of Reading's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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
October 24, 2016**



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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
Reading, Pennsylvania**

Report on Compliance for Each Major Federal Program

We have audited the City of Reading, Pennsylvania's compliance with the types of compliance requirements described 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, 2015. 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.

Management's Responsibility

Management is responsible for compliance with requirements of federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the City of Reading, Pennsylvania's major federal programs based on our audit of the types of compliance requirements referred to above. 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). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Reading, Pennsylvania's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the City of Reading, Pennsylvania's compliance.

Opinion on Each Major Federal Program

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, 2015.

Other Matters

The results of our auditing procedures disclosed other 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 2015-006, 2015-010, and 2015-011. Our opinion on each major federal program is not modified with respect to these matters.

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

Report on Internal Control Over Compliance

Management of the City of Reading, Pennsylvania is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City of Reading, Pennsylvania's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program 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 internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City of Reading, Pennsylvania's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses and 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 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. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2015-001 and 2015-006 to be material weaknesses.

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 deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2015-010 and 2015-011 to be significant deficiencies.

The City of Reading, Pennsylvania's response to the internal control over compliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The City of Reading, Pennsylvania's response was not subjected to the 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
October 24, 2016

CITY OF READING

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

December 31, 2015

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? X Yes no

Federal Awards

Internal Control over major programs:
Material weakness(es) identified? X Yes 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>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
14.218	Community Development Block Grant/Entitlement Grant
14.248	Section 108 Loan Guarantee Program
14.239	Home Investment Partnerships Program
97.083	Staffing for Adequate Fire and Emergency Response Program

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, 2015

Section II - Financial Statement Findings

2015-001 ACCOUNT RECONCILIATIONS/MATERIAL ADJUSTMENTS POSTED AS A RESULT OF THE AUDIT - MATERIAL WEAKNESS

See Section III - Federal Award Findings and Questioned Costs

2015-002 CASH DISBURSEMENTS - SEGREGATION OF DUTIES - SIGNIFICANT DEFICIENCY

Criteria

For the year ended December 31, 2015, the process for the City to disburse funds includes the option of an accounts payable request form that is required to be approved by the initiating department and the finance department. The managing director must also approve the voucher when a specific dollar threshold is met.

Condition

Our audit included testing a sample of 60 disbursements during the year. From our sample, support for one disbursement could not be located by the finance department for testing. Therefore, it was not possible to test controls related to the disbursement. We also noted 10 instances where the same individual was signing for two different approvals on the Accounts Payable Approval Form. Finally, we noted one instance where a disbursement from petty cash had no management signature indicating approval.

Cause

The use of the Accounts Payable Approval Form is a cumbersome process that involves several approvals for payment. When an individual is unavailable for approval or a payment is needed immediately, the form also allows for the circumventing of controls in place.

Effect

The City may not maintain the proper segregation of duties over certain cash disbursements. As a result, there are instances where no documented evidence exists that certain members of management had reviewed disbursements, which is required under the current policy. This could allow for the City to be more susceptible to misappropriation of assets.

Recommendation

The City has an electronic purchase order process which allows for more timely approval and payment of expenditures. Out of a sample of 60 disbursements tested in the current year, only 23 went through the electronic purchase order process. During 2016 management worked to develop new procedures utilizing this function of the software, limiting the use of the accounts payable approval form, which had allowed for the circumventing of controls as noted above. We commend the City on making the changes to the approval process during the year and encourage continued improvement when possible.

Management Response

See corrective action plan included in this report package.

CITY OF READING

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

December 31, 2015

2015-003 PENSION REPORTING - MATERIAL WEAKNESS

Criteria

The City reports annual wages 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 will be receiving from the Commonwealth.

Condition

The information reported on the AG 385 report contained multiple errors. During audit testing, the following items were noted: (1) Out of sample of 25 participants in the police pension plan, one officer was included in the AG-385 despite the fact that he had entered DROP in 2013 and should be treated as a retiree for reporting purposes; (2) Due to an importing error, the correct financial data did not line up with the appropriate individual for eight out of the 25 participants tested in the firemen's pension plan; (3) From a sample of 75 participants tested, we noted 11 instances where gross pay reported on the AG-385 did not agree to gross pay per the payroll software system because of the import not including any pay corrections that were issued via accounts payable checks; (4) From a sample of 75 participants, we noted three employees who retired during the year for which complete salary information was not reflected on the AG-385; (5) Out of a sample of 25 participants in the police pension plan, we noted one officer for whom the proper amount of pension withheld was understated by \$6 on the AG-385; (6) From a sample of 75 participants, there were four individuals for which City employees could not reconcile differences in pension eligible pay reported on the AG-385 compared to withholdings noted in the payroll software.

Cause

These errors were generated through a lack of oversight over the accuracy of the reports used to complete the AG-385 form and review of the completed form before submission.

Effect

The information submitted on Form AG-385 was not in agreement with the activity recorded in the payroll software system. These errors could lead to the City having to repay a portion of the pension aid received from the Commonwealth.

Recommendation

We recommend a member of management continues to obtain the proper training to be able to assist in completing and review Form AG-385 with the proper supporting documentation. We also recommend that a written standard operating procedure is developed to assist in understanding the internal reports needed to properly complete the form.

Management Response

See corrective action plan included in this report package.

CITY OF READING

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

December 31, 2015

2015-004 PAYROLL REVIEW PROCEDURES - SIGNIFICANT DEFICIENCY

Criteria

Procedures and internal controls related to processing payroll for hourly employees and extra pay vary by department with no standard review procedures in place.

Condition

During audit testing we noted one employee out of a sample of 60 who was paid incorrectly.

Cause

Currently time cards are entered into a spreadsheet by a time keeper in each division. The correct number of supplemental days was properly recorded on the time card, but was not properly entered into the spreadsheet which is uploaded to the payroll software for processing. There is no review of timecards entered onto the spreadsheet at this time.

Effect

The individual was underpaid and controls at the City did not detect the error. Lack of controls over payroll can allow errors in time charged and allocated among divisions to pass undetected.

Recommendation

We recommend that the City put a review process in place to verify amounts entered on time spreadsheets against time cards for accuracy. We also suggest a standard procedure for review of timecards and payroll information across all departments to allow for consistency and efficiency.

Management Response

See corrective action plan included in this report package.

CITY OF READING

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

December 31, 2015

2015-005 GRANT ADMINISTRATION - MATERIAL WEAKNESS

Criteria

The City applies for and receives grants through various funding sources to be used in numerous departments within the City. Grants are tracked differently depending on which department they relate to and there is currently no centralized procedure for grant administration.

Condition

The City uses project accounting to track grant activity, and failure to accurately code expenses and receipts to the proper project lead to material adjustments needed at year end to reconcile grant activity. It was noted in our procedures that activity recorded in project accounting was not accurately maintained throughout the year.

Cause

Due to turnover in staff members in multiple departments as well as a lack of oversight from management, the reconciliations within project accounting for grants was not accurately and properly maintained.

Effect

The City did not have a system in place to capture complete and accurate grant information. Without proper reconciliations, the City risks not completing reports or drawdowns timely, which creates a risk of loss of current or future funding. In one instance, we noted three requests from a federal agency to complete a drawdown of federal funds before it was processed by the City. We also noted instances of delayed drawdowns, occurring up to more than four months after the related expenditures were paid. Additionally, we noted instances where reports required by grants were not filed timely.

Recommendation

We recommend that the City re-evaluate its procedures for tracking grant activity within project accounting, as well as tracking compliance deadlines for reporting and other requirements. It is important to not only assign responsibility for grant activity, but also accountability in the form of oversight and review by management.

Management Response

See corrective action plan included in this report package.

CITY OF READING

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

December 31, 2015

2015-006 PREPARATION OF SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (SEFA) - MATERIAL WEAKNESS

See Section III - Federal Award Findings and Questioned Costs

2015-007 PREPARATION OF BANK RECONCILIATIONS - MATERIAL WEAKNESS

Criteria

Cash is a material account for the City with a large amount of activity. The City has numerous bank accounts that are reconciled on a monthly basis. During our testing we noted that the reconciliation of the general disbursement account, which is utilized for most disbursement and receipt activity, was not being performed timely. Performing timely and accurate bank reconciliations is a key control in properly reporting activity and detecting misappropriation of assets.

Condition

The City did not complete the bank reconciliations for the main operating account through which most receipts and disbursements flow from September 2015 through December 2015 until August of 2016.

Cause

The turnover in finance personnel, a lack of understanding of all the transactions that are accounted for through the account, and a lack of standard operating procedures has not allowed the City to accurately reconcile the account.

Effect

Without accurate bank reconciliations, the City cannot be sure that all activity is being captured properly within the general ledger. A lack of timely and accurate reconciliations also increases the risk for misappropriation of assets to go undetected.

Recommendation

We recommend that the City dedicate an individual within the finance department to develop standard operating procedures for preparing a timely reconciliation. We also recommend that the policy include responsibility for certain personnel, accountability for meeting a deadline, and the proper review of the reconciliation by a member of management who has an understanding of the account. We understand the staff turnover in financial positions; however, this reconciliation is a complex process with many different factors which makes it imperative that additional members of the finance department gain a complete understanding of the transactions that affect this account and then timely and accurately reconcile the activity to the general ledger monthly.

Management Response

See corrective action plan included in this report package.

CITY OF READING

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

December 31, 2015

2015-008 REPORTING OF FIXED ASSETS - SIGNIFICANT DEFICIENCY

Criteria

The governmental funds of the City expense fixed asset purchases during the year in compliance with the modified accrual basis of accounting. A procedure should be in place to identify expenses that should be reported as fixed assets in compliance with the City's capitalization policy. The proprietary funds of the City report capital assets and accumulated depreciation within the fund statements. A procedure should be in place to reconcile all fixed asset accounts, including construction in process at year end.

Condition/Cause

During our audit procedures related to fixed assets, we found that the accounting department was properly updating depreciation schedules and recording monthly depreciation for the proprietary and governmental funds. However, we noted mathematical errors within the calculations and several additions were improperly excluded from the schedules. Additionally, there was no reconciliation of construction in process balances performed for the year. The City did maintain a list of project costs related to construction in process in the proprietary funds, but the schedule was not reconciled to the trial balance and several adjustments were required to properly account for current year activity.

Effect

The City was not in compliance with generally accepted accounting principles related to reporting capitalized assets. Material adjustments were also reported in the proprietary funds which report on the full accrual basis including adjustments for construction in process.

Recommendation

In order to be in compliance with generally accepted accounting principles, the City should have a standard operating procedure that assigns responsibility to individuals for reviewing potential fixed asset additions, making a determination on capitalization of those costs and updating the fixed asset records timely. A schedule for construction in process, reconciling to the trial balance and detailing commitments outstanding should also be prepared and reviewed for accuracy by a member of management.

Management Response

See corrective action plan included in this report package.

CITY OF READING

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

December 31, 2015

2015-009 DEPARTMENT OF COMMUNITY AND ECONOMIC DEVELOPMENT REPORTING REQUIREMENTS - SIGNIFICANT DEFICIENCY

Criteria

The Department of Community and Economic Development (DCED) requires that municipalities file several annual reports by stated deadlines, including: (1) Municipality Report of Elected and Appointed Officials (due January 31st); (2) Tax Information Form (due January 16th); and (3) Survey of Financial Condition (due March 31st).

Condition

The Municipality Report of Elected and Appointed Officials was filed in March 2016 and the Tax Information Form and Survey of Financial Condition were not filed until May 2016 when the noncompliance was noted by the auditors.

Cause

Due to turnover in management and lack of communication between certain departments, the required forms were not filed with the DCED timely.

Effect

The City was not in compliance with DCED reporting requirements. Because of the failure to file the forms timely, the City's liquid fuels distribution was delayed from March until the end of May.

Recommendation

In order to be in compliance with DCED requirements, the City should have a standard operating procedure that assigns responsibility to individuals for tracking deadlines and completing the required reports.

Management Response

See corrective action plan included in this report package.

2015-010 LOAN PORTFOLIO MAINTENANCE - PROGRAM INCOME - SIGNIFICANT DEFICIENCY

See Section III - Federal Award Findings and Questioned Costs

CITY OF READING

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

December 31, 2015

Section III - Federal Award Findings and Questioned Costs

2015-001 ACCOUNT RECONCILIATIONS/MATERIAL ADJUSTMENTS POSTED AS A RESULT OF AUDIT - MATERIAL WEAKNESS

Federal Program

Community Development Block Grant 14.218 - Contracts B14MC420013, and B15MC420013: Home Investment Partnership Program 14.239 - Contracts M13MC420204, M14MC420204, and M15MC420204:

Criteria

AU Section 325 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 by the entity's internal control" should be regarded as a material weakness in internal controls.

Condition

Material audit adjustments were proposed during the audit and recorded to properly reflect accounts on the financial statement. Certain material balance sheet accounts were not accurately and properly reconciled throughout the year.

Cause

The turnover in accounting and community development office staff and the reduced number of accounting staff throughout the year contributed to certain reconciliations not being performed timely.

Effect

Significant adjustments are posted at year-end to bring numerous other funds and accounts into compliance with reporting under U.S. generally accepted accounting standards. As a result of the reconciliations and other monitoring activities not being performed, the financial statements were materially misstated at year end.

Questioned Costs

None

Context

The City operates on a cash basis throughout the year for the governmental activities. Adjustments to convert to the accrual basis of accounting are made subsequent to year end. City personnel also spent a large quantity of time after year end reclassifying and properly reporting project activity within the grant funds. Over 30 entries were posted in each of two funds to properly report the grant proceeds and the related expenditures under the correct funding source and project number.

Repeat Finding

Yes. See 2014-001

CITY OF READING

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

December 31, 2015

2015-001 ACCOUNT RECONCILIATIONS/MATERIAL ADJUSTMENTS POSTED AS A RESULT OF AUDIT - Continued

Recommendation

The accounting department should review and document its policies and procedures for key transaction classes to ensure that the appropriate individual is assigned the proper task and has the tools necessary to complete that task effectively and efficiently. We also recommend that a further understanding of the reports needed and the analysis of said reports be obtained by the appropriate personnel in order to identify possible under/overstatements in material accounts and investigate the possible cause. It is strongly recommended that these material accounts are reconciled monthly to the general ledger and deadlines are setup for accountability of preparation and review.

Management Response

See corrective action plan included in this report package.

2015-006 PREPARATION OF SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (SEFA) - MATERIAL WEAKNESS

Federal Program

Community Development Block Grant 14.218 - Contracts B14MC420013, and B15MC420013: Home Investment Partnership Program 14.239 - Contracts M13MC420204, M14MC420204, and M15MC420204: and Staffing for Adequate Fire and Emergency Response Program - 97.083

Criteria

Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) requires the auditee to prepare a complete and accurate SEFA.

Condition

The City does not prepare a SEFA containing all required information.

Cause

The City provided information relating to the federal programs including agreements and other supporting documentation. However, due to the decentralized nature of grant reporting in the City, and the inaccurately reporting of grants in project accounting throughout the year, a complete SEFA was not updated from the prior year.

Effect

With the turnover in finance department staff, no schedule was maintained noting the federal awards received, expenditures are incurred, and receivables due at year end. The SEFA was subsequently updated through further inquiry and documentation of awards received.

Questioned Costs

None

CITY OF READING

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

December 31, 2015

2015-006 PREPARATION OF SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (SEFA) - CONTINUED

Context

The material adjustments posted to reclassify revenues and expenses to the proper funding source significantly impact the City's ability to produce an accurate SEFA. The City also does not currently have a strong system to identify and track grants that are from a federal agency outside of the community development office. Statistical sampling was not used in testing this item.

Repeat Finding

Yes. See 2014-006

Recommendation

In order to be aware of all compliance requirements from the Compliance Supplement and prepare a complete and accurate SEFA, management should have an awareness of all federal related grants applied for and received by the City. Once grants are approved, the CFDA numbers, grant award documentation, and any other relevant information should be forwarded to the finance office to properly compile the SEFA. Due to the decentralized nature of the grant reporting, we recommend the City designate an individual to be responsible for assembling the report. This individual should establish a timeframe for all City departments handling federal funds to assemble their information and submit it for inclusion in the SEFA.

Management Response

See corrective action plan included in this report package.

2015-010 LOAN PORTFOLIO MAINTENANCE - PROGRAM INCOME - SIGNIFICANT DEFICIENCY

Federal Program

Community Development Block Grant 14.218 - Contracts B14MC420013, and B15MC420013

Criteria

Program income is defined under Title 2 CFR Part 200.80. This section of the code defines the sources of program income and how it is to be reported and utilized. Program income is gross income received that is directly generated by the federally funded project during the grant period. It is subject to the same restrictions as the entitlement funds for a project.

Condition

During our testing, we noted that the City was not updating the PIDC loan accounting system for the issuance of new loans or the receipt of loan payments during the year. Payments were received and accounted for in the general ledger, but they were not applied to the outstanding loan to allow for an accurate loan portfolio report for review. Many of the loan payments received are program income related to the CDBG program.

Cause

Turnover occurred in the community development office during the year. The lack of job descriptions and responsibilities did not allow for new employees to effectively maintain all the responsibilities of the positions.

CITY OF READING

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

December 31, 2015

2015-010 LOAN PORTFOLIO MAINTENANCE - PROGRAM INCOME - CONTINUED

Effect

The City is not properly and accurately tracking and reconciling the activity within the loan portfolio. The activity includes payments for federal loans such as Section 108 loans in which the City pledges future grant money to secure.

Questioned Costs

None noted.

Context

The City of Reading has issued loans to various companies to help economic development. Many of the loan funds were generated by a federal program and have compliance requirements for their use. Payments from the companies repaying those loans are accounted for as program income to be used in accordance with program regulations. During our procedures, it was noted that the loan portfolio system has not been accurately updated in several years. Without an update portfolio, it is difficult for the City to properly enforce collection on those outstanding balances.

Repeat Finding

No.

Recommendation

We recommend that the community development fiscal officer timely enter new loans and payments received from outstanding loans into the PIDC loan accounting software and generate a loan status report for review as a part of the monthly closing process. We also encourage the City to evaluate the individuals that are being sent to trainings for specific programs to allow the City to stay in the best position possible for understanding and complying with any loan accounting requirements and procedures. Trainings should also be attended by individuals responsible for oversight and accountability of program compliance.

Management Response

See corrective action plan included in this report package.

CITY OF READING

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

December 31, 2015

2015-011 CASH MANAGEMENT - SIGNIFICANT DEFICIENCY

Federal Program

Community Development Block Grant 14.218 - Contracts B14MC420013, and B15MC420013

Criteria

Cash management procedures are defined under Title 2 CFR Part 200.305 (b). Non-Federal entities other than states, payments methods must minimize the time elapsing between the transfer of funds from the United States Treasury or the pass-through entity and the disbursement by the non-Federal entity whether the payment is made by electronic funds transfer, or issuance or redemption of checks, warrants, or payment by other means. Under 2 CFR 20.302 (b)(6) the entity is required to have written procedures to stay in compliance with cash management requirements.

Condition/Cause

During September through November of 2015, the City drew down federal funds in advance of actual costs incurred. The draw down request forms authorized by the program manager did not accurately reflect the costs incurred for the program during that time period.

Effect

The City was not in compliance with the cash management regulations set forth under Title 2 CFR Part 200.305. CDBG entitlement funds were drawn in advance of incurring the allowable cost.

Questioned Costs

None noted.

Context

The City of Reading utilized Community Development Block Grant money for code enforcement building inspections in a Department of Housing and Urban Development approved area within the City. The spreadsheets utilized to authorize the drawdown of funds for this project were approved but included a health inspector which is not part of the City's Community Development Block Grant program, allowing for over \$30,000 of entitlement funds to be drawn before expenses were incurred. Revised documentation was provided and tested that noted eligible expenses were incurred in November and December of 2015 to offset the early draw down of funds. Statistical sampling was not used in this testing.

Repeat Finding

No.

Recommendation

Before being submitted for drawdown approval, a management level person should review the request to ensure that only applicable people are included and the services being requested for reimbursement have in fact occurred. We also recommend the City develop a written policy establishing procedures for drawing down CDBG entitlement funds to be in compliance for Title 2 CFR Part 200.305 (b).

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 FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

December 31, 2015

2014-001 ACCOUNT RECONCILIATIONS/MATERIAL ADJUSTMENTS POSTED AS A RESULT OF THE AUDIT

Federal Program

Community Development Block Grant 14.218 - Contracts B10MC420013, B13MC420013, and B14MC420013;
Home Investment Partnership Program 14.239 - Contracts M11MC420204, M12MC420204, and M13MC420204;
and Staffing for Adequate Fire and Emergency Response Program 97.083

Criteria

AU Section 325 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 by the entity's internal control" should be regarded as a material weakness in internal controls.

Condition/Cause

Material audit adjustments were proposed during the audit and recorded to properly reflect material accounts on the financial statement. The accounting department only records accounts receivable at year end for governmental funds. In addition, significant adjustments are posted at year end to bring numerous other funds and accounts into compliance with reporting under U.S. generally accepted accounting standards.

Effect

As a result of the reconciliations and other monitoring activities not being performed, the financial statements were materially misstated at year end.

Recommendation

The accounting department should review and document its policies and procedures for key transaction classes to ensure that the appropriate individual is assigned the proper task and has the tools necessary to complete that task effectively and efficiently. We also recommend that a further understanding of the reports needed and the analysis of said reports be obtained by the appropriate personnel in order to identify possible under/overstatements in material accounts and investigate the possible cause. It is strongly recommended that these material accounts are reconciled monthly to the general ledger and deadlines are setup for accountability of preparation and review.

Management Response

Management has developed a process assigning responsibility by fund to maintain reconciliations on a monthly basis, has set a scheduled monthly closing of account records, and is establishing training for all new responsible parties.

Current Status of Corrective Action Plan

See corrective action plan included in this report package related to finding 2015-001.

CITY OF READING

STATUS OF PRIOR YEAR FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

December 31, 2015

2014-002 CASH DISBURSEMENTS - SEGREGATION OF DUTIES

Federal Program

Community Development Block Grant 14.218 - Contracts B10MC420013, B13MC420013, and B14MC420013:
Home Investment Partnership Program 14.239 - Contracts M11MC420204, M12MC420204, and M13MC420204:
and Staffing for Adequate Fire and Emergency Response Program - 97.083

Criteria

The process for the City to disburse funds includes an accounts payable request form that is required to be approved by the initiating department and the finance department. The managing director must also approve the voucher when a specific dollar threshold is met.

Condition/Cause

The assistant to the director of administrative services was given the responsibility to sign on behalf of numerous other individuals, thus eliminating critical review steps in the control process.

Effect

The City no longer has appropriate segregation of duties over certain cash disbursements. As a result, there are instances where no documented evidence exists that certain members of management had reviewed numerous disbursements which is required under the current policy. This could allow for the City to be more susceptible to misappropriation of assets. In April 2014, the City did update this policy and no deviations were noted from that point forward in our testing.

Recommendation

The City has an electronic purchase order process which allows for more timely approval and payment of expenditures. Although better use of the purchase order process was noted in the current year, payment timeliness which includes the proper authorizations would continue to improve with additional use of the electronic purchase order process. We commend the City on making the changes to the approval process during the year and encourage continued improvement when possible.

Management Response

Management is requiring all authorized signers to be responsible for reviewing payments. The assistant to the finance director is not permitted to sign on behalf of other individuals and changes to dollar thresholds have been made. This process has been in place since April 2014. The City continues to increase the use of electronic purchase orders, with the Administrative Services department directing that City departments make use of the electronic purchase order process whenever possible.

Current Status of Corrective Action Plan

See corrective action plan in this report package related to finding 2015-002.

CITY OF READING

STATUS OF PRIOR YEAR FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

December 31, 2015

2014-003 PENSION REPORTING

Criteria

The City reports annual wages related to their active pension plans on Form AG-385 and submits the form to the commonwealth. The form is used to assist in the calculation of annual pension subsidy the City will be receiving from the commonwealth.

Condition/Cause

There has been turnover in the pension administrator position as well as the payroll process migrating from an internal payroll process to an external payroll processor. This turnover and change in payroll process has not allowed any individual to gain comfort with the requirements of the Form AG-385 and an understanding of the reports necessary to complete the form accurately for 2014.

Effect

During our procedures, we noted several instances where the pension eligible pay reported on the AG-385 report did not agree to the pensionable wages amounts reported from the payroll processing company.

Recommendation

There are many challenging aspects in reporting pension information. We recommend a member of management continues to obtain the proper training to be able to complete and review AG-385 with the proper supporting documentation. We also recommend that a written standard operating procedure is developed to assist in understanding the internal reports needed to properly complete the form.

Management Response

Management has developed and documented operating procedures within the administration area which includes the pension functions. Cross training has occurred so multiple staff are trained in the process.

Current Status of Corrective Action Plan

See corrective action plan in this report package related to finding 2015-003.

CITY OF READING

STATUS OF PRIOR YEAR FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

December 31, 2015

2014-004 BANK ACCOUNTS NOT RECORDED ON THE GENERAL LEDGER

Criteria

In order for complete financial information to be captured and internal controls to function properly, all bank accounts need to be recorded on the general ledger.

Condition/Cause

During the current year the City assumed collection of delinquent recycling accounts back from a third party collector. These receipts were deposited into a bank account in order to track them separately. The transactions within this account became material, totaling over \$200,000 of receipts during the year, but no account activity was reported within the general ledger until transfers were made to move the money into the recycling fund bank account. During audit fieldwork an entry was proposed to capture all the account activity and ending balance for the year ended December 31, 2014.

Effect

Having cash accounts off the general ledger can increase the risk for misappropriation of assets and compromise the accuracy of financial reporting.

Recommendation

We recommend that all bank accounts be recorded on the general ledger. Activity from these accounts should also be recorded within the software and reconciled on a monthly basis.

Management Response

Management will ensure, via operating procedure, that all bank accounts will be recorded in the general ledger and reconciled on a monthly basis.

Current Status of Corrective Action Plan

This is no longer a finding in the current year.

CITY OF READING

STATUS OF PRIOR YEAR FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

December 31, 2015

2014-005 MONITORING - STATE GRANTS/PENNVEST

Criteria

The City receives state grants and other assistance to support various projects throughout the City. The majority of these grants and other assistance are cost reimbursement based; the City must spend the money first and then apply for reimbursement from the awarding agency.

Condition/Cause

It was noted in our procedures that the City was approved for an H2O grant totaling \$1,000,000 from the Pennsylvania Department of Community and Economic Development. This grant was to be used to reimburse 66 percent of the eligible costs up to \$1,000,000 for the rehabilitation of a digester at the sewer treatment plant. As of December 31, 2014, over \$850,000 has been spent on the project, but no requests for payment have been submitted and approved by the grantor.

The City was also awarded a PENNVEST loan in the amount of \$10,013,950 to support the 42" sewer force-main project. Total draw downs on the loan through December 31, 2014 were \$506,043 while the City incurred project costs in excess of \$12,800,000.

Effect

The City has been paying for the costs incurred on both projects noted above without the timely filing of the required reports to obtain reimbursement funds. This delay in receiving funds has a negative effect on the City's cash flow and could jeopardize the receipt of future funding.

Recommendation

We recommend that the City re-evaluate its procedures for tracking reimbursement requests from grant and other assistance programs. These procedures should include deadlines for timely filing of required forms and assign accountability to a person to monitor this activity. With the City being awarded two new PENNVEST loans for the wastewater treatment plant construction totaling over \$121,000,000 it is imperative that a solid process is in place for completing the proper documentation.

Management Response

Management has established a process by which all future Pennvest loan and H2O grant reimbursement requests will be submitted on a monthly basis.

Current Status of Corrective Action Plan

This is no longer a finding in the current year.

CITY OF READING

STATUS OF PRIOR YEAR FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

December 31, 2015

2014-006 PREPARATION OF SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (SEFA)

Federal Program

Community Development Block Grant 14.218 - Contracts B10MC420013, B13MC420013, and B14MC420013:
Home Investment Partnership Program 14.239 - Contracts M11MC420204, M12MC420204, and M13MC420204:
and Staffing for Adequate Fire and Emergency Response Program - 97.083

Criteria

OMB Circular A-133, Section 310(b) requires the auditee to prepare a complete and accurate SEFA.

Condition/Cause

The City does not prepare a SEFA containing all required information. The City provided information relating to the federal programs including agreements and other supporting documentation. However, due to the decentralized nature of grant reporting in the City, a complete SEFA for major programs was not updated from the prior year.

Effect

With the turnover in finance department staff, no schedule was maintained noting the awards received, expenses incurred, and receivables due at year end. The SEFA was subsequently updated through further inquiry and documentation of awards received.

Recommendation

In order to be aware of all compliance requirements from the A-133 Compliance Supplement and prepare a complete and accurate SEFA, management should have an awareness of all federal related grants applied for and received by the City. Once grants are approved, the CFDA numbers, grant award documentation, and any other relevant information should be forwarded to the finance office to properly compile the SEFA. Due to the decentralized nature of the grant reporting, we recommend the City designate an individual to be responsible for assembling the report. This individual should establish a timeframe for all City departments handling federal funds to assemble their information and submit it for inclusion in the SEFA.

Management Response

The Finance office has established a process by which the SEFA will be prepared, and will compile the SEFA upon receipt of the CFDA number, grant award documentation, and other relevant information.

Current Status of Corrective Action Plan

See corrective action plan included in this report package related to finding 2015-006.

CITY OF READING

STATUS OF PRIOR YEAR FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

December 31, 2015

2014-007 PREPARATION OF BANK RECONCILIATIONS

Federal Programs

Community Development Block Grant 14.218 - Contracts B10MC420013, B13MC420013, and B14MC420013:
Home Investment Partnership Program 14.239 - Contracts M11MC420204, M12MC420204, and M13MC420204:
and Staffing for Adequate Fire and Emergency Response Program - 97.083

Criteria

Cash is a material account for the City with a large amount of activity. The City has numerous bank accounts that are reconciled on a monthly basis. During our testing we noted that the reconciliation of the general disbursement account, which is utilized for most disbursement and receipt activity, was not being performed timely. Performing timely and accurate bank reconciliations is a key control in properly reporting activity and detecting misappropriation of assets.

Condition/Cause

The City did not complete the bank reconciliation for the main operating account through which most receipts and disbursements flow throughout 2014. The turnover in finance personnel, a lack of understanding of all the transactions that are accounted for through the account, and a lack of standard operating procedures has not allowed the City to accurately reconcile the account.

Effect

Without accurate bank reconciliations, the City cannot be sure that all activity is being captured properly with the general ledger and also increases the risk for misappropriation of assets to go undetected. Reconciliations were completed in August 2015 for the months ended November and December 2014, as well as January and February 2015 noting a consistent variance of approximately \$250,000.

Recommendation

We recommend that the City dedicate an individual within the finance department to develop standard operating procedures for preparing a timely reconciliation. We also recommend that the policy include responsibility for certain personnel, accountability for meeting a deadline, and the proper review of the reconciliation by a member of management who has an understanding of the account. We understand the staff turnover in financial positions; however, this reconciliation is a complex process with many different factors which makes it imperative that additional members of the finance department gain a complete understanding of the transactions that affect this account and then timely and accurately reconcile the activity to the general ledger monthly.

Management Response

Management is establishing the operating procedures for preparing a timely bank reconciliation, and will be setting up training for all staff members involved in activity affecting the GDA bank account in order to streamline the reconciliation process and aid in preparing a timely reconciliation.

Current Status of Corrective Action Plan

See corrective action plan included in this report package related to finding 2015-007.

CITY OF READING

STATUS OF PRIOR YEAR FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

December 31, 2015

2014-008 REPORTING OF FIXED ASSETS

Criteria

The governmental funds of the City expense fixed asset purchases during the year in compliance with the modified accrual basis of accounting. A procedure should be in place to identify expenses that should be reported as fixed assets in compliance with the City's capitalization policy. This report should also calculate the annual depreciation expense for the City.

Condition/Cause

During our audit procedures related to fixed assets, we noticed that the accounting department was properly updating depreciation schedules and recording monthly depreciation for the proprietary funds. Fixed asset additions were identified and properly accounted for at year end. However, expenses relating to construction in process were not tracked and capitalized in the proprietary funds during the year. With the turnover in several key finance department positions, the schedules for governmental fixed assets were not maintained throughout the year and were not received until August 2015.

Effect

The City was not in compliance with generally accepted accounting principles related to reporting capitalized assets. Material adjustments were also reported in the proprietary funds which report on the full accrual basis including adjustments for construction in process.

Recommendation

In order to be in compliance with generally accepted accounting principles, the City should have a standard operating procedure that assigns responsibility to individuals responsible for reviewing potential fixed asset additions, making a determination on capitalization of those costs and updating the fixed asset records timely.

Management Response

Management has developed and documented an operating procedure to determine capital expenditures, tracking construction in process activity, and to reconcile fixed asset related accounts on a monthly basis.

Current Status of Corrective Action Plan

See corrective action plan included in this report package related to finding 2015-008.



CITY OF READING, PENNSYLVANIA

815 WASHINGTON STREET
READING, PA 19601-3690

CORRECTIVE ACTION PLAN

December 31, 2015

U.S. Department of Housing and Urban Development
U.S. Department of Homeland Security

The City of Reading respectfully submits the following corrective action plan for the year ended December 31, 2015.

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

Audit period: December 31, 2015

The findings from the December 31, 2015 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

2015-001 ACCOUNT RECONCILIATIONS/MATERIAL ADJUSTMENTS POSTED AS A RESULT OF THE AUDIT

MATERIAL WEAKNESS

See Section III - Federal Award Findings and Questioned Costs

2015-002 CASH DISBURSEMENTS - SEGREGATION OF DUTIES

SIGNIFICANT DEFICIENCY

Condition

Our audit included testing a sample of 60 disbursements during the year. From our sample, support for one disbursement could not be located by the finance department for testing. Therefore, it was not possible to test controls related to the disbursement. We also noted 10 instances where the same individual was signing for two different approvals on the Accounts Payable Approval Form. Finally, we noted one instance where a disbursement from petty cash had no management signature indicating approval.

Cause

The use of the Accounts Payable Approval Form is a cumbersome process that involves several approvals for payment. When an individual is unavailable for approval or a payment is needed immediately, the form also allows for the circumventing of controls in place.

2015-002 CASH DISBURSEMENTS - SEGREGATION OF DUTIES - CONTINUED

Recommendation

The City has an electronic purchase order process which allows for more timely approval and payment of expenditures. Out of a sample of 60 disbursements tested in the current year, only 23 went through the electronic purchase order process. During 2016 management worked to develop new procedures utilizing this function of the software, limiting the use of the accounts payable approval form, which had allowed for the circumventing of controls as noted above. We commend the City on making the changes to the approval process during the year and encourage continued improvement when possible.

Management Response

Management is requiring all authorized signers to be responsible for reviewing payments. The assistant to the finance director is not permitted to sign on behalf of other individuals and changes to dollar thresholds have been made. This process has been in place since April 2014. The City continues to mandate the increased use of electronic purchase orders, with the Administrative Services department directing that City departments make use of the electronic purchase order process as policy dictates. The policy requires electronic purchase orders be used except in selected transaction types which greatly reduce the use of accounts payable check requests. The electronic purchase orders are routed through the City's accounting software to the required signers, so all reviewer signoffs are obtained, and no one can sign off who has not been authorized to do so.

2015-003 PENSION REPORTING

MATERIAL WEAKNESS

Condition

The information reported on the AG 385 report contained multiple errors. During audit testing, the following items were noted: (1) Out of sample of 25 participants in the police pension plan, one officer was included in the AG-385 despite the fact that he had entered DROP in 2013 and should be treated as a retiree for reporting purposes; (2) Due to an importing error, the correct financial data did not line up with the appropriate individual for eight out of the 25 participants tested in the firemen's pension plan; (3) From a sample of 75 participants tested, we noted 11 instances where gross pay reported on the AG-385 did not agree to gross pay per the payroll software system because of the import not including any pay corrections that were issued via accounts payable checks; (4) From a sample of 75 participants, we noted three employees who retired during the year for which complete salary information was not reflected on the AG-385; (5) Out of a sample of 25 participants in the police pension plan, we noted one officer for whom the proper amount of pension withheld was understated by \$6 on the AG-385; (6) From a sample of 75 participants, there were four individuals for which City employees could not reconcile differences in pension eligible pay reported on the AG-385 compared to withholdings noted in the payroll software.

Cause

These errors were generated through a lack of oversight over the accuracy of the reports used to complete the AG-385 form and review of the completed form before submission.

Recommendation

We recommend a member of management continues to obtain the proper training to be able to assist in completing and review Form AG-385 with the proper supporting documentation. We also recommend that a written standard operating procedure is developed to assist in understanding the internal reports needed to properly complete the form.

Management Response

Management has developed and documented operating procedures within the administration area which includes the pension functions. Due to turnover of staff involved in the review process of the AG-385, training involving both the ADP report and AG-385 report preparation and review processes will be held. This training will involve the pension coordinator, the compensation coordinator, the controller, and the city auditor. The process review will also include any interim reviews to test the accuracy of the detail reporting to identify any concerns before the year end reporting is prepared.

2015-004 PAYROLL REVIEW PROCEDURES

SIGNIFICANT DEFICIENCY

Condition

During audit testing we noted one employee out of a sample of 60 who was paid incorrectly.

Cause

Currently time cards are entered into a spreadsheet by a time keeper in each division. The correct number of supplemental days was properly recorded on the time card, but was not properly entered into the spreadsheet which is uploaded to the payroll software for processing. There is no review of timecards entered onto the spreadsheet at this time.

Recommendation

We recommend that the City put a review process in place to verify amounts entered on time spreadsheets against time cards for accuracy. We also suggest a standard procedure for review of timecards and payroll information across all departments to allow for consistency and efficiency.

Management Response

Management will ensure, via operating procedure, that proper procedures and processes are implemented to properly review that payroll data spreadsheets are agreed to the timecards to verify the accuracy and completeness of payroll reporting. Training for both timekeepers as well as human resources personnel involved in the payroll preparation review process will be scheduled.

2015-005 GRANTS ADMINISTRATION

MATERIAL WEAKNESS

Condition

The City uses project accounting to track grant activity, and failure to accurately code expenses and receipts to the proper project lead to material adjustments needed at year end to reconcile grant activity. It was noted in our procedures that activity recorded in project accounting was not accurately maintained throughout the year.

Cause

Due to turnover in staff members in multiple departments as well as a lack of oversight from management, the reconciliations within project accounting for grants was not accurately and properly maintained.

Recommendation

We recommend that the City re-evaluate its procedures for tracking grant activity within project accounting, as well as tracking compliance deadlines for reporting and other requirements. It is important to not only assign responsibility for grant activity, but also accountability in the form of oversight and review by management.

Management Response

Management has established a process by which all open projects, as of December 31st, 2015 as reflected in the City's project accounting records, have been reconciled to detail records and file kept by the grants coordinator, Community Development department, and the Human Relations committee personnel. Any projects which are no longer open according to these detail records, will be properly closed within the project accounting system records. This will allow City employees responsible for tracking these projects to better track their projects, as well as provide better recordkeeping for the Finance department to enable finance personnel to prepare the SEFA report.

2015-006 PREPARATION OF SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (SEFA)

MATERIAL WEAKNESS

See Section III - Federal Award Findings and Questioned Costs

2015-007 PREPARATION OF BANK RECONCILIATIONS

MATERIAL WEAKNESS

Condition

The City did not complete the bank reconciliations for the main operating account through which most receipts and disbursements flow from September 2015 through December 2015 until August of 2016.

Cause

The turnover in finance personnel, a lack of understanding of all the transactions that are accounted for through the account, and a lack of standard operating procedures has not allowed the City to accurately reconcile the account.

Recommendation

We recommend that the City dedicate an individual within the finance department to develop standard operating procedures for preparing a timely reconciliation. We also recommend that the policy include responsibility for certain personnel, accountability for meeting a deadline, and the proper review of the reconciliation by a member of management who has an understanding of the account. We understand the staff turnover in financial positions; however, this reconciliation is a complex process with many different factors which makes it imperative that additional members of the finance department gain a complete understanding of the transactions that affect this account and then timely and accurately reconcile the activity to the general ledger monthly.

Management Response

Management is establishing the operating procedures for preparing a timely bank reconciliation, and will be setting up training for all staff members involved in activity affecting the GDA bank account in order to streamline the reconciliation process, and aid in preparing a timely reconciliation. The City's newly hired accounting manager is currently focusing her efforts on preparing bank reconciliations for the General Disbursements Account in order to have the year end reconciliation prepared by February 28th, 2017.

2015-008 REPORTING OF FIXED ASSETS

SIGNIFICANT DEFICIENCY

Condition/Cause

During our audit procedures related to fixed assets, we found that the accounting department was properly updating depreciation schedules and recording monthly depreciation for the proprietary and governmental funds. However, we noted mathematical errors within the calculations and several additions were improperly excluded from the schedules. Additionally, there was no reconciliation of construction in process balances performed for the year. The City did maintain a list of project costs related to construction in process in the proprietary funds, but the schedule was not reconciled to the trial balance and several adjustments were required to properly account for current year activity.

Recommendation

In order to be in compliance with generally accepted accounting principles, the City should have a standard operating procedure that assigns responsibility to individuals for reviewing potential fixed asset additions, making a determination on capitalization of those costs and updating the fixed asset records timely. A schedule for construction in process, reconciling to the trial balance and detailing commitments outstanding should also be prepared and reviewed for accuracy by a member of management.

Management Response

Management has developed and documented an operating procedure to determine capital expenditures, tracking construction in process activity, and to reconcile fixed asset related accounts on a monthly basis. The Finance department will work with the parties responsible for updating the depreciation schedules, and to review the depreciation calculation process to ensure the accuracy of the expense. Monthly reconciliations of the construction in process schedule, and the recording of the activity in the City's project accounting system, will be reviewed by the controller and accounting manager. The tracking of the activity in the Sewer Fund will be critical as a result of the construction occurring as part of the wastewater treatment plant project, especially in conjunction with the City's Pennvest funding and reporting requirements.

2015-009 DEPARTMENT OF COMMUNITY AND ECONOMIC DEVELOPMENT REPORTING REQUIREMENTS

SIGNIFICANT DEFICIENCY

Condition

The Municipality Report of Elected and Appointed Officials was filed in March 2016 and the Tax Information Form and Survey of Financial Condition were not filed until May 2016 when the noncompliance was noted by the auditors.

Cause

Due to turnover in management and lack of communication between certain departments, the required forms were not filed with the DCED timely.

Recommendation

In order to be in compliance with DCED requirements, the City should have a standard operating procedure that assigns responsibility to individuals for tracking deadlines and completing the required reports.

Management Response

Management has developed and documented an operating procedure to assign responsibility for preparation and review of these reports, as well as enhancing communication and tracking of workflow between several departments involved in the process, so that deadlines can be met.

2015-010 LOAN PORTFOLIO MAINTENANCE - PROGRAM INCOME

SIGNIFICANT DEFICIENCY

See Section III - Federal Award Findings and Questioned Costs

Section III - Federal Award Findings and Questioned Costs

2015-001 ACCOUNT RECONCILIATIONS/MATERIAL ADJUSTMENTS POSTED AS A RESULT OF THE AUDIT

MATERIAL WEAKNESS

Federal Program

Community Development Block Grant 14.218 - Contracts B14MC420013, and B15MC420013: Home Investment Partnership Program 14.239 - Contracts M13MC420204, M14MC420204, and M15MC420204:

Condition

Material audit adjustments were proposed during the audit and recorded to properly reflect accounts on the financial statement. Certain material balance sheet accounts were not accurately and properly reconciled throughout the year.

Cause

The turnover in accounting and community development office staff and the reduced number of accounting staff throughout the year contributed to certain reconciliations not being performed timely.

Context

The City operates on a cash basis throughout the year for the governmental activities. Adjustments to convert to the accrual basis of accounting are made subsequent to year end. City personnel also spent a large quantity of time after year end reclassifying and properly reporting project activity within the grant funds. Over 30 entries were posted in each of two funds to properly report the grant proceeds and the related expenditures under the correct funding source and project number.

Recommendation

The accounting department should review and document its policies and procedures for key transaction classes to ensure that the appropriate individual is assigned the proper task and has the tools necessary to complete that task effectively and efficiently. We also recommend that a further understanding of the reports needed and the analysis of said reports be obtained by the appropriate personnel in order to identify possible under/overstatements in material accounts and investigate the possible cause. It is strongly recommended that these material accounts are reconciled monthly to the general ledger and deadlines are setup for accountability of preparation and review.

Management Response

Management has developed a process assigning responsibility by fund to maintain reconciliations on a monthly basis, has set a scheduled monthly closing of account records, and is establishing training for all new responsible parties. The positions of controller and accounting manager have been filled, which are key to the process of reviewing the preparation of monthly account reconciliations, and monitoring the timeline of the reconciliation process.

2015-006 PREPARATION OF SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (SEFA)

MATERIAL WEAKNESS

Federal Program

Community Development Block Grant 14.218 - Contracts B14MC420013, and B15MC420013: Home Investment Partnership Program 14.239 - Contracts M13MC420204, M14MC420204, and M15MC420204: and Staffing for Adequate Fire and Emergency Response Program - 97.083

Condition

The City does not prepare a SEFA containing all required information.

Cause

The City provided information relating to the federal programs including agreements and other supporting documentation. However, due to the decentralized nature of grant reporting in the City, and the inaccurately reporting of grants in project accounting throughout the year, a complete SEFA was not updated from the prior year.

Recommendation

In order to be aware of all compliance requirements from the Compliance Supplement and prepare a complete and accurate SEFA, management should have an awareness of all federal related grants applied for and received by the City. Once grants are approved, the CFDA numbers, grant award documentation, and any other relevant information should be forwarded to the finance office to properly compile the SEFA. Due to the decentralized nature of the grant reporting, we recommend the City designate an individual to be responsible for assembling the report. This individual should establish a timeframe for all City departments handling federal funds to assemble their information and submit it for inclusion in the SEFA.

Management Response

The Finance office has established a process by which the SEFA will be prepared, and will compile the SEFA upon receipt of the CFDA number, grant award documentation and other relevant information. This process will be monitored by the Finance department as part of the review of the trial balances and account reconciliations and will involve the grants coordinator, community development, and human relations commission personnel.

2015-010 LOAN PORTFOLIO MAINTENANCE - PROGRAM INCOME

SIGNIFICANT DEFICIENCY

Federal Program

Community Development Block Grant 14.218 - Contracts B14MC420013, and B15MC420013

Criteria

Program income is defined under Title 2 CFR Part 200.80. This section of the code defines the sources of program income and how it is to be reported and utilized. Program income is gross income received that is directly generated by the federally funded project during the grant period. It is subject to the same restrictions as the entitlement funds for a project.

Condition

During our testing, we noted that the City was not updating the PIDC loan accounting system for the issuance of new loans or the receipt of loan payments during the year. Payments were received and accounted for in the general ledger, but they were not applied to the outstanding loan to allow for an accurate loan portfolio report for review. Many of the loan payments received are program income related to the CDBG program.

Context

The City of Reading has issued loans to various companies to help economic development. Many of the loan funds were generated by a federal program and have compliance requirements for their use. Payments from the companies repaying those loans are accounted for as program income to be used in accordance with program regulations. During our procedures, it was noted that the loan portfolio system has not been accurately updated in several years. Without an update portfolio, it is difficult for the City to properly enforce collection on those outstanding balances.

Recommendation

We recommend that the community development fiscal officer timely enter new loans and payments received from outstanding loans into the PIDC loan accounting software and generate a loan status report for review as a part of the monthly closing process. We also encourage the City to evaluate the individuals that are being sent to trainings for specific programs to allow the City to stay in the best position possible for understanding and complying with any loan accounting requirements and procedures. Trainings should also be attended by individuals responsible for oversight and accountability of program compliance.

Management Response

In 2015, the Community Development department has experienced significant turnover. As a result, as part of the new administration, key personnel positions have been filled. The Finance department has worked with the new fiscal officer to review the process and procedures to review the loan portfolio, and has established a review schedule to monitor the loan portfolio for accuracy and completeness. Reconciliations of the portfolio will be traced to the trial balance as well.

2015-011 CASH MANAGEMENT

SIGNIFICANT DEFICIENCY

Federal Program

Community Development Block Grant 14.218 - Contracts B14MC420013, and B15MC420013

Condition/Cause

During September through November of 2015, the City drew down federal funds in advance of actual costs incurred. The draw down request forms authorized by the program manager did not accurately reflect the costs incurred for the program during that time period.

Context

The City of Reading utilized Community Development Block Grant money for code enforcement building inspections in a Department of Housing and Urban Development approved area within the City. The spreadsheets utilized to authorize the drawdown of funds for this project were approved but included a health inspector which is not part of the City's Community Development Block Grant program, allowing for over \$30,000 of entitlement funds to be drawn before expenses were incurred. Revised documentation was provided and tested that noted eligible expenses were incurred in November and December of 2015 to offset the early draw down of funds. Statistical sampling was not used in this testing.

Recommendation

Before being submitted for drawdown approval, a management level person should review the request to ensure that only applicable people are included and the services being requested for reimbursement have in fact occurred. We also recommend the City develop a written policy establishing procedures for drawing down CDBG entitlement funds to be in compliance for Title 2 CFR Part 200.305 (b).

Management Response

In 2015, the Community Development department has experienced significant turnover. As a result, as part of the new administration, key personnel positions have been filled. The Community Development department, in conjunction with the Finance department, will schedule monthly meetings to review the timing of the draw down of funds and the expenditure of those related funds.

Sincerely,



Donald Pottiger
City Controller