

CITY OF READING

FINANCIAL AND COMPLIANCE AUDIT REPORT

Year Ended December 31, 2014

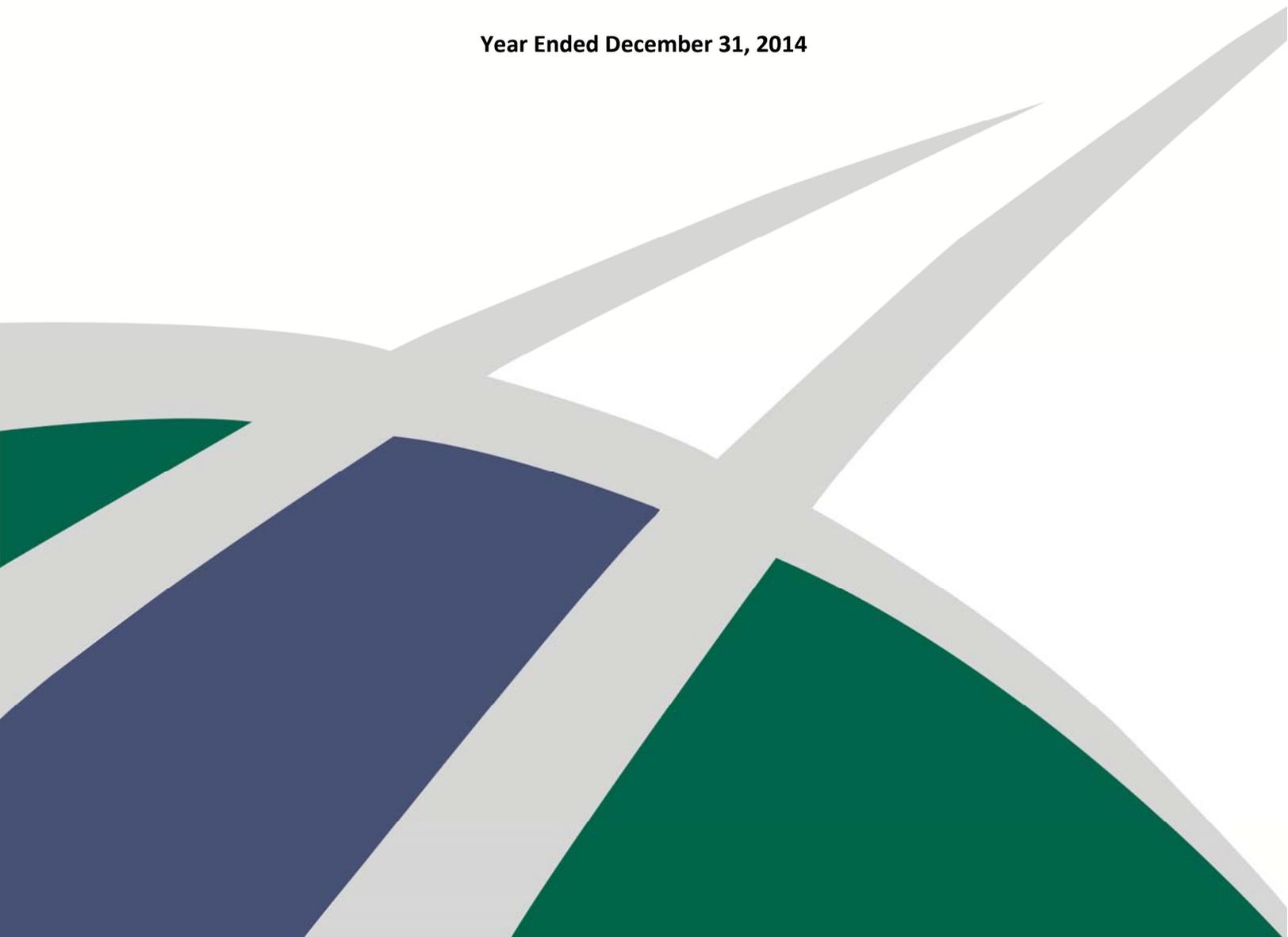


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INDEPENDENT AUDITOR'S REPORT

**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, 2014, 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 86 percent, 32 percent, and 99 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. Those standards require that we plan and performed 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, 2014, 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.

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 75 through 82 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 U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a part of the 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, the combining nonmajor governmental fund and fiduciary fund 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 schedule of revenue and other financing sources - budgetary basis - general fund, schedule of expenditures and other financing uses - budgetary basis - general fund, the combining nonmajor governmental funds and fiduciary funds 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 September 21, 2015, 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
September 21, 2015**

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, 2014. 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) 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 assets and deferred outflows of resources of the City exceeded its liabilities resulting in total net position at the close of the fiscal year of \$93.2 million. This represents an increase of 7.8% over last fiscal year's net position of \$86.4 million.
- At the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$27.3 million. Approximately 75% of this total amount, \$20.7 million, is available for spending at the government's discretion (unassigned fund balance).
- In the City's business-type activities, revenues decreased slightly, going from \$66.3 million to \$65.2 million (-1.6%) while expenses increased, going from \$43.5 million to \$47.3 million (8.5%). The decrease in revenues is attributed to normal variances in the population of customers that utilize services. The increase in expenses is attributed to cost increases, most notably in the water fund, and overall increases fringe benefit costs.
- Actual general government expenses (Mayor, City Council, City Auditor, Managing Director, Administrative Services, and Law operating areas) in the General Fund totaled \$5.6 million in 2014, as compared with a budget of \$7.7 million; reflecting a 27% favorable budget variance. In 2014, management began allocating information technology costs to different departments to gain a better understanding of the total costs to run each department. The budget did not reflect this allocation. Without this allocation, general government was 5.3% over budget.
- The general fund continued to report substantial improvement in the collection of Act 511 taxes due to the City. The City collected \$27.0 million in Act 511 taxes in 2014, as compared with \$25.2 million in 2013 and \$22.2 million in 2012.

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, and liabilities, 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 the 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 – 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 was \$93.2 million as of December 31, 2014. Analyzing the net position of governmental and business-type activities separately, the governmental activities reflect a structural deficit of - \$31.5 million and the business-type activities are \$124.7 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 \$18.9 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, 2014 audit, this amount would be approximately \$13.5 million. Management will continue to review threshold levels as it begins to prepare for a refreshed Act 47 plan in 2015.

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

	Governmental Activities			Business-Type Activities			Total		
	2014	2013	% Change	2014	2013	% Change	2014	2013	% Change
Current & Other Assets	87,419	85,993	1.7%	117,467	115,891	1.4%	204,886	201,884	1.5%
Capital Assets	<u>53,770</u>	<u>53,126</u>	1.2%	<u>143,176</u>	<u>136,495</u>	4.9%	<u>196,946</u>	<u>189,621</u>	3.9%
Total Assets	141,189	139,119	1.5%	260,643	252,386	3.3%	401,832	391,505	2.6%
Deferred Outflows of Resources	2,870	4,371	-34.3%	56	116	-51.7%	2,926	4,487	-34.8%
Current & Other Liabilities	18,953	12,708	49.1%	10,234	8,228	24.4%	29,187	20,936	39.4%
Long-Term Liabilities	<u>156,577</u>	<u>159,313</u>	-1.7%	<u>125,771</u>	<u>129,357</u>	-2.8%	<u>282,348</u>	<u>288,670</u>	-2.2%
Total Liabilities	175,530	172,021	2.0%	136,005	137,585	-1.1%	311,535	309,606	0.6%
Net Position:									
Net Investment in Capital Assets	-	-	0.0%	45,211	27,456	64.7%	45,211	27,456	64.7%
Restricted	4,151	-	0.0%	4,149	7,758	-46.5%	8,300	7,758	7.0%
Unrestricted	<u>(35,622)</u>	<u>(28,532)</u>	24.8%	<u>75,334</u>	<u>79,702</u>	-5.5%	<u>39,712</u>	<u>51,170</u>	-22.4%
Total Net Position	(31,471)	(28,532)	10.3%	124,694	114,916	8.5%	93,223	86,384	7.9%

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		
	2014	2013	% Change	2014	2013	% Change	2014	2013	% Change
Revenues:									
Program Revenues:									
Charges for services	13,700	16,054	-14.7%	66,675	64,031	4.1%	80,375	80,085	0.4%
Operating Grants and Contributions	22,146	15,127	46.4%	99	4,451	-97.8%	22,245	19,578	13.6%
General Revenues:									
Property Tax	21,874	20,978	4.3%	-	-	0.0%	21,874	20,978	4.3%
Act 511 Taxes	27,258	25,399	7.3%	-	-	0.0%	27,258	25,399	7.3%
Indirect Cost Allocation	1,798	2,301	-21.9%	(1,798)	(2,301)	-21.9%	-	-	0.0%
Other	<u>2,312</u>	<u>4,045</u>	-42.8%	<u>250</u>	<u>155</u>	61.8%	<u>2,562</u>	<u>4,200</u>	-39.0%
Total Revenues:	89,088	83,905	6.2%	65,226	66,336	-1.7%	154,314	150,240	2.7%
Expenses									
General Government	6,669	6,768	-1.5%	-	-	0.0%	6,669	6,768	-1.5%
Public Safety	53,898	52,291	3.1%	-	-	0.0%	53,898	52,291	3.1%
Highway and Streets	2,374	1,861	27.6%	-	-	0.0%	2,374	1,861	27.6%
Public Works - Other	6,673	5,999	11.2%	-	-	0.0%	6,673	5,999	11.2%
Community Development	19,613	13,142	49.2%	-	-	0.0%	19,613	13,142	49.2%
Culture and Recreation	1,771	2,042	-13.3%	-	-	0.0%	1,771	2,042	-13.3%
Other	1,078	487	121.4%	-	-	0.0%	1,078	487	121.4%
Interest Expense	8,121	8,315	-2.3%	-	-	0.0%	8,121	8,315	-2.3%
Sewer	-	-	0.0%	17,540	16,739	13.7%	17,540	16,739	4.8%
Water	-	-	0.0%	24,515	21,567	4.8%	24,515	21,567	13.7%
Trash and Recycling	-	-	0.0%	5,223	5,151	1.4%	5,223	5,151	1.4%
Total Expenses	<u>100,197</u>	<u>90,905</u>	10.2%	<u>47,278</u>	<u>43,457</u>	8.8%	<u>147,475</u>	<u>134,362</u>	9.8%
Excess (deficiency) of revenues over expenses before capital contributions and transfers	(11,109)	(7,000)	58.7%	17,948	22,879	-21.6%	6,839	15,879	-56.9%
Transfers	<u>8,170</u>	<u>7,970</u>	2.5%	<u>(8,170)</u>	<u>(7,970)</u>	2.5%	<u>-</u>	<u>-</u>	0.0%
Increase (decrease) in net position	(2,939)	970	-402.9%	9,778	14,909	-34.4%	6,839	15,879	-56.9%
Net position-Beginning of Year (restated)	<u>(28,532)</u>	<u>(29,502)</u>	-3.3%	<u>114,916</u>	<u>100,007</u>	14.9%	<u>86,384</u>	<u>70,505</u>	22.5%
Net position-End of Year	(31,471)	(28,532)	10.3%	124,694	114,916	8.5%	93,223	86,384	7.9%

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

	Total Cost of Services		% Change	Net (Expense)/Revenue Generated		Surplus/Deficit
	2014	2013		2014	2013	
Expenses						
General Government	6,669	6,768	-2%	(2,410)	(1,213)	Deficit
Public Safety	53,898	52,291	3%	(44,529)	(43,245)	Deficit
Highway and Streets	2,374	1,861	28%	(398)	(201)	Deficit
Public Works - Other	6,673	5,999	-11%	(4,290)	(3,725)	Deficit
Community Development	19,613	13,142	49%	(1,337)	(199)	Deficit
Culture and Recreation	1,771	2,042	-13%	(589)	(278)	Deficit
Other	1,078	487	121%	(879)	(247)	Deficit
Debt Service	8,121	8,315	-2%	(8,121)	(8,315)	Deficit
Total Expenses	100,197	90,905	10%	(62,553)	(57,423)	

BUSINESS-TYPE ACTIVITIES

Revenues of the City’s business-type activities (see Table 2) decreased by 1.6% (\$65.2 million in 2014 compared to \$66.3 million in 2013). At the same time, expenses increased by 8.5% (\$47.3 million in 2014 compared with \$43.5 million in 2013). Management has noted that the Trash and Recycling component has experienced a reversal of prior year trends, showing a surplus which has resulted in a positive fund balance. However, the ongoing litigation of fees 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
	2014	2013		2014	2013	
Business Type Activities:						
Sewer	17,540	16,739	5%	14,460	17,692	Surplus
Water	24,515	21,567	14%	2,234	5,118	Surplus
Trash and Recycling	5,223	5,151	1%	1,003	(86)	Surplus
Total Expenses	47,278	43,457	9%	17,697	22,724	

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets. The City’s investment in capital assets as of December 31, 2014, amounted to \$197.0 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 \$7.4 million or a 4% 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
	2014	2013		2014	2013		2014	2013	
Land	281	281	0%	2,104	2,104	0%	2,385	2,385	0%
Buildings	18,338	18,806	-2%	16,695	17,636	-5%	35,033	36,442	-4%
Machinery and Equipment	8,443	6,174	37%	9,389	9,640	-3%	17,832	15,814	13%
Improvements	25,416	26,230	-3%	66,787	61,044	9%	92,203	87,274	6%
Infrastructure	1,292	1,454	-11%	0	0	0%	1,292	1,454	-11%
Construction in Progress	0	181	-100%	48,251	46,071	5%	48,251	46,252	4%
Total Net position	53,770	53,126	1%	143,226	136,495	5%	196,996	189,621	4%

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	\$ 146,621,572	\$ 129,801,289
Other Postemployment Benefits	16,199,932	593,483
Compensated Absences	866,271	-
	<u>\$ 163,687,775</u>	<u>\$ 130,394,772</u>

Bond Rating. The City’s debt rating was **Baa2** by Moody’s as of December 31, 2014. 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 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, 2014. 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 \$11.1 million in 2014, 2) year-over-year increases in the cost of Public Safety operations, which totaled \$53.9 million in 2014, 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 Carole Snyder, Managing Director at (610) 655-6222 or Donald Pottiger, Acting Director of Administrative Services at (610) 655-6227. 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, 2014

	Primary Government			Component Units	
	Governmental Activities	Business-type Activities	Total	Reading Parking Authority	Reading Redevelopment Authority
ASSETS					
Cash and cash equivalents	\$ 27,208,756	\$ 56,288,762	\$ 83,497,518	\$ 6,394,784	\$ 638,136
Investments	4,557,015	18,984,176	23,541,191	-	-
Accounts receivable, net	3,577,022	9,562,177	13,139,199	186,661	4,909
Taxes receivable, net	2,686,417	-	2,686,417	-	-
Internal balances	596,841	(596,841)	-	-	-
Intergovernmental receivables	4,312,362	2,274,490	6,586,852	-	-
Inventory	-	199,213	199,213	-	2,126,402
Other current assets	-	297,914	297,914	191,660	-
Restricted Cash and investments	572,928	29,387,551	29,960,479	5,547,613	9,717
Net pension asset	28,484,808	-	28,484,808	-	-
Capital assets not being depreciated:					
Land	280,960	2,103,659	2,384,619	2,462,356	-
Construction in progress	-	48,250,905	48,250,905	29,364	-
Capital assets, net of accumulated depreciation:					
Buildings	18,337,498	16,695,070	35,032,568	35,163,900	-
Improvements	25,416,041	66,787,459	92,203,500	800	-
Machinery and equipment	8,442,649	9,388,516	17,831,165	475,341	-
Infrastructure	1,292,823	-	1,292,823	-	-
Other noncurrent assets:					
Lease rental receivable due within one year	159,000	-	159,000	-	-
Lease rental receivable	2,656,000	-	2,656,000	-	-
Notes receivable	12,608,068	-	12,608,068	-	-
Lease receivable	-	-	-	-	3,386,475
Leased land rights	-	1,020,000	1,020,000	-	-
TOTAL ASSETS	141,189,188	260,643,051	401,832,239	50,452,479	6,165,639
DEFERRED OUTFLOWS OF RESOURCES					
Deferred charge on bond refunding	2,869,761	55,504	2,925,265	2,081,156	-
TOTAL DEFERRED OUTFLOWS OF RESOURCES	2,869,761	55,504	2,925,265	2,081,156	-
LIABILITIES					
Accounts payable	8,084,705	4,714,076	12,798,781	259,428	18,152
Accrued interest	1,049,801	321,640	1,371,441	54,689	15,348
Unearned revenue	2,511,494	-	2,511,494	26,699	-
Other current liabilities	196,058	574,243	770,301	15,025	20,682
Noncurrent liabilities:					
Long-term debt due within one year	7,110,571	4,623,956	11,734,527	2,896,893	1,715,000
Notes and bonds payable, net	136,536,001	125,177,333	261,713,334	27,314,104	2,975,000
Lease payable	2,975,000	-	2,975,000	-	-
Other liabilities	-	-	-	69,128	-
Other postemployment benefits	16,199,932	593,483	16,793,415	-	-
Compensated absences	866,271	-	866,271	-	-
TOTAL LIABILITIES	175,529,833	136,004,731	311,534,564	30,635,966	4,744,182
NET POSITION					
Net investment in capital assets	-	45,211,475	45,211,475	10,001,920	296,475
Restricted for:					
Community Development	1,251,364	-	1,251,364	-	-
Shade Tree	271,925	-	271,925	-	-
Liquid Fuels	672,692	-	672,692	-	-
Capital projects	1,791,421	-	1,791,421	-	-
Debt service	163,693	4,148,621	4,312,314	5,547,613	-
Unrestricted (deficit)	(35,621,979)	75,333,728	39,711,749	6,348,136	1,124,982
TOTAL NET POSITION (DEFICIT)	\$ (31,470,884)	\$ 124,693,824	\$ 93,222,940	\$ 21,897,669	\$ 1,421,457

See accompanying notes.

CITY OF READING
STATEMENT OF ACTIVITIES
Year Ended December 31, 2014

Functions/Programs	Net (Expense) Revenue and Changes in Net Position									
	Program Revenues					Primary Government			Component Units	
	Expenses	Indirect Cost Allocation	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total	Reading Parking Authority	Reading Redevelopment Authority
Primary government										
Governmental activities:										
General government	\$ 6,668,702	\$ (1,987,892)	\$ 1,816,028	\$ 454,048	\$ -	\$ (2,410,734)	\$ -	\$ (2,410,734)	\$ -	\$ -
Public safety:										
Police	35,117,773	-	777,869	2,475,935	-	(31,863,969)	-	(31,863,969)	-	-
Fire	15,088,362	-	379,088	2,419,019	-	(12,290,255)	-	(12,290,255)	-	-
EMS	3,691,627	-	3,103,127	214,017	-	(374,483)	-	(374,483)	-	-
Public works - highways and streets	2,373,797	-	328,963	1,646,323	-	(398,511)	-	(398,511)	-	-
Public works - other	6,673,565	-	1,790,490	592,984	-	(4,290,091)	-	(4,290,091)	-	-
Community development	19,612,581	189,996	5,137,956	13,328,057	-	(1,336,564)	-	(1,336,564)	-	-
Culture and recreation	1,770,813	-	366,073	815,825	-	(588,915)	-	(588,915)	-	-
Other	1,078,453	-	-	199,495	-	(878,958)	-	(878,958)	-	-
Debt service - interest	8,120,770	-	-	-	-	(8,120,770)	-	(8,120,770)	-	-
Total governmental activities	100,196,443	(1,797,896)	13,699,594	22,145,703	-	(62,553,250)	-	(62,553,250)	-	-
Business-type activities:										
Water	24,514,686	135,118	26,884,154	-	-	-	2,234,350	2,234,350	-	-
Sewer	17,540,766	1,103,347	33,103,678	-	-	-	14,459,565	14,459,565	-	-
Trash and recycling	5,223,249	559,431	6,687,230	98,682	-	-	1,003,232	1,003,232	-	-
Total business-type activities	47,278,701	1,797,896	66,675,062	98,682	-	-	17,697,147	17,697,147	-	-
Total primary government	\$ 147,475,144	\$ -	\$ 80,374,656	\$ 22,244,385	\$ -	(62,553,250)	17,697,147	(44,856,103)	-	-
Component Units:										
Reading Parking Authority:										
Parking	\$ 7,781,746	\$ -	\$ 7,821,891	\$ -	\$ -	-	-	-	40,145	-
Reading Redevelopment Authority:										
Redevelopment	915,044	-	484,179	-	-	-	-	-	-	(430,865)
Total component units	\$ 8,696,790	\$ -	\$ 8,306,070	\$ -	\$ -	-	-	-	40,145	(430,865)
General Revenues:										
Taxes:										
Property taxes						21,874,396	-	21,874,396	-	-
Earned income taxes						21,100,112	-	21,100,112	-	-
Franchise and other taxes						6,158,357	-	6,158,357	-	-
Grants and contributions not restricted to specific programs						2,310,000	-	2,310,000	-	-
Investment earnings						1,634	206,371	208,005	173,795	5,673
Miscellaneous income						-	43,879	43,879	103,389	-
Transfers:						8,170,000	(8,170,000)	-	-	-
Total General Revenues and Transfers						59,614,499	(7,919,750)	51,694,749	277,184	5,673
Change in Net Position						(2,938,751)	9,777,397	6,838,646	317,329	(425,192)
Net Position (Deficit) - Beginning						(28,532,133)	114,916,427	86,384,294	21,580,340	1,846,649
Net Position (Deficit) - Ending						\$ (31,470,884)	\$ 124,693,824	\$ 93,222,940	\$ 21,897,669	\$ 1,421,457

See accompanying notes.

CITY OF READING

BALANCE SHEET - GOVERNMENTAL FUNDS

December 31, 2014

	General	Community Development	Agency Fund	Total Nonmajor Funds	Total Governmental Funds
ASSETS					
Cash and cash equivalents	\$ 17,795,381	\$ 2,392,594	\$ 1,834,368	\$ 2,115,636	\$ 24,137,979
Restricted cash	-	572,928	-	-	572,928
Investments	1,084,486	-	45,651	572	1,130,709
Accounts receivable	3,572,218	-	-	4,804	3,577,022
Taxes receivable, net	2,288,114	-	-	44,813	2,332,927
Interfund receivables	7,420,476	549,801	62,832	1,125,668	9,158,777
Intergovernmental receivable	62,254	767,043	3,483,065	-	4,312,362
Lease rental receivable	2,815,000	-	-	-	2,815,000
TOTAL ASSETS	\$ 35,037,929	\$ 4,282,366	\$ 5,425,916	\$ 3,291,493	\$ 48,037,704
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES					
LIABILITIES					
Accounts payable	\$ 2,099,232	\$ 239,659	\$ 2,324,360	\$ 221,911	\$ 4,885,162
Interfund payables	4,534,654	1,166,878	1,704,880	125,038	7,531,450
Unearned revenue	2,878,281	2,322,858	698,283	-	5,899,422
Other liabilities	196,058	-	-	-	196,058
TOTAL LIABILITIES	9,708,225	3,729,395	4,727,523	346,949	18,512,092
DEFERRED INFLOWS OF RESOURCES					
Unavailable revenue - property taxes	2,168,486	-	-	44,813	2,213,299
FUND BALANCES					
Assigned for 2015 budget deficit	2,500,000	-	-	-	2,500,000
Restricted for					
Community development	-	552,971	-	-	552,971
Grants	-	-	698,393	-	698,393
Shade tree	-	-	-	271,925	271,925
Liquid fuels	-	-	-	672,692	672,692
Capital projects	-	-	-	1,791,421	1,791,421
Debt service	-	-	-	163,693	163,693
Unassigned	20,661,218	-	-	-	20,661,218
TOTAL FUND BALANCES	23,161,218	552,971	698,393	2,899,731	27,312,313
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES	\$ 35,037,929	\$ 4,282,366	\$ 5,425,916	\$ 3,291,493	\$ 48,037,704

CITY OF READING

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

December 31, 2014

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

TOTAL FUND BALANCES - GOVERNMENTAL FUNDS	\$ 27,312,313
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 \$116,247,605 and the accumulated depreciation is \$62,477,634.	53,769,971
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 \$683,689.	2,851,988
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.	19,556,143
Establish allowance for doubtful accounts - property taxes receivable (\$285,199) and other long-term asset receivables (\$3,560,147).	(3,845,346)
The net pension asset and other postemployment benefit liability are not reflected on the fund statements.	12,284,876
Internal service funds used by management to charge the costs of workman's compensation insurance and other insurance to individual funds. The change in net position of internal service funds is transferred to the governmental funds.	2,267,054
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:	
Bond Discount, Net of Amortization	\$ 823,542
Bond Premium, Net of Amortization	(3,001)
Bonds/Notes/Leases Payable	(147,442,113)
Accrued Interest on Bonds	(1,049,801)
Compensated Absences	(866,271)
Deferred Charge on Bond Refunding	2,869,761
	(145,667,883)
NET POSITION (DEFICIT) OF GOVERNMENTAL ACTIVITIES	\$ (31,470,884)

CITY OF READING

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

Year Ended December 31, 2014

	General	Community Development	Agency Fund	Total Nonmajor Funds	Total Governmental Funds
Revenues:					
Real estate taxes	\$ 21,702,124	\$ -	\$ -	\$ 273,548	\$ 21,975,672
Act 511 taxes	27,033,942	-	-	-	27,033,942
Licenses, permits, and fines	6,632,471	-	-	-	6,632,471
Intergovernmental	5,010,677	3,749,115	11,004,630	1,513,088	21,277,510
Charges for services	7,076,325	1,816,984	-	-	8,893,309
Interest and rent	1,615,988	-	216,231	147	1,832,366
Other	6,470,711	-	37,200	431	6,508,342
TOTAL REVENUES	75,542,238	5,566,099	11,258,061	1,787,214	94,153,612
Expenditures:					
Current:					
General government	5,576,579	-	75,435	-	5,652,014
Public safety					
Police	29,644,192	-	356,316	-	30,000,508
Fire	12,508,511	-	1,631,083	-	14,139,594
EMS	3,555,185	-	-	-	3,555,185
Public works - highways and streets	866,160	-	-	898,899	1,765,059
Public works - other	6,571,753	-	378,734	-	6,950,487
Community development	4,638,275	5,808,347	8,821,227	-	19,267,849
Culture and recreation	852,694	-	-	182,827	1,035,521
Other	3,620,148	-	-	-	3,620,148
Debt service - principal	6,035,254	-	-	-	6,035,254
Debt service - interest	7,409,690	-	-	-	7,409,690
TOTAL EXPENDITURES	81,278,441	5,808,347	11,262,795	1,081,726	99,431,309
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(5,736,203)	(242,248)	(4,734)	705,488	(5,277,697)
OTHER FINANCING SOURCES (USES)					
Issuance of refunding bonds	29,678,069	-	-	-	29,678,069
Bond discount	(460,399)	-	-	-	(460,399)
Payment to refunded bond escrow agent	(28,665,318)	-	-	-	(28,665,318)
Transfers in	8,170,000	-	-	-	8,170,000
TOTAL OTHER FINANCING SOURCES (USES)	8,722,352	-	-	-	8,722,352
NET CHANGE IN FUND BALANCES	2,986,149	(242,248)	(4,734)	705,488	3,444,655
FUND BALANCES - BEGINNING	20,175,069	795,219	703,127	2,194,243	23,867,658
FUND BALANCES - ENDING	\$ 23,161,218	\$ 552,971	\$ 698,393	\$ 2,899,731	\$ 27,312,313

CITY OF READING

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

Year Ended December 31, 2014

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

NET CHANGE IN FUND BALANCES - GOVERNMENTAL FUNDS \$ 3,444,655

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. This is the amount by which capital outlays exceeded depreciation in the current period:

Capital Outlays	\$ 4,256,087	
Less: Depreciation Expense	<u>(3,612,177)</u>	643,910

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. These include the change of unavailable/unearned revenue as follows:

Tax Revenue	(101,276)	
Notes Receivable	<u>(3,182,203)</u>	(3,283,479)

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. Neither transaction, however has any effect on net position. Also governmental funds report the effect of premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. Repayment of principal is an expenditure in the governmental funds, but the repayment reduces long-term transactions in the statement of activities as shown below:

Issuance of Refunding Bond	(29,678,069)	
Issuance of Equipment Note	(2,696,640)	
Bond Discount	460,399	
Amortization of Bond Discount	(46,805)	
Amortization of Bond Premium	758	
Amortization of Deferred Charge on Bond Refunding	(488,831)	
Payment of Bond/Note Principal	6,542,702	
Payment to Escrow Agent, Bond Refunding	28,665,318	
Payment of Lease Payable	<u>110,000</u>	2,868,832

CITY OF READING

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

Year Ended December 31, 2014

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. In the statement of activities, interest expense is recognized as the interest accrues, regardless of when it is due. The additional interest accrued in the statement of activities over the amount due is shown here.

(176,202)

In the statement of activities, certain operating expenses - compensated absences (vacations and sick days) are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used. This amount represents the difference between the amount earned versus the amount used.

(11,805)

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.

(1,464,136)

The change in the net pension asset and other postemployment benefit liability does not provide current financial resources and, therefore, is not reflected on the fund statements

(4,960,526)

CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES

\$ (2,938,751)

CITY OF READING

STATEMENT OF NET POSITION
PROPRIETARY FUNDS

Year Ended December 31, 2014

	Business-Type Activities			Total Enterprise Funds	Governmental
	Water Fund	Sewer Fund	Nonmajor Enterprise Fund		Internal Service Funds
ASSETS					
Current assets					
Cash and cash equivalents	\$ 15,748,148	\$ 39,453,800	\$ 1,086,814	\$ 56,288,762	\$ 3,070,777
Investments	115,032	18,869,144	-	18,984,176	3,426,306
Accounts receivable, net of allowance of \$5,243,368	5,306,166	3,897,435	358,576	9,562,177	-
Interfund receivables	1,492,853	3,957,083	403,344	5,853,280	120,000
Intergovernmental receivables	-	2,274,490	-	2,274,490	-
Other receivables	81,121	-	-	81,121	-
Inventory	199,213	-	-	199,213	-
Prepaid expenses	216,793	-	-	216,793	-
Total current assets	23,159,326	68,451,952	1,848,734	93,460,012	6,617,083
Restricted assets					
Cash and investments	29,387,551	-	-	29,387,551	-
Noncurrent assets					
Capital assets not being depreciated:					
Land	2,059,359	44,300	-	2,103,659	-
Construction in progress	5,987,159	42,263,746	-	48,250,905	-
Capital assets being depreciated:					
Buildings	7,789,674	38,240,779	-	46,030,453	-
Improvements	83,202,720	32,896,950	17,523	116,117,193	-
Machinery and equipment	16,598,554	10,421,932	500,244	27,520,730	-
Less: accumulated depreciation	(50,597,608)	(45,787,300)	(412,423)	(96,797,331)	-
Total capital assets, net	65,039,858	78,080,407	105,344	143,225,609	-
Leased land rights	1,020,000	-	-	1,020,000	-
Total noncurrent assets	66,059,858	78,080,407	105,344	144,245,609	-
TOTAL ASSETS	118,606,735	146,532,359	1,954,078	267,093,172	6,617,083
DEFERRED OUTFLOWS OF RESOURCES					
Deferred charge on bond refunding	55,504	-	-	55,504	-

See accompanying notes.

	Business-Type Activities			Total Enterprise Funds	Governmental Activities
	Water Fund	Sewer Fund	Nonmajor Enterprise Fund		Internal Service Funds
LIABILITIES					
Current liabilities					
Accounts payable	2,880,533	1,536,225	297,318	4,714,076	88,954
Interfund payables	4,292,143	558,088	1,599,890	6,450,121	1,150,486
Accrued interest	321,640	-	-	321,640	-
Accrued payroll and compensated absences	496,443	-	-	496,443	-
Accrued claims	-	-	-	-	3,110,589
Escrow deposits	77,800	-	-	77,800	-
Current portion notes and bonds payable	3,260,266	1,363,690	-	4,623,956	-
Total current liabilities	<u>11,328,825</u>	<u>3,458,003</u>	<u>1,897,208</u>	<u>16,684,036</u>	<u>4,350,029</u>
Noncurrent liabilities					
Postemployment benefits obligations	174,067	366,997	52,419	593,483	-
Notes and bonds payable, net	93,566,747	31,610,586	-	125,177,333	-
Total noncurrent liabilities	<u>93,740,814</u>	<u>31,977,583</u>	<u>52,419</u>	<u>125,770,816</u>	<u>-</u>
TOTAL LIABILITIES	<u>105,069,639</u>	<u>35,435,586</u>	<u>1,949,627</u>	<u>142,454,852</u>	<u>4,350,029</u>
NET POSITION					
Net investment in capital assets	-	45,106,131	105,344	45,211,475	-
Restricted for debt service	4,148,621	-	-	4,148,621	-
Unrestricted net position (deficit)	9,443,979	65,990,642	(100,893)	75,333,728	2,267,054
TOTAL NET POSITION	<u>\$ 13,592,600</u>	<u>\$ 111,096,773</u>	<u>\$ 4,451</u>	<u>\$ 124,693,824</u>	<u>\$ 2,267,054</u>

CITY OF READING

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

Year Ended December 31, 2014

	Business-Type Activities				Governmental
	Water Fund	Sewer Fund	Nonmajor Enterprise Fund	Total Enterprise Funds	Internal Service Funds
OPERATING REVENUES					
Charges for services	\$ 26,394,809	\$ 33,103,678	\$ 6,687,230	\$ 66,185,717	\$ 3,180,782
Other	489,345	-	-	489,345	154,783
TOTAL OPERATING REVENUES	26,884,154	33,103,678	6,687,230	66,675,062	3,335,565
OPERATING EXPENSES					
Personnel	5,938,123	6,167,718	1,288,306	13,394,147	77,777
Depreciation	3,422,605	2,598,986	41,721	6,063,312	-
Risk management	75,975	491,272	71,840	639,087	-
Contracted services	1,439,900	1,468,206	2,883,085	5,791,191	-
Chemicals and supplies	1,911,527	777,789	-	2,689,316	-
Utilities	706,626	902,691	-	1,609,317	-
Claims incurred	-	-	-	-	3,474,258
Administrative expenses	-	-	-	-	1,250,721
Other	6,144,449	4,196,247	1,497,728	11,838,424	-
TOTAL OPERATING EXPENSES	19,639,205	16,602,909	5,782,680	42,024,794	4,802,756
OPERATING INCOME (LOSS)	7,244,949	16,500,769	904,550	24,650,268	(1,467,191)
NONOPERATING REVENUES (EXPENSES)					
Intergovernmental revenue	-	-	98,682	98,682	-
Interest income	200,524	5,847	-	206,371	3,055
Interest expense	(4,726,200)	(2,041,204)	-	(6,767,404)	-
Gain (loss) on sale of trash and recycling accounts receivable	531,367	-	(531,367)	-	-
Other	(241,211)	691	-	(240,520)	-
TOTAL NONOPERATING REVENUES (EXPENSES)	(4,235,520)	(2,034,666)	(432,685)	(6,702,871)	3,055
INCOME (LOSS) BEFORE TRANSFERS	3,009,429	14,466,103	471,865	17,947,397	(1,464,136)
Transfers out	(5,170,000)	(3,000,000)	-	(8,170,000)	-
CHANGE IN NET POSITION	(2,160,571)	11,466,103	471,865	9,777,397	(1,464,136)
NET POSITION, BEGINNING OF YEAR	15,753,171	99,630,670	(467,414)	114,916,427	3,731,190
NET POSITION, END OF YEAR	\$ 13,592,600	\$ 111,096,773	\$ 4,451	\$ 124,693,824	\$ 2,267,054

See accompanying notes.

CITY OF READING

STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS

Year Ended December 31, 2014

	Business-Type Activities			Totals	Governmental
	Water Fund	Sewer Fund	Nonmajor Enterprise Fund		Activities Internal Service Fund
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts from customers	\$ 26,811,069	\$ 32,785,293	\$ 7,229,578	\$ 66,825,940	\$ 154,783
Receipts from users	-	-	-	-	3,180,782
Payments to employees for services	(5,938,123)	(6,131,030)	(1,281,352)	(13,350,505)	(77,777)
Payments to suppliers for goods and services	(8,256,647)	(8,421,877)	(4,599,068)	(21,277,592)	(3,503,623)
NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES	12,616,299	18,232,386	1,349,158	32,197,843	(245,835)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES					
Nonoperating revenues/expenses, net	(241,211)	691	-	(240,520)	-
Gain (loss) on sale of receivables	531,367	-	(531,367)	-	-
Grants	-	-	98,682	98,682	-
Transfers out	(5,170,000)	(3,000,000)	-	(8,170,000)	-
NET CASH PROVIDED BY (USED FOR) NONCAPITAL FINANCING ACTIVITIES	(4,879,844)	(2,999,309)	(432,685)	(8,311,838)	-
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Draws on PennVest loan	-	356,042	-	356,042	-
Decrease in restricted assets, net	5,952,946	-	-	5,952,946	-
Acquisition of property and equipment	(5,250,444)	(7,543,751)	-	(12,794,195)	-
Interest paid	(4,097,346)	(2,015,571)	-	(6,112,917)	-
Issuance of refunding bonds	2,081,554	3,565,377	-	5,646,931	-
Payments to escrow agent, refunding bonds	(2,010,548)	(3,443,755)	-	(5,454,303)	-
Payments of long-term debt	(2,923,974)	(1,009,280)	-	(3,933,254)	-
NET CASH USED FOR CAPITAL AND RELATED FINANCING ACTIVITIES	(6,247,812)	(10,090,938)	-	(16,338,750)	-
CASH FLOWS FROM INVESTING ACTIVITIES					
Interest earnings	200,524	5,847	-	206,371	3,055
Net (purchase) redemption of investments	(115)	(11,844,531)	-	(11,844,646)	(2,302)
NET CASH PROVIDED BY (USED FOR) INVESTING ACTIVITIES	200,409	(11,838,684)	-	(11,638,275)	753
NET INCREASE (DECREASE) IN CASH	1,689,052	(6,696,545)	916,473	(4,091,020)	(245,082)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	14,059,096	46,150,345	170,341	60,379,782	3,315,859
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 15,748,148	\$ 39,453,800	\$ 1,086,814	\$ 56,288,762	\$ 3,070,777

See accompanying notes.

CITY OF READING

STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS - CONTINUED

Year Ended December 31, 2014

	Business-Type Activities			Totals	Governmental
	Water Fund	Sewer Fund	Nonmajor Enterprise Fund		Activities Internal Service Fund
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES					
Operating income (loss)	\$ 7,244,949	\$ 16,500,769	\$ 904,550	\$ 24,650,268	\$ (1,467,191)
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:					
Depreciation expense	3,422,605	2,598,986	41,721	6,063,312	-
Net (increase) decrease in assets:					
Accounts receivable	(6,399)	(318,385)	542,348	217,564	-
Interfund receivables	441,521	(56,947)	(64,396)	320,178	-
Intergovernmental receivables	-	33,517	-	33,517	-
Other receivables	(66,686)	-	-	(66,686)	-
Inventory	(56,864)	-	-	(56,864)	-
Prepaid expenses	(160,034)	-	-	(160,034)	-
Net increase (decrease) in liabilities:					
Accounts payable	1,708,352	(485,383)	(56,784)	1,166,185	25,298
Interfund payables	88,855	(76,859)	(25,235)	(13,239)	77,094
Other liabilities	-	36,688	6,954	43,642	-
Accrued claims	-	-	-	-	1,118,964
NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES	<u>\$12,616,299</u>	<u>\$ 18,232,386</u>	<u>\$ 1,349,158</u>	<u>\$ 32,197,843</u>	<u>\$ (245,835)</u>

CITY OF READING

STATEMENT OF NET POSITION - FIDUCIARY FUNDS

December 31, 2014

	<u>Pension Trust Funds</u>
ASSETS	
Cash and cash equivalents	\$ 3,607,732
Investments	<u>194,875,581</u>
TOTAL ASSETS	198,483,313
LIABILITIES	
Accounts payable	170,251
DROP Taxes Withheld	<u>25,000</u>
TOTAL LIABILITIES	<u>195,251</u>
NET POSITION HELD IN TRUST FOR PENSION BENEFITS	<u><u>\$ 198,288,062</u></u>

CITY OF READING

STATEMENT OF CHANGES IN NET POSITION - FIDUCIARY FUNDS

Year Ended December 31, 2014

	Pension Trust Funds
ADDITIONS	
Contributions	
Employer (including state aid)	\$ 11,115,157
Employees	1,543,387
Investment income	
Interest and dividends	3,391,012
Net appreciation in fair value of investments	6,240,401
Other	10,418
	TOTAL ADDITIONS
	22,300,375
DEDUCTIONS	
Benefits, including tax withheld	17,940,993
Administrative expenses	783,382
Refunds paid	142,498
	TOTAL DEDUCTIONS
	18,866,873
	CHANGE IN NET POSITION
	3,433,502
NET POSITION HELD IN TRUST FOR PENSION BENEFITS, BEGINNING OF YEAR	194,854,560
	NET POSITION HELD IN TRUST FOR PENSION BENEFITS, END OF YEAR
	\$ 198,288,062

CITY OF READING

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2014

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, 2014

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 (increased from five, effective September 2014) 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. On October 24, 2013, the Authority purchased the Bookbindery Apartments. The Authority then contracted with the Reading Housing Authority to manage the property. The Redevelopment Authority operates on a calendar year. 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, 2014

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, 2014, were immaterial to the basic financial statements taken as a whole.

CITY OF READING

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2014

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.

Governmental activities are supported by taxes and intergovernmental revenues while business-type activities are supported by user charges and fees. The statement of activities demonstrates the level 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 charges to customers or others who purchase, use or directly benefit from services or goods provided by a given function or 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 funds are aggregated and reported as nonmajor funds. Major individual governmental and enterprise funds are reported as separate columns in the fund financial statements.

CITY OF READING

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2014

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 December 31, 2014.

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, 2014

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.

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 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 and transfers to/from other funds. 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, 2014

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 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, 2014

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 government.

The proprietary and pension funds are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. The trust fund is reported using the *accrual basis of accounting* for reporting its assets and liabilities.

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 banks 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.

CITY OF READING

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2014

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 25 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, 2014

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.

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 one item that qualifies for reporting in this category - the deferred charge on refunding reported in the government-wide statement of net position. A deferred charge on 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.

CITY OF READING

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2014

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 - continued

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The City has one item that qualifies for reporting this category. Accordingly, the item, unavailable revenue, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenue from property taxes. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

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 Flow Assumption

Sometimes the government will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted - net position and unrestricted - net position in the government-wide and proprietary 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 - net position to have been depleted before unrestricted - net position is applied.

9. Net Position

Government Accounting Standards requires the classification of net position into the three components shown below, which are defined as follows:

Net investment in capital assets - This category groups all capital assets, including infrastructure, into one component of net position. Accumulated depreciation and the outstanding balances of debt that are attributable to the acquisition, construction, or improvements of these assets reduce the balance in this category.

Restricted net position - This category presents external restrictions imposed by creditors, grantors, contributors or laws or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation.

Unrestricted net position - This category represents net position of the City, which is not restricted for any project or other purpose.

CITY OF READING

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

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

10. Fund Balance Flow Assumptions

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.

11. Fund Balance Policies

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

The 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 not formally adopted a minimum fund balance policy.

CITY OF READING

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2014

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, 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, 2014

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 2014 financial statements:

GASB Statement No. 67, *"Financial Reporting for Pensions Plans."* This statement revises existing guidance for the financial reports of most pension plans, and establishes new financial reporting requirements for most governments that provide their employees with pension benefits. The City's financial disclosures were updated to reflect this pronouncement (see Note 10).

GASB Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees."* This statement specifies the information required to be disclosed by governments that extend nonexchange financial guarantees, and requires a government that extends a nonexchange financial guarantee to recognize a liability when qualitative factors and historical data, if any, indicate that it is more likely than not that the government will be required to make a payment on the guarantee. The City has no nonexchange financial guarantees to report.

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 manager 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 finance director and City manager. 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.

CITY OF READING

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2014

NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY - CONTINUED

As required by the Home Rule Charter, the proposed budget is made available for public inspection for at least thirty 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 finance 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, and the Capital Projects 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.

Excess of Expenditures over Appropriations

For the year ended December 31, 2014, expenditures exceeded appropriations in the general operating fund. The excess expenditures were satisfied by the collection of Act 511 taxes over budgeted collections.

Net Position Deficit and Liquidity

As of December 31, 2014, the City, in its statement of net position, shows a total net deficit of \$31,470,884 for governmental activities. 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 are principally the general obligation debt to meet funding requirements to the Pension Fund, borrowings to finance economic development efforts, maintenance, and equipment expenditures on City infrastructure. The City's debt service expenditures in its governmental funds were \$13,444,944, 13.5 percent of its total expenditures, and the City used 27.4 percent of its current tax revenues to finance debt service requirements.

CITY OF READING

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2014

NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY - CONTINUED

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 City Clerk extending the Act 47 status through 2019. During 2014, 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, 2014 was \$18,879,867. 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.

NOTE 3 - CASH AND INVESTMENTS

The carrying amount of cash, restricted cash, and investments at December 31, 2014 consist of the following:

	<u>Primary Government</u>	<u>Blended Component Unit</u>	<u>Total</u>
Petty cash	\$ 3,675	\$ 550	\$ 4,225
Demand deposit accounts	71,956,639	15,795,114	87,751,753
Pooled cash and investments	19,256,642	-	19,256,642
Investments	199,160,130	29,309,751	<u>228,469,881</u>
			<u>\$ 335,482,501</u>
Classification per statement of net position and trust statements:			
Unrestricted cash			\$ 83,497,518
Investments			23,541,191
Restricted cash			650,728
Restricted investments			29,309,751
Trust and agency cash and cash equivalents			3,607,732
Trust and agency investments			<u>194,875,581</u>
			<u>\$ 335,482,501</u>

CITY OF READING

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2014

NOTE 3 - CASH AND INVESTMENTS - CONTINUED

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, 2014, the carrying amount of the City's deposits was \$87,751,753 and the bank balance was \$89,001,806. Of the balance, \$1,326,655 was covered by federal depository insurance and \$87,675,151 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 \$19,256,642 and \$21,342,054, respectively.

The City's investment authority for all funds, except Fiduciary 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.

CITY OF READING

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2014

NOTE 3 - CASH AND INVESTMENTS - CONTINUED

Investments

As of December 31, 2014, the City had the following nonpension investments:

Investment Type	Fair Market Value	Investment Maturities from December 31, 2014 <u>0-5</u> <u>Years</u>
Federal Home Loan Mortgage Corporation	\$ 125,119	\$ 125,119
Federal Treasury Obligation Funds	25,531,223	25,531,223
Federal National Mortgage Association Notes	3,778,528	3,778,528
US Treasury Notes	97,959	97,959
US Treasury Bonds	29,647	29,647
Other Government Issues	199,630	199,630
	<u>29,762,106</u>	<u>\$ 29,762,106</u>
Money Market Funds	2,200,426	
Certificates of Deposits	1,631,768	
	<u>\$ 33,594,300</u>	

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, 2014, the City's investments were rated as:

Investments	Standard & Poor's (Moody's & Fitch)
Federal Home Loan Mortgage Corporation	AAA
Federal National Mortgage Association Notes	AAA
US Treasury Notes	AAA
US Treasury Bonds	AAA

CITY OF READING

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2014

NOTE 3 - CASH AND INVESTMENTS - CONTINUED

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 and the Municipal Authorities Act.

Concentration of Credit Risk

The City places no limit on the amount the City may invest in any one issuer. At December 31, 2014, the City's investments consisted of 76 percent of Federal Treasury Obligation Funds and 11 percent of Federal National Mortgage Association Notes.

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. As of December 31, 2014, the carrying amount of the City's nonpension investments was \$33,594,300 (includes restricted investments). Of the balance, \$732,000 was covered by federal depository insurance and \$32,862,300 was 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 City Officers and Employees' Pension Funds.

CITY OF READING

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2014

NOTE 3 - CASH AND INVESTMENTS - CONTINUED

As of December 31, 2014, the City had the following cash and investments in its pension trust funds:

<u>Cash or Investment Type</u>	Fair Market Value
<u>Police</u>	
Cash and Cash Equivalents	\$ 3,855,790
Fixed Income Mutual Funds	33,366,921
Equity Mutual Funds	<u>51,657,381</u>
Total Cash and Investments	<u>\$ 88,880,092</u>
 <u>Paid Firemen</u>	
<u>Cash or Investment Type</u>	Fair Market Value
Cash and Cash Equivalents	\$ 682,901
Equity Mutual Funds	31,202,748
Fixed Income Mutual Funds	22,298,197
Short-Term Investments	234,230
Due to Brokers	<u>(42,228)</u>
Total Cash and Investments	<u>\$ 54,375,848</u>
 <u>Officers & Employees</u>	
<u>Cash or Investment Type</u>	Fair Market Value
Cash and Cash Equivalents	\$ 491,618
Short-Term Investments	33,346
Fixed Funds	17,496,915
Equity Funds	<u>37,205,494</u>
Total Cash and Investments	<u>\$ 55,227,373</u>

CITY OF READING

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2014

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, 2014, the pension trust funds' investment in corporate bonds ranged from AAA to BB.

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

Custodial Credit Risk

For deposits and investments, custodial credit risk is the risk that in the event of the failure of the bank or counterparty, the pension trust funds will not be able to recover the value of their deposits or investments or collateral securities that are in the possession of an outside entity. The pension trust funds do not have a formal deposit or investment policy for custodial credit risk. As of December 31, 2014, \$500,000 was covered by federal depository insurance and \$187,999,815 was exposed to custodial 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 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, 2014. 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, 2014:

Unrestricted	
Deposits	\$ 5,376,089
Investments	999,479
Petty cash	19,216
	<u>6,394,784</u>
Restricted	
Deposits	\$ 2,099,018
Investments	3,448,595
	<u>5,547,613</u>

CITY OF READING

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2014

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, 2014, the carrying amount of the Authority's deposits was \$7,475,107 and the bank balance was \$7,576,477. As of December 31, 2014, \$260,278 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

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 back 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 approval collateral as provided by law therefore, shall be pledged by the depository.

As of December 31, 2014, the Authority had the following investments:

	<u>Maturities</u>	<u>Fair Value</u>
Bank Certificates of Deposit (8 < \$250,000)	2 months - 2 years	\$ 999,479
U.S. Government Issues		
Resolution FDG Corp Fed 0% Cpn Strips	4 months - 6 years	861,343
U.S. Treasury Strips	6 years	<u>2,587,252</u>
		<u>\$ 4,448,074</u>

Interest Rate Risk

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

Credit Risk

The Authority does not have an investment policy that would limit its investment choices to certain credit ratings. As of December 31, 2014, the Authority's investments were all rated as AAA by a nationally recognized rating organization.

CITY OF READING

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2014

NOTE 3 - CASH AND INVESTMENTS - CONTINUED

Concentration of Credit Risk

The Authority places no limit on the amount the Authority may invest in any one issuer. 22.5 percent of the Authority's investments are certificates of deposit, 58.1 percent of the Authority's investments are U.S. Treasury Strips and 19.4 percent are Resolution FDG Corp Fed 0% Cpn Strips for the year ended December 31, 2014.

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, 2014 was \$647,845 and the bank balance was \$663,603. The total bank balance was covered by FDIC insurance.

The Authority has a total of \$8 in investments. The Authority has funds invested with the Commonwealth of Pennsylvania's INVEST Program with a market value of \$8. 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 Programs 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, 2014, 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, 2014

NOTE 4 - RECEIVABLES, UNCOLLECTIBLE ACCOUNTS, AND UNAVAILABLE REVENUE

Government Fund Receivables, Uncollectible Accounts, and Unavailable Revenue

Accounts Receivable

	<u>General Fund</u>	<u>Nonmajor Fund (Shade Tree)</u>	<u>Total Governmental Funds</u>
Grants and Accounts Receivable	\$ 3,572,218	\$ 4,804	\$ 3,577,022
Less Allowance	-	-	-
Accounts Receivable	<u>\$ 3,572,218</u>	<u>\$ 4,804</u>	<u>\$ 3,577,022</u>

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 2014 assessed value of real property totaled \$1,423,299,000. 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 ten 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, 2014 were 91.8 percent of the tax levy.

For 2014, 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, 2014 are as follows:

	<u>Governmental Funds</u>			<u>Governmental Activities</u>			
	<u>Taxes Receivable, Net</u>	<u>Allowance for Uncollectible Taxes</u>	<u>Gross Taxes Receivable</u>	<u>Allowance for Uncollectible Taxes</u>	<u>Net Estimated to be Collectible</u>	<u>Tax Revenue Recognized</u>	<u>Unavailable Revenue</u>
General Fund	\$ 2,288,114	\$ 638,689	\$ 2,926,803	\$ 280,718	\$ 2,646,085	\$ (161,090)	\$ 2,168,486
Shade Tree Fund	44,813	-	44,813	4,481	40,332	(4,481)	44,813
Total	<u>\$ 2,332,927</u>	<u>\$ 638,689</u>	<u>\$ 2,971,616</u>	<u>\$ 285,199</u>	<u>\$ 2,686,417</u>	<u>\$ (165,571)</u>	<u>\$ 2,213,299</u>

CITY OF READING

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2014

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
	Accounts receivable, gross	\$ 7,318,588			\$ 5,513,942	\$ 1,973,015
Less: allowance uncollectible accounts	2,012,422	1,616,507	1,614,439	5,243,368	-	-
Net accounts receivable	<u>\$ 5,306,166</u>	<u>\$ 3,897,435</u>	<u>\$ 358,576</u>	<u>\$ 9,562,177</u>	<u>\$ 186,661</u>	<u>\$ 4,909</u>

Included in the Water Fund accounts receivable is \$918,453 of unbilled water usage as of December 31, 2014.

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, 2014:

	Primary Government				Component Units	
	City of Reading Community Development Fund	City of Reading Sewer Fund	Reading Area Water Authority	Total	Reading Parking Authority	Reading Redevelopment Authority
Construction Account	\$ -	\$ -	\$ 21,724,438	\$ 21,724,438	\$ 1,096	\$ 8,954
Debt Service Account	-	-	1,342	1,342	-	1
Debt Service Reserve Account	-	-	7,509,853	7,509,853	5,436,942	-
Clearing Account	-	-	74,118	74,118	109,575	28
Other	572,928	-	77,800	650,728	-	734
Total	<u>\$ 572,928</u>	<u>\$ -</u>	<u>\$ 29,387,551</u>	<u>\$ 29,960,479</u>	<u>\$ 5,547,613</u>	<u>\$ 9,717</u>

CITY OF READING

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2014

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 \$152,000 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.

NOTE 7 - CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2014 was as follows:

Governmental Activities	Beginning Balance	Increase	Decrease	Reclassifi- cation	Ending Balance
Capital assets not being depreciated:					
Land	\$ 280,960	\$ -	\$ -	\$ -	\$ 280,960
Construction in progress	181,268	317,583	-	(498,851)	-
TOTAL CAPITAL ASSETS NOT BEING DEPRECIATED	462,228	317,583	-	(498,851)	280,960
Capital assets being depreciated:					
Buildings	37,671,908	372,724	-	-	38,044,632
Improvements	32,311,048	139,418	-	438,080	32,888,546
Machinery and equipment	36,488,936	3,426,362	-	60,771	39,976,069
Infrastructure	5,057,398	-	-	-	5,057,398
Totals at historical cost	111,529,290	3,938,504	-	498,851	115,966,645
Less accumulated depreciation for:					
Buildings	18,865,578	841,556	-	-	19,707,134
Improvements	6,081,115	1,391,390	-	-	7,472,505
Machinery and equipment	30,315,219	1,218,201	-	-	31,533,420
Infrastructure	3,603,545	161,030	-	-	3,764,575
Total accumulated depreciation	58,865,457	3,612,177	-	-	62,477,634
TOTAL CAPITAL ASSETS BEING DEPRECIATED, NET	52,663,833	326,327	-	498,851	53,489,011
GOVERNMENTAL ACTIVITIES CAPITAL ASSETS, NET	\$ 53,126,061	\$ 643,910	\$ -	\$ -	\$ 53,769,971

CITY OF READING

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2014

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	46,070,682	11,350,552	-	(9,170,329)	48,250,905
TOTAL CAPITAL ASSETS NOT BEING DEPRECIATED	48,174,341	11,350,552	-	(9,170,329)	50,354,564
Capital assets being depreciated:					
Buildings	46,030,453	-	-	-	46,030,453
Improvements	106,784,507	144,834	-	9,187,852	116,117,193
Machinery and equipment	26,239,444	1,298,809	-	(17,523)	27,520,730
Totals at historical cost	179,054,404	1,443,643	-	9,170,329	189,668,376
Less accumulated depreciation for:					
Buildings	28,394,536	940,847	-	-	29,335,383
Improvements	45,740,435	3,586,810	-	2,489	49,329,734
Machinery and equipment	16,599,048	1,535,655	-	(2,489)	18,132,214
Total accumulated depreciation	90,734,019	6,063,312	-	-	96,797,331
TOTAL CAPITAL ASSETS BEING DEPRECIATED, NET	88,320,385	(4,619,669)	-	9,170,329	92,871,045
BUSINESS-TYPE ACTIVITIES, CAPITAL ASSETS, NET	<u>\$ 136,494,726</u>	<u>\$ 6,730,883</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 143,225,609</u>

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

<u>Governmental Activities</u>		<u>Business-type Activities</u>	
General government	\$ 1,187,210	Water system	\$ 3,422,605
Public safety:		Sewer system	2,598,986
Police	411,980	Recycling	41,721
Fire	568,925		
Public works - highway and streets	104,039		<u>\$ 6,063,312</u>
Community development	744,213		
Culture and recreation	595,810		
	<u>\$ 3,612,177</u>		

CITY OF READING

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2014

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	3,400	29,364	(3,400)	-	29,364
TOTAL CAPITAL ASSETS BEING DEPRECIATED, NET	2,465,756	29,364	(3,400)	-	2,491,720
Capital assets being depreciated:					
Buildings	59,303,874	-	-	-	59,303,874
Improvements	52,962	-	-	-	52,962
Machinery and equipment	1,919,368	16,263	(101,293)	-	1,834,338
Totals at historical cost	61,276,204	16,263	(101,293)	-	61,191,174
Less accumulated depreciation for:					
Buildings	22,728,837	1,411,137	-	-	24,139,974
Improvements	51,704	458	-	-	52,162
Machinery and equipment	1,341,377	118,850	(101,230)	-	1,358,997
Total accumulated depreciation	24,121,918	1,530,445	(101,230)	-	25,551,133
TOTAL CAPITAL ASSETS BEING DEPRECIATED, NET	37,154,286	(1,514,182)	(63)	-	35,640,041
COMPONENT UNIT, CAPITAL ASSETS, NET	\$ 39,620,042	\$ (1,484,818)	\$ (3,463)	\$ -	\$ 38,131,761

CITY OF READING

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2014

NOTE 8 - INTERFUND RECEIVABLES AND PAYABLES AND TRANSFERS

The City had interfund receivables and payables balances for the following accounts at December 31, 2014:

	Interfund Receivables	Interfund Payables
Governmental Activities		
Major Funds		
General	\$ 7,420,476	\$ 4,534,654
Community Development	549,801	1,166,878
Agency Fund	62,832	1,704,880
Nonmajor Governmental Funds	1,125,668	125,038
Business-Type Activities		
Major Funds		
Water	1,492,853	4,292,143
Sewer	3,957,083	558,088
Nonmajor Proprietary Fund	403,344	1,599,890
	15,012,057	13,981,571
Internal Service	120,000	1,150,486
	\$ 15,132,057	\$ 15,132,057

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.

The City had transfers in and out for the following amounts at December 31, 2014:

	Transfers In	Transfers Out
Governmental Activities		
General	\$ 8,170,000	\$ -
Business-Type Activities		
Water	-	5,170,000
Sewer	-	3,000,000
	\$ 8,170,000	\$ 8,170,000

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, 2014

NOTE 9 - LIABILITIES

Governmental Activities <u>Bonds Payable and Other Long-Term Liabilities</u>	Balance at Beginning of Year	Additions	Deductions	Balance at End of Year	Due Within One Year
Federally Taxable General Obligation Bonds, Series of 2006, 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.	\$ 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.	11,939,157	-	353,720	11,585,437	369,027
General Obligation Bonds, Series of C, D, and E of 2008, variable interest payable through 2033. Proceeds were used to advance refund a portion of the Federally Taxable General Obligation Bonds Series of 2006, a portion of the General Obligation Notes Series of 2005, all of the outstanding General Obligation Bonds Series of 2002, and pay bond issuance costs. Series E was currently refunded in 2012.	28,689,718	-	28,689,718	-	-
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.	24,985,000	-	5,000	24,980,000	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.	8,935,000	-	1,155,000	7,780,000	1,210,000
General Obligation Note Series A of 2011, with .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.	18,210,000	-	2,780,000	15,430,000	2,930,000

CITY OF READING

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2014

NOTE 9 - LIABILITIES - CONTINUED

Governmental Activities <u>Bonds Payable and Other Long-Term Liabilities - continued:</u>	Balance at Beginning of Year	Additions	Deductions	Balance at End of Year	Due Within One Year
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.	3,090,000	-	595,000	2,495,000	605,000
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.	2,215,000	-	650,000	1,565,000	630,000
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.	2,967,000	-	152,000	2,815,000	159,000
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.	8,204,400	-	57,600	8,146,800	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	-	29,678,069	46,208
Federally Taxable Guaranteed Lease Revenue Notes, Series of 2006 (Redevelopment Authority) with 6.10% interest payable through 2026. Proceeds used to finance the City's 2006 pension costs.	5,045,149	-	262,534	4,782,615	279,025
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.	-	2,696,640	507,448	2,189,192	693,911
Capital lease payable to the Redevelopment Authority with 2.5% - 4.25% interest payable through 2033. Proceeds used to finance construction of public waste facility.	3,200,000	-	110,000	3,090,000	115,000
Compensated absences	854,466	45,575	33,770	866,271	-
Total Governmental Activities	<u>#####</u>	<u>\$ 32,420,284</u>	<u>\$ 35,351,790</u>	<u>\$ 148,308,384</u>	<u>\$ 7,110,571</u>

CITY OF READING

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2014

NOTE 9 - LIABILITIES - CONTINUED

Business-Type Activities	Balance at Beginning of Year	Additions	Deductions	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.	\$ 28,335,844	\$ -	\$ 841,280	\$ 27,494,564	\$ 875,973
General Obligation Bonds, Series of C, D, and E of 2008, variable interest payable through 2033. Proceeds were used to advance refund a portion of the Federally Taxable General Obligation Bonds Series of 2006, a portion of the General Obligation Notes Series of 2005, all of the outstanding General Obligation Bonds Series of 2002, and pay bond issuance costs. Series E was refunded in 2012.	5,459,900	-	5,459,900	-	-
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.	3,190,600	-	22,400	3,168,200	26,600
Guaranteed Water Revenue Bonds, Series of 2003 (Capital Appreciation Bonds), 3.60% - 4.62% interest payable through 2020.	16,505,000	-	2,030,000	14,475,000	2,030,000
Guaranteed Water Revenue Bonds, Series of 2007, 4.25% - 5% interest payable through 2027.	24,605,000	-	145,000	24,460,000	150,000
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	-	5,646,928	8,792
Guaranteed Water Revenue Bonds, Series of 2011, initial issue \$50,000,000, with interest rates ranging from 2.35% to 5.25%. The effective rate at December 31, 2012 was 5.10%.	50,000,000	-	-	50,000,000	315,000

CITY OF READING

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2014

NOTE 9 - LIABILITIES - CONTINUED

	Balance at Beginning of Year	Additions	Deductions	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	1,916,010	-	462,986	1,453,024	473,000
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.	150,000	356,042	150,000	356,042	465,066
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. Guaranteed by the City of Reading.	5,318,780	-	275,988	5,042,792	279,525
	135,481,134	6,002,970	9,387,554	132,096,550	4,623,956
Less: unamortized interest on Capital Appreciation Bonds	(2,740,297)	-	(602,688)	(2,137,609)	-
Total	\$ 132,740,837	\$ 6,002,970	\$ 8,784,866	\$ 129,958,941	\$ 4,623,956

CITY OF READING

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2014

NOTE 9 - LIABILITIES - CONTINUED

	Balance at Beginning of Year	Additions	Deductions	Balance at End of Year	Due Within One Year
Component Unit - Reading Parking Authority:					
<u>Bonds Payable and Other Long-Term Liabilities</u>					
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.	\$ 19,300,000	\$ -	\$ 2,745,000	\$ 16,555,000	\$ 2,745,000
On December 22, 2011, the Series A of 2011 Parking Revenue notes 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	-	-	5,570,000	60,000

CITY OF READING

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2014

NOTE 9 - LIABILITIES - CONTINUED

	Balance at Beginning of Year	Additions	Deductions	Balance at End of Year	Due Within One Year
Component Unit - Reading Parking Authority					
<u>Bonds Payable and Other Long-Term Liabilities -</u>					
<u>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.	9,370,000	-	120,000	9,250,000	60,000
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.	308,738	-	30,465	278,273	31,893
	36,118,738	-	2,895,465	33,223,273	2,896,893
Less: unamortized interest on Capital Appreciation Bonds	(3,952,800)	-	(940,524)	(3,012,276)	-
Total Long-term Liabilities	<u>\$ 32,165,938</u>	<u>\$ -</u>	<u>\$ 1,954,941</u>	<u>\$ 30,210,997</u>	<u>\$ 2,896,893</u>

Component unit - Reading Redevelopment Authority has the following debt outstanding as of December 31, 2014:

Tax exempt guaranteed lease revenue bonds series of 2003 in the amount of \$3,090,000 which was utilized in the construction of the consolidated Public Works facility. This debt was guaranteed by the City of Reading and is recorded and included in the City's governmental activities debt as a capital lease.

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, 2014, the remaining balance on the bank loan was \$1,600,000.

CITY OF READING

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2014

NOTE 9 - LIABILITIES - CONTINUED

The annual requirements to pay principal and interest on long-term debt outstanding at December 31, 2014 are as follows:

	Governmental Activities		Business-Type Activities		Component Units	
					Reading Parking Authority	
	Principal	Interest ^	Principal	Interest	Principal	Interest
2015	\$ 7,110,571	\$ 6,784,803	\$ 4,623,956	\$ 6,169,565	\$ 2,909,000	\$ 431,155
2016	7,385,459	6,751,879	4,675,175	6,267,772	3,044,000	424,265
2017	7,689,656	6,524,711	4,758,837	6,324,583	3,044,000	417,375
2018	8,001,463	6,270,779	4,846,282	6,595,499	2,904,000	413,135
2019	7,725,554	5,907,662	4,984,208	6,616,235	3,064,000	407,703
2020 - 2024	34,391,034	24,470,830	27,564,180	29,309,050	15,964,333	1,215,200
2025 - 2029	41,855,318	15,590,134	34,235,684	19,581,663	2,345,000	-
2030 - 2034	34,186,418	4,485,826	41,392,994	9,976,053	-	-
2035 - 2036	-	-	13,605,000	1,080,450	-	-
Less unamortized interest	-	-	(2,137,609)	-	(3,012,276)	-
Less capital lease interest	-	-	-	-	(51,060)	-
Less amount not drawn down	(903,360)	-	(8,589,766)	-	-	-
	<u>* \$ 147,442,113</u>	<u>\$ 76,786,624</u>	<u>\$ 129,958,941</u>	<u>\$ 91,920,870</u>	<u>\$ 30,210,997</u>	<u>\$ 3,308,833</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, 2014.

* Amount includes the Reading Redevelopment Authority capital lease obligation that related to the guarantee lease revenue bond, series of 2003.

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

The following is a summary of governmental long-term liability activity for the year ended December 31, 2014:

Governmental Activities	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
General obligation debt:					
Notes and bonds payable	\$ 147,185,424	\$ 32,374,709	\$ 35,208,020	\$ 144,352,113	\$ 6,995,571
Less deferred amounts:					
For issuance discounts	(600,442)	(460,399)	(237,299)	(823,542)	-
For issuance premiums	3,759	-	758	3,001	-
Other liabilities:					
Lease payable	3,200,000	-	110,000	3,090,000	115,000
Compensated absences	854,466	45,575	33,770	866,271	-
	<u>\$ 150,643,207</u>	<u>\$ 31,959,885</u>	<u>\$ 35,115,249</u>	<u>\$ 147,487,843</u>	<u>\$ 7,110,571</u>

CITY OF READING

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2014

NOTE 9 - LIABILITIES - CONTINUED

The following is a summary of business-type long-term liability activity for the year ended December 31, 2014:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Amounts Due Within One Year</u>
Business-Type Activities:					
General obligation bonds payable	\$ 36,986,344	\$ 5,646,928	\$ 6,323,580	\$ 36,309,692	\$ 911,365
Water revenue bonds and notes payable	98,494,790	356,042	3,063,974	95,786,858	3,712,591
Less deferred amounts:					
For issuance discounts	(774,673)	-	(37,694)	(736,979)	-
For issuance premiums	624,178	-	44,851	579,327	-
For unamortized accreted interest	(2,740,297)	-	(602,688)	(2,137,609)	-
	<u>\$ 132,590,342</u>	<u>\$ 6,002,970</u>	<u>\$ 8,792,023</u>	<u>\$ 129,801,289</u>	<u>\$ 4,623,956</u>

The following is a summary of long-term liability activity for the Component Unit (Reading Parking Authority) for the year ended December 31, 2014:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Amounts Due Within One Year</u>
Component Unit (Reading Parking Authority)					
Revenue bonds payable	\$ 19,300,000	\$ -	\$ 2,745,000	\$ 16,555,000	\$ 2,745,000
Notes payable	16,510,000		120,000	16,390,000	120,000
Less deferred amounts:					
For unamortized accreted interest	(3,952,800)	-	(940,524)	(3,012,276)	-
Other liabilities:					
Capital lease payable	308,738	(30,465)	-	278,273	31,893
	<u>\$ 32,165,938</u>	<u>\$ (30,465)</u>	<u>\$ 1,924,476</u>	<u>\$ 30,210,997</u>	<u>\$ 2,896,893</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, 2014, outstanding general obligation bonds of the City in the amount of \$6,805,000 were considered defeased with a related \$6,995,844 held in escrow funds.

CITY OF READING

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2014

NOTE 9 - LIABILITIES - CONTINUED

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.

Subsequent Events

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.

In June 2015, the City refinanced the Federally Taxable Guaranteed Lease Revenue Note, Series of 2006 by issuing the Federally Taxable Guaranteed Lease Revenue Note, Series 2015 (2015 Note) in the amount of \$4,763,000. The 2015 Note will have annual payments of principal and interest through maturity on November 15, 2026. The 2015 note will bear interest at a rate of 3.5 percent. Net cash savings on the refinancing is \$606,142.

In April 2015, the City issued the General Obligation Bonds, Series A of 2015 (Tax-Exempt) in the amount of \$16,875,000 and Series B of 2015 (Federally Taxable) in the amount of \$37,150,000. The proceeds from the bond currently refunded the entire outstanding balances for the General Obligation Bonds, Series 2006 and the Guaranteed Lease Revenue Bonds, Series of 2003; and partially refund the General Obligation Bonds, Series 2008. The GOB Series A and B of 2015 require annual payments of principal and interest through maturity on November 1, 2033. The GOB Series A and B of 2015 bears interest at 5.0 percent and 6.0 percent, respectively. Net cash savings on the bond refundings total \$2,985,436.

CITY OF READING

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2014

NOTE 9 - LIABILITIES - CONTINUED

In April 2015, the Water Authority issued Water Revenue Bonds, Series of 2015 in the amount of \$25,130,000. The Series of 2015 Bonds, along with \$2,500,000 in the Authority's 2007 Debt Service Reserve Fund, were used to advance refund \$24,460,000 of its Water Revenue Bonds, Series of 2007, fund a deposit of \$2,500,000 in the 2015 Debt Service Reserve Fund, and pay issuance costs of the 2015 Bonds. The bonds shall bear interest at rates ranging from 2.75% to 5.00%. Under the terms of the 2015 Bonds, future principal payments are as follows:

2015	\$	-
2016		-
2017		205,000
2018		280,000
2019		290,000
2020 - 2024		13,215,000
2025 - 2027		<u>11,140,000</u>
	\$	<u>25,130,000</u>

CITY OF READING

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2014

NOTE 10 - CITY OF READING RETIREMENT PLANS

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, 2014, 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, 2013, 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	309	129	310
Inactive plan members entitled to but			
not yet receiving benefits	4	-	20
Active plan members	<u>140</u>	<u>117</u>	<u>291</u>
Total plan members	<u>453</u>	<u>246</u>	<u>621</u>

CITY OF READING

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2014

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 twelve 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 grater. 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 become totally and permanently disabled as a result of accident of sickness occurring in the line of duty of non-service related after ten 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 ten 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 become totally and permanently disabled as a result of accident of 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 ten 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 ten years of service, they are killed-in-service or after retirement the normal retirement benefit is payable to the spouse for life. Upon the spouse's death, or if there is no spouse, the participant's children, if any, will share the benefit until age 18.

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

CITY OF READING

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2014

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 twelve 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, 2014

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 twelve 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.

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 ten years of service. Eligibility for the normal retirement benefit is attained for employees completing ten 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 ten that produce the greatest average. Pension benefits are paid monthly for the member's lifetime. Compensation is defined as base pay plus longevity, excluding overtime pay, educational incentive payments, bonuses, payments in lieu of dependent's health insurance, and other special forms of pay.

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

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

CITY OF READING

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2014

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.

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 1 year prior to the date of death.

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 2014 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 five 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, 2014

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 2014. The following table reflects contribution information for 2014:

	<u>PPP</u>	<u>PFPP</u>	<u>O&E</u>
MMO	<u>\$ 6,051,235</u>	<u>\$ 2,282,337</u>	<u>\$ 2,769,963</u>
Contributions:			
City	\$ 4,952,788	\$ 1,306,421	\$ 1,660,988
Allocation of state aid	<u>1,099,841</u>	<u>975,915</u>	<u>1,119,205</u>
Total	6,052,629	2,282,336	2,780,193
Employee	<u>665,036</u>	<u>456,196</u>	<u>422,154</u>
Total contributions	<u>\$ 6,717,665</u>	<u>\$ 2,738,532</u>	<u>\$ 3,202,347</u>
Covered payroll	<u>\$ 11,125,785</u>	<u>\$ 8,490,245</u>	<u>\$ 14,397,777</u>
Employee contributions as a percent of covered payroll	<u>5.98%</u>	<u>5.37%</u>	<u>2.93%</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, 2014, the balance of DROP accounts for the PPP held by the City was \$3,907,152.

CITY OF READING

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2014

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, 2014, the balance of DROP accounts for the PFPP held by the City was \$2,468,614.

Net Pension Liability

The components of the net pension liability of the Plans at December 31, 2014 were as follows:

	PPP	PFPP	O&E
Total pension liability	\$ 150,914,451	\$ 72,518,446	\$ 70,753,141
Plan fiduciary net position	(88,855,083)	(54,375,838)	(55,057,141)
Net pension liability	\$ 62,059,368	\$ 18,142,608	\$ 15,696,000
Plan fiduciary net position as a percentage of total pension liability	58.88%	74.98%	77.82%

CITY OF READING

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2014

NOTE 10 - CITY OF READING RETIREMENT PLANS - CONTINUED

Actuarial Assumptions - The total pension liability was determined by an actuarial valuation using the following actuarial assumptions, applied to all periods in the measurement, and rolled forward to December 31, 2014:

	PPP	PFPP	O&E
Valuation date	01/01/13	01/01/13	01/01/13
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	14 years	11 years	15 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%	5.5%	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, 2014

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, 2014:

Asset Class	Target Allocation			Long Term Expected Real Rate of Return		
	PPP	PFPP	O&E	PPP	PFPP	O&E *
Cash	0.0%	0.0%	0.3%	N/A	N/A	7.4%
Fixed income	40.0%	30.0%	32.2%	3.4%	3.0%	7.4%
Domestic equity	37.0%	39.0%	38.6%	10.2%	5.2%	7.4%
International equity	23.0%	21.0%	19.4%	12.0%	5.2%	7.4%
Bank loans	0.0%	5.0%	0.0%	N/A	2.7%	N/A
Emerging debt	0.0%	5.0%	0.0%	N/A	4.8%	N/A
Real estate	0.0%	0.0%	0.0%	N/A	N/A	N/A
Other	0.0%	0.0%	9.5%	N/A	N/A	7.4%
	100%	100%	100%			

* Expected return for the total Plan.

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, 2014, the annual money-weighted rate of return on the PPP, PFPP, and O&E investments, net of investment expenses was 5.39%, 5.49%, and 5.93%, respectively.

Discount Rate - The discount rate used to measure the total pension liability for the PPP, PFPP, and O&E was 7.50%. 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, 2014

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 position 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	\$ 77,383,343	\$ 62,059,368	\$ 44,415,355
City of Reading Paid Firemen's Pension Plan	\$ 26,275,635	\$ 18,142,608	\$ 10,937,077
Officers' and Employees' Pension Plan	\$ 24,020,890	\$ 15,696,000	\$ 8,704,847

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	\$ 2,496,821	\$ 619,293	\$ 491,618	\$ 3,607,732
Investments (at fair value)				
Equities	51,657,381	31,202,748	37,205,494	120,065,623
Fixed income	33,366,921	22,298,197	17,496,915	73,162,033
Short-term funds	1,358,969	255,610	33,346	1,647,925
TOTAL ASSETS	88,880,092	54,375,848	55,227,373	198,483,313
LIABILITIES				
Accounts payable	9	10	170,232	170,251
DROP Taxes Withheld	25,000	-	-	25,000
TOTAL LIABILITIES	25,009	10	170,232	195,251
NET POSITION HELD IN TRUST FOR PENSION BENEFITS				
	\$ 88,855,083	\$ 54,375,838	\$ 55,057,141	\$ 198,288,062

CITY OF READING

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2014

NOTE 10 - CITY OF READING RETIREMENT PLANS - CONTINUED

Changes in Plan Net Position

	Police Pension Fund	Paid Firemen's Pension Fund	Officers' and Employees' Pension Fund	Total Pension Trust Funds
ADDITIONS				
Contributions				
Employer (including state aid)	\$ 6,052,629	\$ 2,282,336	\$ 2,780,192	\$ 11,115,157
Employee	665,036	456,196	422,155	1,543,387
Investment income				
Interest and dividends	2,454,327	936,621	64	3,391,012
Net appreciation in fair value of investments	1,875,096	1,558,403	2,806,902	6,240,401
Other	-	6,732	3,686	10,418
TOTAL ADDITIONS	11,047,088	5,240,288	6,012,999	22,300,375
DEDUCTIONS				
Benefits, including tax withheld	9,540,292	3,601,000	4,799,701	17,940,993
Administrative expenses	295,053	85,450	402,879	783,382
Refunds paid	31,278	9,654	101,566	142,498
TOTAL DEDUCTIONS	9,866,623	3,696,104	5,304,146	18,866,873
CHANGE IN NET POSITION	1,180,465	1,544,184	708,853	3,433,502
NET POSITION HELD IN TRUST FOR PENSION BENEFITS, BEGINNING OF YEAR	87,674,618	52,831,654	54,348,288	194,854,560
NET POSITION HELD IN TRUST FOR PENSION BENEFITS, END OF YEAR	\$ 88,855,083	\$ 54,375,838	\$ 55,057,141	\$ 198,288,062

CITY OF READING

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2014

NOTE 10 - CITY OF READING RETIREMENT PLANS - CONTINUED

Additional Disclosures Required by GASB Statements No. 27 and No. 50

The information below is with regard to employer pension activity for the year ended December 31, 2014. Costs and contributions were based upon an actuarial valuation performed as of January 1, 2013, under the guidelines of Act 205.

	PPP	PFPP	O&E
Annual pension cost	\$5,987,616	\$2,269,307	\$2,850,654
Contributions made	\$6,057,188	\$2,286,857	\$2,860,603
Valuation date	01/01/13	01/01/13	01/01/13
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	14 years	11 years	15 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%	5.5%	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

CITY OF READING

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2014

NOTE 10 - CITY OF READING RETIREMENT PLANS - CONTINUED

The City's annual pension cost, percentage of annual pension costs contributed, and net pension obligation for the past three years is as follows:

Fiscal Year	Annual Pension Cost	Actual Contribution	Percentage Contributed	Net Pension Obligation (Asset)
POLICE PENSION FUND				
2014	\$ 5,987,616	\$ 6,057,188	100+%	\$ (14,199,314)
2013	5,987,616	6,057,188	100+%	(14,129,742)
2012	6,468,634	3,663,428	56.6%	(14,060,170)
FIREMEN'S PENSION FUND				
2014	\$ 2,269,307	\$ 2,286,857	100+%	\$ 319,280
2013	2,269,307	2,286,857	100+%	336,830
2012	1,976,423	1,903,873	100+%	354,380
OFFICERS' AND EMPLOYEES' PENSION FUND				
2014	\$ 2,850,654	\$ 2,860,603	100+%	\$ (452,183)
2013	2,850,654	2,860,603	100+%	(442,224)
2012	1,396,428	1,510,837	92.4%	(432,285)

Net Pension (Asset) Obligation Under GASB No. 27

The City's net pension (asset) obligation as of December 31, 2014 is calculated as follows:

	PPP	PFPP	O&E
Annual required contribution	\$ 6,057,188	\$ 2,286,857	\$ 2,836,234
Interest on net pension obligation	107,842	28,350	(32,421)
Adjustment to annual required contribution	(177,414)	(45,900)	46,841
Annual pension cost	5,987,616	2,269,307	2,850,654
Contributions made - City	6,057,188	2,286,857	2,860,603
Decrease in net pension obligation	(69,572)	(17,550)	(9,949)
Net pension obligation (asset) beginning of year	(14,129,742)	336,830	(442,234)
Net pension obligation (asset) at end of year	<u>\$ (14,199,314)</u>	<u>\$ 319,280</u>	<u>\$ (452,183)</u>

CITY OF READING

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2014

NOTE 10 - CITY OF READING RETIREMENT PLANS - CONTINUED

The City's funded status and related information for each Plan as of the latest actuarial valuation date, January 1, 2013, under the guidelines of Act 205, is as follows:

	Actuarial Value of Assets (a)	Entry Age Actuarial Accrued Liability (AAL)(b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a/c)
PPP	\$ 93,326,524	\$ 146,570,469	\$ 53,243,945	63.7 %	\$ 11,125,785	478.6 %
PFPP	56,065,996	68,631,442	12,565,446	81.7	8,490,245	148.0
O&E	48,596,291	68,020,380	19,424,089	71.4	14,397,777	134.9

The schedule of funding progress, presented as RSI following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the AAL for benefits.

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, 2014, the City contributed \$4,100,000 to the plan related to retirees.

CITY OF READING

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2014

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 thirty 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, 2014:

Annual required contribution	\$ 7,016,267
Interest on net OPEB obligation	460,297
Adjustment to annual required contribution	<u>(746,130)</u>
Annual OPEB Cost	6,730,434
Contributions made	<u>(4,100,000)</u>
Increase in net OPEB obligation	2,630,434
Net OPEB obligation - beginning of year	<u>14,162,981</u>
 Net OPEB obligation - end of year	 <u><u>\$ 16,793,415</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, 2014 was as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
12/31/2014	\$ 6,730,434	60.9%	\$ 16,793,415
12/31/2013	6,878,737	64.0%	14,162,981
12/31/2012	6,690,589	59.8%	11,684,244

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, 2014

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 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, 2014

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 related to the wastewater treatment plant, information improvement, 42" force main break, collection system, and digester rehab projects. At December 31, 2014, the balance of open contracts was \$3,630,639, \$180,812, \$1,005,939, \$627,514, and \$3,706,372, respectively.

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 plan 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, 2014

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, 2014. The notes and minimum future payments are summarized as follows for the year ended December 31:

	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>Total</u>
EMS	\$ 7,114	\$ 7,114	\$ 7,114	\$ 7,114	\$ 7,114	\$ 35,570
Fire	52,456	52,456	52,456	52,456	52,456	262,280
Police	93,278	93,278	93,278	93,278	93,278	466,390
General	1,075	1,075	1,075	1,075	1,075	5,375
Code Enforcement	1,717	1,717	1,717	1,717	1,717	8,585
Downtown						
Improvement District	4,114	4,114	4,114	4,114	4,114	20,570
Public Works	30,465	30,465	30,465	30,465	30,465	152,325
Water Authority	4,132	4,132	4,132	4,132	4,132	20,660
Reading Recreation						
Commission	<u>2,794</u>	<u>2,794</u>	<u>2,794</u>	<u>2,794</u>	<u>2,794</u>	<u>13,970</u>
Total	<u>\$ 197,145</u>	<u>\$ 985,725</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, 2014 was \$60,349. Minimum future payments for this lease are summarized as follows for the years ending December 31:

2015	\$ 60,349
2016	60,349
2017	<u>60,349</u>
	<u>\$ 181,047</u>

CITY OF READING

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2014

NOTE 12 - COMMITMENTS AND CONTINGENCIES - CONTINUED

Trash and Recycling Billing Agreement

In April 2013, the City of Reading entered 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 \$5,867,456. The total billings for trash and recycling services provided from January 1, 2014 through December 31, 2014 totaled \$6,398,823. The City and the Water Authority reported a loss/gain on the sale of receivables of \$531,367, 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 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, 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, 2014 was \$401,360.

In February 2015, the agreement was amended to include an ending date of January 31, 2018, with automatic three-year renewals.

Water Reading Services Agreement

The Authority has entered into an agreement with Miller Environmental, Inc. to perform water reading services in the Authority's service area. 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 monthly fee and hourly rates are subject to a five percent increase per year, effective March 1 of each year. The amended agreement expires February 28, 2015 and is automatically renewable for three-year terms unless one of the parties gives written notice of their intent to terminate the agreement. Total expense under the agreement for the year ended December 31, 2014 was \$539,483.

Capital Improvements

The Reading Area Water Authority has entered into several contracts for capital improvements. At December 31, 2014, the balance of open contracts was \$150,000.

CITY OF READING

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2014

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. At December 31, 2014 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. Of the Water Authority's total workforce, 93 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, 2014:

	<u>Carrier</u>	<u>Limit</u>	<u>Deductible</u>
Property	St. Paul Travelers	\$ 237,825,318	\$ 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	10,000
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	Statutory	650,000
Pollution Liability	Illinois Union	1,000,000	50,000

CITY OF READING

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2014

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 \$3,110,589.

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, 2014. An analysis of claims activity is presented below:

	Beginning of Year Liabilities	Estimated Current Year Claims	Actual Claim Payments	Balance at Fiscal Year-End
2014	<u>\$ 1,991,625</u>	<u>\$ 3,180,782</u>	<u>\$ 2,061,818</u>	<u>\$ 3,110,589</u>
2013	<u>\$ 1,732,724</u>	<u>\$ 3,390,604</u>	<u>\$ 3,131,703</u>	<u>\$ 1,991,625</u>

Employee Benefit

The City pays premiums for certain employee benefits such as health and life insurance, in accordance with stipulations of collective bargaining agreements. Such expenditures are not accounted for through the self-insurance fund, but rather are allocated to the particular fund that records the related payroll expenditures. Total expense for these employee benefits for the year ended December 31, 2014 was \$12,651,900.

CITY OF READING

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2014

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, 2014 was as follows:

General Fund: The general fund has an assigned fund balance for the 2015 budget deficit of \$2,500,000 and an unassigned fund balance of \$20,661,218.

Community Development Fund: The community development fund has restricted funds of \$552,971, consisting primarily of unspent federal and state grant funds restricted by federal or state law.

Agency Fund: The agency fund has restricted funds of \$698,393, 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 \$271,925, consisting of receipts received from sources to be used for specific purposes.

Liquid Fuels Fund: The liquid fuels fund has a restricted fund balance of \$672,692, consisting primarily of unspent state grant funds restricted by state law.

Capital Projects Fund: The capital projects fund has restricted funds of \$1,791,421, 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 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, 2014

NOTE 15 - NEW ACCOUNTING STANDARDS

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

- Statement No. 68, *Accounting and Financial Reporting for Pensions*, which is required to be implemented by the year ending December 31, 2015. The objective of this statement is to improve accounting and financial reporting by governments for pensions. This statement establishes standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and expenditures. This statement also enhances note disclosure and required supplementary information for government plans.
- Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date* - an amendment to GASB Statement No. 68 will be implemented at the same time as of No. 68.
- 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.
- 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.
- 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.
- Statement No. 77, *Tax Abatement Disclosures* - The requirements enhances the disclosure of information about the nature and magnitude of tax abatements 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.

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, 2014

	General Fund			
	Original Budget	Final Budget	Actual	Variance
Revenues:				
Real estate taxes	\$ 21,083,297	\$ 21,083,297	\$ 21,702,124	\$ 618,827
Act 511 taxes	24,990,795	24,990,795	27,033,942	2,043,147
Licenses, permits, and fines	6,780,326	6,780,326	6,632,471	(147,855)
Intergovernmental	4,891,644	4,891,644	5,010,677	119,033
Charges for services	7,580,397	7,580,397	7,076,325	(504,072)
Interest and rent	1,555,000	1,555,000	1,615,988	60,988
Other	6,474,741	6,474,741	6,470,711	(4,030)
TOTAL REVENUES	73,356,200	73,356,200	75,542,238	2,186,038
Expenditures:				
Current:				
General government	7,909,739	7,658,966	5,576,579	2,082,387
Public safety				
Police	28,505,907	28,505,907	29,644,192	(1,138,285)
Fire	12,573,493	12,483,379	12,508,511	(25,132)
EMS	3,665,314	3,615,428	3,555,185	60,243
Public works - highways and streets	867,036	867,036	866,160	876
Public works - other	6,675,325	6,876,098	6,571,753	304,345
Community development	4,283,877	3,918,877	4,638,275	(719,398)
Culture and recreation	796,678	796,678	852,694	(56,016)
Other	2,851,825	2,756,825	3,620,148	(863,323)
Debt service - principal	6,035,254	6,035,254	6,035,254	-
Debt service - interest	7,108,830	7,108,830	7,409,690	(300,860)
TOTAL EXPENDITURES	81,273,278	80,623,278	81,278,441	(655,163)
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(7,917,078)	(7,267,078)	(5,736,203)	1,530,875
OTHER FINANCING SOURCES (USES)				
Issuance of refunding bond	-	-	29,678,069	29,678,069
Bond discounts	-	-	(460,399)	(460,399)
Payment to refunded bond escrow agent	-	-	(28,665,318)	(28,665,318)
Transfers in	8,170,000	8,170,000	8,170,000	-
Budgetary Reserve	(1,483,400)	(2,133,400)	-	2,133,400
TOTAL OTHER FINANCING SOURCES (USES)	6,686,600	6,036,600	8,722,352	2,685,752
NET CHANGE IN FUND BALANCES	\$ (1,230,478)	\$ (1,230,478)	2,986,149	\$ 4,216,627
FUND BALANCE - BEGINNING			20,175,069	
FUND BALANCE - ENDING			\$ 23,161,218	

CITY OF READING

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

December 31, 2014

Total Pension Liability	
Service cost	\$ 2,714,223
Interest	10,929,700
Benefit payments, including refunds of employee contributions	<u>(11,285,167)</u>
Net change in total pension liability	2,358,756
Total pension liability, beginning	<u>148,555,695</u>
Total pension liability, ending	<u><u>\$ 150,914,451</u></u>
Plan Fiduciary Net Position	
Contributions - employer	\$ 6,052,629
Contributions - employee	665,036
Net investment income	4,329,423
Benefit payments, including refunds of employee contributions	(9,571,570)
Administrative expenses	<u>(295,053)</u>
Net change in plan fiduciary net position	1,180,465
Plan fiduciary net position, beginning	<u>87,674,618</u>
Plan fiduciary net position, ending	<u><u>\$ 88,855,083</u></u>
Net pension liability	<u><u>\$ 62,059,368</u></u>
Plan fiduciary net position as a percentage of total pension liability	<u><u>58.88%</u></u>
Covered employee payroll	<u><u>\$ 11,125,785</u></u>
Net pension liability as a percentage of covered employee payroll	557.79%

Note:

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

CITY OF READING

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

December 31, 2014

Total Pension Liability	
Service cost	\$ 1,606,792
Interest	5,235,258
Benefit payments, including refunds of employee contributions	<u>(4,951,010)</u>
Net change in total pension liability	1,891,040
Total pension liability, beginning	<u>70,627,406</u>
Total pension liability, ending	<u><u>\$ 72,518,446</u></u>
Plan Fiduciary Net Position	
Contributions - employer	\$ 2,282,336
Contributions - employee	456,196
Net investment income	2,495,024
Other additions	6,732
Benefit payments, including refunds of employee contributions	(3,610,654)
Administrative expenses	<u>(85,450)</u>
Net change in plan fiduciary net position	1,544,184
Plan fiduciary net position, beginning	<u>52,831,654</u>
Plan fiduciary net position, ending	<u><u>\$ 54,375,838</u></u>
Net pension liability	<u><u>\$ 18,142,608</u></u>
Plan fiduciary net position as a percentage of total pension liability	<u><u>74.98%</u></u>
Covered employee payroll	<u><u>\$ 8,490,245</u></u>
Net pension liability as a percentage of covered employee payroll	213.69%

Note:

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

CITY OF READING

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

December 31, 2014

Total Pension Liability	
Service cost	\$ 1,218,457
Interest	5,110,331
Benefit payments, including refunds of employee contributions	<u>(4,901,267)</u>
Net change in total pension liability	1,427,521
Total pension liability, beginning	<u>69,325,620</u>
Total pension liability, ending	<u><u>\$ 70,753,141</u></u>
Plan Fiduciary Net Position	
Contributions - employer	\$ 2,780,193
Contributions - employee	422,154
Net investment income	2,806,966
Other additions	3,686
Benefit payments, including refunds of employee contributions	(4,901,267)
Administrative expenses	<u>(402,879)</u>
Net change in plan fiduciary net position	708,853
Plan fiduciary net position, beginning	<u>54,348,288</u>
Plan fiduciary net position, ending	<u><u>\$ 55,057,141</u></u>
Net pension liability	<u><u>\$ 15,696,000</u></u>
Plan fiduciary net position as a percentage of total pension liability	<u><u>77.82%</u></u>
Covered employee payroll	<u><u>\$ 14,397,777</u></u>
Net pension liability as a percentage of covered employee payroll	109.02%

Note:

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

CITY OF READING

SCHEDULE OF CITY CONTRIBUTIONS - LAST 10 FISCAL YEARS

December 31, 2014

Police Pension Plan

	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
Schedule of City Contributions										
Actuarial determined contributions	\$ 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	\$ 2,836,898
Contributions in relation to the actuarially determined contribution	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	2,784,298
Contribution deficiency (excess)	\$ (1,394)	\$ -	\$ (13)	\$ (20,563)	\$ (598,881)	\$ (14,309)	\$ -	\$ 1,054,474	\$ -	\$ 52,600
Covered employee payroll	\$ 11,125,785	\$ 11,125,785	\$ 8,233,879	\$ 8,233,879	\$ 11,349,615	\$ 11,349,615	\$ 11,186,195	\$ 11,186,195	\$ 10,069,858	\$ 10,069,858
Contributions as a percentage of covered employee payroll	54.40%	54.44%	44.49%	48.00%	28.25%	21.52%	15.25%	9.80%	20.99%	27.65%
Investment Returns										
Annual money-weighted rate of return, net investment expense	5.39%									

Paid Firemen's Pension Plan

	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
Schedule of City Contributions										
Actuarial determined contributions	\$ 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	\$ 1,479,698
Contributions in relation to the actuarially determined contribution	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	1,479,698
Contribution deficiency (excess)	\$ 1	\$ -	\$ 10	\$ (8,040)	\$ (207,271)	\$ (369)	\$ (10,762)	\$ 537,686	\$ -	\$ -
Covered employee payroll	\$ 8,490,245	\$ 8,490,245	\$ 8,048,446	\$ 8,048,446	\$ 8,018,210	\$ 8,018,210	\$ 7,187,428	\$ 7,187,428	\$ 8,026,617	\$ 8,026,617
Contributions as a percentage of covered employee payroll	26.88%	26.94%	23.66%	24.66%	19.80%	16.79%	18.09%	3.96%	11.73%	18.43%
Investment Returns										
Annual money-weighted rate of return, net investment expense	5.49%									

Officers' and Employees' Pension Plan

	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
Schedule of City Contributions										
Actuarial determined contributions	\$ 2,769,963	\$ 2,836,234	\$ 1,488,269	\$ 1,376,733	\$ 800,416	\$ 775,359	\$ 598,539	\$ 786,148	\$ 432,096	\$ 1,337,185
Contributions in relation to the actuarially determined contribution	2,780,193	2,860,603	1,510,837	1,404,139	1,670,803	806,192	626,961	62,685	432,096	1,327,692
Contribution deficiency (excess)	\$ (10,230)	\$ (24,369)	\$ (22,568)	\$ (27,406)	\$ (870,387)	\$ (30,833)	\$ (28,422)	\$ 723,463	\$ -	\$ 9,493
Covered employee payroll	\$ 14,397,777	\$ 14,397,777	\$ 14,270,137	\$ 14,270,137	\$ 15,450,113	\$ 15,450,113	\$ 14,190,597	\$ 14,190,597	\$ 11,880,781	\$ 11,880,781
Contributions as a percentage of covered employee payroll	19.31%	19.87%	10.59%	9.84%	10.81%	5.22%	4.42%	0.44%	3.64%	11.18%
Investment Returns										
Annual money-weighted rate of return, net investment expense	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 supplemental information.

CITY OF READING

SCHEDULES OF FUNDING PROGRESS - PENSION FUNDS

Actuarial Valuation Date	Actuarial Value of Assets (a)	Entry Age Actuarial Accrued Liability (AAL)(b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
POLICE PENSION FUND						
01/01/13	\$ 93,326,524	\$ 146,570,469	\$ 53,243,945	63.7%	\$ 11,125,785	478.6%
01/01/11	91,040,541	130,699,482	39,658,941	69.7%	8,233,879	481.7%
01/01/09	85,324,284	116,213,452	30,889,168	73.4%	11,349,615	272.2%
PAID FIREMEN'S PENSION FUND						
01/01/13	\$ 56,065,996	\$ 68,631,442	\$ 12,565,446	81.7%	\$ 8,490,245	148.0%
01/01/11	55,815,180	64,823,775	9,008,595	86.1%	8,048,446	111.9%
01/01/09	49,852,024	56,291,280	6,439,256	88.6%	8,018,210	80.3%
OFFICERS' AND EMPLOYEES' PENSION FUND						
01/01/13	\$ 48,596,291	\$ 68,020,380	\$ 19,424,089	71.4%	\$ 14,397,777	134.9%
01/01/11	50,403,788	67,774,877	17,371,089	74.4%	14,270,137	121.7%
01/01/09	53,650,657	60,800,584	7,149,927	88.2%	15,450,113	46.3%

Note: State law required biennial actuarial valuations on the odd numbered years.

* Increases from the previous valuation relates primarily to updates to the mortality assumptions, the rate of return on the actuarial value of assets was less than the actuarially assumed rate of 7.5% for each plan, and contributions that were less than actuarially required. The contributions loss was exacerbated by the City's electing of funding relief under PA Act 44 of 2009 for the 2011 and 2012 Minimum Municipal Obligations. The interest rate assumption for the paid firemen's pension fund was also reduced from 8.0% to 7.5%.

CITY OF READING

SCHEDULES OF EMPLOYER CONTRIBUTIONS - PENSION FUNDS

Fiscal Year	Annual Required Contribution	Percentage Contributed	Employer Contributions	Net Pension Obligation (Asset)
POLICE PENSION FUND				
2014	\$ 6,057,188	100%	\$ 6,057,188	\$ (14,199,314)
2013	6,057,188	100%	6,057,188	(14,129,742)
2012	5,885,447	62%	3,663,428	(14,060,170)
2011	5,631,258	70%	3,932,111	(16,865,376)
2010	5,547,605	47%	2,607,362	(18,959,659)
2009	2,428,329	100%	2,428,329	(22,261,621)
2008	1,705,470	100%	1,705,470	(22,629,315)
FIREMEN'S PENSION FUND				
2014	\$ 2,286,857	100%	\$ 2,286,857	\$ 319,280
2013	2,286,857	100%	2,286,857	336,830
2012	1,976,423	96%	1,903,873	354,380
2011	1,976,423	100+%	1,984,463	180,505
2010	1,380,603	100+%	1,611,489	-
2009	1,346,126	100+%	1,406,097	-
2008	1,289,485	100+%	1,337,816	-
OFFICERS' AND EMPLOYEES' PENSION FUND				
2014	\$ 2,836,234	101%	\$ 2,860,603	\$ (452,183)
2013	2,836,234	101%	2,860,603	(442,224)
2012	1,376,733	110%	1,510,837	(432,285)
2011	1,376,733	102%	1,404,139	(618,198)
2010	800,416	209%	1,670,803	-
2009	775,359	104%	806,192	-
2008	598,539	105%	626,961	-

CITY OF READING

SCHEDULE OF FUNDING PROGRESS - 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
12/31/2008	-	26,676,711	26,676,711	0.00%	N/A	N/A

CITY OF READING

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

December 31, 2014

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	01/01/13	01/01/13	01/01/13
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	14 years	11 years	15 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, 2014

	Original Budget	Final Budget	Actual	Variance
REAL ESTATE TAXES	\$ 21,083,297	\$ 21,083,297	\$ 21,702,124	\$ 618,827
ACT 511 Taxes				
Per capita tax	200,000	200,000	203,145	3,145
Per capita tax - prior years	5,000	5,000	40,035	35,035
Real estate transfer tax	1,982,975	1,982,975	2,509,916	526,941
Earned income tax	19,602,820	19,602,820	21,100,112	1,497,292
Occupation tax	1,000,000	1,000,000	893,449	(106,551)
Occupation tax - prior years	100,000	100,000	430,013	330,013
Business privilege tax	1,850,000	1,850,000	1,601,754	(248,246)
Business privilege tax - prior years	250,000	250,000	255,518	5,518
Total Act 511 Taxes	24,990,795	24,990,795	27,033,942	2,043,147
LICENSES, PERMITS, AND FINES				
Food permits	165,000	165,000	168,383	3,383
Building and electrical	725,810	725,810	940,181	214,371
Trades licenses	80,000	80,000	114,945	34,945
Business privilege	350,000	350,000	339,705	(10,295)
Street and pavement	170,000	170,000	328,963	158,963
Zoning and land development	180,850	180,850	147,122	(33,728)
Housing	2,147,000	2,147,000	1,790,639	(356,361)
Tax administration licenses	12,000	12,000	16,170	4,170
Franchise fees	725,000	725,000	795,879	70,879
No parking signs	800	800	640	(160)
Traffic fines	325,000	325,000	473,335	148,335
Penalties and interest	108,000	108,000	90,358	(17,642)
District court	850,000	850,000	1,041,027	191,027
Pre-settlement inspection fee	-	-	430	430
Other	940,866	940,866	384,694	(556,172)
Total Licenses, Permits, and Fines	6,780,326	6,780,326	6,632,471	(147,855)
INTERGOVERNMENTAL				
Payments in lieu of taxes	80,000	80,000	141,648	61,648
Malt and liquor tax	50,000	50,000	24,700	(25,300)
Public utility tax	49,000	49,000	58,179	9,179
Snow and ice control	50,000	50,000	86,546	36,546
Reading Public Library	767,644	767,644	767,092	(552)
School guard	200,000	200,000	200,183	183
Pension - state aid	3,150,000	3,150,000	3,194,961	44,961
Police training	130,000	130,000	164,633	34,633
Grant reimbursement - police	415,000	415,000	372,735	(42,265)
Total Intergovernmental	4,891,644	4,891,644	5,010,677	119,033

CITY OF READING

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

Year Ended December 31, 2014

	Original Budget	Final Budget	Actual	Variance
CHARGES FOR SERVICES				
Pagoda and tower	-	-	627	627
School district tax collection	30,000	30,000	41,981	11,981
Admissions fee/tax	425,000	425,000	365,446	(59,554)
Police services	1,030,139	1,030,139	1,002,869	(27,270)
Fire services	438,900	438,900	379,088	(59,812)
Ambulance services	3,684,138	3,684,138	3,103,127	(581,011)
Housing Authority	200,000	200,000	286,595	86,595
Public works	15,000	15,000	77,010	62,010
Meter surcharge	1,700,000	1,700,000	1,700,000	-
Other	57,220	57,220	119,582	62,362
Total Charges for Services	7,580,397	7,580,397	7,076,325	(504,072)
INTEREST AND RENT				
Interest	-	-	1,544	1,544
Stadium rental	300,000	300,000	300,000	-
Building rental	65,000	65,000	76,773	11,773
Parking Authority	1,190,000	1,190,000	1,190,004	4
Loan repayments	-	-	47,667	47,667
Total Interest and Rent	1,555,000	1,555,000	1,615,988	60,988
OTHER				
Sale of city property	5,000	5,000	16,000	11,000
Donation from water authority	1,500,000	1,500,000	1,500,000	-
Donation from parking authority	810,000	810,000	810,000	-
Refund of prior year expenses	700	700	-	(700)
Recovery of damages	5,000	5,000	-	(5,000)
Indirect cost reimbursement:				
Community development	189,996	189,996	189,996	-
Recycling	250,216	250,216	384,971	134,755
Sewer	1,161,432	1,161,432	1,103,347	(58,085)
Water	-	-	135,118	135,118
Trash	133,689	133,689	174,460	40,771
Direct cost reimbursement:				
Code services	670,000	670,000	589,675	(80,325)
Pension	68,760	68,760	56,675	(12,085)
Sewer	185,000	185,000	90,490	(94,510)
Grants and gifts	1,437,145	1,437,145	1,348,183	(88,962)
Other shared revenues	38,000	38,000	33,300	(4,700)
Miscellaneous	19,803	19,803	38,496	18,693
Total Other	6,474,741	6,474,741	6,470,711	(4,030)
TOTAL REVENUES	73,356,200	73,356,200	75,542,238	2,186,038
OTHER FINANCING SOURCES				
Issuance of Refunding Bond	-	-	29,678,069	29,678,069
Transfers in:				
Water Fund	5,170,000	5,170,000	5,170,000	-
Sewer Fund	3,000,000	3,000,000	3,000,000	-
Total Other Financing Sources	8,170,000	8,170,000	37,848,069	29,678,069
TOTAL REVENUES AND OTHER FINANCING SOURCES	<u>\$ 81,526,200</u>	<u>\$ 81,526,200</u>	<u>\$ 113,390,307</u>	<u>\$ 31,864,107</u>

CITY OF READING

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

Year Ended December 31, 2014

	Original Budget	Final Budget	Actual	Variance
GENERAL GOVERNMENT				
Office of the Mayor				
Personnel services	\$ 301,098	\$ 316,598	\$ 265,216	\$ 51,382
Other operating expenditures	43,520	28,020	76,544	(48,524)
City Council				
Personnel services	259,774	264,774	268,420	(3,646)
Other operating expenditures	58,900	53,900	161,867	(107,967)
City Auditor				
Personnel services	162,687	162,687	142,380	20,307
Other operating expenditures	1,000	1,000	11,257	(10,257)
Office of the Managing Director				
Personnel services	326,950	326,950	302,624	24,326
Other operating expenditures	120,075	120,075	64,121	55,954
Department of Finance:				
Office of the Director				
Personnel services	382,728	382,728	411,288	(28,560)
Other operating expenditures	6,050	5,050	27,672	(22,622)
Purchasing				
Personnel services	109,397	109,397	90,314	19,083
Other operating expenditures	355,950	355,950	379,884	(23,934)
Accounting				
Personnel services	550,818	550,818	552,157	(1,339)
Other operating expenditures	190,850	190,850	220,647	(29,797)
Information Technology				
Personnel services	791,591	796,291	(227,694)	1,023,985
Other operating expenditures	1,949,823	1,769,050	301,056	1,467,994
Department of Human Resources				
Personnel services	351,258	351,258	395,074	(43,816)
Other operating expenditures	96,350	86,850	131,530	(44,680)
Citizens Service Center				
Personnel services	788,760	774,560	850,776	(76,216)
Other operating expenditures	54,800	54,800	125,229	(70,429)
Department of Law				
Personnel services	486,560	486,560	495,742	(9,182)
Other operating expenditures	520,800	470,800	530,475	(59,675)
TOTAL GENERAL GOVERNMENT	7,909,739	7,658,966	5,576,579	2,082,387

CITY OF READING

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

Year Ended December 31, 2014

	Original Budget	Final Budget	Actual	Variance
PUBLIC SAFETY				
Police - Criminal Investigation				
Personnel services	4,843,248	4,843,248	5,383,961	(540,713)
Other operating expenditures	130,544	130,544	209,944	(79,400)
Police - Special Services				
Personnel services	2,818,708	2,818,708	2,880,142	(61,434)
Other operating expenditures	696,487	696,487	826,909	(130,422)
Police - Patrol				
Personnel services	18,842,612	18,842,612	18,403,288	439,324
Other operating expenditures	595,875	595,875	1,185,570	(589,695)
Police - Administration				
Personnel services	521,823	521,823	512,968	8,855
Other operating expenditures	56,610	56,610	241,410	(184,800)
Fire Administration				
Personnel services	867,354	899,854	954,686	(54,832)
Other operating expenditures	145,673	61,673	143,183	(81,510)
Fire Special Services				
Personnel services	409,145	454,145	370,288	83,857
Other operating expenditures	51,900	31,900	44,959	(13,059)
Fire Suppression				
Personnel services	10,600,682	10,615,682	10,446,184	169,498
Other operating expenditures	498,739	420,125	549,211	(129,086)
Fire EMS				
Personnel services	3,178,378	3,178,378	3,054,543	123,835
Other operating expenditures	486,936	437,050	500,642	(63,592)
TOTAL PUBLIC SAFETY	44,744,714	44,604,714	45,707,888	(1,103,174)
PUBLIC WORKS				
Department of Public Works:				
Fleet Management				
Personnel services	597,887	597,887	641,133	(43,246)
Other operating expenditures	528,100	528,100	623,843	(95,743)
Traffic Engineering				
Personnel services	30,578	30,578	91,448	(60,870)
Other operating expenditures	1,331,600	1,335,300	1,235,885	99,415
Public Works Administration				
Personnel services	186,559	186,559	199,423	(12,864)
Other operating expenditures	482,025	468,325	566,485	(98,160)
Engineering				
Personnel services	15,289	15,289	22,595	(7,306)
Other operating expenditures	-	-	50	(50)
Streets				
Personnel services	826,121	734,387	828,313	(93,926)
Other operating expenditures	40,915	132,649	37,847	94,802
Parks				
Personnel services	720,693	725,693	837,981	(112,288)
Other operating expenditures	91,070	91,070	75,354	15,716
Recreation				
Personnel services	30,578	30,578	26,078	4,500
Other operating expenditures	-	-	33,131	(33,131)
Public Property				
Personnel services	699,994	699,994	769,067	(69,073)
Other operating expenditures	1,960,952	2,166,725	1,449,280	717,445
TOTAL PUBLIC WORKS	7,542,361	7,743,134	7,437,913	305,221

CITY OF READING

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

Year Ended December 31, 2014

	Original Budget	Final Budget	Actual	Variance
COMMUNITY DEVELOPMENT				
Planning				
Personnel services	84,173	84,173	85,886	(1,713)
Other operating expenditures	2,131	1,750	11,008	(9,258)
Administration				
Personnel services	19,254	19,254	35,375	(16,121)
Other operating expenditures	395,100	30,100	463,574	(433,474)
Zoning				
Personnel services	55,760	55,760	53,513	2,247
Other operating expenditures	97,583	88,464	121,172	(32,708)
Trades				
Personnel services	484,339	521,339	499,589	21,750
Other operating expenditures	96,659	59,659	119,820	(60,161)
Codes				
Personnel services	2,832,157	2,841,657	2,848,440	(6,783)
Other operating expenditures	216,721	216,721	399,898	(183,177)
TOTAL COMMUNITY DEVELOPMENT	4,283,877	3,918,877	4,638,275	(719,398)
CULTURE AND RECREATION				
Library				
Personnel services	796,498	796,498	852,422	(55,924)
Other operating expenditures	180	180	272	(92)
TOTAL CULTURE AND RECREATION	796,678	796,678	852,694	(56,016)
NONDEPARTMENTAL				
Payroll and benefits	222,901	222,901	260,106	(37,205)
Risk management	2,541,695	2,541,695	2,541,695	-
Other	87,229	(7,771)	818,347	(826,118)
TOTAL NONDEPARTMENTAL	2,851,825	2,756,825	3,620,148	(863,323)
DEBT SERVICE				
Principal	6,035,254	6,035,254	6,035,254	-
Interest	7,108,830	7,108,830	7,409,690	(300,860)
TOTAL DEBT SERVICE	13,144,084	13,144,084	13,444,944	(300,860)
TOTAL EXPENDITURES	81,273,278	80,623,278	81,278,441	(655,163)
OTHER FINANCING USES				
Bond Discount	-	-	460,399	(460,399)
Payment to escrow agent, bond refunding	-	-	28,665,318	(28,665,318)
Budgetary Reserve	1,483,400	2,133,400	-	2,133,400
TOTAL OTHER FINANCING USES	1,483,400	2,133,400	29,125,717	(26,992,317)
TOTAL EXPENDITURES AND OTHER FINANCING USES	\$ 82,756,678	\$ 82,756,678	\$ 110,404,158	\$ (27,647,480)

CITY OF READING

COMBINING BALANCE SHEET - NONMAJOR GOVERNMENTAL FUNDS

December 31, 2014

	Shade Tree	Liquid Fuels	Capital Projects	Debt Service	Totals
ASSETS					
Cash and cash equivalents	\$279,472	\$ 911,321	\$ 920,380	\$ 4,463	\$ 2,115,636
Investments	-	-	-	572	572
Accounts receivable	4,804	-	-	-	4,804
Taxes receivable	44,813	-	-	-	44,813
Interfund receivables	-	44,177	922,833	158,658	1,125,668
TOTAL ASSETS	\$329,089	\$ 955,498	\$ 1,843,213	\$ 163,693	\$ 3,291,493
LIABILITIES, DEFERRED INFLOWS, AND FUND BALANCES					
LIABILITIES					
Accounts payable	\$ 12,351	\$ 209,560	\$ -	\$ -	\$ 221,911
Interfund payables	-	73,246	51,792	-	125,038
TOTAL LIABILITIES	12,351	282,806	51,792	-	346,949
DEFERRED INFLOWS OF RESOURCES					
Unavailable revenue - property taxes	44,813	-	-	-	44,813
FUND BALANCES					
Restricted for shade tree	271,925	-	-	-	271,925
Restricted for liquid fuels	-	672,692	-	-	672,692
Restricted for capital projects	-	-	1,791,421	-	1,791,421
Restricted for debt service	-	-	-	163,693	163,693
TOTAL FUND BALANCES	271,925	672,692	1,791,421	163,693	2,899,731
TOTAL LIABILITIES, DEFERRED INFLOWS, AND FUND BALANCES	\$329,089	\$ 955,498	\$ 1,843,213	\$ 163,693	\$ 3,291,493

CITY OF READING

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

Year Ended December 31, 2014

	Shade Tree	Liquid Fuels	Capital Projects	Debt Service	Totals
REVENUES					
Real estate taxes	\$ 273,548	\$ -	\$ -	\$ -	\$ 273,548
Intergovernmental	-	1,513,088	-	-	1,513,088
Interest and rent	-	38	109	-	147
Other	400	-	31	-	431
TOTAL REVENUES	273,948	1,513,126	140	-	1,787,214
EXPENDITURES					
Public works - highways and streets	-	898,899	-	-	898,899
Culture and recreation	182,827	-	-	-	182,827
TOTAL EXPENDITURES	182,827	898,899	-	-	1,081,726
EXCESS OF REVENUES OVER EXPENDITURES	91,121	614,227	140	-	705,488
FUND BALANCES - BEGINNING	180,804	58,465	1,791,281	163,693	2,194,243
FUND BALANCES - ENDING	\$ 271,925	\$ 672,692	\$ 1,791,421	\$ 163,693	\$ 2,899,731

CITY OF READING

COMBINING STATEMENT OF NET POSITION - FIDUCIARY FUNDS

December 31, 2014

	Police Pension Fund	Paid Firemen's Pension Fund	Officers' and Employees' Pension Fund	Total Pension Trust Funds
ASSETS				
Cash and cash equivalents	\$ 2,496,821	\$ 619,293	\$ 491,618	\$ 3,607,732
Investments	<u>86,383,271</u>	<u>53,756,555</u>	<u>54,735,755</u>	<u>194,875,581</u>
TOTAL ASSETS	88,880,092	54,375,848	55,227,373	198,483,313
LIABILITIES				
Accounts payable	9	10	170,232	170,251
DROP Taxes Withheld	<u>25,000</u>	<u>-</u>	<u>-</u>	<u>25,000</u>
TOTAL LIABILITIES	<u>25,009</u>	<u>10</u>	<u>170,232</u>	<u>195,251</u>
NET POSITION HELD IN TRUST FOR PENSION BENEFITS	<u>\$ 88,855,083</u>	<u>\$ 54,375,838</u>	<u>\$ 55,057,141</u>	<u>\$ 198,288,062</u>

CITY OF READING

COMBINING STATEMENT OF CHANGES IN NET POSITION - FIDUCIARY FUNDS

Year Ended December 31, 2014

	Police Pension Fund	Paid Firemen's Pension Fund	Officers' and Employees' Pension Fund	Total Pension Trust Funds
ADDITIONS				
Contributions				
Employer (including state aid)	\$ 6,052,629	\$ 2,282,336	\$ 2,780,192	\$ 11,115,157
Employees	665,036	456,196	422,155	1,543,387
Investment income				
Interest and dividends	2,454,327	936,621	64	3,391,012
Net appreciation in fair value of investments	1,875,096	1,558,403	2,806,902	6,240,401
Other	-	6,732	3,686	10,418
TOTAL ADDITIONS	11,047,088	5,240,288	6,012,999	22,300,375
DEDUCTIONS				
Benefits, including tax withheld	9,540,292	3,601,000	4,799,701	17,940,993
Administrative expenses	295,053	85,450	402,879	783,382
Refunds paid	31,278	9,654	101,566	142,498
TOTAL DEDUCTIONS	9,866,623	3,696,104	5,304,146	18,866,873
CHANGE IN NET POSITION	1,180,465	1,544,184	708,853	3,433,502
NET POSITION HELD IN TRUST FOR PENSION BENEFITS, BEGINNING OF YEAR				
	87,674,618	52,831,654	54,348,288	194,854,560
NET POSITION HELD IN TRUST FOR PENSION BENEFITS, END OF YEAR				
	\$ 88,855,083	\$ 54,375,838	\$ 55,057,141	\$ 198,288,062

CITY OF READING

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

December 31, 2014

Federal Grantor/Pass Through Grantor/Program Title	Source Code	Federal CFDA Number	Grant Period	Grant Contract	Total Award	Accrued (Unearned) 12/31/13	Amount Received	Revenue/Expenditures	Accrued (Unearned) 12/31/14
U.S. DEPARTMENT OF HOUSING									
Community Development Block Grant/Entitlement Grant	D	14.218	01/01/13-12/31/13	B-13-MC-42-0013	\$ 2,549,335	\$ 361,383	* \$ 1,756,685	\$ 1,394,830	\$ (472)
Community Development Block Grant/Entitlement Grant	D	14.218	01/01/14-12/31/14	B-14-MC-42-0013	2,504,142	-	884,043	1,243,124	359,081
Community Development Block Grant/Entitlement Grant	D	14.218	01/01/10-12/31/10	B-10-MC-42-0013	3,360,585	-	23,272	27,345	4,073
Entitlement Grant Cluster Subtotal						361,383	2,664,000	2,665,299	362,682
Community Development Block Grant - Section 108 Loan Guarantee	D	14.248			1,749,930	-	1,749,930	-	(1,749,930)
Emergency Shelter Grant	D	14.231		E-11-MC-42-0006	212,738	4,154	39,671	18,359	(17,158)
Emergency Shelter Grant	D	14.231		E-13-MC-42-0006	170,379	30,864	111,354	99,215	18,725
Emergency Shelter Grant	D	14.231		E-14-MC-42-0006	207,105	-	78,528	132,086	53,558
Subtotal						35,018	229,553	249,660	55,125
HOME Investment Partnership Program	D	14.239		M-11-MC-42-0204	-	114,382	114,382	-	-
HOME Investment Partnership Program	D	14.239		M-12-MC-42-0204	698,011	132,239	698,012	623,113	57,340
HOME Investment Partnership Program	D	14.239		M-13-MC-42-0204	752,667	-	150,179	150,179	-
HOME Investment Partnership Program	D	14.239		M-14-MC-42-0204	797,601	-	-	60,765	60,765
Subtotal						246,621	962,573	834,057	118,105
Neighborhood Stabilization Program 2 (ARRA)	D	14.256	02/11/10-02/11/13	B-09-CNPA-0014	5,000,000	26,979	-	-	26,979
Fair Housing	D	14.401	10/01/08-09/30/09	FF-203-K-11-3012	93,994	** 62,289	93,934	31,645	-
Fair Housing	D	14.401	10/01/09-09/30/10	FF-203-K-12-3012	56,980	56,980	45,531	-	11,449
Fair Housing	D	14.401	10/01/10-09/30/11	FF-203-K-13-3012	65,058	## -	23,140	23,140	-
Subtotal						119,269	162,605	54,785	11,449
TOTAL U.S. DEPARTMENT OF HOUSING						789,270	5,768,661	3,803,801	(1,175,590)
U.S. DEPARTMENT OF JUSTICE									
Edward Byrne Memorial Justice Assistance Program	D	16.738	10/01/10-09/30/14	2011-DJ-BX-2349	93,069	9,478	34,192	24,714	-
Edward Byrne Memorial Justice Assistance Program	D	16.738	10/01/11-09/30/15	2012-DJ-BX-0092	77,314	26,819	44,331	17,931	419
Edward Byrne Memorial Justice Assistance Program	D	16.738	10/01/12-09/30/16	2013-DJ-BX-1018	82,999	1,000	27,150	27,869	1,719
Edward Byrne Memorial Justice Assistance Program	D	16.738	10/01/13-09/30/17	2014-DJ-BX-0966	91,999	-	8,939	20,679	11,740
Edward Byrne Memorial Justice Assistance Program Cluster Subtotal						37,297	114,612	91,193	13,878
Bulletproof Vest Partnership	D	16.607	01/01/12-12/31/12	2012	22,750	5,580	-	(5,580)	-
Bulletproof Vest Partnership	D	16.607	01/01/13-12/31/13	2013	11,149	-	-	-	-
Subtotal						5,580	-	(5,580)	-
COPS	D	16.710	12/26/07-12/25/10	2008-CK-WX-0171	1,169,125	40,421	40,421	-	-
COPS	D	16.710	12/26/07-12/25/10	2008-CK-WX-0255	607,945	146,959	146,959	-	-
Subtotal						187,380	187,380	-	-
TOTAL U.S. DEPARTMENT OF JUSTICE						230,257	301,992	85,613	13,878
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	332,687	1,426,427	1,249,498	155,758
Assistance to Firefighters Grant Program - Radios	D	97.044	01/15/12-05/30/14	EMW-2011-FR-00433	999,781	-	10,946	10,946	-
Assistance to Firefighters Grant Program - Personal Protective Equipment	D	97.044	03/06/13-07/31/14	EMW-2012-FO-01481	219,504	-	219,504	219,504	-
Subtotal						-	230,450	230,450	-
TOTAL FEDERAL EMERGENCY MANAGEMENT AGENCY						332,687	1,656,877	1,479,948	155,758

CITY OF READING

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - CONTINUED

December 31, 2014

Federal Grantor/Pass Through Grantor/Program Title	Source Code	Federal CFDA Number	Grant Period	Grant Contract	Total Award	Accrued (Unearned) 12/31/13	Amount Received	Revenue/ Expenditures	Accrued (Unearned) 12/31/14
U.S. EQUAL EMPLOYMENT OPPORTUNITY COMMISSION									
Equal Employment Opportunity Commission	D	30.001	10/01/10-09/30/13	EECCN110067	26,150	3,734	9,800	6,066	-
TOTAL U.S. EQUAL EMPLOYMENT OPPORTUNITY COMMISSION						<u>3,734</u>	<u>9,800</u>	<u>6,066</u>	<u>-</u>
NATIONAL ENDOWMENT FOR THE ARTS									
Design - Our Town Grant Program	D	45.024	09/01/12-08/31/14	12-4292-7122	25,000	-	11,740	11,740	-
TOTAL NATIONAL ENDOWMENT FOR THE ARTS						<u>-</u>	<u>11,740</u>	<u>11,740</u>	<u>-</u>
TOTAL FEDERAL AWARDS						<u>\$ 1,355,948</u>	<u>\$ 7,749,070</u>	<u>\$ 5,387,168</u>	<u>\$ (1,005,954)</u>

* Amount adjusted for \$192,500 write off of outstanding BEDI

** The original \$43,994 2011 Fair Housing award was amended twice: #1 amendment for \$37,522. #2 amendment for \$12,478.40.

The original \$29,140 2013 Fair Housing award was amended once: #1 amendment for \$35,918.

Source Codes - I = Indirect; D = Direct

CITY OF READING

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

December 31, 2014

NOTE 1 - BASIS OF ACCOUNTING

The schedule of expenditures of federal awards is prepared on the accrual basis of accounting which recognizes income in the period it is earned and expenses in the period they are incurred.

NOTE 2 - SUBRECIPIENTS

The City of Reading provided federal awards to subrecipients as follows:

<u>Program Title</u>	<u>Federal CFDA Number</u>	<u>Amount Provided</u>
Community Development Block Grant (CDBG)	14.218	\$ 210,400
Emergency Solutions Grant (ESG)	14.231	208,860
HOME Program	14.239	747,924



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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, 2014, 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 September 21, 2015.

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, 2014-001, 2014-003, 2014-005 through 2014-008.

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, 2014-002 and 2014-004.

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 2014-003, 2014-005, and 2014-006.

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
September 21, 2015**



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Independent Auditor's Report on Compliance For Each Major Program and on
Internal Control Over Compliance Required by OMB Circular A-133

**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 Circular A-133 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, 2014. 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 laws, regulations, contracts and grants applicable to its federal programs.

Auditor 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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 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, 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, 2014.

Other Matters

The results of our auditing procedures disclosed other instances of noncompliance, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questions costs as items 2014-001, 2014-002, 2014-006, and 2013-007. 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 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 OMB Circular A-133, 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 2014-001, 2014-006 and 2014-007 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 the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2014-002 to be a significant deficiency.

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 OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Herbein + Company, Inc.

**Reading, Pennsylvania
September 21, 2015**

CITY OF READING

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

December 31, 2014

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 Circular A-133, Section .510(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
14.239	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: \$300,000

Auditee qualified as low-risk auditee? yes X no

CITY OF READING

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

December 31, 2014

Section II - Financial Statement Findings

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

Criteria

AU Section 325 indicates that the "Identification by the auditor or 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.

Benefit

Matching revenues to expenditures and reconciling balance sheet accounts on a monthly basis provides a more consistent reporting to provide a more accurate assessment of financial needs. This process should be in place across all funds of the City. Management will also be able to identify areas of deviation from budget and other trends which may allow a more pro-active approach then reactive at the time of audit.

Management Response

See corrective action plan included in this report package.

CITY OF READING

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

December 31, 2014

2014-002 CASH DISBURSEMENTS - SEGREGATION OF DUTIES

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 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.

Benefit

The City will enhance its controls over disbursements while improving the timeliness and efficiency of its payments to vendors.

Management Response

See corrective action plan included in this report package.

CITY OF READING

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

December 31, 2014

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.

Benefit

The City will be able to uphold its fiduciary responsibility to its employees through reporting the proper amounts for pension state aid eligibility. The City will also be more capable of substantiating the AG-385 during state audits if appropriate supporting documentation is maintained, which therefore will likely decrease the opportunity for excess funds received from the state.

Management Response

See corrective action plan included in this report package.

CITY OF READING

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

December 31, 2014

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.

Benefit

Recording this activity on the general ledger will allow management and governance to monitor the activity and asset throughout the year for a more accurate financial report.

Management Response

See corrective action plan included in this report package.

CITY OF READING

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

December 31, 2014

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.

Benefit

By implementing these policies, the City will be able to increase cash flow as well as take full advantage of grants and other assistance.

Management Response

See corrective action plan included in this report package.

CITY OF READING

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

December 31, 2014

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

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.

Benefit

The City will be able to better identify all federal awards and related compliance requirements and possibly improve cash management practices.

Management Response

See corrective action plan included in this report package.

CITY OF READING

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

December 31, 2014

2014-007 PREPARATION OF BANK RECONCILIATIONS

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 accounting 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.

Benefit

The City will be able to better identify available cash and revenue and expenses and have a better control over cash management.

Management Response

See corrective action plan included in this report package.

CITY OF READING

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

December 31, 2014

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.

Benefit

The City will be able to identify resources spent on capital additions and better track the projects in process for commitments outstanding.

Management Response

See corrective action plan included in this report package.

CITY OF READING

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

December 31, 2014

Section III - Federal Award Findings and Questioned Costs

- 2014-001 Account Reconciliations/Material Adjustments Posted as a Result of Audit is also a Federal Award Finding which relates to 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
- 2014-002 Cash Disbursements - Segregation of Duties is also a Federal Award Finding which relates to 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
- 2014-006 Preparation of Schedule of Expenditures of Federal Awards (SEFA) is also a Federal Award Finding which relates to 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
- 2014-007 Preparation of Bank Reconciliations is also a Federal Award Finding which relates to 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

CITY OF READING

STATUS OF PRIOR YEAR FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

December 31, 2014

2013-001 Account Reconciliations/Material Adjustments Posted as a Result of the Audit is also a Federal Award Finding which relates to Community Development Block Grant 14.218 - Contracts B12MC420013 and B13MC420013: Home Investment Partnership Program 14.239 - Contracts M10MC420204, M11MC420204, and M12MC420204

Criteria

Statement of Auditing Standards (SAS) No. 115 indicates that the "Identification by the audit or 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 its policies and procedures for key transaction classes to ensure that the appropriate individual is assigned the proper task and all funds are taken into consideration. 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.

Benefit

Matching revenues to expenditures and reconciling balance sheet accounts for all funds on a monthly basis provides a more consistent reporting to provide a more accurate assessment of financial needs. Management will also be able to identify areas of deviation from budget and other trends which may allow a more pro-active approach then reactive at the time of audit.

Management Response

Management is developing a process to assign responsibility by fund to maintain reconciliations on a monthly basis and to schedule monthly closings of accounting records.

Current Status of Corrective Action Plan

See corrective action plan included in this report package related to finding 2014-001.

CITY OF READING

STATUS OF PRIOR YEAR FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

December 31, 2014

2013-002 Cash Disbursements - Segregation of Duties is also a Federal Award Finding which relates to Community Development Block Grant 14.218 - Contracts B12MC420013, and B13MC420013: Home Investment Partnership Program 14.239 - Contracts M10MC420204, M11MC420204, and M12MC420204: COPS Grant - 16.710 - Contracts 2008-CK-WX-0171, 2008-CK-WX-0255: COPS Grant ARRA - 16.710 - Contract 2009-RK-WX-0716: Federal Emergency Management Agency Public Assistance Grant - 97.036, Staffing for Adequate Fire and Emergency Response Program - 97.083 and Assistance to Firefighters Grant Program - 97.044

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 finance director has been given the responsibility to sign on behalf of numerous other individuals, thus eliminating critical 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 that management has reviewed numerous 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. 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 also recommend that the City continue to assess the efficiency and effectiveness of approvals needed on the accounts payable form through the increasing of thresholds for certain individuals approval where applicable.

Benefit

The City will enhance its controls over disbursements while improving the timeliness and efficiency of its payments to vendors.

CITY OF READING

STATUS OF PRIOR YEAR FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

December 31, 2014

2013-002 - CONTINUED

Management Response

Management is requiring all authorized signers to be responsible for reviewing payments. The assistant to the finance director is no longer permitted to sign on behalf of other individuals and changes to dollar thresholds have been made. 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 2014-002.

2013-006 Preparation of Schedule of Expenditures of Federal Awards (SEFA) is also a Federal Award Finding which relates to Community Development Block Grant 14.218 - Contracts B12MC420013, and B13MC420013: Home Investment Partnership Program 14.239 - Contracts M10MC420204, M11MC420204, and M12MC420204: COPS Grant - 16.710 - Contracts 2008-CK-WX-0171, 2008-CK-WX-0255: COPS Grant ARRA - 16.710 - Contract 2009-RK-WX-0716: Federal Emergency Management Agency Public Assistance Grant - 97.036, Staffing for Adequate Fire and Emergency Response Program - 97.083 and Assistance to Firefighters Grant Program - 97.044

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 a preliminary SEFA and information relating to the federal programs including agreements and other supporting documentation. However, due to the decentralized nature of grant reporting in the City, portions of the SEFA for major programs were not updated from the prior year.

Effect

No schedule was maintained noting the awards received, expenses incurred, and receivables due at year-end. Certain activity was not present on the schedule including monies received from FEMA and updated community development related program activity. These programs were 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 that have been 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.

CITY OF READING

STATUS OF PRIOR YEAR FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

December 31, 2014

2013-006 - CONTINUED

Benefit

The City will be able to better identify all federal awards and related compliance requirements and possibly improve cash management practices.

Management Response

The finance office will prepare and 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 2014-006.

2013-007 Preparation of Bank Reconciliations is also a Federal Award Finding which relates to Community Development Block Grant 14.218 - Contracts B12MC420013, and B13MC420013: Home Investment Partnership Program 14.239 - Contracts M10MC420204, M11MC420204, and M12MC420204: COPS Grant - 16.710 - Contracts 2008-CK-WX-0171, 2008-CK-WX-0255: COPS Grant ARRA - 16.710 - Contract 2009-RK-WX-0716: Federal Emergency Management Agency Public Assistance Grant - 97.036, Staffing for Adequate Fire and Emergency Response Program - 97.083 and Assistance to Firefighters Grant Program - 97.044

Criteria

Cash is a material account for the City with a large amount of activity. One general disbursement account is utilized for most disbursement and receipt activity. Performing timely and accurate bank reconciliations is a key control in properly reporting activity and detecting misappropriation of assets.

Condition/Cause

The City has been unable to reconcile the main operating accounting through which most receipts and disbursements flow throughout 2013. The turnover is accounting 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 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. A reconciliation was completed in June 2014 for the months ended December 31, 2013, January 31, 2014 and February 28, 2014 noting a consistent variance of approximately \$850,000.

CITY OF READING

STATUS OF PRIOR YEAR FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

December 31, 2014

2013-007 - CONTINUED

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. The reconciliation is a complex document with many different factors which makes it imperative that 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. We do commend the City for taking the initiative and addressing this recommendation during our fieldwork and completing the reconciliation for the months indicated above. This allowed management to identify a consistent variance and to record \$500,000 of the variance into the general fund for December 31, 2013.

Benefit

The City will be able to better identify available cash and revenue and expenses and have a better control over cash management.

Management Response

Management has accepted the auditor's recommendations and is currently conducting bank account reconciliations on a monthly basis.

Current Status of Corrective Action Plan

See corrective action plan included in this report package related to finding 2014-007.

CITY OF READING

STATUS OF PRIOR YEAR FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

December 31, 2014

2013-009 Reporting of Fixed Assets is also a Federal Award Finding which relates to Community Development Block Grant 14.218 - Contracts B12MC420013, and B13MC420013

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 City had a procedure in place whereas larger invoices that were paid were segregated by the accounts payable clerk for further review by the accounting and treasury manager. During the 2013 fiscal year, no further procedures were performed on these invoices to determine if they were expenses to be capitalized or to track ongoing projects. We also noted that depreciation was not calculated or reported throughout the year.

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 depreciation expense.

Recommendation

In order to be in compliance with the 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. The procedure should also at a minimum allow for a monthly estimated depreciation expense to be reported in the proprietary funds.

Benefit

The City will be able to identify resources spent on capital additions and better track the projects in process for commitments outstanding. The City will also be able to properly review the financial standing of the proprietary funds.

Management Response

Management is developing and documenting an operating procedure to determine capital expenditures, report monthly depreciation expense, and to reconcile monthly fixed asset related accounts.

Current Status of Corrective Action Plan

This finding was rectified in the current year.

CITY OF READING

STATUS OF PRIOR YEAR FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

December 31, 2014

2013-011 FEDERAL FUNDING ACCOUNTABILITY AND TRANSPARENCY ACT

Federal Program:

Community Development Block Grant 14.218 - Contracts B12MC420013, and B13MC420013: Home Investment Partnership Program 14.239 - Contracts M10MC420204, M11MC420204, and M12MC420204

Criteria

The Federal Funding Accountability and Transparency Act, under 2 CFR part 170, requires recipients of direct, non ARRA federal funds to report first-tier subawards that result in an obligation of \$25,000 or more of federal funds.

Condition

The City is a direct recipient of Community Development Block Grant and Home Investment Partnership Program funding from the federal government. Both programs have individual subawards of \$25,000 or greater.

Context

As the direct recipient of federal funds awarded after October 1, 2010, the City is required to report first-tier subawards that obligate \$25,000 or more of federal funds. This requirement would apply to both the Community Development Block Grant and Home Investment Partnership Program awards for the year ended December 31, 2013. No such reporting was performed.

Questioned Costs

None noted.

Cause

Due to turnover and lack of internal control and oversight procedures within the City's community development office, proper notification and training on this new requirement was not received.

Effect

The City was not in compliance with the Federal Funding Accountability and Transparency Act and could affect future federal funding.

Recommendation

The City is currently taking steps to become compliant with this requirement. We suggest the City obtain the proper documentation and training to report the first-tier subawards timely and accurately. We also encourage the City community development office to review trainings available for any additional upcoming regulations that may affect the City to allow them to establish oversight and accountability for program requirements.

Management Response

The City's community development personnel continue working with Housing Urban Development along with Community Planning & Development representatives to schedule training and provide support to comply with current standards.

Current Status of Corrective Action Plan

This is no longer a federal program finding.

CITY OF READING

STATUS OF PRIOR YEAR FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

December 31, 2014

2013-012 CERTIFICATION OF EXPENDITURES AND REQUEST FOR REIMBURSEMENT

Federal Program:

Federal Emergency Management Agency Public Assistance Grant - 97.036

Criteria

Under the disaster grants - public assistance program, a subgrantee must make an accounting to the State of all project expenditures and request a reimbursement for such expenditures once they are incurred. In submitting the accounting, the entity is required to certify that reported costs were incurred in performance of eligible work, that the approved work was completed, that the project is in compliance with the provisions of the FEMA-State Agreement, and that payments for that project were made in accordance with the 44 CFR section 13.21 payment provisions. This allows for the certification of the payments and the approval of the reimbursement. All documentation must be maintained for a period of three years after the project application is closed.

Condition

The City was not able to produce the documentation necessary to support the proper certification of project expenditures to the State or request for reimbursement of the expenditures incurred.

Context

The Pennsylvania Emergency Management Agency (PEMA), the pass-through agency for the disaster grant - public assistance program, requires the subrecipient to complete a "completed project listing and claim for reimbursement and final summary" form for each large project as they are completed. The form is approved by the City of Reading director of public works to certify the expenditures for the program are allowable under the program approved project worksheet. The City was not able to produce these documents and needed to contact PEMA for signed copies.

Questioned Costs

None noted.

Cause

The City has experienced turnover in key positions related to the disaster grant - public assistance program. The City also did not have in place proper procedures to ensure that the certification of expenditure and claim for reimbursement forms were properly maintained in accordance with the program requirements.

Effect

The City was not in compliance with the program requirements to maintain documentation for a period of three years from the later of the project completion or the date final payment was received. This could jeopardize future funding for the City.

CITY OF READING

STATUS OF PRIOR YEAR FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

December 31, 2014

2013-012 CERTIFICATION OF EXPENDITURES AND REQUEST FOR REIMBURSEMENT - CONTINUED

Recommendation

The City should establish a policy in which all future disaster grant - public assistance program documentation is to be maintained by a specific position within the public works department. It is also important that this file is complete including all documentation needed under the program requirements.

Management Response

Management concurs with the auditor's recommendation to ensure documentation is maintained that supports claim reimbursement.

Current Status of Corrective Action Plan

This is no longer a federal program finding.



CITY OF READING, PENNSYLVANIA

815 WASHINGTON STREET
READING, PA 19601-3690

CORRECTIVE ACTION PLAN

December 31, 2014

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

The City of Reading respectfully submits the following corrective action plan for the year ended December 31, 2014.

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

Audit period: December 31, 2014

The findings from the December 31, 2014 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

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

MATERIAL WEAKNESS

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.

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.

2014-002 CASH DISBURSEMENTS - SEGREGATION OF DUTIES

SIGNIFICANT DEFICIENCY

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.

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 has 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.

2014-003 PENSION REPORTING

MATERIAL WEAKNESS

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.

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.

2014-004 BANK ACCOUNTS NOT RECORDED ON THE GENERAL LEDGER

SIGNIFICANT DEFICIENCY

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.

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.

2014-005 MONITORING - STATE GRANTS/PENNVEST

MATERIAL WEAKNESS

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 drawdowns on the loan through December 31, 2014 were \$506,043 while the City incurred project costs in excess of \$12,800,000.

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.

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

MATERIAL WEAKNESS

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.

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 have been 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.

2014-007 PREPARATION OF BANK RECONCILIATIONS

MATERIAL WEAKNESS

Condition/Cause

The City did not complete the bank reconciliation for the main operating accounting 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 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 document 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.

2014-008 REPORTING OF FIXED ASSETS

MATERIAL WEAKNESS

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.

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.

Section III - Federal Award Findings and Questioned Costs

2014-001 Account Reconciliations/Material Adjustments Posted as a Result of Audit is also a Federal Award Finding which relates to 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.

See management's response to 2014-001 above.

2014-002 Cash Disbursements - Segregation of Duties is also a Federal Award Finding which relates to 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.

See management's response to 2014-002 above.

2014-006 Preparation of Schedule of Expenditures of Federal Awards (SEFA) is also a Federal Award Finding which relates to 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

See management's response to 2014-006 above.

2014-007 Preparation of Bank Reconciliations is also a Federal Award Finding which relates to 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

See management's response to 2014-007 above.

Sincerely,



Donald Pottiger
Acting Director of Administrative Services