



NEW ISSUE
BOOK ENTRY

RATINGS: S&P Underlying "A-" (Stable Outlook)
S&P Insured " " (" Outlook)
See "RATINGS" herein

In the opinion of Stevens & Lee, P.C., Reading, Pennsylvania, Bond Counsel, assuming continuing compliance by the City with certain covenants and agreements to comply with provisions of the Internal Revenue Code of 1986, as amended (the "Code"), and all applicable regulations thereunder, interest on the Bonds is not includible in gross income under Section 103(a) of the Code, and interest on the Bonds is not an item of tax preference for purposes of the alternative minimum tax on individuals and corporations; however interest on the Bonds may be subject to the Federal alternative minimum tax on "applicable corporations" as defined in Section 59(k) of the Code for tax years beginning after December 31, 2022. See TAX MATTERS in this Official Statement. Other provisions of the Code may affect the purchasers and holders of the Bonds.

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

\$12,000,000*
CITY OF READING
BERKS COUNTY, PENNSYLVANIA
GENERAL OBLIGATION BONDS, SERIES OF 2024

Dated: Date of Delivery
Interest Due: May 1 and November 1

Principal Due: November 1
First Interest Payment: May 1, 2025

The City of Reading, Berks County, Pennsylvania (the "City") will issue its General Obligation Bonds, Series of 2024 (the "Bonds"), in fully registered form, without coupons in denominations of \$5,000 or any integral multiples thereof. Interest on the Bonds is payable each May 1 and November 1 and semiannually thereafter, commencing May 1, 2025. The Bonds will initially be registered in the name of Cede & Co., as nominee for The Depository Trust Company ("DTC"), New York, New York, an automated depository for securities and clearing house for securities transactions. Individual purchases of the Bonds will initially be made in book-entry form only in denominations of \$5,000 or any integral multiples thereof under the book-entry only system maintained by DTC. Purchasers of the Bonds will not receive physical delivery of the Bonds. Transfer of the Bonds will be affected through a book-entry system as described herein. For so long as any purchaser is the beneficial owner of a Bond, that purchaser must maintain an account with a broker or a dealer who is, or acts through, a DTC participant to receive payment of principal of and interest on the Bonds. See "BOOK-ENTRY ONLY SYSTEM" herein.

So long as DTC or its nominee, Cede & Co., is the registered owner of the Bonds, payments of the principal of and interest on the Bonds when due for payment, will be paid directly to DTC or its nominee, Cede & Co., which will in turn remit such payments to DTC participants for subsequent disbursement to the beneficial owners of the Bonds. If the use of a book-entry system for the Bonds is ever discontinued, Bonds will be issued in certificated form, the principal of the Bonds will be payable when due, upon surrender of such Bonds at the designated corporate trust office of Manufacturers and Traders Trust Company, Buffalo, New York and Harrisburg, Pennsylvania, as paying agent (the "Paying Agent") (or any successor paying agent at its designated offices), interest on such Bonds will be payable by check and mailed to the persons in whose name such Bonds are registered as of the Record Date with respect to the particular interest payment date, and the Bonds will be subject to registration of transfer, exchange and payment as described herein (see "THE BONDS" herein).

The Bonds are subject to optional and mandatory redemption prior to maturity as described herein.

The Bonds are general obligations of the City, payable from its tax and other general revenues. The City has covenanted that it will include in its budget in each fiscal year, and will appropriate from its general revenues in each fiscal year, the amount of the debt service on the Bonds for such fiscal year and will duly and punctually pay or cause to be paid from its sinking fund or any other of its revenues or funds, the principal of the Bonds and the interest due thereon at the dates and place and in the manner stated in the Bonds, and for such budgeting, appropriation and payment the City irrevocably has pledged its full faith, credit and taxing power, which taxing power presently includes the power to levy ad valorem taxes on all taxable real property within the City, presently unlimited as to rate or amount for such purpose. **Neither the faith, credit nor taxing power of the Commonwealth of Pennsylvania or the County of Berks is pledged to the payment of the Bonds.**

The scheduled payment of the principal of and interest on the Bonds when due will be guaranteed under an insurance policy to be issued concurrently with the delivery of the Bonds by _____ (" " or the "Insurer"). See "BOND INSURANCE" herein.

[INSURER LOGO]

The Bonds are offered for delivery when, as and if issued by the City and received by the Underwriter, subject to the approving legal opinion of Stevens & Lee, P.C., Bond Counsel, Reading, Pennsylvania. Certain legal matters will be passed upon for the City by Frederick Lachat, Esquire, City Solicitor, and for the Underwriter by its counsel, McNeese Wallace & Nurick LLC, Lancaster, Pennsylvania. FSL Public Finance, LLC, Reading, Pennsylvania, has acted as financial advisor to the City in connection with the issuance of the Bonds. It is expected that delivery of the Bonds will be made through the facilities of DTC in New York, New York, on or about _____, 2024, against payment therefor.



Dated: _____, 2024

*Preliminary, subject to change

This Preliminary Official Statement and the information contained herein are subject to change, completion, and amendment without notice. The Bonds may not be sold nor may offers to buy be accepted prior to the time the Official Statement is delivered in final form. Under no circumstance shall this Preliminary Official Statement constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of the Bonds in any jurisdiction in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of such jurisdiction. The City has deemed this Preliminary Official Statement to be final for purposes of Rule 15c2-12(b)(1) of the Securities and Exchange Commission, except for certain information which has been omitted in accordance with such Rule and which will be provided in the final Official Statement.

\$12,000,000*
CITY OF READING
BERKS COUNTY, PENNSYLVANIA
GENERAL OBLIGATION BONDS, SERIES OF 2024

Dated: Date of Delivery
Interest Due: May 1 and November 1

Principal Due: November 1, as shown below
First Interest Payment: May 1, 2025

| <u>Due</u> <u>(November 1)</u> | <u>Principal</u> <u>Amount</u> | <u>Rate</u> | <u>Yield</u> | <u>Price</u> | <u>CUSIP No.**</u> |
|-----------------------------------|-----------------------------------|-------------|--------------|--------------|--------------------|
| 2025 | \$ | % | % | | |
| 2026 | | | | | |
| 2027 | | | | | |
| 2028 | | | | | |
| 2029 | | | | | |
| 2030 | | | | | |
| 2031 | | | | | |
| 2032 | | | | | |
| 2033 | | | | | |
| 2034 | | | | | |
| 2035 | | | | | |
| 2036 | | | | | |
| 2037 | | | | | |
| 2038 | | | | | |
| 2039 | | | | | |
| 2040 | | | | | |
| 2041 | | | | | |
| 2042 | | | | | |
| 2043 | | | | | |
| 2044 | | | | | |

\$ _____ Term Bonds due November 1, 20__ @ _____ % Priced to Yield _____ % CUSIP No. ** _____

* Preliminary, subject to change.

** CUSIP is a registered trademark of the American Bankers Association. CUSIP data herein is provided by CUSIP Global Services, managed by Standard & Poor's on behalf of the American Bankers Association. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP Services. CUSIP numbers are provided for convenience or reference only. Neither the City, the Financial Advisor nor the Underwriter take any responsibility for the accuracy of such CUSIP numbers. The CUSIP numbers for a specific maturity are subject to being changed after the issuance of the Bonds as a result of various subsequent actions, including, but not limited to, a refunding in whole or in part of such maturity.

CITY OF READING
Berks County, Pennsylvania

CITY COUNCIL MEMBERS

| | |
|------------------|--------------|
| Donna Reed | President |
| Vanessa Campos | Councilwoman |
| Jaime Baez Jr. | Councilman |
| Melissa Ventura | Councilwoman |
| Wesley Butler | Councilman |
| Dr. Rafael Nunez | Councilman |
| Chris Miller | Councilman |

MAYOR
Eddie Moran

MANAGING DIRECTOR
Jack Gombach

CITY SOLICITOR
Frederick Lachat, Esquire

DIRECTOR OF FINANCE
Jamar Kelly

BOND COUNSEL
Stevens & Lee, P.C.
Reading, Pennsylvania

FINANCIAL ADVISOR
FSL Public Finance, LLC
Reading, Pennsylvania

UNDERWRITER
Raymond James & Associates, Inc.
Lancaster, Pennsylvania

LIMITED SCOPE UNDERWRITER'S COUNSEL
McNees Wallace & Nurick LLC
Lancaster, Pennsylvania

PAYING AGENT/BOND REGISTRAR/SINKING FUND DEPOSITARY
Manufacturers and Traders Trust Company
Buffalo, New York and Harrisburg, Pennsylvania

CITY ADDRESS
815 Washington Street
Reading, Pennsylvania 19601

No dealer, broker, salesperson or other person has been authorized by the City of Reading, Berks County, Pennsylvania (the “City”) or Raymond James & Associates, Inc. (the “Underwriter”), to give any information or to make any representations with respect to the Bonds, other than the information contained in this Official Statement, and if given or made, such other information or representations must not be relied upon as having been authorized by the City or the Underwriter. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy, and there shall not be any sale of the Bonds by any person in any state in which it is unlawful for such person to make such offer, solicitation or sale. The information set forth herein has been obtained from the City, The Depository Trust Company and other sources that are believed to be reliable, and is in form deemed final by the City for the purpose of Rule 15c2-12 under the Securities Exchange Act of 1934, as amended, but the Underwriter does not guarantee the accuracy or completeness of such information, such information is not to be construed as a representation by the Underwriter, and except for the information concerning the City, such information is not to be construed as a representation by the City. The information contained in this Official Statement speaks as of its date, except where otherwise noted, and is subject to change without notice. Neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the City since the date of this Official Statement. In making an investment decision, investors must rely on their own examination and evaluation of the City and the terms of the offering, including the merits and risks involved.

The Bonds have not been registered with the Securities and Exchange Commission under the Securities Act of 1933, as amended, and the Ordinance of the City, enacted on November 12, 2024 relating to the Bonds, has not been qualified under the Trust Indenture Act of 1939, as amended, in reliance upon exemptions contained in such acts. The registration or qualification of the Bonds in accordance with applicable provisions of the securities laws of the states, if any, in which the Bonds have been registered or qualified and the exemption from registration or qualification in certain other states cannot be regarded as a recommendation thereof. Neither these states nor any of their agencies nor the Securities and Exchange Commission has passed upon the merits of the Bonds or the accuracy or completeness of this Official Statement. Any representation to the contrary may be a criminal offense.

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

The order and placement of materials in this Official Statement, including the appendices, are not to be deemed to be a determination of relevance, materiality or importance, and this Official Statement, including the appendices, must be considered in its entirety. The offering of the Bonds is made only by means of this entire Official Statement.

The Underwriter has provided the following sentence for inclusion in this Official Statement. The Underwriter has reviewed the information in this Official Statement in accordance with, and as part of, their responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriter does not guarantee the accuracy or completeness of any of such information.

_____ (“___”) makes no representation regarding the Bonds or the advisability of investing in the Bonds. In addition, ___ has not independently verified, makes no representation regarding, and does not accept any responsibility for the accuracy or completeness of this Official Statement or any information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding ___ supplied by ___ and presented under the heading “BOND INSURANCE” and “Appendix D - Specimen Municipal Bond Insurance Policy”.

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\$12,000,000*
CITY OF READING
BERKS COUNTY, PENNSYLVANIA
GENERAL OBLIGATION BONDS, SERIES OF 2024

INTRODUCTION

This Official Statement, including the cover page and inside cover page and the Appendices hereto, is furnished by the City of Reading, Berks County, Pennsylvania (the “City”), in connection with the offering of \$12,000,000* aggregate principal amount of its General Obligation Bonds, Series of 2024 (the “Bonds”). The Bonds will be dated as of their date of delivery, when interest on the Bonds will begin to accrue.

The Bonds are being issued pursuant to an Ordinance of the City enacted on November 12, 2024 (the “Ordinance”), and pursuant to the Local Government Unit Debt Act of the Commonwealth of Pennsylvania, 53 Pa. C.S. Cons. Stat. Ann. §8001 et. seq. (the “Debt Act”). The indebtedness represented by the Bonds constitutes nonelectoral debt of the City under the Debt Act. Prior to the issuance of the Bonds, the Department of Community and Economic Development of the Commonwealth (the “Department” or “DCED”) will issue its certificate of approval with respect to the increase of nonelectoral debt of the City evidenced by the Bonds. A copy of the Ordinance may be inspected at the Office of the City Clerk, 815 Washington Street, Reading, Pennsylvania 19601. Pursuant to the Ordinance, Manufacturers and Traders Trust Company having a corporate trust office in Buffalo, New York and Harrisburg, Pennsylvania has been appointed to act as the paying agent, bond register and sinking fund depository (in each such capacity, the “Paying Agent”) for the Bonds.

The Bonds will be general obligations of the City and will be payable from its tax and other general revenues, including ad valorem taxes levied without limit, for debt service purposes, as to rate or amount on all taxable real property presently located in the City. The City has covenanted in the Ordinance that it will include the amount of debt service for the Bonds in its budget for each fiscal year, that it will appropriate such amounts from its general revenues for the payment of such debt service in each such fiscal year, and that it will duly and punctually pay or cause to be paid the principal of every Bond and the interest thereon at the dates and place and in the manner stated in the Bonds. For such budgeting, appropriation and payment, the City has irrevocably pledged its full faith, credit and taxing power, which taxing power is presently without limitation as to rate or amount for the payment of debt approved under the Debt Act. See “SECURITY FOR THE BONDS” herein.

The City has no power to pledge the credit or taxing power of the Commonwealth of Pennsylvania (the “Commonwealth”) or any other political subdivision thereof, nor shall the Bonds of the City be deemed to be obligations of the Commonwealth or any other political subdivision thereof except the City, nor shall the Commonwealth or any other political subdivision thereof except the City be liable for the payment of the principal of, premium, if any, or interest on the Bonds, nor are the members of the Council of the City (“City Council”) personally liable for the City’s obligations. See “SECURITY FOR THE BONDS” herein.

Certain portions of the following information are summaries of the Ordinance, the Bonds and other documents relating to the issuance of the Bonds. Such summaries do not purport to be complete and reference is made to the individual documents so summarized, copies of which are on file and available for examination at the Office of the City Clerk in Reading, Pennsylvania. Neither the delivery of this Official Statement nor any sale of the Bonds made hereunder shall, under any circumstances, create any implication that there have not been any changes in the affairs of the City since the date of this Official Statement or the earliest date as of which certain information contained herein is given.

*Preliminary, subject to change.

PLAN OF FINANCE

Proceeds of the Bonds will be used to: (1) fund various capital projects within the City; and (2) pay the costs and expenses related to the issuance of the Bonds.

SOURCES AND USES OF FUNDS

| | |
|----------------------------------|-----------|
| <i>SOURCES OF FUNDS:</i> | |
| Bond Proceeds | \$ |
| Net Premium / (Discount) | |
| Total Sources of Funds | <u>\$</u> |
| <i>USE OF FUNDS:</i> | |
| Deposit to the Project Fund | \$ |
| Costs of Issuance ⁽¹⁾ | |
| Total Uses of Funds | <u>\$</u> |

⁽¹⁾ Includes legal fees, printing fees, financial advisory fees, underwriter's discount, rating agency fees, paying agent fees, bond insurance premium, CUSIP fees and other amounts incurred in connection with the issuance of the Bonds.

AUTHORITY TO ISSUE

The City is authorized to issue the Bonds pursuant to the Ordinance and the Debt Act. Under the Debt Act, the General Assembly of the Commonwealth has granted full power and authority to issue notes and bonds to every local government unit in the Commonwealth, including the City, subject to certain limitations, restrictions and conditions set forth in the Debt Act. The City has authorized the issuance of the Bonds by enacting the Ordinance in accordance with the provisions of the Debt Act. The Bonds will be issued as nonelectoral debt of the City without the approval of the electorate.

As required by the Debt Act, prior to the issuance of the Bonds, the City will receive the approval of the Department to incur the debt evidenced by the Bonds.

THE BONDS

General Description

The Bonds will be dated as of their date of delivery and will bear interest from such date at the rates set forth on the inside cover pages hereof, payable semi-annually on May 1 and November 1 (each an "Interest Payment Date") of each year, commencing May 1, 2025 (until maturity or prior redemption), and will mature on the dates and in the amounts set forth on the inside cover pages of this Official Statement. The Bonds when issued will be registered in the name of Cede & Co., as nominee for The Depository Trust Company, New York, New York ("DTC"). DTC will act as securities depository for the Bonds. While the Bonds are in the Book-Entry-Only System, references to the "owner" or the "registered owner" as described herein are to Cede & Co., as registered owner for DTC. Each beneficial owner of a Bond may desire to make arrangements with a DTC participant to receive notices or communications with respect to matters described herein. See "BOOK-ENTRY ONLY SYSTEM" herein.

The Bonds will be issued in fully registered form in denominations of \$5,000 or any integral multiple thereof. While all of the Bonds are held in book-entry only form, payments thereon shall be made to Cede & Co., as registered owner thereof. See "BOOK-ENTRY ONLY SYSTEM" herein. The principal of the Bonds, and the premium, if any, payable upon redemption, are payable at the designated corporate trust office of the Paying Agent.

Interest is payable to the registered owner of a Bond from the interest payment date next preceding the date of registration and authentication of the Bond, unless: (a) such Bond is registered and authenticated as of an interest payment date, in which event such Bond shall bear interest from said interest payment date, or (b) such Bond is registered and authenticated after a Record Date (hereinafter defined) and before the next succeeding interest payment date, in which event such Bond shall bear interest from such interest payment date, or (c) such Bond is registered and authenticated on or prior to the Record Date preceding May 1, 2025, in which event such Bond shall bear interest from the Delivery Date, which is expected to be _____, 2024, or (d) as shown by the records of the Paying Agent, interest on such Bond shall be in default, in which event such Bond shall bear interest from the date to which interest was last paid on such Bond. Interest on each Bond is payable by check drawn on the Paying Agent, which shall be mailed to the registered owner whose name and address shall appear, at the close of business on the fifteenth (15th) day (whether or not a day on which the Paying Agent is open for business) next preceding each interest payment date (the "Record Date"), on the registration books maintained by the Paying Agent, irrespective of any transfer or exchange of the Bond subsequent to such Record Date and prior to such interest payment date, unless the City shall be in default in payment of interest due on such interest payment date. In the event of any such default, any defaulted interest will be payable to the persons in whose name the Bonds are registered at the close of business on a special record date for the payment of such defaulted interest established by notice mailed by the Paying Agent to the registered owners of the Bonds not fewer than ten (10) days preceding such special record date. Such notice shall be mailed to the persons in whose names the Bonds are registered at the close of business on the fifth (5th) day preceding the date of mailing.

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

Transfer, Exchange and Registration

Subject to the provisions described below under "BOOK-ENTRY ONLY SYSTEM," the Bonds may be transferred upon the registration books upon delivery of such Bonds to the Paying Agent, accompanied by a written instrument or instruments of transfer in form satisfactory to the Paying Agent. No transfer of any Bond will be effective until entered on the registration books.

The City and the Paying Agent shall not be required to issue or to register the transfer of or exchange any Bonds then considered for redemption during a period beginning at the close of business on the fifteenth (15th) day next preceding any date of selection of Bonds to be redeemed and ending at the close of business on the day of mailing of the applicable notice of redemption, or to register the transfer of or exchange any portion of any Bond selected for redemption, until after the redemption date. Bonds may be exchanged for a like aggregate amount of Bonds of other authorized denominations, of the same maturity and series.

Bonds are transferable or exchangeable by the registered owners thereof upon surrender of Bonds to the Paying Agent, at its designated corporate trust office, accompanied by a written instrument or instruments of transfer in form, with instructions, and with guaranty of signature satisfactory to the Paying Agent, duly executed by the registered owner of such Bond or his attorney-in-fact or legal representative. The Paying Agent shall enter any transfer of ownership of or exchange of Bonds in the registration books and shall authenticate and deliver at the earliest practicable time in the name of the transferee or transferees new fully registered Bonds of the same series and of authorized denominations of the same maturity for the aggregate principal amount that the registered owner is entitled to receive. The City and the Paying Agent may deem and treat the registered owner of any Bond as the absolute owner thereof (whether or not a Bond shall be overdue) for the purpose of receiving payment of or on account of principal, premium, if any, and interest due and for all purposes, and the Paying Agent shall not be affected by any notice to the contrary.

Optional Redemption

The Bonds stated to mature on or after November 1, 20__ are subject to redemption prior to maturity at the option of the City, in whole or in part, in any order of maturity at any time on or after _____, 20__, and, if in part,

by lot within a maturity, at a redemption price equal to 100% of the principal amount thereof, together with accrued interest to the date fixed for such optional redemption.

Mandatory Redemption

The Bonds stated to mature on November 1, 20__ (the “Term Bonds”) are subject to mandatory redemption, prior to maturity, in direct order of maturity by lot or other reasonable method of redemption approved by the Paying Agent, on November 1 of the years and in the amounts set forth below at a redemption price equal to 100% of the principal amount of the Term Bonds called for mandatory redemption plus accrued interest thereon, to the dates fixed for such mandatory redemption.

Term Bonds Due November 1, 20__

| <u>Year</u> | <u>Amount</u> |
|-------------|---------------|
|-------------|---------------|

\$

(1)

⁽¹⁾ Maturity

If any maturity of the Bonds that is subject to mandatory sinking fund redemption shall be called for optional redemption in part, the City shall be entitled to designate whether the principal amount redeemed is to be credited against the principal amount of the Bonds of such maturity required to be called for mandatory sinking fund redemption or in such order of maturity as shall be directed in writing by the City, in each case in multiples of \$5,000 principal amount.

Manner of Redemption

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

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

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

Notice of Redemption

So long as Cede & Co., as nominee of DTC, is the registered owner of the Bonds, the City and the Paying Agent shall send redemption notices only to Cede & Co. See “BOOK-ENTRY ONLY SYSTEM” herein for further information regarding conveyance of notice to Beneficial Owners. As more fully provided in the Ordinance and in the Bonds, notice.

Notice of any redemption of the Bonds under the above provisions is required to be sent by first-class mail to the registered owners of the Bonds to be redeemed, at the addresses of such owners appearing in the Bond Register maintained by the Paying Agent. Such notice shall be mailed not more than 60 days nor less than 30 days prior to any such redemption and shall be made in the manner and under the terms and conditions stated in the Bonds. No defect, whether in the notice of redemption or in the mailing thereof including failure to mail the notice, with respect to the redemption of any Bonds shall affect the validity of the redemption of other Bonds for which proper notice of redemption has been given.

If at the time of mailing of the notice of redemption the City shall not have deposited with the Paying Agent moneys sufficient to redeem all the Bonds called for redemption, such notice may state that it is conditional, that is, subject to the deposit of the redemption moneys with the Paying Agent no later than the redemption date, and such notice shall be of no effect unless such moneys are so deposited.

SECURITY FOR THE BONDS

General Obligations

The Bonds will be general obligations of the City, payable from its tax and other general revenues, including ad valorem taxes, which may be levied on all taxable real property within the City presently without limitation as to rate or amount for the payment of debt service on the Bonds. The City has covenanted in the Ordinance that it will provide in its budget for each fiscal year, and will appropriate from its general revenues in each such fiscal year, the amount required to pay the debt service on the Bonds for such year and to make any other required sinking fund payments for such year. The City further covenants in the Ordinance that it will duly and punctually pay or cause to be paid from the Bond Sinking Fund (hereinafter defined), or any other of its revenues or funds, the principal of every maturity of the Bonds and the interest thereon on the dates, at the place and in the manner stated in the Bonds. For such budgeting, appropriation and payment, the City has irrevocably pledged its full faith, credit and taxing power, which taxing power is presently without limitation as to rate or amount for the payment of debt approved under the Debt Act.

Sinking Fund

The City will create, pursuant to Section 8221 of the Debt Act, a sinking fund for the Bonds to be designated as the “Sinking Fund – City of Reading, Berks County, Pennsylvania, General Obligation Bonds, Series of 2024” (the “Bond Sinking Fund”), under the Ordinance, to be established and administered by the Paying Agent, in its capacity as sinking fund depository, segregated from all other funds of the City. The City shall deposit in the Bond Sinking Fund not later than each date when interest or principal is to become due on the Bonds, an amount which, together with any other available funds then on deposit therein, will be sufficient to permit the Paying Agent to pay, in full, interest and principal then due and payable on the Bonds.

The Bond Sinking Fund shall be held by the Paying Agent, in its capacity as sinking fund depository, and any money in the Bond Sinking Fund not required for prompt expenditure may, at the written direction of the City, be invested in securities or deposited in deposit accounts in accordance with the Debt Act. Such deposits and securities shall be in the name of the City but subject to withdrawal or collection only by the Paying Agent, in its capacity as sinking fund depository, and such deposits and securities, together with the interest thereon, shall be a part of the Bond Sinking Fund.

After such deposits by the City to the Bond Sinking Fund, the Paying Agent, in its capacity as sinking fund depository, is authorized, without further authorization or direction from the City or any of its officials, to pay from the Bond Sinking Fund the principal of and interest on the Bonds, when due and payable in accordance with the terms of the Bonds, the Ordinance and the provisions of the Debt Act.

Actions in the Event of Default

The remedies available to registered owners of the Bonds, upon any failure to pay principal or interest when due, include those prescribed by the Debt Act. If such failure should continue for 30 days, any registered owner will (subject to certain priorities) have the right to bring suit for the amount due such registered owner in the Court of

Common Pleas of Berks County, Pennsylvania (the “Court”). If the City defaults in the payment of principal or interest, or if the City fails to comply with any provision of the Bonds, or of the Ordinance, the registered owners of 25% in aggregate principal amount of the Bonds may appoint a trustee to represent the registered owners of the Bonds. Such trustee may, and upon written request of the registered owners of 25% in aggregate principal amount of the Bonds, and being furnished with satisfactory indemnity must, take one or more of the following actions, which will preclude similar action by the individual registered owners: (i) bring suit to enforce all rights of the registered owners; (ii) bring suit on the Bonds; (iii) petition the Court to levy the amount due plus estimated costs of collection as an assessment upon all real estate and other property subject to ad valorem taxation in the City (any such assessment will have the same priority and preference as to other liens or security interests as a lien for unpaid taxes); and (iv) by suit in equity, enjoin any acts and things which may be unlawful or in violation of the rights of the registered owners all as set forth more fully in the Debt Act.

Enforcement of a claim for payment of principal of or interest on the Bonds may be subject to the provisions of the federal bankruptcy laws and to the provisions of other statutory laws enacted by Congress or the General Assembly of the Commonwealth and case law developed by courts having jurisdiction extending the time for payment or imposing other constraints upon enforcement insofar as such laws may be constitutionally applied.

OVERVIEW OF CITY FINANCES

Financial Statements and Basis of Accounting

The City’s Financial and Compliance Audit Report for the fiscal year ended December 31, 2022 is presented in Appendix B. The major operations of the City are conducted through the City’s General Fund (the “General Fund”). In addition to the General Fund, operations of the City are conducted through three major governmental funds and all other funds are combined in the Non-Major Funds Column. For further information on the basis of accounting of the General Fund and other funds, see Appendix B.

General

In addition to the City’s Financial and Compliance Audit Report presented in Appendix B, please see “Appendix A – Demographic, Financial and Economic Information Relating to the City of Reading” attached hereto for demographic, financial and economic information concerning the City.

BOOK-ENTRY ONLY SYSTEM

Beneficial ownership interests in the Bonds will be available only in book-entry form. Beneficial Owners will not receive physical certificates representing their interests in the Bonds purchased. So long as DTC or its nominee is the registered owner of the Bonds, references in this Official Statement to the Owners of the Bonds shall mean DTC or its nominee and shall not mean the Beneficial Owners. The Ordinance contains provisions applicable to periods when DTC or its nominee is not the registered owner.

THE FOLLOWING DESCRIPTION OF DTC, OF PROCEDURES AND RECORD KEEPING ON BENEFICIAL OWNERSHIP INTERESTS IN THE BONDS, PAYMENT OF INTEREST AND OTHER PAYMENTS ON THE BONDS TO DTC PARTICIPANTS OR TO BENEFICIAL OWNERS, CONFIRMATION AND TRANSFER OF BENEFICIAL OWNERSHIP INTERESTS IN THE BONDS AND OF OTHER TRANSACTIONS BY AND BETWEEN DTC, DTC PARTICIPANTS AND BENEFICIAL OWNERS IS BASED ON INFORMATION FURNISHED BY DTC.

DTC will act as securities depository for the Bonds. The Bonds will be registered in the name of Cede & Co. (DTC’s partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered certificate will be issued for each year of maturity of each series of the Bonds, in the aggregate principal amount of each year of maturity of each series of the Bonds, and deposited with DTC.

DTC, the world’s largest depository, is a limited-purpose trust company organized under New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934, as amended.

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

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

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

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

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

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

BECAUSE DTC IS TREATED AS THE OWNER OF THE BONDS FOR SUBSTANTIALLY ALL PURPOSES UNDER THE INDENTURE, BENEFICIAL OWNERS MAY HAVE A RESTRICTED ABILITY TO INFLUENCE IN A TIMELY FASHION REMEDIAL ACTION OR THE GIVING OR WITHHOLDING OF REQUESTED CONSENTS OR OTHER DIRECTIONS. IN ADDITION, BECAUSE THE IDENTITIES OF BENEFICIAL OWNERS ARE UNKNOWN TO THE CITY, TO DTC OR TO THE PAYING AGENT, IT MAY BE

DIFFICULT TO TRANSMIT INFORMATION OF POTENTIAL INTEREST TO BENEFICIAL OWNERS IN AN EFFECTIVE AND TIMELY MANNER. BENEFICIAL OWNERS SHOULD MAKE APPROPRIATE ARRANGEMENTS WITH THEIR BROKER OR DEALER REGARDING DISTRIBUTION OF INFORMATION REGARDING THE BONDS THAT MAY BE TRANSMITTED BY OR THROUGH DTC.

Payments of principal, interest and any redemption premiums on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Paying Agent, on the payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC (nor its nominee), the Paying Agent or the City, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal, premium, if any, and interest to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the Paying Agent's responsibility, disbursement of such payments to Direct Participants is DTC's responsibility, and disbursement of such payments to the Beneficial Owners shall be the responsibility of Direct and Indirect Participants. THE CITY CAN GIVE NO ASSURANCE THAT DIRECT AND INDIRECT PARTICIPANTS WILL PROMPTLY TRANSFER PAYMENTS TO BENEFICIAL OWNERS.

DTC may discontinue providing its service as depository on the Bonds at any time by giving reasonable notice to the Paying Agent or the City. The City may also determine that DTC is incapable of discharging its duties or that continuation of the book-entry system is not in the Beneficial Owners' best interests. In either situation, if the City fails to identify another qualified securities depository to replace DTC, physical Bonds will be delivered to each Beneficial Owner.

THE CITY, THE UNDERWRITER, THE FINANCIAL ADVISOR AND THE PAYING AGENT CANNOT AND DO NOT GIVE ANY ASSURANCES THAT DTC, THE DTC PARTICIPANTS OR THE INDIRECT PARTICIPANTS WILL DISTRIBUTE TO THE BENEFICIAL OWNERS OF THE BONDS (1) PAYMENTS OF PRINCIPAL OR REDEMPTION PRICE OF OR INTEREST ON THE BONDS, (II) CERTIFICATES REPRESENTING AN OWNERSHIP INTEREST OR OTHER CONFIRMATION OF BENEFICIAL OWNERSHIP INTEREST IN BONDS, OR (III) REDEMPTION OR OTHER NOTICES SENT TO DTC OR CEDE & CO., ITS NOMINEE, AS THE REGISTERED OWNER OF THE BONDS, OR THAT THEY WILL DO SO ON A TIMELY BASIS OR THAT DTC, DTC PARTICIPANTS OR INDIRECT PARTICIPANTS WILL SERVE AND ACT IN THE MANNER DESCRIBED IN THIS OFFICAL STATEMENT. THE CURRENT "RULES" APPLICABLE TO DTC ARE ON FILE WITH THE SECURITIES AND EXCHANGE COMMISSION, AND THE CURRENT "PROCEDURES" OF DTC TO BE FOLLOWED IN DEALING WITH DTC PARTICIPANTS ARE ON FILE WITH DTC.

THE CITY, THE UNDERWRITER, THE FINANCIAL ADVISOR, AND THE PAYING AGENT HAVE NO RESPONSIBILITY OR OBLIGATION TO THE PARTICIPANTS OR THE BENEFICIAL OWNERS WITH RESPECT TO (1) THE ACCURACY OF ANY RECORDS MAINTAINED BY DTC OR ANY PARTICIPANT OR THE MAINTENANCE OF ANY RECORDS; (2) THE PAYMENT BY DTC OR ANY PARTICIPANT OF ANY AMOUNT DUE TO ANY BENEFICIAL OWNER IN RESPECT OF THE BONDS, OR THE SENDING OF ANY TRANSACTION STATEMENTS; (3) THE DELIVERY OR TIMELINESS OF DELIVERY BY DTC OR ANY PARTICIPANT OF ANY NOTICE TO ANY BENEFICIAL OWNER WHICH IS REQUIRED OR PERMITTED UNDER THE ORDINANCE TO BE GIVEN TO OWNERS; (4) THE SELECTION OF THE BENEFICIAL OWNERS TO RECEIVE PAYMENTS UPON ANY PARTIAL REDEMPTION OF THE BONDS; OR (5) ANY CONSENT GIVEN OR OTHER ACTION TAKEN BY DTC OR ITS NOMINEE AS THE REGISTERED OWNER OF THE BONDS, INCLUDING ANY ACTION TAKEN PURSUANT TO AN OMNIBUS PROXY.

The information in this section concerning DTC and DTC's book entry system has been extracted from materials provided by DTC for such purpose and from sources the City believes to be reliable, but the City takes no responsibility for the accuracy thereof and such information is not guaranteed as to accuracy or completeness and is not to be construed as a representation by the City, the Paying Agent, the Financial Advisor or the Underwriter.

BOND INSURANCE

[Bond insurance to be applied for]

BOND INSURANCE RISK FACTORS

In the event of default of the payment of principal or interest with respect to the Bonds when all or some becomes due, any owner of the Bonds shall have a claim under the Policy for such payments. However, in the event of any acceleration of the due date of such principal by reason of mandatory or optional redemption or acceleration resulting from default or otherwise, other than any advancement of maturity pursuant to a mandatory sinking fund payment, the payments are to be made in such amounts and at such times as such payments would have been due had there not been any such acceleration. The Policy does not insure against redemption premium, if any. The payment of principal and interest in connection with mandatory or optional prepayment of the Bonds by the City which is recovered by the City from the bond owner as a voidable preference under applicable bankruptcy law is covered by the insurance policy, however, such payments will be made by the Insurer at such time and in such amounts as would have been due absence such prepayment by the City unless the Bond Insurer chooses to pay such amounts at an earlier date.

Under most circumstances, default of payment of principal and interest does not obligate acceleration of the obligations of the Bond Insurer without appropriate consent. The Bond Insurer may direct and must consent to any remedies and the Bond Insurer's consent may be required in connection with amendments to any applicable bond documents.

In the event the Bond Insurer is unable to make payment of principal and interest as such payments become due under the Policy, the Bonds are payable solely from the moneys received pursuant to the applicable bond documents. In the event the Bond Insurer becomes obligated to make payments with respect to the Bonds, no assurance is given that such event will not adversely affect the market price of the Bonds or the marketability (liquidity) for the Bonds.

The long-term ratings on the Bonds are dependent in part on the financial strength of the Bond Insurer and its claim paying ability. The Bond Insurer's financial strength and claims paying ability are predicated upon a number of factors which could change over time. No assurance is given that the long-term ratings of the Bond Insurer and of the ratings on the Bonds insured by the Bond Insurer will not be subject to downgrade and such event could adversely affect the market price of the Bonds or the marketability (liquidity) for the Bonds. See description in "RATINGS" herein.

The obligations of the Bond Insurer are contractual obligations and in an event of default by the Bond Insurer, the remedies available may be limited by applicable bankruptcy law or state law related to insolvency of insurance companies.

Neither the City, the Financial Advisor or Underwriter have made independent investigation into the claims paying ability of the Bond Insurer and no assurance or representation regarding the financial strength or projected financial strength of the Bond Insurer is given. Thus, when making an investment decision, potential investors should carefully consider the ability of the City to pay principal and interest on the Bonds and the claims paying ability of the Bond Insurer, particularly over the life of the investment. See "BOND INSURANCE" herein for further information provided by the Bond Insurer and the Policy, which includes further instructions for obtaining current financial information concerning the Bond Insurer.

THE CITY

The City is a third-class city of the Commonwealth governed by a Mayor/Council form of government pursuant to a Home Rule Charter. The City is located 56 miles northwest of the City of Philadelphia, Pennsylvania. Reference is made to "OVERVIEW OF CITY FINANCES" above and to Appendix A for additional information regarding the City.

FINANCIAL STATEMENTS

The City's Financial Statements for its Fiscal Year ended December 31, 2022 are included in Appendix B to this Official Statement. The City's financial statements for the Fiscal Year ended December 31, 2022 were audited by Herbein+Company, Inc., Reading, Pennsylvania, independent certified public accountants. The City has not asked Herbein+Company, Inc. to perform any additional review or procedures in connection with this Official Statement.

As of the date of this Preliminary Official Statement, the Auditor has not completed the audit of the City's financial statements for the year ended December 31, 2023. The City currently has the unaudited information presented in the Preliminary Official Statement. The City expects this information to be in line with the audit and does not expect the audit to contain any information that would have a material adverse effect on the City's financial condition. The audit will be filed to EMMA, when it becomes available.

LITIGATION

There is no litigation of any nature pending or threatened against the City as of the date of this Official Statement to restrain or enjoin the issuance, sale, execution or delivery of the Bonds or in any way contesting the validity of the Bonds, or any proceedings of the City taken with respect to the issuance or sale thereof. At the time of delivery of the Bonds, the City and its Solicitor will furnish a certificate to the effect that no such litigation is then pending or, if such litigation is pending, an opinion of legal counsel satisfactory to the Underwriter will be delivered to the effect that such litigation is without legal merit.

TAX MATTERS

Federal Tax Laws

Numerous provisions of the Code affect the issuers of state and local government bonds, such as the City, and impair or restrict the ability of the City to finance projects on a tax-exempt basis. Failure on the part of the City to comply with any one or more of such provisions of the Code, or any regulations under the Code, could render amounts treated as interest on the Bonds includable in gross income of the owner thereof for purposes of federal income tax retroactively to the date of issuance of the Bonds. Among these provisions are rules relating to: (a) investment of funds treated as proceeds of the Bonds; (b) the advance refunding of tax-exempt bonds; and (c) the use of proceeds of the Bonds to benefit private activities. In addition, under the Code, the City is required to file an information return with respect to the Bonds and to rebate to the federal government certain arbitrage profits on an ongoing basis throughout the term of the Bonds. Bond Counsel has not undertaken to determine (or to inform any person) whether any action taken (or not taken) or events occurring (or not occurring) after the date of issuance of the Bonds may affect the tax status of interest on the Bonds.

Other provisions of the Code affect the purchasers and holders of certain state and local government bonds such as the Bonds. Prospective purchasers of the Bonds should be aware that: (i) Section 265 of the Code denies a deduction for interest on debt incurred or continued to purchase or carry state or local government bonds such as the Bonds, or in the case of a financial institution, that portion of a financial institution's interest expense allocated to interest on certain state or local government bonds such as the Bonds, unless the issuer of the state or local government bonds designates each of the Bonds as a qualified tax-exempt obligation for the purpose and effect contemplated by Section 265(b)(3)(B) of the Code (the City has not designated the Bonds as "qualified tax-exempt obligations" for purposes of Section 265(b)(3)(B) of the Code, as such phrase is defined in the Code); (ii) with respect to insurance companies subject to the tax imposed by Section 831 of the Code, Section 825(5)(B)(i) reduces the deduction for loss reserves by 15% of the sum of certain items, including interest and amounts treated as such on certain state or local government bonds, such as the Bonds; (iii) interest on certain state or local government bonds, such as the Bonds, earned by certain foreign corporations doing business in the United States could be subject to a branch profits tax imposed by Section 884 of the Code; (iv) if a Subchapter S corporation has passive investment income (which passive investment income will include interest on state or local government bonds, such as the Bonds) which exceeds 25% of such Subchapter S corporation's gross receipts and if such Subchapter S corporation has Subchapter C earnings and profits, then interest income derived from state or local government bonds, such as the Bonds, may be subject to federal income tax under the Code; and (v) Section 86 of the Code requires recipients of certain Social Security and certain Railroad Retirement benefits to take into account, in determining gross income, receipts or accruals of interest on certain state or local government bonds, such as the Bonds.

From time to time, there are legislative proposals in Congress that, if enacted, could alter or amend the federal tax matters referred to above or adversely affect the market value of the Bonds. Various legislative proposals have been submitted to Congress during the last several years, which if enacted, would limit for certain individual taxpayers the value of certain deductions and exclusions, including the exclusion for tax exempt interest. If enacted into law, such proposals may cause interest on the Bonds to be subject, directly or indirectly, to federal income taxation or otherwise prevent owners of the Bonds from realizing the full current benefit of the tax status of such interest. The introduction or enactment of any such legislative proposals may also affect the market price for, or marketability of, the Bonds.

No prediction is made whether these provisions will be enacted as proposed or concerning other future legislation which if passed might have the effect on the tax treatment of interest on the Bonds. Bond Counsel expresses no opinion regarding any pending or proposed federal tax legislation. Bond Counsel will render its opinion as of the issue date, and will assume no obligation to update its opinions after the issue date to reflect any future facts or circumstances, or any future changes in law or interpretation, or otherwise. Moreover, the opinion of Bond Counsel is only an opinion and not a warranty or guaranty of the matters discussed. Bond Counsel has no obligation to provide updated information concerning pending or future legislation. The City does not have any obligation to provide updated information concerning pending or future legislation. Each purchaser of the Bonds should consult his or her own tax advisor regarding any pending or proposed federal tax legislation. PROSPECTIVE PURCHASERS OF THE BONDS SHOULD CONSULT THEIR OWN TAX ADVISERS REGARDING ANY PROPOSED FEDERAL TAX LEGISLATION, AS TO WHICH BOND COUNSEL EXPRESSES NO OPINION.

Bond Counsel's engagement with respect to the Bonds ends with the issuance of the Bonds.

Tax Exemption

In the opinion of Stevens & Lee, P.C., Reading, Pennsylvania, Bond Counsel, assuming continuing compliance by the City with certain covenants and agreements relating to the use of Bond proceeds and covenants to comply with the provisions of the Code and any applicable regulations thereunder, now or hereafter enacted, interest on the Bonds is not includable in gross income for federal tax purposes under Section 103(a) of the Code, and interest on the Bonds is not an item of tax preference for purposes of the alternative minimum tax on individuals and corporations; however, for tax years beginning after December 31, 2022, such interest is taken into account in determining the annual adjusted financial statement income of applicable corporations (as defined in Section 59(k) of the Code) for the purpose of computing the alternative minimum tax imposed on corporations. Other provisions of the Code will affect certain purchasers and holders of the Bonds. See Tax Matters above.

In the opinion of Bond Counsel under the laws of the Commonwealth, the Bonds and interest on the Bonds shall be free from taxation for State and local purposes within the Commonwealth, but this exemption shall not extend to gift, estate, succession or inheritance taxes or any other taxes not levied directly on the Bonds or the interest thereon. Under the laws of the Commonwealth, profits, gains or income derived from the sale, exchange or other disposition of the Bonds are subject to State and local taxation within the Commonwealth of Pennsylvania.

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

THE ABOVE SUMMARY OF POSSIBLE TAX CONSEQUENCES IS NOT EXHAUSTIVE OR COMPLETE. ALL PURCHASERS OF THE BONDS SHOULD CONSULT THEIR TAX ADVISORS REGARDING THE POSSIBLE FEDERAL, STATE AND LOCAL INCOME TAX CONSEQUENCES OF OWNERSHIP OF THE BONDS. ANY STATEMENTS REGARDING TAX MATTERS HEREIN CANNOT BE RELIED UPON BY ANY PERSON TO AVOID TAX PENALTIES.

Regulations, Future Legislation

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

consequences of holding tax-exempt obligations, such as the Bonds. In addition, legislation may be introduced and enacted in the future which could change the provisions of the Code relating to tax-exempt bonds of a state or local government unit, such as the City or the taxability of interest in general.

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

PROSPECTIVE PURCHASERS OF THE BONDS SHOULD CONSULT THEIR OWN TAX ADVISOR WITH RESPECT TO THE FEDERAL, STATE AND LOCAL TAX CONSEQUENCES OF OWNERSHIP OF THE BONDS.

CONTINUING DISCLOSURE UNDERTAKING

In accordance with the requirement of Rule 15-c2-12 (the “Rule”) of the United States Securities and Exchange Commission (the “SEC”), the City (being an “obligated person” with respect to the Bonds, within the meaning of the Rule), will agree to provide certain financial information and operating data to the Municipal Securities Rulemaking Board (the “MSRB”) in an electronic format as prescribed by the MSRB, either directly, or indirectly through a designated agent, as set forth in its Continuing Disclosure Certificate substantially in the form attached hereto as Appendix D.

With respect to the filing of annual financial information and operating data, the City reserves the right to modify from time to time the specific types of information and data provided or the format of the presentation of such information to the extent necessary or appropriate as a result of a change in legal requirements or a change in the nature of the City or its operations or financial reporting, but the City will agree that any such modification will be done in a manner consistent with the Rule.

The City is required to give notice of certain events as set forth in the Continuing Disclosure Certificate (not all of which will be relevant to the City). The City may from time to time choose to file notice of other events in addition to those specified in the Continuing Disclosure Certificates.

The City acknowledges that its undertakings pursuant to the Rule described herein and in the Continuing Disclosure Certificates are intended to be for the benefit of the holders and beneficial owners of the Bonds and shall be enforceable by the holder and beneficial owner of the Bonds, but the right of the holders and beneficial owners of the Bonds to enforce the provisions of the City’s continuing disclosure undertaking shall be limited to a right to obtain specific enforcement, and any failure by the City to comply with the provisions of the undertaking shall not be an event of default with respect to the Bonds.

The City’s obligations with respect to continuing disclosure described herein shall terminate upon the prior defeasance, redemption or payment in full of all of the Bonds or if and when the City is no longer an “obligated person” with respect to the Bonds, within the meaning of the Rule.

The MSRB has been designated by the SEC to be the central and sole repository for continuing disclosure information filed by issuers of municipal securities since July 1, 2009. Information and notices filed by municipal issuers (and other defined “obligated persons”) with respect to municipal securities issues) are made available through the MSRB’s Electronic Municipal Market Access (EMMA) System, which may be accessed on the internet at <http://www.emma.msrb.org>.

The City has previously entered into Continuing Disclosure Agreements with respect to each one of its previously issued bond issues that are currently outstanding. The City’s filing history of its annual financial and operating information during the past five (5) years is outlined in the following table.

| Fiscal Year | Filing | Filing Dates: | | |
|------------------------|---------------|---------------------------|-----------------|--------------|
| | | Ending | Due Date | Audit |
| 12/31/2023 | 9/26/2024 | 10/24/2024 ⁽¹⁾ | 9/26/2024 | 9/26/2024 |
| 12/31/2022 | 9/26/2023 | 10/26/2023 ⁽²⁾ | 9/25/2023 | 5/25/2023 |
| 12/31/2021 | 8/28/2022 | 9/6/2022 ⁽³⁾ | 7/22/2022 | 7/22/2022 |
| 12/31/2020 | 8/28/2021 | 10/1/2021 ⁽⁴⁾ | 6/17/2021 | 6/17/2021 |
| 12/31/2019 | 6/29/2019 | 9/30/2020 ⁽⁵⁾ | 6/19/2020 | 6/19/2020 |

⁽¹⁾ A "Failure to Timely File Notice" was filed to EMMA on 9/26/2024 and a draft of the Audit on 10/24/2024. As of the date of this Preliminary Official Statement, the City's final FY 2023 audit has not been released and will be filed to EMMA, when it becomes available.

⁽²⁾ A "Failure to Timely File Notice" was filed on 9/26/2023 and 9/27/2023 and a draft of the Audit was filed to EMMA on this date. The final Audit, when it became available, was filed to EMMA on 3/22/2024.

⁽³⁾ A "Failure to Timely File Notice" and a draft of the Audit were filed to EMMA on this date. The final Audit, when it became available, was filed to EMMA on 12/7/2022, with an updated version on 12/15/2022.

⁽⁴⁾ A "Failure to Timely File Notice" was filed on 09/27/2021, 09/26/2021 and 08/28/2021 and a draft of the Audit was filed to EMMA on this date. The final Audit, when it became available, was filed to EMMA on 11/30/2021, with an updated version on 12/8/2021.

⁽⁵⁾ A "Failure to Timely File Notice" was filed on 6/28/2020 and a draft of the Audit on this date. The final Audit, when it became available, was filed to EMMA on 12/18/2020.

The City has reasonable procedures in place designed to ensure ongoing timely filings of its material continuing disclosure requirements. Digital Assurance Certification, LLC ("DAC") currently serves as the City's dissemination agent.

UNDERWRITING

The Bonds are being purchased by the Underwriter from the City, in accordance with the terms of the Bond Purchase Agreement (the "Purchase Contract") between the City and the Underwriter. The purchase price for the Bonds is \$_____ (such amount being equal to the principal amount of the Bonds, \$_____, less the underwriter's discount of \$_____ and plus/less the net original issue discount/premium of \$_____). The obligation of the Underwriter to purchase the Bonds is subject to the terms and conditions set forth in the Purchase Contract. The Purchase Contract provides that the Underwriter will purchase all of the Bonds, if any of the Bonds are purchased.

Raymond James & Associates, Inc. and their respective affiliates are full service financial institutions engaged in various activities, that may include securities trading, commercial and investment banking, municipal advisory, brokerage and asset management. In the ordinary course of business, Raymond James & Associates, Inc. and their respective affiliates may actively trade debt and if applicable equity securities (or related derivative securities) and provide financial instruments (which may include bank loans, credit support or interest rate swaps). Raymond James & Associates, Inc. and its affiliates may engage in transactions for its own accounts involving the securities and instruments made the subject of this securities offering or other offering of the City. Raymond James & Associates, Inc. and their respective affiliates may also communicate independent investment recommendations, market color or trading ideas and publish independent research views in respect of this securities offering or other offerings of the City. Raymond James & Associates, Inc. does not make a market in credit default swaps with respect to municipal securities at this time but may do so in the future.

RATINGS

At the City's request, Standard & Poor's Global Ratings ("S&P") has assigned an underlying rating to the Bonds of "A-" (Stable Outlook).

S&P is expected to assign its insured bond rating of "___" (____ Outlook) to this issue of Bonds with the understanding that upon delivery of the Bonds, a municipal bond insurance policy guaranteeing the payment when due of principal of and interest on the Bonds will be issued by ____.

Such ratings reflect only the view of the particular rating agency assigning such ratings and any desired explanation of the significance of such ratings should be obtained from the particular rating agency furnishing the

same. Further explanation of the significance of such ratings may be obtained from Moody's and S&P. The ratings are not a recommendation to buy, sell or hold any of the Bonds. Generally, a rating agency bases its ratings on the information and materials furnished to it and on investigations, studies and assumptions of its own. There is no assurance such ratings will continue for any given period of time or that such ratings will not be revised downward or withdrawn entirely by Moody's or S&P, if in its judgment, circumstances so warrant. Any such downward revision or withdrawal of such ratings may have an adverse effect on the market price of the Bonds. The City and the Underwriter have not undertaken any responsibility to maintain any particular rating on the Bonds or to advise owners of the Bonds of any change in the ratings assigned to the Bonds, except that the City has agreed to provide notice of rating changes as described herein under the caption "CONTINUING DISCLOSURE."

LEGAL OPINION

The issuance and delivery of the Bonds is subject to the receipt of the related unqualified approving legal opinion of Stevens & Lee, P.C., Reading, Pennsylvania, Bond Counsel. The proposed form of Bond Counsel's opinion is set forth in Appendix C to this Official Statement. Certain legal matters will be passed upon for the City by its Solicitor, Frederick Lachat, Esquire, and McNees Wallace & Nurick LLC, Lancaster, Pennsylvania, will pass upon certain legal matters for the Underwriter.

FINANCIAL ADVISOR

FSL Public Finance, LLC, Reading, Pennsylvania, has served as financial advisor (the "Financial Advisor") to the City in connection with the preparation, authorization, issuance and sale of the Bonds. The Financial Advisor is not obligated to undertake, and has not undertaken to make, an independent verification, or to assume responsibility for the accuracy, completeness, or fairness of the information contained in this Official Statement. FSL Public Finance, LLC is a registered independent advisory firm and is not engaged in the business of underwriting, trading or distributing municipal securities or other public securities.

CERTAIN RELATIONSHIPS AMONG THE PARTIES

FSL Public Finance, LLC, an affiliated business of Stevens & Lee, P.C., Bond Counsel, is serving as financial advisor to the City in connection with the preparation, authorization and issuance of the Bonds.

McNees Wallace & Nurick LLC, the Limited Scope Underwriter's Counsel, from time to time may represent the City in matters unrelated to the Bonds.

MISCELLANEOUS

The information set forth in this Official Statement has been provided by the City, and obtained from other sources believed to be reliable. Insofar as any statement herein includes matters of opinion or estimates about future conditions, it is not intended as representations of fact, and there is no guarantee that it is, or will be, realized. Summaries or descriptions of provisions of the Bonds, the Ordinance, and all references to other materials not purporting to be quoted in full are only brief outlines of some of the provisions thereof. Reference is hereby made to the complete documents, copies of which will be furnished by the City or the Financial Advisor upon request. The information assembled in this Official Statement is not to be construed as a contract with owners of the Bonds.

The City has authorized the distribution of this Official Statement.

CITY OF READING,
BERKS COUNTY, PENNSYLVANIA

By: _____
Eddie Moran, Mayor

APPENDIX A
Demographic, Financial and Economic Information Relating to the City of Reading

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DEMOGRAPHIC, FINANCIAL AND ECONOMIC INFORMATION RELATING TO THE CITY OF READING

History. In 1733, the site of the present day City of Reading (the “City”) was established at the intersection of two valleys, the east Penn-Lebanon Valley and the Schuylkill River Valley. This site was known as Finney’s Ford until 1743 when Thomas Lawrence, a Penn Land agent, made the first attempt at the layout for the City.

In 1748, the town was laid out by Thomas and Richard Penn, the sons of William Penn. The name was chosen after Penn’s own county seat, Reading, in Berkshire, England. In 1752, the City became the county seat of Berks County (the “County”).

During the French and Indian War, the City became a military base for a chain of forts along the Blue Mountains. The local iron industry, by the time of the American Revolution, had a total production that exceeded that of England, a production that would help supply General Washington’s troops with weapons including cannons, rifles and ammunition. During the early period of the American Revolution, the City was again a depot for military supply. Hessian prisoners from the battle of Trenton were also detained in the City.

Government of the City of Reading

General. In January 1996, the City made the transition from the Commission form of government to a Mayor/Council form by adopting a Home Rule Charter (the “Home Rule Charter”). The new form of government was approved by voter referendum on November 7, 1993.

Under the Home Rule Charter, the City is divided into six districts, with each district electing one member of the Council of the City (“City Council”). The President of City Council is elected at-large. The President of City Council is the presiding officer of City Council and has the same voting powers as the other six City Council members. The President of City Council interacts with the Mayor of the City (the “Mayor”) and other governmental entities and represents the voice of City Council.

When the Home Rule form of government began in 1996, City Council received administrative support from the City Clerk’s Office. In addition to general administrative support, the City Clerk assisted City Council with the drafting of legislation, legal research, and public relations. After evaluating the needs of the seven member City Council and the staffing needs of other City offices, City Council moved to add the functions of policy making to the administrative duties of the City Clerk and moved to add two additional employees to the City Clerk’s staff.

Elected and Appointed Officials. The Mayor is the Chief Executive Officer of the City. He is responsible for enforcement of the laws of the Commonwealth of Pennsylvania (the “Commonwealth”) and the ordinances of the City. The Mayor has the power to appoint all department directors, with the confirmation of City Council. The Mayor is elected at a general municipal election as provided for by state law and holds the office for a period of four years commencing on the first Monday in January. The current Mayor, Eddie Moran, was elected Mayor in 2019 and took office on January 6, 2020.

The Managing Director of the City is the Chief Administrative Officer of the City and is responsible to the Mayor for the administration of all City affairs. The Managing Director is appointed by the Mayor with the approval of City Council. The Managing Director enforces the provisions of the Home Rule Charter and all ordinances, resolutions and motions of City Council. The Managing Director establishes specific administrative objectives intended to address the needs of the community and to be responsive to the objectives outlined by the Mayor and the positions of City Council. Jack Gombach is serving as the Managing Director.

The Director of Finance is the Chief Financial Officer of the City and is responsible for the administration and oversight of a wide range of activities including: accounting of all revenues and expenditures, monitoring of municipal funds and assets, pension and payroll administration, municipal procurement, human resources

management, information systems management and all other financial matters that may arise. The Director of Finance is Jamar Kelly.

Government Services. The City provides a range of municipal services, with a focus on those services that support a safe, clean and vibrant community for its citizens. Principal services provided include police and fire services, as well as general public works services. Codes services have been greatly expanded in recent years, as the City's administration and City Council have identified the need to expand these services due to their direct contribution to improving the general quality of life in the City. In addition to these direct services, the City also administers Community Development Block Grant funds. These federal funds are provided to the City for the purpose of improving the community in accordance with specific national objectives.

The City has recently undertaken certain initiatives related to zoning, housing and related matters. The City recently passed a comprehensive zoning plan. The City also has hired a housing coordinator from the University of Pennsylvania to coordinate City efforts related to housing, codes enforcement and economic development. The City has obtained approval for three new property maintenance aide positions. These officials will enforce the City's new quality of life ordinance. The City is moving from a policy of issuing warnings to one of assessing fines and issuing tickets for violations related to trash, unshoveled snow and other unsafe conditions.

Local Government Agencies

Reading Area Water Authority. The Reading Area Water Authority (the "Water 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 a lease of City-owned assets. The five members of the board of directors of the Water Authority are appointed by the Mayor. The Water Authority's only financial transaction is the operation of the water operations on behalf of the City. The Water Authority publishes a separate financial statement and is accounted for in the enterprise funds of the City's financial statements. The City has guaranteed some of the outstanding debt obligations of the Water Authority. A detailed summary of all of the City's guarantee obligations to the Water Authority can be found in the City's fiscal year 2022 audit attached hereto as Appendix B. The City does not currently support any of the operational costs of the Water Authority. To date, the City has not had to make a payment under any of the existing guarantee agreements between the City and the Water Authority.

Reading Parking Authority. The Reading Parking Authority (the "Parking Authority") was incorporated in 1953 under the provisions of the Commonwealth's Parking Authorities Law of 1947. The members of the board of directors of the Parking Authority are appointed by the Mayor, and members can be removed from the board of the Parking Authority at will. The Parking Authority was formed to provide parking facilities to residential and commercial users. The City has agreed to guarantee all of the current outstanding revenue bonds of the Parking Authority. A detailed summary of all of the City's guarantee obligations to the Parking Authority can be found in the City's fiscal year 2018 audit attached hereto as Appendix B. The City does not currently support any of the operational costs of the Parking Authority. To date, the City has not had to make a payment under any of the existing guarantee agreements between the City and the Parking Authority.

Reading Redevelopment Authority. The Reading Redevelopment Authority (the "Redevelopment Authority") was established pursuant to the Urban Redevelopment Act of 1945 (Public Law-991). The Redevelopment Authority is administered by a five member board, all of whom are appointed by the Mayor. The Authority was established to provide a broad range of urban renewal and maintenance programs within the City, in addition to coordination of efforts to improve the economic vitality, the housing stock and overall living conditions within the City. The Redevelopment Authority operates on a calendar year. The City is presently financing operations of the Redevelopment Authority. The financial operations of the Redevelopment Authority are detailed in the City's audited financial statements attached hereto as Appendix B.

Reading Housing Authority. The Reading Housing Authority (the "Housing Authority") was established pursuant to the Commonwealth's housing authority law to promote availability of safe and sanitary dwelling accommodations at affordable rents to families of low income in the City. 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 Housing 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 Housing Authority is independent of the City and the City has no financial obligations or oversight functions with respect to the Housing Authority's operations. The Housing Authority operates and reports on a fiscal year ending March 31.

City Financial Procedures

Except as otherwise noted, the financial statements, tables, statistics and other information shown below have been prepared by the Office of the Director of Finance and can be reconciled to the financial statements in the City's Financial and Compliance Audit Report for the Fiscal Year ended December 31, 2022, which is attached hereto as Appendix B.

Principal Operations. The major operations of the City are conducted through the General Fund. In addition to the General Fund, operations of the City are conducted through three major governmental funds and all other funds are combined in the Non-Major Funds column.

Fund Accounting. Funds are groupings of activities that enable the City to maintain control over resources that have been segregated for particular purposes or objectives.

Governmental Funds. The governmental funds are used to account for the financial activity of the City's basic services, such as: the General Fund, the Community Development Fund, Capital Projects Funds and the Debt Service Funds. The City's Financial and Compliance Audit Report, attached hereto as Appendix B, presents data separately for the General Fund, Community Development Fund, Capital Projects Funds and Debt Service Funds. All other funds are combined in the Non-Majors Funds column.

Proprietary Funds. The proprietary funds are broken down into the Water Fund, the Sewer Fund, the Internal Service Funds and Other Enterprise Funds (Recycling/Trash). The fund financial statements consist of the balance sheets and income statements for all of the above listed funds.

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

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

As required by the Home Rule Charter, the City's proposed budget is made available for public inspection for at least thirty (30) days prior to the date of adoption, with adoption required by December 15. Subsequent to the approval of the City's budget, City Council adopts the appropriation measures required to put the City's budget in effect and fix the rate of taxation.

Within 31 days subsequent to the legal adoption of the City's budget, the Director of Finance files a copy of the City's budget with DCED. Should supplemental budget appropriations be required, City Council may, within statutory limitations, authorize the transfer of funds between line items by means of a resolution approved at a regularly scheduled City 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 of 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.

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**CITY OF READING
SUMMARY OF GENERAL FUND REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE**

| | 2019 <u>Audited</u> | 2020 <u>Audited</u> | 2021 <u>Audited</u> | 2022 <u>Audited</u> | 2023 <u>UNAUDITED⁽¹⁾</u> | 2024 <u>Budget</u> |
|--|----------------------------|----------------------------|----------------------------|----------------------------|--|-----------------------------|
| REVENUES | | | | | | |
| Taxes | \$54,901,883 | \$55,120,653 | \$59,840,915 | \$63,941,175 | \$66,403,264 | \$61,449,786 |
| Licenses, Permits and Fines | 5,443,837 | 4,291,995 | 4,811,384 | 4,796,980 | 5,757,424 | 5,522,130 |
| Intergovernmental | 6,279,525 | 5,897,774 | 5,921,501 | 6,421,742 | 7,181,121 | 5,690,844 |
| Charges for Services | 7,493,003 | 6,081,537 | 7,701,433 | 8,228,777 | 9,265,209 | 5,715,836 |
| Interest & Rent | 1,298,932 | 1,249,475 | 2,069,936 | 2,471,077 | 3,765,815 | 3,150,500 |
| Miscellaneous (other) | <u>2,660,961</u> | <u>3,423,744</u> | <u>3,528,993</u> | <u>3,820,243</u> | <u>4,094,643</u> | <u>9,581,919</u> |
| TOTAL REVENUE | <u>\$78,078,141</u> | <u>\$76,065,178</u> | <u>\$83,874,162</u> | <u>\$89,679,994</u> | <u>\$96,467,476</u> | <u>\$91,111,015</u> |
| EXPENDITURES | | | | | | |
| General Government | \$5,104,458 | \$6,785,601 | \$6,880,090 | \$7,477,926 | \$8,567,132 | \$13,662,844 |
| Public Safety | 56,669,192 | 55,825,170 | 58,962,012 | 61,044,739 | 64,341,559 | 65,399,503 |
| Public Works | 6,937,209 | 6,775,270 | 7,170,816 | 7,911,558 | 8,715,050 | 8,608,700 |
| Culture, Recreation & Comm. Dev | 5,085,393 | 4,846,609 | 5,542,236 | 5,418,299 | 5,764,103 | 7,204,927 |
| Debt Service – principal | 6,704,200 | 6,284,600 | 5,621,630 | 8,009,597 | 8,259,366 | 8,256,040 |
| Debt Service – interest | 4,803,401 | 4,580,189 | 3,760,965 | 3,732,384 | 3,520,672 | 3,282,199 |
| Other | <u>2,777,952</u> | <u>3,300,550</u> | <u>2,850,091</u> | <u>2,372,588</u> | <u>3,133,792</u> | <u>2,984,270</u> |
| TOTAL EXPENDITURES | <u>\$88,081,805</u> | <u>\$88,397,989</u> | <u>\$90,787,840</u> | <u>\$95,967,091</u> | <u>\$102,301,674</u> | <u>\$109,398,483</u> |
| OTHER FINANCING SOURCES (USES): | | | | | | |
| Operating Transfers In | \$12,927,417 | \$17,597,396 | \$13,475,098 | \$13,604,268 | \$13,097,942 | \$15,045,859 |
| Operating Transfers Out | (2,000,000) | (3,335,102) | (198,270) | (419,323) | (1,000,000) | (2,100,000) |
| Redemption of Bonds | (7,184,617) | (29,930,222) | - | - | - | - |
| Bond Discounts | - | - | - | - | - | - |
| Proceeds from Long Term Debt | 7,333,200 | 30,439,051 | - | - | - | - |
| Bond Premium | - | - | - | - | - | 5,341,609 |
| TOTAL OTHER FINANCING | <u>\$11,076,000</u> | <u>\$14,771,123</u> | <u>\$13,276,828</u> | <u>\$13,184,945</u> | <u>\$12,097,942</u> | <u>\$18,287,468</u> |
| FUND BALANCES | | | | | | |
| Excess (Deficiency) of Revenues and Other Financing Sources Over Expenditures and Other Uses | 1,072,336 | 2,438,312 | 6,363,150 | 6,897,848 | 6,263,744 | - |
| Beginning Fund Balance | 31,373,682 | 32,531,430 | 34,969,742 | 41,332,892 | 48,230,740 | - |
| Restatement Adjustment | <u>85,412</u> | - | - | - | - | - |
| End of Year Fund Balance | <u>\$32,531,430</u> | <u>\$34,969,742</u> | <u>\$41,332,892</u> | <u>\$48,230,740</u> | <u>\$54,494,484</u> | - |

Source: Audited Annual Financial Statements of the City for fiscal years 2019 through 2022 and unaudited financial statements for fiscal year 2023 and the City's adopted budget for fiscal year 2024.

(1) As of the date of this Preliminary Official Statement, the Auditor has not completed the audit of the City's financial statements for the year ended December 31, 2023. The City currently has the unaudited information presented in the Preliminary Official Statement. The City expects this information to be in line with the audit and does not expect the audit to contain any information that would have a material adverse effect on the City's financial condition. The audit will be filed to EMMA, when it becomes available.

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REVENUES OF THE CITY

Taxing Powers of the City. The Home Rule Law of the Commonwealth (the “Home Rule Law”) allows significant flexibility to home rule municipalities regarding tax limits. Although the Home Rule Law reserves the fixing and subjects of taxation to the General Assembly of the Commonwealth, it allows a home rule municipality the authority to set rates of property taxes and personal taxes levied on its residents.

Under the City’s Home Rule Charter (the “Home Rule Charter”), Title 306 of the Pennsylvania Code, the City may levy, for years following 1996, one hundred five percent (105%) of the real estate tax income collected in the previous year. Any amount collected, in excess of the one hundred five percent (105%), must be retained and used to reduce the amount of income needed by the City in the subsequent year. The percentage of real estate tax income may be raised only by approval of the Court of Common Pleas, upon good cause shown, or by referendum or Charter review.

On April 28, 2010, the Charter Board of the City ruled Charter Section 907 invalid, allowing property tax increases above 105% of previous year collections.

Under the Third Class City Code, the City may levy the following taxes:

1. 30 mills for general revenue purposes plus an additional five mills with court approval.
2. Unlimited millage for payment of principal and interest on any indebtedness incurred pursuant to the Local Government Unit Debt Act (the “Debt Act”) or any prior act governing the incurrence of indebtedness.
3. \$5.00 residence tax for general revenue purposes on all inhabitants above 18 years of age.

Under the Library Code of the Commonwealth of Pennsylvania, Act of June 14, 1961, (P.L. 324), the City is empowered to levy unlimited taxes for library purposes, following a public referendum.

The City has imposed reasonable fees and charges on refuse haulers since 1975. It also imposes various license fees and taxes, certain of which (and their current rates*) are described below:

| | |
|---|------------|
| 1. Per Capita Tax | \$30.00 |
| 2. Business Privilege Tax on Wholesalers | 1 mill |
| 3. Business Privilege Tax on Retailers | 1.5 mills |
| 4. Business Privilege Tax on Services | 2.25 mills |
| 5. Earned income tax on residents | 3.6% |
| 6. Earned income tax on non-residents | 1.0% |
| 7. Transfer of Title of Real Property | 4.0% |
| 8. Local Services Tax | \$52.00 |
| 9. Admissions to places of amusement, athletic events and the like (except motion picture theaters) | 5% |

Transfers. Operating transfers between fund types are reported as other financing sources (uses) in each respective fund. Nonrecurring or nonroutine permanent transfers of equity are reported as residual equity transfers. Details of all of the City transfers are included in the City’s audited financial statements which are included as Appendix B.

* Rates indicate total rate assessed on taxpayers and, as applicable, include portions allocable to other local governmental entities. See “CITY OF READING TAX RATES” herein for the portion of certain taxes which the City receives.

CITY OF READING TAX RATES*

| <u>Year</u> | <u>Real Estate Mills</u> | <u>Occupational Privilege Tax</u> | <u>Resident Earned Income</u> | <u>Per Capita</u> | <u>Wholesale Receipts</u> |
|-------------|--------------------------|-----------------------------------|-------------------------------|-------------------|---------------------------|
| 2015 | 15.689 | 47.00 | 3.60 | 20.00 | 1.00 |
| 2016 | 17.689 | 47.00 | 3.60 | 20.00 | 1.00 |
| 2017 | 17.689 | 47.00 | 3.60 | 20.00 | 1.00 |
| 2018 | 17.689 | 47.00 | 3.60 | 20.00 | 1.00 |
| 2019 | 17.689 | 47.00 | 3.60 | 20.00 | 1.00 |
| 2020 | 17.689 | 47.00 | 3.60 | 20.00 | 1.00 |
| 2021 | 18.129 | 47.00 | 3.60 | 20.00 | 1.00 |
| 2022 | 18.129 | 47.00 | 3.60 | 20.00 | 1.00 |
| 2023 | 18.129 | 47.00 | 3.60 | 20.00 | 1.00 |
| 2024 | 18.129 | 47.00 | 3.60 | 20.00 | 1.00 |

Source: DCED.

*Represents taxes allocable to the City, net of the portion of the rate assessed for the benefit of other local governmental entities.

**COMPARATIVE REAL PROPERTY TAX RATES
(mills)**

| | <u>2020</u> | <u>2021</u> | <u>2022</u> | <u>2023</u> | <u>2024</u> |
|-------------------------|-------------|-------------|-------------|-------------|-------------|
| City of Reading | 17.689 | 18.129 | 18.129 | 18.129 | 18.129 |
| Reading School District | 17.930 | 17.930 | 17.930 | 17.930 | 17.930 |
| Berks County | 7.657 | 7.657 | 7.657 | 7.657 | 7.657 |

Source: DCED.

REAL PROPERTY ASSESSMENT DATA

| | <u>Assessed Valuation</u> | <u>Market Value</u> | <u>Common Level Ratio</u> |
|------|---------------------------|---------------------|---------------------------|
| 2014 | \$1,412,911,200 | \$1,560,394,605 | 90.55% |
| 2015 | 1,404,570,700 | 1,550,309,873 | 90.60% |
| 2016 | 1,402,204,600 | 1,559,867,138 | 89.89% |
| 2017 | 1,430,120,000 | 1,600,691,598 | 89.34% |
| 2018 | 1,398,911,600 | 1,607,352,391 | 87.03% |
| 2019 | 1,413,870,600 | 1,630,391,404 | 86.72% |
| 2020 | 1,406,900,800 | 1,741,851,743 | 80.77% |
| 2021 | 1,416,455,000 | 1,759,835,931 | 80.49% |
| 2022 | 1,414,166,800 | 2,001,141,683 | 70.67% |
| 2023 | 1,413,497,300 | 2,000,299,527 | 70.66% |

Sources: State Tax Equalization Board for 2014 through 2023.

Realty Tax Collection

Real estate taxes are levied as of January 1 of each year. Taxpayers making payment by April 30 are entitled to a two percent discount. Payments made through June 30 can be made at the flat rate, and remittances made after July 1 are subject to a ten percent penalty. After May 1 of the following year, any uncollected tax bills are turned over to the Tax Claim Bureau of the County for collection.

CITY OF READING REALTY TAX COLLECTION RECORD

| <u>Year</u> | <u>Assessed Value</u> | <u>Millage</u> | <u>Tax Levy</u> | <u>Tax Collections</u> | <u>Current Percent Collected</u> |
|-------------|-----------------------|----------------|-----------------|------------------------|----------------------------------|
| 2014 | \$1,423,299,000 | 15.689 | \$22,330,140 | \$19,676,038 | 88.10 |
| 2015 | 1,413,699,000 | 15.689 | 22,179,530 | 19,594,739 | 88.35 |
| 2016 | 1,407,447,700 | 17.689 | 24,896,344 | 21,794,886 | 87.54 |
| 2017 | 1,435,915,602 | 17.689 | 25,399,911 | 22,023,138 | 86.71 |
| 2018 | 1,398,911,600 | 17.689 | 25,311,738 | 22,023,138 | 87.01 |
| 2019 | 1,413,870,600 | 17.689 | 25,351,383 | 22,189,735 | 87.53 |
| 2020 | 1,406,900,800 | 17.689 | 25,857,152 | 22,310,817 | 86.28 |
| 2021 | 1,416,455,000 | 18.129 | 25,894,568 | 22,954,525 | 88.65 |
| 2022 | 1,414,166,800 | 18.129 | 25,809,687 | 23,863,751 | 92.46 |
| 2023 | 1,413,497,300 | 18.129 | 25,829,722 | 23,889,766 | 92.49 |

Source: City Tax Administration Office for 2014 through 2023.

REAL PROPERTY ASSESSMENT DATA BY MUNICIPALITY

| | <u>2020</u> | <u>2021</u> | <u>2022</u> | <u>2023</u> |
|-----------------|-----------------|-----------------|-----------------|-----------------|
| City of Reading | | | | |
| Assessed Value | \$1,406,900,800 | \$1,416,455,000 | \$1,414,166,800 | \$1,413,497,300 |
| Market Value | 1,741,851,743 | 1,759,835,931 | 2,001,141,683 | 2,000,299,527 |
| County of Berks | | | | |
| Assessed Value | 19,111,458,014 | 19,401,129,118 | 19,593,781,300 | 19,834,133,500 |
| Market Value | 26,893,324,667 | 27,489,928,056 | 30,281,315,636 | 30,779,305,639 |

Source: State Tax Equalization Board.

**CITY OF READING
TEN LARGEST REAL PROPERTY TAXPAYERS, 2023**

| | <u>ASSESSMENT</u> | <u>% OF TOTAL</u> |
|--|-------------------|-------------------|
| Reading Hospitality, LLC | \$15,183,000 | 15.9% |
| Car Tech Corp | 14,904,000 | 15.6 |
| Greater Berks Development Fund | 13,050,000 | 13.6 |
| Brentwood Industries, Inc. | 10,089,000 | 10.5 |
| Our City-Reading, Inc. | 9,040,300 | 9.4 |
| Oak Street Real Estate Capital LLC | 8,299,600 | 8.7 |
| Sweet Street Desserts Inc | 6,639,000 | 6.9 |
| Jamestown Preservation Assc LP | 6,397,500 | 6.7 |
| Mediplex Rockland Hall Llc & Rockland Hall Inves | 6,252,900 | 6.5 |
| Reading Elderly Housing Assoc | <u>5,857,000</u> | 6.1 |
| TOTAL | \$95,712,300 | |

Source: City Tax Administration Office.

Expenditures of the City

Personal Services (Personnel). The following table shows full time equivalent employment by the City government for the years 2014 through 2023, with proposed projections for 2024.

| <u>Year</u> | <u>Total Number FTE</u> |
|-----------------|-------------------------|
| 2014 | 571 |
| 2015 | 584 |
| 2016 | 574 |
| 2017 | 565 |
| 2018 | 534 |
| 2019 | 615 |
| 2020 | 562 |
| 2021 | 524 |
| 2022 | 531 |
| 2023 | 545 |
| 2024 (Proposed) | 556 |

Source: City Officials.

Labor Agreements. The City currently maintains agreements with the International Association of Fire Fighters, Local 1803; the Fraternal Order of Police, Lodge #9; The American Federation of State, County and Municipal Employees, Local 2763 and the American Federation of State, County and Municipal Employees, Local 3799. The agreements are negotiated between the City and union leadership. The police and fire agreements are negotiated pursuant to the appropriate provisions of Act 111. As of 10/1/2024, 2024, the City had a total of 589 budgeted employees (including part-time employees). Of these, 475 (estimated*) are represented by the unions show below:

| <u>Union</u> | <u>No.</u> | <u>Current Contract Represents</u> | <u>Expiration Date**</u> |
|--|------------|------------------------------------|--------------------------|
| Fraternal Order of Police | 9 | City Police Officers | 12/31/2025 |
| International Association of Firefighters (“IAFF”) | 1803 | City Fire Fighters | 12/31/2026 |
| American Federation of State, County and Municipal Employees– Local 3799 | 3799 | First Level Supervisors | 12/31/2026 |
| American Federation of State, County & Municipal Employees – Local 2763 | 2763 | Rank and File Employees | 12/31/2026 |

The City currently maintains agreements with the International Association of Fire Fighters (IAFF), Local 1803; the Fraternal Order of Police (FOP), Local #9, the American Federation of State, County and Municipal Employees (AFSCME), Local 2763 and the American Federation of State, County and Municipal Employees (AFSCME), Local 3799. The agreements are negotiated between the City and union leadership. The police and fire agreements are negotiated pursuant to the appropriate provisions of Act 111.

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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 as of December 31, 2022, the amount actually contributed to the plan, and changes in the City’s OPEB obligation:

| | |
|--|--------------|
| Interest on net OPEB obligation | \$1,444,395 |
| Annual OPEB cost | 1,492,967 |
| Differences between expected and actual | (6,985,391) |
| Changes of assumptions | (8,504,295) |
| Benefit payments | (4,272,615) |
| Increase (decrease) in net OPEB obligation | (16,824,939) |
| Net OPEB obligation - beginning of year | 64,016,839 |
| Net OPEB obligation - end of year | \$47,191,900 |

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.

The City’s OPEB actuarial valuation was dated December 31, 2014 and was completed by the Hay Group. The method used for the valuation was the Projected Unit Credit Cost Method. The actuarial assumptions included a 3.25% 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 real GDP growth assumption of 1.8%. The unfunded actuarial accrued liability is being amortized over a thirty year period using the Projected Unit Credit Cost Method.

Annual Pension Cost and Net Pension Obligations. The City has three contributing defined benefit single-employer pension plans covering police, paid firemen, and officers and 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”). Each plan provides retirement, disability and death benefits to plan members and beneficiaries. Pennsylvania Act 205 and City Council ordinance assign the authority to establish and amend benefit provisions to the Board of Trustees of each retirement plan. The plans are considered part of the City’s financial reporting entity and are included in the City’s financial statements as Pension Trust Funds.

The Board of Trustees of each plan establishes and may amend the contribution requirements of plan members of the City. The City's annual pension costs calculated as of January 1, 2022 and related information for each plan is as follows:

| <u>Contribution Rates</u> | <u>PPP</u> | <u>PFPP</u> | <u>O&E</u> |
|---------------------------|---|-----------------------|--|
| City | Minimum Municipal Obligation under PA Act 205 | | |
| Plan Members | 6.5% or 5.0% plus \$1 per month, based on hire date of member | 5% plus \$5 per month | 3.5% or 3.0%, based on hire date of member |
| Contributions Made | \$11,300,512 | \$3,963,275 | \$3,364,313 |

The funded status of each plan as of January 1, 2022, the most recent actuarial valuation date is as follows:

| Plan | Actuarial Value of Assets (a) | Entry Age Actuarial Accrued Liability (AAL) (b) | Unfunded AAL (AULA) (b-a) | Funded Ratio (a/b) | Covered Payroll (c) | AULA as a Percentage of Covered Payroll ((b-a)/c) |
|----------------|--------------------------------------|--|----------------------------------|---------------------------|----------------------------|--|
| PPP | \$126,731,112 | \$191,748,124 | \$65,017,012 | 66.1% | \$11,641,075 | 558.5% |
| PFPP | \$71,361,939 | \$92,858,447 | \$21,496,508 | 76.9% | \$8,202,849 | 262.1% |
| O&E | \$66,805,880 | \$82,376,433 | \$15,570,553 | 81.1% | \$12,586,805 | 123.7% |

| <u>Fiscal Year</u> | <u>Annual Required Contribution</u> | <u>Percentage Contributed</u> |
|--|-------------------------------------|-------------------------------|
| POLICE PENSION FUND | | |
| 2017 | \$9,820,271 | 100% |
| 2018 | 11,453,968 | 100 |
| 2019 | 11,575,020 | 100 |
| 2020 | 11,337,885 | 100 |
| 2021 | 11,303,371 | 100 |
| 2022 | 11,300,512 | 100 |
| FIREMEN'S PENSION FUND | | |
| 2017 | \$2,891,616 | 100% |
| 2018 | 3,533,965 | 100 |
| 2019 | 3,512,850 | 100 |
| 2020 | 3,526,477 | 100 |
| 2021 | 3,894,670 | 100 |
| 2022 | 3,963,275 | 100 |
| OFFICERS' & EMPLOYEES' PENSION FUND | | |
| 2017 | \$3,033,047 | 100% |
| 2018 | 3,532,555 | 100 |
| 2019 | 3,476,030 | 100 |
| 2020 | 3,500,466 | 100 |
| 2021 | 3,353,417 | 100 |
| 2022 | 3,364,313 | 100 |

The following table contains information regarding the actuarial methods and assumptions used in the most recent actuarial valuation of the City's three pension plans. Additional information on the City's three pension plans can be found in the City's fiscal year 2022 audit of which is attached hereto as Appendix B.

| | <u>PPP</u> | <u>PFPP</u> | <u>NEPP</u> |
|---|----------------------|----------------------|----------------------|
| <u>Actuarial Methods:</u> | | | |
| Valuation Date | 01/01/22 | 01/01/22 | 01/01/22 |
| Actuarial Cost Method | Entry Age Normal | Entry Age Normal | Entry Age Normal |
| Amortization Method | Level Dollar, closed | Level Dollar, Closed | Level Dollar, Closed |
| Remaining Amortization Period | 9 Years | 7 Years | 10 Years |
| Asset Valuation Method | 120% Market Value | 120% Market Value | (4-yr Smoothing) |
| <u>Actuarial Assumptions:</u> | | | |
| Investment Rate of Return | 7.25% | 7.25% | 7.25% |
| Projected Salary Increases | 4.75% | 5.25% | 4.75% |
| Includes Inflation - at Cost of Living Adjustment | 2.75% | 2.75% | 2.75% |
| Includes social security wage inflation at | - | - | 4.00% |

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**CITY OF READING
DEBT STATEMENT
(as of the expected date of issuance of the Bonds)**

| Direct Debt | <u>Gross Outstanding</u> |
|--|---------------------------------|
| General Obligation Debt: | |
| General Obligation Bonds, Series A of 2015 | \$9,755,000 |
| General Obligation Bonds, Series B of 2015 (Taxable) | 21,360,000 |
| General Obligation Bonds, Series of 2017 | 16,270,000 |
| General Obligation Bonds, Series A of 2017 | 15,540,000 |
| General Obligation Bonds, Series of 2019 | 8,430,000 |
| General Obligation Bonds, Series of 2020 | 34,590,000 |
| General Obligation Bonds, Series of 2024 ⁽¹⁾ | 12,000,000 |
| Pennvest Loan (Sewer Projects) ⁽³⁾ | <u>121,276,842</u> |
| Total Gross General Obligation Debt | \$239,221,842 |
| Less: Pennvest Loan (Sewer Projects) ⁽³⁾ | <u>121,276,842</u> |
| Total Net General Obligation Debt⁽³⁾ | \$117,945,000 |
| Plus Guaranteed Debt: | |
| Reading Redevelopment Authority, Guaranteed Lease Revenue Note of 2015 | \$1,083,000 |
| Guaranteed Pennvest Loan – City Sewer | 4,052,663 |
| Guaranteed Pennvest Loan - RAWA | <u>3,118,653</u> |
| Total Guaranteed Debt | \$8,254,316 |
| Less Self-Supporting Debt | (\$8,254,316) |
| Net Direct Debt | \$117,945,000 |
| Overlapping Debt | |
| County of Berks, General Obligations ⁽⁴⁾ | \$7,375,236 |
| Reading School District ⁽⁵⁾ | <u>217,392,014</u> |
| Total Overlapping Debt | \$224,767,251 |
| Net Direct and Overlapping Debt | \$342,712,251 |

Source: City's Audited Financial Statements and City Officials

- (1) Preliminary, subject to change
- (3) The Pennvest Loans for the Sewer Projects are self-liquidating and paid for by the City's sewer fund
- (4) Pro rata 7.13 percent of outstanding general obligation debt of the County of Berks.
- (5) Pro rata 100 percent of outstanding general obligation debt of Reading School District.

Borrowing Capacity

The Debt Act establishes debt limits for local government units. The basis for determining nonelectoral borrowing capacity is related to adjusted revenues received over the most recent three fiscal years. The following is a calculation of the current “borrowing base,” which is the arithmetic average of the total revenues of the City after adjustments by the exclusion of certain subsidies, reimbursements, pledged revenues and non-recurring items:

| | Fiscal Year Ending December 31 | | |
|--|---------------------------------------|--------------------|----------------------|
| | Audited | Audited | Unaudited |
| | <u>2021</u> | <u>2022</u> | <u>2023</u> |
| Net Revenues | \$106,708,235 | \$118,329,746 | \$111,265,899 |
| Annual Arithmetic Average (Borrowing Base) | | | \$112,101,293 |
| Net Nonelectoral Debt Limit: | | | |
| Borrowing Limit: Nonelectoral Debt (250%) | | | \$280,253,233 |
| Less: Net Nonelectoral Debt | | | \$117,945,000 |
| Remaining Nonelectoral Debt Borrowing Capacity | | | <u>\$162,308,233</u> |
| Net Nonelectoral Debt and Net Lease Rental Debt Limit: | | | |
| Borrowing Limit: Nonelectoral Debt Plus Lease Rental Debt (350%) | | | \$392,354,527 |
| Less: Net Nonelectoral Debt and Lease Rental Debt | | | \$117,945,000 |
| Remaining Nonelectoral and Lease Rental Debt Capacity | | | <u>\$274,409,527</u> |

Source: City Annual Financial Reports & City Officials

- (1) Includes only general fund revenues. It is expected the release of the final FY 2023 audit will provide other revenues to be included.

Debt Ratio Calculations

| | |
|---|-----------------|
| Net Direct Debt Plus Overlapping Debt Per Capita | \$3,622.71 |
| Net Direct Debt Plus Overlapping Debt to Market Value | 17.1% |
| Net Direct Debt Per Capita | \$1,246.76 |
| Net Direct Debt to Market Value | 5.9% |
| 2022 Population Estimates (Source: Census Bureau) | 94,601 |
| 2023 Market Value..... | \$2,000,299,527 |
| Net Direct Debt | \$117,945,000 |
| Net Direct Debt Plus Overlapping Debt..... | \$342,712,251 |

Upcoming Financings

The City may issue additional debt for the purpose of capital projects over the next three years.

Wastewater Treatment Facilities. The City owns and operates a Wastewater Treatment Plant (the “WWTP”) located on Fritz Island, near the Cumru Township/City boundary in the County. The permitted hydraulic capacity of the plant is 28.5 MGD (Average Daily Flow) and 42.75 MGD (Maximum Monthly Flow) with discharge to the Schuylkill River.

The WWTP is a regional facility that receives flow from fourteen municipalities including the City, Antietam Valley Municipal Authority (includes Lower Alsace Township and Mt. Penn Borough), Alsace Township, Bern Township, Cumru Township, Kenhorst Borough, Laureldale Borough, Mohnton Borough, Muhlenberg Township, Robeson Township, Shillington Borough, Spring Township, and Wyomissing Borough. The facility serves approximately 82,000 residents from the City with a combined service population of about 130,000 persons in the entire service area.

In April, 2003, the City was requested to meet with the United States Department of Justice (“USDoJ”) as well as United States Environmental Protection Agency (USEPA), and Pennsylvania Department of Environmental Protection (“PADEP”) to discuss Clean Water Act issues. This suit was settled and culminated in a Consent Decree (the “Consent Decree”) which was executed in December, 2004 and signed by the judge on November 7, 2005 as the Entry Date. The Consent Decree details studies to be performed leading to a capital improvements plan and rehabilitation for the treatment plant and collection system respectively and the industrial pretreatment program. In addition, there are numerous interim measures that involve developing, implementing, and maintaining various management systems designed to improve plant operations and maintenance with the ultimate goal of permit compliance.

As part of the Consent Decree, the City was required to evaluate the existing treatment facilities to determine their ability to meet current and projected capacity, loadings, and permit limits during all potential conditions. Black & Veatch was selected to perform this evaluation and determined that the existing facilities are able to meet current permit limits under many, but not all, existing conditions. The evaluation determined the capacity for all major existing plant processes. Additionally, long-range planning and the regulatory climate were evaluated to determine potential future permit limits. Future flow and loading projections were developed allowing for future population and industrial growth. Maximum monthly and annual average projections were developed for use in evaluating the treatment alternatives. This showed that the existing facilities were not able to meet the projected future capacity, loadings, and permit limits which necessitated the evaluation of potential liquid treatment alternatives. Screening of available technologies led to a detailed evaluation of three alternatives. These processes were evaluated for both economic and non-economic factors to determine the best available liquid treatment alternative. The selected liquid treatment alternative is activated sludge with biological nutrient removal (hereinafter referred to as the “Liquids Project”).

Any capital financings that may be required to comply with the Consent Decree are currently anticipated to not be general obligations of the City. The City is currently in the process of re-negotiating inter-municipal agreements with all of the surrounding municipalities that are serviced by the City’s WWTP. As of the date of this official statement, Muhlenberg Township and the Borough of Laureldale have executed updated inter-municipal agreements with the City. Any capital financings for the WWTP are anticipated to be secured and supported exclusively by the revenues of the WWTP which would include residential, commercial and industrial sewer tapping and user fees paid by all of the municipalities serviced by the WWTP, including the City.

City Socioeconomic Information

Location. The City is 56 miles northwest of the City of Philadelphia and the Delaware Valley region, one of the leading industrial and trade complexes in the nation. Through numerous federal and state highways and turnpikes, the City is linked to other major metropolitan areas such as New York City (120 miles) and Baltimore (110 miles).

Population. Shown below are statistics from the Bureau of Census illustrating population trends since 2010 for the City and comparable statistics for the County and the Commonwealth.

| | <u>2010</u> | <u>2020</u> | <u>2022</u> | <u>% Change 2010-2020</u> | <u>% Change 2020-2022</u> |
|-----------------|-------------|-------------|-------------|-------------------------------|-------------------------------|
| City of Reading | 88,082 | 95,112 | 94,601 | 8.0% | (0.5%) |
| Berks County | 411,442 | 428,849 | 428,483 | 4.2 | (0.1) |
| Pennsylvania | 12,702,379 | 13,002,700 | 12,989,208 | 2.4 | (0.1) |

Source: U.S. Department of Commerce - Bureau of Census; 2010 and 2020 Decennial Census, 2017-2022 American Community Survey 5-Year Estimates

Housing Occupancy

| | |
|------------------------|--------|
| Total housing units | 36,076 |
| Occupied housing units | 32,692 |
| Vacant housing units | 3,384 |

Source: U.S. Department of Commerce - Bureau of Census; 2017-2022 American Community Survey 5-Year Estimates

Housing Tenure

| | |
|--|--------|
| Occupied Housing Units | 32,692 |
| Owner-occupied | 12,838 |
| Renter-occupied | 19,854 |
| Average household size of owner-occupied unit | 2.94 |
| Average household size of renter-occupied unit | 2.72 |

Source: U.S. Department of Commerce - Bureau of Census; 2017-2022 American Community Survey 5-Year Estimates

Value of Owner-Occupied Units

| | |
|------------------------|----------|
| Owner-occupied units | 12,838 |
| Less than \$50,000 | 2,333 |
| \$50,000 to \$99,999 | 4,447 |
| \$100,000 to \$149,999 | 2,948 |
| \$150,000 to \$199,999 | 1,660 |
| \$200,000 to \$299,999 | 1,013 |
| \$300,000 to \$499,999 | 314 |
| \$500,000 to \$999,999 | 56 |
| \$1,000,000 or more | 67 |
| Median (dollars) | \$96,900 |

Source: U.S. Department of Commerce - Bureau of Census; 2017-2022 American Community Survey 5-Year Estimates

General Demographic Characteristics

| | |
|--------------------|--------|
| Total population | 94,601 |
| SEX AND AGE | |
| Male | 45,457 |
| Female | 49,144 |
| Under 5 years | 7,404 |
| 5 to 9 years | 7,200 |
| 10 to 14 years | 7,711 |
| 15 to 19 years | 8,150 |
| 20 to 24 years | 8,647 |
| 25 to 29 years | 6,532 |
| 30 to 34 years | 6,723 |
| 35 to 39 years | 6,125 |
| 40 to 44 years | 5,498 |
| 45 to 49 years | 5,373 |
| 50 to 54 years | 5,363 |
| 55 to 59 years | 5,340 |
| 60 to 64 years | 4,606 |
| 65 and older | 9,929 |
| Median age (years) | 31.1 |

Source: U.S. Department of Commerce - Bureau of Census; 2017-2022 American Community Survey 5-Year Estimates

Selected Economic Characteristics-Reading Metropolitan Statistical Area

| <u>EMPLOYMENT STATUS</u> | <u>July 2024*</u> |
|--------------------------|-------------------|
| Labor force | 219,100 |
| Employment | 210,200 |
| Unemployment | 8,900 |
| Unemployment Rate | 4.0% |

Source: U.S. Department of Labor Statistics - Bureau of Labor Statistics
*Preliminary

Employment Classification

READING METROPOLITAN STATISTICAL AREA

(Berks County)

July 2024

NONFARM JOBS – NOT SEASONALLY ADJUSTED

| ESTABLISHMENT DATA | Industry Employment | | | | Net Change From: | |
|---|--|----------|----------|----------|------------------|----------|
| | Jul 2024 | Jun 2024 | May 2024 | Jul 2023 | Jun 2024 | Jul 2023 |
| TOTAL NONFARM | 181,000 | 181,700 | 181,300 | 177,300 | -700 | 3,700 |
| TOTAL PRIVATE | 162,900 | 162,900 | 161,300 | 159,700 | 0 | 3,200 |
| GOODS PRODUCING | 40,500 | 40,100 | 39,900 | 40,100 | 400 | 400 |
| Mining, Logging, and Construction | 8,500 | 8,200 | 8,100 | 8,400 | 300 | 100 |
| Manufacturing | 32,000 | 31,900 | 31,800 | 31,700 | 100 | 300 |
| Durable Goods | 22,500 | 22,400 | 22,300 | 22,100 | 100 | 400 |
| Non-Durable Goods | 9,500 | 9,500 | 9,500 | 9,600 | 0 | -100 |
| SERVICE-PROVIDING | 140,500 | 141,600 | 141,400 | 137,200 | -1,100 | 3,300 |
| PRIVATE SERVICE-PROVIDING | 122,400 | 122,800 | 121,400 | 119,600 | -400 | 2,800 |
| Trade, Transportation, and Utilities | 34,200 | 34,300 | 34,200 | 34,300 | -100 | -100 |
| Wholesale Trade | 6,400 | 6,400 | 6,400 | 6,600 | 0 | -200 |
| Retail Trade | 18,500 | 18,600 | 18,500 | 18,600 | -100 | -100 |
| Grocery Stores | 3,600 | 3,600 | 3,600 | 3,700 | 0 | -100 |
| Transportation, Warehousing, and Utilities | 9,300 | 9,300 | 9,300 | 9,100 | 0 | 200 |
| Information | 1,000 | 1,000 | 1,000 | 1,100 | 0 | -100 |
| Financial Activities | 6,900 | 6,900 | 6,800 | 6,900 | 0 | 0 |
| Credit Intermediation and Related Activities... | 2,300 | 2,300 | 2,300 | 2,400 | 0 | -100 |
| Professional and Business Services | 23,000 | 22,900 | 22,600 | 22,000 | 100 | 1,000 |
| Education and Health Services | 33,100 | 33,400 | 33,400 | 31,700 | -300 | 1,400 |
| Health Care and social assistance | 30,200 | 30,200 | 29,900 | 29,100 | 0 | 1,100 |
| Leisure and Hospitality | 16,200 | 16,300 | 15,600 | 15,800 | -100 | 400 |
| Other Services | 8,000 | 8,000 | 7,800 | 7,800 | 0 | 200 |
| Government | 18,100 | 18,800 | 20,000 | 17,600 | -700 | 500 |
| Federal Government | 900 | 900 | 900 | 900 | 0 | 0 |
| State Government | 2,900 | 2,800 | 3,600 | 2,800 | 100 | 100 |
| Local Government | 14,300 | 15,100 | 15,500 | 13,900 | -800 | 400 |
| Data benchmarked to March 2023 | ***Data changes of 100 may be due to rounding*** | | | | | |

Household Income (In 2022 Inflation-Adjusted Dollars)

| | |
|-----------------------------------|--------|
| Total Households | 32,692 |
| Less than \$10,000 | 3,073 |
| \$10,000 to \$14,999 | 3,008 |
| \$15,000 to \$24,999 | 4,381 |
| \$25,000 to \$34,999 | 3,465 |
| \$35,000 to \$49,999 | 4,348 |
| \$50,000 to \$74,999 | 6,113 |
| \$75,000 to \$99,999 | 3,400 |
| \$100,000 to \$149,999 | 3,204 |
| \$150,000 to \$199,999 | 1,112 |
| \$200,000 or more | 621 |
| Median household income (dollars) | 42,852 |

Source: U.S. Department of Commerce - Bureau of Census; 2017-2022 American Community Survey 5-Year Estimates

Percentage of Families and People

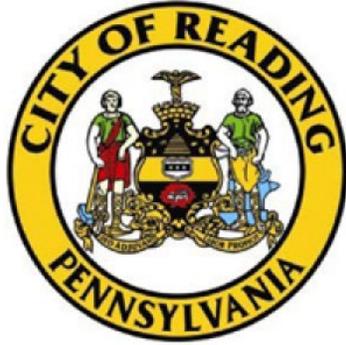
Whose Income (in the 12 Months Preceding the Survey) was Below the Poverty Level

| | |
|---|-------|
| All families | 25.1% |
| Married couple families | 14.5 |
| Families with female householder, no spouse present | 38.3 |
| All People | 28.6 |

Source: U.S. Department of Commerce - Bureau of Census; 2017-2022 American Community Survey 5-Year Estimates

APPENDIX B
City's Audited Financial Statements (Fiscal Year ended December 31, 2022)

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CITY OF READING

FINANCIAL AND COMPLIANCE AUDIT REPORT

Year Ended December 31, 2022

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Audit of the Financial Statements

Opinions

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

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

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

Basis for Opinions

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

Responsibilities of Management for the Financial Statements

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

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

Auditor's Responsibility for the Audit of the Financial Statements

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

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

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

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

Other Matter

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

Required Supplementary Information

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

Supplementary Information

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

Other Reporting Required by *Government Auditing Standards*

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

Herbein + Company, Inc.

**Reading, Pennsylvania
December 18, 2023**

INTRODUCTION

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

FINANCIAL HIGHLIGHTS

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

OVERVIEW OF THE FINANCIAL STATEMENTS

The financial section of this report consists of four parts:

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

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

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

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

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

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

| | Government-wide Statements | Fund Financial Statements | | |
|--|--|--|--|---|
| | | Governmental | Business-Type | Fiduciary |
| Scope | Entire entity and component units (except fiduciary funds) | The day-to-day operating activities of the City such as general government, public safety and public works | The business-type activities of the City, such as water and sewer | Instances in which the City administers resources on behalf of others, such as employee pension plans |
| Required financial statements | <ul style="list-style-type: none"> • Statement of Net Position • Statement of Activities | <ul style="list-style-type: none"> • Balance Sheet • Statement of Revenues, Expenditures, and Changes in Fund Balances | <ul style="list-style-type: none"> • Statement of Net Position • Statement of Revenues, Expenses, and Changes in Net Position • Statement of Cash Flows | <ul style="list-style-type: none"> • Statement of Net Position - Fiduciary Funds - Trust Funds • Statement of Changes in Net Position - Fiduciary Funds - Trust Funds |
| Accounting basis and measurement focus | Accrual accounting and economic resources measurement focus | Modified accrual accounting and current financial resources measurement focus | Accrual accounting and economic resources measurement focus | Accrual accounting and economic resources measurement focus |
| Type of asset and liability information | All assets and liabilities, both financial and capital, current and noncurrent, and deferred inflows and outflows of resources | Current assets and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included | All assets and liabilities, both financial and capital, current and noncurrent, and deferred inflows and outflows of resources | All assets and liabilities, both financial and capital, current and noncurrent; funds do not contain capital assets, although they can |
| Types of inflow and outflow information | All revenues and expenses during year, regardless of when cash is received or paid | Revenues for which cash is received during the year or soon thereafter, expenditures when good or services have been received and the related liability is due and payable | All revenues and expenses during the year, regardless of when cash is received or paid | All additions and deductions during the year, regardless of when cash is received or paid |

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

Government-Wide Financial Statements

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

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

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

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

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

There are two categories of activities for the primary government.

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

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

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

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

Fund Financial Statements

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

The City has three kinds of funds:

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

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

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

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

Notes to Financial Statements

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

Other Information

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

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

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

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

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

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

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

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

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

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

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

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

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

Net Cost of Services

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

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

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

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

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

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

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

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

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

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

Financial Analysis of the Government’s funds

GOVERNMENTAL FUNDS

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

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

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

Governmental Fund Revenues

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

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

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

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

Governmental Fund Expenditures

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

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

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

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

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

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

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

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

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

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

Budgetary Highlights

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

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

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

Capital Assets

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

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

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

Major capital asset acquisitions during the year include the following:

Governmental activities:

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

Business-type activities:

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

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

Debt Administration

Long-Term Debt

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

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

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

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

Bond Rating

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

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

ECONOMIC FACTORS AND NEXT YEAR’S BUDGET AND RATES

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

REQUESTS FOR INFORMATION

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

CITY OF READING
STATEMENT OF NET POSITION

December 31, 2022

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

See accompanying notes to the financial statements.

December 31, 2022

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

CITY OF READING

STATEMENT OF ACTIVITIES

Year Ended December 31, 2022

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

See accompanying notes to the financial statements.

CITY OF READING

BALANCE SHEET - GOVERNMENTAL FUNDS

December 31, 2022

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

See accompanying notes to the financial statements.

CITY OF READING

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

December 31, 2022

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

| | | |
|---|------------------|-------------------------------|
| TOTAL FUND BALANCES - GOVERNMENTAL FUNDS | | \$ 69,681,485 |
| Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds. The cost of the assets is \$152,159,083 and the accumulated depreciation and amortization is \$72,705,571. | | 79,453,512 |
| Property taxes receivable will be collected this year, but are not available soon enough to pay for the current period's expenditures and, therefore, are reported as unavailable revenue in the funds. | | 2,739,078 |
| Other long-term assets (receivables and restricted cash) and lease rental receivable are not available to pay current period expenditures and, therefore, are reported as unearned revenue in the funds. | | 10,888,902 |
| Establish allowance for doubtful accounts - property taxes receivable (\$273,908) and other long-term asset receivables (\$3,610,390). | | (3,884,298) |
| Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the funds. Long-term liabilities at year end consist of: | | |
| Bonds/notes payable | \$ (100,017,080) | |
| Leases payable | (414,347) | |
| Accrued interest | (573,259) | |
| Unamortized bond discount | 212,848 | |
| Unamortized bond premium | (1,013,724) | |
| Deferred charge on bond refunding | 9,615,545 | |
| Compensated absences | (1,466,829) | (93,656,846) |
| The net pension liability and related deferred outflows and inflows of resources for pensions are not reflected on the fund financial statements. | | (68,820,777) |
| The other postemployment benefits liability and related deferred outflows and inflows of resources for other postemployment benefits are not reflected on the fund financial statements. | | (57,190,283) |
| Internal service funds are used by the City to charge the costs of workman's compensation insurance and other insurance to individual funds. The assets and liabilities of the internal service funds are included with governmental activities on the statement of net position. | | <u>2,767,460</u> |
| TOTAL NET POSITION (DEFICIT) - GOVERNMENTAL ACTIVITIES | | <u><u>\$ (58,021,767)</u></u> |

CITY OF READING

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

Year Ended December 31, 2022

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

See accompanying notes to the financial statements.

CITY OF READING

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

Year Ended December 31, 2022

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

| | | |
|---|--------------------|-----------------------------|
| NET CHANGE IN FUND BALANCES - GOVERNMENTAL FUNDS | | \$ 3,103,419 |
| <p>Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.</p> | | |
| Capital outlays | \$ 20,573,590 | |
| Less: depreciation and amortization expense | <u>(4,530,157)</u> | 16,043,433 |
| <p>Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.</p> | | |
| | | (1,198,149) |
| <p>Issuance of long-term debt (e.g., bonds) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds.</p> | | |
| Repayment of bond/note principal | 7,766,610 | |
| Repayment of lease principal | 295,781 | |
| Amortization of bond discount | (35,314) | |
| Amortization of bond premium | 141,737 | |
| Amortization of deferred charge on bond refunding | <u>(1,001,274)</u> | 7,167,540 |
| <p>Interest on long-term debt in the statement of activities differs from the amount reported in the governmental funds because interest is recognized as an expenditure in the funds when it is due, and thus requires the use of current financial resources.</p> | | |
| | | 38,719 |
| <p>Some expenses reported in the statement of activities do not require the use of current financial resources and are not reported as expenditures in governmental funds. The difference in the amount incurred and amount paid of these activities is:</p> | | |
| Compensated absences | (82,656) | |
| Net pension liability and related deferred outflows and inflows | 3,895,288 | |
| OPEB liability and related deferred outflows and inflows | <u>4,384,597</u> | 8,197,229 |
| <p>An internal service fund is used by the City to charge the costs of insurance claims to the individual funds. The excess revenue (expense) is reported with governmental activities.</p> | | |
| | | <u>(1,046,739)</u> |
| CHANGE IN NET POSITION (DEFICIT) OF GOVERNMENTAL ACTIVITIES | | <u><u>\$ 32,305,452</u></u> |

CITY OF READING

STATEMENT OF NET POSITION -
PROPRIETARY FUNDS

December 31, 2022

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

CITY OF READING

STATEMENT OF NET POSITION -
PROPRIETARY FUNDS - CONTINUED

December 31, 2022

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

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

Year Ended December 31, 2022

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

See accompanying notes to the financial statements.

CITY OF READING

STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS

Year Ended December 31, 2022

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

CITY OF READING

STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS - CONTINUED

Year Ended December 31, 2022

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

CITY OF READING

STATEMENT OF NET POSITION - FIDUCIARY FUNDS - TRUST FUNDS

December 31, 2022

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

CITY OF READING

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

Year Ended December 31, 2022

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

CITY OF READING

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2022

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

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

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

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

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

CITY OF READING

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2022

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

A. Reporting Entity - continued

1. Blended Component Units

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

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

2. Discretely Presented Component Units

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

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

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

3. Fiduciary Component Units

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

CITY OF READING

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2022

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

A. Reporting Entity - continued

4. Potential Component Units Excluded

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

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

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

5. Related Organizations

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

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

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

CITY OF READING

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2022

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

B. Basis of Presentation - Government-Wide Financial Statements

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

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

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

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

CITY OF READING

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2022

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

C. Basis of Presentation - Fund Financial Statements

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

The City Reports the Following Major Governmental Funds:

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

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

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

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

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

The following are included in the capital projects fund:

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

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

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

CITY OF READING

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2022

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

C. Basis of Presentation - Fund Financial Statements - continued

The City Has the Following Nonmajor Governmental Funds:

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

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

The City has the Following Major Enterprise Funds:

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

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

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

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

CITY OF READING

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2022

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

C. Basis of Presentation - Fund Financial Statements - continued

Additionally, the City Reports the Following Fund Types:

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

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

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

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

D. Measurement Focus and Basis of Accounting

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

CITY OF READING

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2022

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

D. Measurement Focus and Basis of Accounting - continued

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

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

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

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

CITY OF READING

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2022

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

E. Financial Position

1. Cash and Cash Equivalents

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

2. Investments

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

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

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

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

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

3. Interfund Transactions

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

CITY OF READING

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2022

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

E. Financial Position - continued

4. Inventory and Prepaid Items

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

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

5. Capital Assets, Depreciation, and Amortization

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

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

CITY OF READING

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2022

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

E. Financial Position - continued

5. Capital Assets, Depreciation, and Amortization - continued

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

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

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

6. Valuation of Long-Lived Assets

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

7. Unearned Revenues

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

8. Compensated Absences

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

CITY OF READING

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2022

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

E. Financial Position - continued

9. Long-Term Obligations

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

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

10. Leases

Lessor

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

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

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

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

CITY OF READING

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2022

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

E. Financial Position - continued

10. Leases - continued

Lessor - continued

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

Lessee

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

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

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

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

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

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

CITY OF READING

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2022

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

E. Financial Position - continued

11. Pension

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

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

12. Other Postemployment Benefits (OPEB)

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

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

CITY OF READING

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2022

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

E. Financial Position - continued

13. Deferred Outflows/Inflows of Resources

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

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

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

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

CITY OF READING

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2022

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

E. Financial Position - continued

13. Deferred Outflows/Inflows of Resources - continued

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

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

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

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

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

14. Encumbrances

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

CITY OF READING

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2022

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

E. Financial Position - continued

15. Net Position and Flow Assumptions

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

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

16. Fund Balance Policies and Flow Assumptions

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

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

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

CITY OF READING

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2022

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

E. Financial Position - continued

16. Fund Balance Policies and Flow Assumptions - continued

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

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

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

F. Use of Estimates

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

CITY OF READING

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2022

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

G. Adoption of Accounting Standards

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

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

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

CITY OF READING

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2022

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

G. Adoption of Accounting Standards - continued

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

NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Budgetary Data

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

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

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

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

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

CITY OF READING

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2022

NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY - CONTINUED

Deficit Fund Balance or Net Position of Individual Funds

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

Excess of Expenditures Over Appropriations

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

Net Position Deficit and Liquidity

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

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

NOTE 3 - CASH AND INVESTMENTS

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

CITY OF READING

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2022

NOTE 3 - CASH AND INVESTMENTS - CONTINUED

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

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

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

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

Classification per statement of net position and fiduciary fund statements:

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

Deposits

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

CITY OF READING

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2022

NOTE 3 - CASH AND INVESTMENTS - CONTINUED

Investments

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

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

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

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

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

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

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

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

CITY OF READING

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2022

NOTE 3 - CASH AND INVESTMENTS - CONTINUED

Investments - continued

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

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

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

Interest Rate Risk

The City does have a formal investment policy that limits maturities in certain investments as a means of managing its exposure to fair value losses arising from increasing interest rates.

CITY OF READING

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2022

NOTE 3 - CASH AND INVESTMENTS - CONTINUED

Credit Risk

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

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

The Blended Component Unit, Reading Area Water Authority, does not have an investment policy that would limit its investment choices to certain credit ratings. However, the Authority limits the type of investments permitted as defined in the Local Government Unit Debt Act, the Municipal Authorities Act, and the related trust indentures.

Concentration of Credit Risk

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

Custodial Credit Risk

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

Pension Trust Funds

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

CITY OF READING

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2022

NOTE 3 - CASH AND INVESTMENTS - CONTINUED

Pension Trust Funds - continued

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

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

CITY OF READING

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2022

NOTE 3 - CASH AND INVESTMENTS - CONTINUED

Pension Trust Funds - continued

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

CITY OF READING

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2022

NOTE 3 - CASH AND INVESTMENTS - CONTINUED

Pension Trust Funds - continued

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

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

CITY OF READING

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2022

NOTE 3 - CASH AND INVESTMENTS - CONTINUED

Pension Trust Funds - continued

Credit Risk

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

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

Concentration of Credit Risk

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

Interest Rate Risk

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

Component Unit (Reading Parking Authority)

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

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

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

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

CITY OF READING

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2022

NOTE 3 - CASH AND INVESTMENTS - CONTINUED

Component Unit (Reading Parking Authority) - continued

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

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

Deposits

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

CITY OF READING

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2022

NOTE 3 - CASH AND INVESTMENTS - CONTINUED

Component Unit (Reading Parking Authority) - continued

Investments

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

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

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

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

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

CITY OF READING

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2022

NOTE 3 - CASH AND INVESTMENTS - CONTINUED

Component Unit (Reading Parking Authority) - continued

Investments - continued

The INVEST fund invests in the following:

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

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

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

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

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

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

Interest Rate Risk

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

CITY OF READING

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2022

NOTE 3 - CASH AND INVESTMENTS - CONTINUED

Component Unit (Reading Parking Authority) - continued

Credit Risk

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

Concentration of Credit Risk

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

Custodial Credit Risk

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

Component Unit (Reading Redevelopment Authority)

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

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

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

Credit Risk

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

Interest Rate Risk

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

CITY OF READING

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2022

NOTE 4 - RECEIVABLES, UNCOLLECTIBLE ACCOUNTS, AND UNAVAILABLE REVENUE

Governmental Fund Receivables, Uncollectible Accounts, and Unavailable Revenue

Accounts Receivable

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

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

Real Estate Taxes and Receivables

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

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

CITY OF READING

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2022

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

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

Real Estate Taxes and Receivables - continued

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

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

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

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

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

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

CITY OF READING

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2022

NOTE 5 - TAX ABATEMENTS

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

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

Keystone Opportunity Zone (KOZ) Program

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

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

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

CITY OF READING

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2022

NOTE 5 - TAX ABATEMENTS - CONTINUED

Local Economic Revitalization Tax Assistance (LERTA) Program

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

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

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

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

CITY OF READING

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2022

NOTE 6 - RESTRICTED ASSETS - LIMITED AS TO USE

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

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

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

Future Lease Rental Receivable

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

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

CITY OF READING

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2022

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

Loans and Notes Receivable

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

NOTE 8 - INTERFUND RECEIVABLES AND PAYABLES AND TRANSFERS

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

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

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

CITY OF READING

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2022

NOTE 8 - INTERFUND RECEIVABLES AND PAYABLES AND TRANSFERS - CONTINUED

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

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

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

CITY OF READING

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2022

NOTE 9 - CAPITAL ASSETS

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

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

CITY OF READING

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2022

NOTE 9 - CAPITAL ASSETS - CONTINUED

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

CITY OF READING

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2022

NOTE 9 - CAPITAL ASSETS - CONTINUED

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

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

CITY OF READING

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2022

NOTE 10 - LONG-TERM LIABILITIES

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

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

CITY OF READING

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2022

NOTE 10 - LONG-TERM LIABILITIES - CONTINUED

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

CITY OF READING

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2022

NOTE 10 - LONG-TERM LIABILITIES - CONTINUED

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

CITY OF READING

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2022

NOTE 10 - LONG-TERM LIABILITIES - CONTINUED

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

CITY OF READING

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2022

NOTE 10 - LONG-TERM LIABILITIES - CONTINUED

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

Direct Borrowings

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

General Obligation Note, Series B of 2012

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

Guaranteed Lease Revenue Note, Series of 2015

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

CITY OF READING

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2022

NOTE 10 - LONG-TERM LIABILITIES - CONTINUED

Direct Borrowings - continued

Pennsylvania Infrastructure Investment Authority Note Payables

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

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

Leases

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

Future lease maturities as of December 31 are as follows:

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

Covenants

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

Unused Line of Credit

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

CITY OF READING

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2022

NOTE 10 - LONG-TERM LIABILITIES - CONTINUED

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

CITY OF READING

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2022

NOTE 10 - LONG-TERM LIABILITIES - CONTINUED

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

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

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

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

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

CITY OF READING

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2022

NOTE 10 - LONG-TERM LIABILITIES - CONTINUED

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

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

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

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

CITY OF READING

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2022

NOTE 10 - LONG-TERM LIABILITIES - CONTINUED

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

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

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

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

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

CITY OF READING

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2022

NOTE 10 - LONG-TERM LIABILITIES - CONTINUED

Defeasance of Debt

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

NOTE 11 - CITY OF READING RETIREMENT PLANS

Plan Description

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

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

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

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

CITY OF READING

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2022

NOTE 11 - CITY OF READING RETIREMENT PLANS - CONTINUED

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

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

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

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

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

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

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

CITY OF READING

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2022

NOTE 11 - CITY OF READING RETIREMENT PLANS - CONTINUED

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

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

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

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

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

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

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

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

CITY OF READING

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2022

NOTE 11 - CITY OF READING RETIREMENT PLANS - CONTINUED

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

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

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

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

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

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

CITY OF READING

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2022

NOTE 11 - CITY OF READING RETIREMENT PLANS - CONTINUED

Contributions

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

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

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

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

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

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

CITY OF READING

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2022

NOTE 11 - CITY OF READING RETIREMENT PLANS - CONTINUED

Contributions - continued

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

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

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

Deferred Retirement Option Program

City of Reading Police Pension Plan (PPP)

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

CITY OF READING

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2022

NOTE 11 - CITY OF READING RETIREMENT PLANS - CONTINUED

Deferred Retirement Option Program - continued

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

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

Net Pension Liability

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

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

CITY OF READING

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2022

NOTE 11 - CITY OF READING RETIREMENT PLANS - CONTINUED

Net Pension Liability - continued

Changes in the Net Pension Liability

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

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

CITY OF READING

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2022

NOTE 11 - CITY OF READING RETIREMENT PLANS - CONTINUED

Net Pension Liability - continued

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

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

CITY OF READING

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2022

NOTE 11 - CITY OF READING RETIREMENT PLANS - CONTINUED

Net Pension Liability - continued

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

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

CITY OF READING

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2022

NOTE 11 - CITY OF READING RETIREMENT PLANS - CONTINUED

Net Pension Liability - continued

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

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

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

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

CITY OF READING

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2022

NOTE 11 - CITY OF READING RETIREMENT PLANS - CONTINUED

Net Pension Liability - continued

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

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

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

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

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

CITY OF READING

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2022

NOTE 11 - CITY OF READING RETIREMENT PLANS - CONTINUED

Net Pension Liability - continued

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

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

Pension Trust Fund Financial Information

Plan Net Position

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

CITY OF READING

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2022

NOTE 11 - CITY OF READING RETIREMENT PLANS - CONTINUED

Pension Trust Fund Financial Information - continued

Changes in Plan Net Position

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

CITY OF READING

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2022

NOTE 11 - CITY OF READING RETIREMENT PLANS - CONTINUED

Pension Trust Fund Financial Information - continued

Net Change in Fair Value of Investments

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

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

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

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

Other Retirement Plans

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

CITY OF READING

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2022

NOTE 12 - OTHER POSTEMPLOYMENT BENEFITS

Employee Defined Benefit Other Postemployment Benefits Plan

General Information About the OPEB Plan

Plan Description

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

Benefits Provided

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

AFSCME First Level

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

CITY OF READING

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2022

NOTE 12 - OTHER POSTEMPLOYMENT BENEFITS - CONTINUED

Employee Defined Benefit Other Postemployment Benefits Plan - continued

General Information About the OPEB Plan - continued

Benefits Provided - continued

AFSCME First Level - continued

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

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

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

AFSCME Rank and File and Non-Fire Management

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

CITY OF READING

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2022

NOTE 12 - OTHER POSTEMPLOYMENT BENEFITS - CONTINUED

Employee Defined Benefit Other Postemployment Benefits Plan - continued

General Information About the OPEB Plan - continued

Benefits Provided - continued

AFSCME Rank and File and Non-Fire Management - continued

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

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

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

Police Officers

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

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

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

CITY OF READING

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2022

NOTE 12 - OTHER POSTEMPLOYMENT BENEFITS - CONTINUED

Employee Defined Benefit Other Postemployment Benefits Plan - continued

General Information About the OPEB Plan - continued

Benefits Provided - continued

Firefighters and Fire Management

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

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

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

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

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

CITY OF READING

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2022

NOTE 12 - OTHER POSTEMPLOYMENT BENEFITS - CONTINUED

Employee Defined Benefit Other Postemployment Benefits Plan - continued

General Information About the OPEB Plan - continued

Employees Covered by Benefit Terms

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

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

OPEB Liability

Actuarial Assumptions and Other Inputs

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

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

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

CITY OF READING

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2022

NOTE 12 - OTHER POSTEMPLOYMENT BENEFITS - CONTINUED

Employee Defined Benefit Other Postemployment Benefits Plan - continued

Net OPEB Liability

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

Changes in Net OPEB Liability

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

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

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

CITY OF READING

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2022

NOTE 12 - OTHER POSTEMPLOYMENT BENEFITS - CONTINUED

Employee Defined Benefit Other Postemployment Benefits Plan - continued

Changes in Net OPEB Liability - continued

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

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

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

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

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

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

CITY OF READING

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2022

NOTE 12 - OTHER POSTEMPLOYMENT BENEFITS - CONTINUED

Employee Defined Benefit Other Postemployment Benefits Plan - continued

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

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

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

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

| | |
|-------|------------------------|
| 2023 | \$ (3,120,555) |
| 2024 | (3,566,504) |
| 2025 | <u>(4,081,658)</u> |
| Total | <u>\$ (10,768,717)</u> |

CITY OF READING

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2022

NOTE 13 - COMMITMENTS AND CONTINGENCIES

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

Grant Programs

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

Concentration of Labor

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

CITY OF READING

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2022

NOTE 13 - COMMITMENTS AND CONTINGENCIES - CONTINUED

Construction Commitments

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

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

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

United States Department of Justice Consent Decree

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

CITY OF READING

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2022

NOTE 13 - COMMITMENTS AND CONTINGENCIES - CONTINUED

Conduit Debt

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

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

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

Intermunicipal Sewer Agreements

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

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

Letters of Credit

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

Concentration of Labor

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

CITY OF READING

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2022

NOTE 14 - RISK MANAGEMENT AND SELF-INSURANCE

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

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

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

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

CITY OF READING

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2022

NOTE 14 - RISK MANAGEMENT AND SELF-INSURANCE - CONTINUED

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

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

Employee Benefit

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

NOTE 15 - FUND BALANCE

Primary Government

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

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

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

CITY OF READING

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2022

NOTE 15 - FUND BALANCE - CONTINUED

Primary Government - continued

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

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

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

Nonmajor Funds:

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

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

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

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

CITY OF READING

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2022

NOTE 16 - NEW ACCOUNTING STANDARDS

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

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

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

CITY OF READING

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2022

NOTE 17 - SUBSEQUENT EVENTS

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

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

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

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

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

CITY OF READING

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2022

NOTE 17 - SUBSEQUENT EVENTS - CONTINUED

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

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

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

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

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

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

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REQUIRED SUPPLEMENTARY INFORMATION

CITY OF READING

BUDGETARY COMPARISON SCHEDULE FOR THE GENERAL FUND

Year Ended December 31, 2022

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

See notes to required supplementary information.

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

LAST TEN FISCAL YEARS

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

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

CITY OF READING

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

LAST TEN FISCAL YEARS

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

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

CITY OF READING

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

LAST TEN FISCAL YEARS

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

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

CITY OF READING

SCHEDULE OF CITY CONTRIBUTIONS AND INVESTMENT RETURNS

LAST TEN FISCAL YEARS

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

Other Information:

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

See notes to required supplementary information.

CITY OF READING

SCHEDULE OF CHANGES IN NET OPEB LIABILITY AND RELATED RATIOS

LAST TEN FISCAL YEARS

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

NOTES TO SCHEDULE

Changes of Benefit Terms

None.

Changes of Assumptions

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

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

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

CITY OF READING

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

December 31, 2022

NOTE 1 - BUDGETARY COMPARISON SCHEDULE

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

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

NOTE 2 - PENSION SCHEDULES

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

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

Changes in Actuarial Assumptions

None noted.

SUPPLEMENTARY INFORMATION

CITY OF READING

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

Year Ended December 31, 2022

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

CITY OF READING

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

Year Ended December 31, 2022

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

CITY OF READING

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

Year Ended December 31, 2022

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

CITY OF READING

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

Year Ended December 31, 2022

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

CITY OF READING

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

Year Ended December 31, 2022

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

CITY OF READING

COMBINING BALANCE SHEET -
NONMAJOR GOVERNMENTAL FUNDS

December 31, 2022

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

CITY OF READING

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

Year Ended December 31, 2022

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

CITY OF READING

COMBINING SCHEDULE OF NET POSITION - WATER FUNDS

December 31, 2022

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

See note to supplementary information.

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CITY OF READING

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

Year Ended December 31, 2022

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

CITY OF READING

COMBINING STATEMENT OF NET POSITION - FIDUCIARY FUNDS - TRUST FUNDS

December 31, 2022

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

CITY OF READING

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

Year Ended December 31, 2022

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

CITY OF READING

NOTE TO SUPPLEMENTARY INFORMATION

December 31, 2022

NOTE 1 - OPERATING LEASE

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

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

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

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

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

CITY OF READING

NOTE TO SUPPLEMENTARY INFORMATION

December 31, 2022

NOTE 1 - OPERATING LEASE - CONTINUED

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

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

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

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

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

CITY OF READING
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

December 31, 2022

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

See notes to schedule of expenditures of federal awards.

CITY OF READING
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

December 31, 2022

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

Source Codes - I = Indirect; D = Direct

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

See notes to schedule of expenditures of federal awards.

CITY OF READING

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

December 31, 2022

NOTE 1 - BASIS OF PRESENTATION

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

NOTE 3 - DE MINIMIS RATE FOR INDIRECT COSTS

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

NOTE 4 - LOAN/LOAN GUARANTEE PROGRAMS

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

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

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

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

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

Report on Internal Control Over Financial Reporting

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

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

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

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

Report on Compliance and Other Matters

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

City of Reading, Pennsylvania's Response to Findings

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

Purpose of this Report

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

Herbein + Company, Inc.

**Reading, Pennsylvania
December 18, 2023**

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

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

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

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

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

Basis for Opinion on Each Major Federal Program

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

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

Responsibilities of Management for Compliance

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

Auditor's Responsibilities for the Audit of Compliance

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

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

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

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

Other Matters

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

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

Report on Internal Control Over Compliance

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

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

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

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

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

Herbein + Company, Inc.

Reading, Pennsylvania
December 18, 2023

CITY OF READING

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

December 31, 2022

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unmodified
Internal control over financial reporting:
Material weakness(es) identified? X yes no
Significant deficiency(s) identified not considered to be
material weaknesses? X yes none reported
Noncompliance material to financial statements noted? yes X no

Federal Awards

Internal Control over major programs:
Material weakness(es) identified? yes X no
Significant deficiency(s) identified not considered to be
material weaknesses? X yes none reported
Type of auditor's report issued on compliance for major programs: Unmodified
Any audit findings disclosed that are required to be
reported in accordance with 2 CFR Section 200.516(a)? X yes no

Identification of major programs:

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

Dollar threshold used to distinguish between Type A and Type B programs: \$ 750,000
Auditee qualified as low-risk auditee? yes X no

CITY OF READING

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

December 31, 2022

Section II - Financial Statement Findings

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

Criteria

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

Condition

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

Cause

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

Effect

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

Recommendation

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

Management Response

See corrective action plan included in this report package.

CITY OF READING

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

December 31, 2022

Section II - Financial Statement Findings - continued

2022-002 BANK RECONCILIATIONS - MATERIAL WEAKNESS

Criteria

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

Condition

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

Cause

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

Effect

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

Recommendation

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

Management Response

See corrective action plan included in this report package.

CITY OF READING

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

December 31, 2022

Section II - Financial Statement Findings - continued

2022-003 CASH DISBURSEMENT CONTROLS - SIGNIFICANT DEFICIENCY

Criteria

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

Condition

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

Cause

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

Effect

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

Recommendation

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

Management Response

See corrective action plan included in this report package.

CITY OF READING

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

December 31, 2022

Section II - Financial Statement Findings - continued

2022-004 PAYROLL CONTROLS - SIGNIFICANT DEFICIENCY

Criteria

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

Condition

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

Cause

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

Effect

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

Recommendation

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

Management Response

See corrective action plan included in this report package.

CITY OF READING

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

December 31, 2022

Section II - Financial Statement Findings - continued

2022-005 PENSION REPORTING - SIGNIFICANT DEFICIENCY

Criteria

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

Condition

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

Cause

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

Effect

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

Recommendation

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

Management Response

See corrective action plan included in this report package.

CITY OF READING

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

December 31, 2022

Section III - Federal Award Findings and Questioned Costs

2022-006 SUBRECIPIENT MONITORING - SIGNIFICANT DEFICIENCY

Federal Program

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

Criteria

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

Condition

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

Cause

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

Effect

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

Questioned Costs

None.

Context

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

Repeat Finding

Yes.

Recommendation

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

Management Response

See corrective action plan included in this report package.

CITY OF READING

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

December 31, 2022

Section III - Federal Award Findings and Questioned Costs - continued

2022-007 REPORTING - SIGNIFICANT DEFICIENCY

Federal Program

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

Criteria

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

Condition

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

Cause

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

Effect

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

Questioned Costs

None.

Context

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

Repeat Finding

No.

Recommendation

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

Management Response

See corrective action plan included in this report package.



CITY OF READING, PENNSYLVANIA

815 WASHINGTON STREET
READING, PA 19601-3690

STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS

December 31, 2022

Section II - Financial Statement Findings

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

Criteria

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

Condition

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

Recommendation

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

Current Status of Corrective Action Plan

See current year finding 2022-001

CITY OF READING

STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS

December 31, 2022

Section III - Federal Award Findings and Questioned Costs

2021-002 SUBRECIPIENT MONITORING - SIGNIFICANT DEFICIENCY

Federal Program

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

Criteria

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

Condition

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

Context

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

Recommendation

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

Current Status of Corrective Action Plan

See current year finding 2022-006



CITY OF READING, PENNSYLVANIA

CORRECTIVE ACTION PLAN December 31, 2022

815 WASHINGTON STREET
READING, PA 19601-3690

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

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

Audit period: December 31, 2022

Contact: Michael Oppenheimer, City Controller

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

Section II - Financial Statement Findings

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

Condition

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

Cause

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

Recommendation

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

Management Response

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

CITY OF READING

CORRECTIVE ACTION PLAN

December 31, 2022

Section II - Financial Statement Findings - continued

2022-002 BANK RECONCILIATIONS - MATERIAL WEAKNESS

Anticipated Completion Date - Ongoing

Condition

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

Cause

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

Recommendation

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

Management Response

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

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

2022-003 CASH DISBURSEMENT CONTROLS - SIGNIFICANT DEFICIENCY

Condition

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

Cause

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

CITY OF READING

CORRECTIVE ACTION PLAN

December 31, 2022

Section II - Financial Statement Findings - continued

2022-003 CASH DISBURSEMENT CONTROLS - SIGNIFICANT DEFICIENCY - CONTINUED

Recommendation

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

Management Response

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

Anticipated Completion Date - December 2023

2022-004 PAYROLL CONTROLS - SIGNIFICANT DEFICIENCY

Condition

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

Cause

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

Recommendation

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

Management Response

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

Anticipated Completion Date - December 2023

CITY OF READING

CORRECTIVE ACTION PLAN

December 31, 2022

Section II - Financial Statement Findings - continued

2022-005 PENSION REPORTING - SIGNIFICANT DEFICIENCY

Condition

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

Cause

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

Recommendation

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

Management Response

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

Anticipated Completion Date - Ongoing

CITY OF READING

CORRECTIVE ACTION PLAN

December 31, 2022

Section III - Federal Award Findings and Questioned Costs

2022-006 SUBRECIPIENT MONITORING - SIGNIFICANT DEFICIENCY

Federal Program

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

Condition

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

Cause

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

Recommendation

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

Management Response

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

Anticipated Completion Date - Ongoing

2022-007 REPORTING - SIGNIFICANT DEFICIENCY

Federal Program

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

Condition

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

Cause

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

CITY OF READING

CORRECTIVE ACTION PLAN

December 31, 2022

Section III - Federal Award Findings and Questioned Costs - continued

2022-007 REPORTING - SIGNIFICANT DEFICIENCY - CONTINUED

Recommendation

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

Management Response

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

Anticipated Completion Date - Ongoing

Sincerely,

Michael R. Oppenheimer

Michael R. Oppenheimer
City Controller
City of Reading

APPENDIX C
Proposed Form of Opinion of Bond Counsel

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Stevens & Lee

111 N. Sixth Street
P.O. Box 679
Reading, PA 19603
(610) 478-2000
www.stevenslee.com

December __, 2024

RE: \$ _____ City of Reading, Berks County, Pennsylvania
General Obligation Bonds, Series of 2024

TO: THE REGISTERED OWNERS OF THE ABOVE-CAPTIONED BONDS

We have served as Bond Counsel in connection with the issuance by the City of Reading, Berks County, Pennsylvania (the “City”), of its \$ _____ aggregate principal amount General Obligation Bonds, Series of 2024, dated as of and bearing interest from December __, 2024 (the “Bonds”). The Bonds are being issued, without the assent of the electors, in registered form, without coupons, in denominations of \$5,000 or any whole multiple thereof, pursuant to the provisions of the Local Government Unit Debt Act of the Commonwealth of Pennsylvania, as amended, 53 Pa.C.S. Chs. 80-82 (the “Act”) and an Ordinance enacted by the Council of the City (the “Council”) on November 12, 2024 (the “Ordinance”).

The Bonds are being issued to provide funds for a project of the City (the “Project”) consisting of (1) the design, acquisition and installation of various capital improvements and the installation of new equipment related to the City’s guaranteed energy savings project; (2) the design, acquisition and installation of various capital improvements to the City’s buildings, facilities and systems; and (3) the payment of the costs and expenses of issuance of the Bonds.

The City has covenanted in the Ordinance that it will make no use of the proceeds of the Bonds and it has neither done nor suffered and will neither do nor suffer any other action which, if such use or action had been reasonably expected on the date of issue of the Bonds, would cause the Bonds to be “arbitrage bonds,” or “private activity bonds” as those terms are defined in the Internal Revenue Code of 1986, as amended (the “Code”), and the applicable regulations thereunder. The City has further covenanted that it will comply with the requirements of Section 148 and Section 141 of the Code and with the applicable regulations thereunder throughout the term of the Bonds.

In the Ordinance, the City has covenanted that (1) it will include in its budget in each fiscal year the amount required to pay debt service on the Bonds for such year, (2) it will appropriate from its general revenues in each such fiscal year, the amount required to pay debt service on the Bonds for such year, and (3) it will duly and punctually pay or cause to be paid when due, from its sinking fund or any other of its revenues or funds, the principal of and interest on the Bonds at the dates and place and in the manner stated therein, according to the true intent and meaning thereof. For such budgeting, appropriation and payment, the City has irrevocably pledged its full faith, credit and taxing power. In addition, the City has established with

Stevens & Lee

December __, 2024

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Manufacturers and Traders Trust Company, Buffalo, New York (the “Paying Agent”), as paying agent and sinking fund depository, a sinking fund, and has covenanted to deposit into such sinking fund amounts sufficient to pay the principal of and interest on the Bonds as the same shall become due and payable.

In our capacity as Bond Counsel, we have reviewed: (a) a certified copy of the Ordinance; (b) the sworn debt statement and borrowing base certificate of the City filed with the Department of Community and Economic Development of the Commonwealth of Pennsylvania (the “Department”) in accordance with the provisions of the Act; (c) the proceedings of the City and the various proofs of publication in connection with the advertisement of the Ordinance, all of which were filed with the Department as required by the provisions of the Act; (d) the approval of the Department; (e) a specimen copy of one of the Bonds; (f) the Nonarbitrage Certificate of the City executed and delivered pursuant to the provisions of the Code and the regulations applicable thereto; (g) the General Certificate signed by officials of the City; (h) a completed and executed Form 8038-G to be filed with the Internal Revenue Service; (i) the opinion of Frederick Lachat, Esquire, Reading, Pennsylvania, Solicitor to the City (the “Solicitor’s Opinion”); (j) the Certificate of Raymond James & Associates, Inc. (the “Purchaser”), dated the date hereof; (k) the Certificate dated the date hereof of FSL Public Finance LLC, municipal advisor to the City; and (l) the other documents, certificates and opinions executed and delivered at the closing held this day.

Based and in reliance upon our review of the foregoing, our attendance at the closing held this day and subject to the qualifications set forth herein, it is our opinion that, as of the date hereof, under existing law:

1. The City is empowered under provisions of the Constitution and laws of the Commonwealth of Pennsylvania to issue the Bonds.
2. The Ordinance was duly enacted by the Council and continues to be in full force and effect as of the date hereof.
3. The Bonds have been duly authorized and executed and constitute valid and binding obligations of the City, enforceable in accordance with their terms, except as the legality, validity, binding nature and enforceability thereof may be limited by (a) applicable bankruptcy, insolvency or other laws or equitable principles now or hereafter affecting the enforcement of creditors’ rights generally or (b) general principles of equity.
4. Interest on the Bonds is not includable in gross income for federal income tax purposes under Section 103(a) of the Code.

Stevens & Lee

December __, 2024

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5. Under the laws of the Commonwealth of Pennsylvania, the Bonds and interest on the Bonds shall be free from taxation for State and local purposes within the Commonwealth of Pennsylvania, but this exemption shall not extend to gift, estate, succession or inheritance taxes or other taxes not levied directly on the Bonds or the interest thereon. Under the laws of the Commonwealth of Pennsylvania, profits, gains or income derived from the sale, exchange or other disposition of the Bonds, are subject to State and local taxation within the Commonwealth of Pennsylvania.

6. Under the Code, interest on the Bonds does not constitute an item of tax preference under Section 57 of the Code and thus is not subject to alternative minimum tax on individuals and corporations; however, for tax years beginning after December 31, 2022, such interest is taken into account in determining the annual adjusted financial statement income of applicable corporations (as defined in Section 59(k) of the Code) for the purpose of computing the alternative minimum tax imposed on corporations.

In connection with providing the foregoing opinions, we call to your attention to the following:

A. As to questions of fact material to our opinion, we have relied upon the certified proceedings and other documents, agreements, instruments, reports and certificates furnished to us at or in connection with the issuance of the Bonds (including, without limitation, certificates and agreements by the City as to the expected use of proceeds of the Bonds, and as to its continuing compliance with Sections 148 and 141 of the Code to assure that the Bonds do not become “arbitrage bonds” or “private activity bonds”) without undertaking to verify the same by independent investigation. We have also relied upon the accuracy of the representations and warranties and the performance of the covenants and agreements of the City set forth in the Ordinance and the various certificates and other agreements delivered at or in connection with the closing held this day.

B. In providing the opinions set forth in paragraphs 2 and 3 above, we have relied, without independent investigation, on the Solicitor’s Opinion.

C. In providing the opinion set forth in paragraph 4, above, we have assumed continuing compliance by the City with the requirements of the Code and applicable regulations thereunder which must be met subsequent to the issuance of the Bonds in order that the interest thereon be and remain excluded from gross income for federal income tax purposes. Failure to comply with such requirements could cause the interest on the Bonds to be included in gross income retroactive to the date of issuance of the Bonds.

Stevens & Lee

December __, 2024

Page 4

D. In providing the opinion set forth in paragraph 6 above, we have assumed continuing compliance by the City with the requirements of the Code and applicable regulations thereunder which must be met subsequent to the issuance of the Bonds in order that the interest thereon not constitute an item of tax preference under Section 57 of the Code. Failure to comply with such requirements could cause the interest on the Bonds to constitute an item of tax preference under Section 57 of the Code retroactive to the date of issuance of the Bonds.

E. Except as specifically set forth above, we express no opinion regarding other federal income tax consequences arising with respect to the Bonds, including, without limitation, the treatment for federal income tax purposes of gain or loss, if any, upon the sale, redemption, or other disposition of the Bonds prior to maturity of the Bonds subject to original issue discount and the effect, if any, of certain other provisions of the Code which could result in collateral federal income tax consequences to certain investors as a result of adjustments in the computation of tax liability dependent on tax-exempt interest.

F. We have not been engaged to verify, nor have we independently verified, the accuracy, completeness or truthfulness of any statements, certifications, information or financial statements set forth in the Preliminary Official Statement, dated _____, 2024 (the “Preliminary Official Statement”) or the Official Statement, dated _____, 2024 (the “Official Statement”), or otherwise used in connection with the offer and sale of the Bonds or set forth in or delivered by the City officials. We express no opinion with respect to whether the City, in connection with the sale of the Bonds or the preparation of the Preliminary Official Statement or the Official Statement, has made any untrue statement of a material fact necessary in order to make any statements made therein not misleading.

G. We have not verified, and express no opinion as to the accuracy of, any “CUSIP” identification number which may be printed on any Bond. We have also assumed the genuineness of the signatures appearing upon all the certificates, documents and instruments executed and delivered at closing.

H. The opinions expressed herein are based on an analysis of existing laws, regulations, rulings, and court decisions and cover certain matters not directly addressed by such authorities. Such opinions may be affected by actions taken or omitted or events occurring after the date hereof. We have not undertaken to determine, or to inform any person, whether any such actions are taken or omitted or events do occur or any other matters come to our attention after the date hereof. Our engagement as Bond Counsel has concluded with the issuance of the Bonds and we disclaim any obligation to update this letter.

STEVENS & LEE, P.C.

APPENDIX D
Specimen Municipal Bond Insurance Policy

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APPENDIX E
Proposed Form of Continuing Disclosure Agreement

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CITY OF READING, BERKS COUNTY, PENNSYLVANIA
\$ _____ GENERAL OBLIGATION BONDS,
SERIES OF 2024

CONTINUING DISCLOSURE CERTIFICATE

This Continuing Disclosure Certificate (the “Disclosure Certificate”) is executed and delivered by the City of Reading, Berks County, Pennsylvania (the “City”), in connection with the issuance of its \$ _____ aggregate principal amount General Obligation Bonds, Series of 2024 (the “Bonds”). The Bonds are being issued pursuant to an Ordinance of the City, dated November 12, 2024 (the “Ordinance”). The City covenants and agrees as follows:

SECTION 1. Purpose of the Disclosure Certificate. This Disclosure Certificate is being executed and delivered by the City for the benefit of the Bondholders and in order to assist the Participating Underwriter in complying with the Rule (hereinafter defined).

SECTION 2. Definitions. In addition to the definitions set forth in the Ordinance, which apply to any capitalized term used in this Disclosure Certificate unless otherwise defined in this Section, the following capitalized terms shall have the following meanings:

“Annual Report” shall mean any Annual Report provided by the City pursuant to, and as described in, Sections 3 and 4 of this Disclosure Certificate.

“Bondholders” or “Holders” shall mean the registered owners of the Bonds and, if registered in the name of Cede & Co., through The Depository Trust Company, New York, New York (“DTC”), any Beneficial Owners (as such term is used by DTC to define holders other than nominees) of the Bonds, unless the Rule, or an authoritative interpretation thereof by the Securities and Exchange Commission (the “Commission”) or its staff, does not require this Disclosure Certificate to be for the benefit of such Beneficial Owners.

“Business Day” shall mean a day other than a Saturday, a Sunday, or a day on which the New York Stock Exchange is closed or a day on which banks located in the Commonwealth of Pennsylvania are authorized or required by law or executive order to close.

“Commission” shall mean the Securities and Exchange Commission.

“Dissemination Agent” shall mean any person or entity designated from time to time in writing by the City and which has filed with the City a written acceptance of such designation and of the duties of the Dissemination Agent under this Disclosure Certificate.

“EMMA” shall mean the Electronic Municipal Market Access system as described in 1934 Act Release No. 59062 and maintained by the MSRB for purposes of the Rule as further described in Section 13 hereof.

“Filing” shall mean, as applicable, any Annual Report or Listed Event filing or any other notice or report made public under this Disclosure Certificate made with each NRMSIR or the MSRB and the SID, if any, together with a completed copy of a cover sheet in

such form acceptable to each NRMSIR, the MSRB or SID, if applicable, describing the event by checking the box in said form when filing pursuant to the pertinent sections of this Disclosure Certificate.

“Financial Obligation” shall mean a (i) debt obligation; (ii) derivative instrument entered into in connection with, or pledged as security or a source of payment for, an existing or planned debt obligation; or (iii) a guarantee of (i) or (ii). The term Financial Obligation shall not include municipal securities as to which a final official statement has been provided to the MSRB consistent with the Rule.

“Listed Events” shall mean any of the events listed in Section 5(a) of this Disclosure Certificate.

“MSRB” shall mean the Municipal Securities Rulemaking Board, or any successor thereto for purposes of the Rule.

“NRMSIR” shall mean any Nationally Recognized Municipal Securities Information Repository recognized for purposes of the Rule and the MSRB, as reflected on the website of the Securities and Exchange Commission at www.sec.gov. **As of the date of this Disclosure Certificate, the sole NRMSIR shall be the MSRB, through the operation of EMMA, as provided in Section 13 hereof.**

“Official Statement” shall mean the final official statement relating to the Bonds prepared by or on behalf of the City and distributed in connection with the offering and sale of the Bonds by the Participating Underwriter.

“Participating Underwriter” shall mean any of the original underwriters of the Bonds required to comply with the Rule in connection with offering of the Bonds.

“Repository” shall mean each NRMSIR and the SID, if any.

“Rule” shall mean Rule 15c2-12(b)(5) adopted by the Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time.

“SID” shall mean any public or private state information depository or entity designated by the Commonwealth of Pennsylvania as a state information depository for the purpose of the Rule, if any. As of the date of this Disclosure Certificate, no SID has been designated.

SECTION 3. Provision of Annual Reports.

(a) The City shall, on or prior to September 26 after the end of each fiscal year of the City, commencing with the fiscal year ending December 31, 2024, provide directly or through the Dissemination Agent to each Repository an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Certificate. In connection therewith, not later than fifteen (15) Business Days prior to said date, the City shall provide the Annual Report to the Dissemination Agent (if one has been designated by the City under this Disclosure Certificate). The Annual Report may be submitted as a single document or as

separate documents comprising a package, and may cross-reference other information as provided in Section 4 of this Disclosure Certificate; provided that if the audited financial statements of the City for the most recent completed fiscal year are not available to be included in the Annual Report when filed, such audited financial statements may be filed separately from the balance of the Annual Report, as provided in the following paragraph.

If the audited financial statements of the City for the most recent fiscal year are not available as of the date on which the Annual Report is to be filed, the audited financial statements shall be filed separately with EMMA as soon as they are available, and the Annual Report, when filed, shall contain a statement to that effect and a statement of the date by which the City reasonably expects the audited financial statements to become available.

(b) If the City is unable to file an Annual Report to EMMA within the time set forth in subsection (a) immediately above, the City or the Dissemination Agent, as applicable, will within ten business days of such determination send, in a timely manner, a notice to EMMA, advising of such fact and, if appropriate, the date by which the City expects to file the Annual Report.

SECTION 4. Content of Annual Reports. The City's Annual Report shall contain or incorporate by reference the following financial information and operating data with respect to the City:

(a) the financial statements for the most recent fiscal year, prepared in accordance with generally accepted accounting principles for local government units and audited in accordance with generally accepted auditing standards;

(b) a copy of (or summary of) the budget for the current fiscal year;
and

(c) an update of the Tables in Appendix A to the Official Statement under the headings "City of Reading Tax Rates," "Real Property Assessment Data," "City of Reading – Realty Tax Collection Record," and "City of Reading – Ten Largest Real Property Taxpayers".

Any or all of the items listed above maybe incorporated by reference from other documents, including official statements of debt issues of the City or related public entities which have been submitted to EMMA or the Securities and Exchange Commission. If the document incorporated by reference is a final official statement, it must be available from the Municipal Securities Rulemaking Board. The City shall clearly identify each other document so incorporated by reference.

SECTION 5. Reporting of Significant Events.

(a) The occurrence of any of the following events with respect to a particular series of the Bonds constitutes a "Listed Event" only with respect to such series of the Bonds. This Section 5 shall govern the giving of notices of the occurrence of any of the following events:

- (i) Principal and interest payment delinquencies;
- (ii) Nonpayment related defaults, if material;
- (iii) Unscheduled draws on debt service reserves reflecting financial difficulties;
- (iv) Unscheduled draws on credit enhancements reflecting financial difficulties;
- (v) Substitution of credit or liquidity providers, or their failure to perform;
- (vi) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax-exempt status of the Bonds, or other material events affecting the tax status of the Bonds;
- (vii) Modifications to rights of securities holders, if material;
- (viii) Bond calls, if material, and tender offers for the Bonds;
- (ix) Defeasances;
- (x) Release, substitution, or sale of property securing repayment of the securities, if material;
- (xi) Rating changes;
- (xii) Bankruptcy, insolvency, receivership or similar events of the City;
- (xiii) The consummation of a merger, consolidation, or acquisition involving the City or the sale of all or substantially all of the assets of the City, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material;
- (xiv) Appointment of a successor or additional trustee or paying agent or the change of name of a trustee or paying agent, if material;
- (xv) Incurrence of a Financial Obligation of the City, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a Financial Obligation of the City, any of which affect security holders, if material; and
- (xvi) Default, event of acceleration, termination event, modification of terms, or other similar events under the terms of a Financial Obligation of the City, any of which reflect financial difficulties.

(b) Whenever the City obtains knowledge of the occurrence of a Listed Event, the City shall as soon as possible (with respect to those Listed Events where a determination of materiality by the City is applicable) determine if such event would constitute material information for Holders of Bonds under applicable federal securities laws.

(c) If (i) a Determination of materiality by the City is not relevant to the obligation to give notice of a Listed Event or (ii) the City determines (with respect to those Listed Events where a determination of materiality by the City is applicable) that knowledge of the occurrence of a Listed Event would be material under applicable federal securities laws, the City shall promptly file in a timely manner, not in excess of ten (10) business days after the occurrence of the Listed Event, or cause the Dissemination Agent to so file (if a Dissemination Agent has been designated hereunder) a notice of such occurrence with each NRMSIR and the SID, if any, with a copy to the Paying Agent.

(d) For purposes of the Listed Events in Section 5(a)(xii), the City and the Dissemination Agent acknowledge the following interpretive note which the Commission has set forth in the Rule: *“Note: for the purposes of the event identified in subparagraph (b)(5)(i)(C)(12), the event is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent or similar officer for an obligated person in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the obligated person, or if such jurisdiction has been assumed by leaving the existing governmental body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the obligated person;”*

SECTION 6. Termination of Reporting Obligation. The City’s obligations under this Disclosure Certificate shall terminate upon the defeasance, prior redemption or payment in full of all of the Bonds.

In the event that any person or entity subsequent to the execution hereof becomes an “obligated person,” as such term is defined in the Rule, with respect to the Bonds, the City covenants to use its best effort to cause such obligated person to enter into a written undertaking to comply with the provisions of the Rule or to cause this Disclosure Certificate to be amended and to cause such obligated person to join in the execution of such amendment.

SECTION 7. Dissemination Agent. The City may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Certificate, and may discharge any such Dissemination Agent, with or without appointing a successor Dissemination Agent. The City shall cause the Dissemination Agent appointed hereunder and any successors to execute and deliver an acknowledgment of acceptance of the designation and duties of Dissemination Agent under this Disclosure Statement.

SECTION 8. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Certificate, the City may amend this Disclosure Certificate, and any provision of this

Disclosure Certificate may be waived, if such amendment or waiver is supported by an opinion of counsel expert in federal securities laws to the effect that such amendment or waiver would not, in and of itself, cause the undertakings herein to violate the Rule if such amendment or waiver had been effective on the date hereof but taking into account any subsequent change in or official interpretation of the Rule, as well as any change in circumstances.

SECTION 9. Additional Information. Nothing in this Disclosure Certificate shall be deemed to prevent the City from disseminating any other information, using the means of dissemination set forth in this Disclosure Certificate or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Certificate. If the City chooses to include any information in any Annual Report or notice of occurrence of a Listed Event in addition to that which is specifically required by this Disclosure Certificate, the City shall have no obligation under this Agreement to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

SECTION 10. Default. In the event of a failure of the City to comply with any provision of this Disclosure Certificate, any Bondholder may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the City to comply with its obligations under this Disclosure Certificate. A default under this Disclosure Certificate shall not be deemed an event of default under the Bonds or the Ordinance, and the sole remedy under this Disclosure Certificate in the event of any failure of the City to comply with this Disclosure Certificate shall be an action to compel performance.

SECTION 11. Duties, Immunities and Liabilities of Dissemination Agent, if other than the City. The Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Certificate, and the City agrees to indemnify and save the Dissemination Agent, its officers, directors, employees and agents, harmless against any loss, expense and liabilities which it may incur arising out of or in the exercise or performance of its powers and duties hereunder, including the costs and expenses (including attorneys fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's negligence or willful misconduct. The obligations of the City under this Section shall survive resignation or removal of the Dissemination Agent and payment of the Bonds.

SECTION 12. Undertaking with Respect to Certain Procedures and Policies. The City agrees to begin the process of establishing internal policies and procedures for the purpose of continuing disclosure compliance. Without intending to preclude the adoption of other necessary or useful policies and procedures, a single City official will be designated with ultimate responsibility for continuing disclosure compliance and will oversee the process of informing and training appropriate deputies and other City employees with respect to the City's continuing disclosure undertakings.

SECTION 13. EMMA. Filings shall be made to the continuing disclosure service portal provided through EMMA as provided at <http://www.emma.msrb.org>, or any similar system that is acceptable to the Commission.

SECTION 14. Alternative Filing. Notwithstanding the other provisions of this Disclosure Certificate, any filing under this Disclosure Certificate, and any additional supplements hereto, may be made with such depositories and using such electronic filing systems as may be approved by the United States Securities and Exchange Commission (in lieu of the procedures currently in this Disclosure Certificate).

SECTION 15. Beneficiaries. This Disclosure Certificate shall inure solely to the benefit of the City, the Paying Agent, the Dissemination Agent (if any), the Participating Underwriter and the Holders from time to time of the Bonds, and shall create no rights in any other person or entity.

CITY OF READING, BERKS COUNTY,
Pennsylvania

(SEAL)

By: _____
Mayor

Attest: _____
City Clerk

Date: December __, 2024

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