



**Reading Area Water Authority**  
**A Component Unit of the City of Reading**

**Financial Statements**

**December 31, 2014 and 2013**



REINSEL KUNTZ LESHER  
certified public accountants & consultants

FOCUSED. ON YOU.

**Reading Area Water Authority**  
**A Component Unit of the City of Reading**

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December 31, 2014 and 2013

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## Independent Auditor's Report

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

### Report on the Financial Statements

We have audited the accompanying financial statements of the Reading Area Water Authority, a component unit of the City of Reading, which comprise the statement of net position as of December 31, 2014 and 2013, and the related statements of revenues, expenses and changes in net position and cash flows for the years then ended and the related notes to the financial statements.

### Management's Responsibility for the Financial Statements

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

### Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

## **Auditor's Responsibility (continued)**

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

## **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Reading Area Water Authority as of December 31, 2014 and 2013, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

## **Required Supplementary Information**

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on Pages 3 to 8 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.



June 8, 2015  
Wyomissing, Pennsylvania

## **Reading Area Water Authority A Component Unit of the City of Reading**

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Management's Discussion and Analysis  
December 31, 2014

The management of the Reading Area Water Authority (the Authority) offers readers of our financial statements the following narrative overview and analysis of our financial activities for the year ended December 31, 2014.

### **Financial Highlights**

- Current unrestricted assets exceeded current liabilities by \$14,091,165 at the close of the year. This is compared to \$14,815,338 and \$10,457,261 at the close of the 2013 and 2012 years, respectively.
- Total net position decreased by \$1,278,245 and increased by \$1,893,367 for the years ended 2014 and 2013, respectively. The 2014 decrease is mainly due to increases in the lease payment, chemical supply costs, salaries and employee benefits, contracted services and advertising expenses. The 2013 increase is largely due to the Authority's increase in water billing revenue, implementation of the trash and recycling billings offset by the trash and recycling expenses that were a responsibility of the City of Reading in previous years, and a reduction in lease payments to the City of Reading.
- The Authority had net operating income of \$2,673,073 for 2014 compared to net operating income of \$5,820,328 and \$2,325,059 for the 2013 and 2012 years, respectively. This decrease in net operating income is the result of a decrease in water billings of \$293,839, combined with an increase in lease payments to the City of Reading of \$257,880, an increase in salaries and employee benefits of \$601,199, an increase in contracted services of \$237,095, an increase in advertising expenses of \$307,720, an increase in chemical supplies of \$312,043 and an increase in depreciation expense of \$707,591.
- During 2013, the Authority entered an agreement to bill and collect all charges for trash and recycling services rendered by the City of Reading. The City of Reading sold the accounts receivable that result from the trash and recycling service charges by the Authority beginning after January 1, 2013. In return, the Authority is to pay amounts stated in the agreement to the City of Reading, who remains solely responsible for providing the trash and recycling services.
- During 2012, the processing of the Authority's monthly operating costs was transitioned from the City of Reading to the Authority, resulting in the reduction of the lease payments made to the City of Reading and an offsetting increase in operational expenses. The lease payments to the City of Reading decreased by approximately \$4,500,000 from 2012 to 2013. This reduction was offset by an increase in operating expenses of approximately \$2,700,000.
- During 2012, the Authority changed the methodology of the calculation of the allowance for uncollectible accounts receivable which resulted in a reduction of the allowance for uncollectible accounts receivable and a change in accounting estimate of \$2,332,339 being recorded.

# Reading Area Water Authority

## A Component Unit of the City of Reading

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Management's Discussion and Analysis  
December 31, 2014

### Basic Financial Statements

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

**Statement of Net Position** - The statement of net position presents information on the assets and liabilities, with the difference between assets and liabilities reported as net position. The increases and decreases in net position over time may be a useful indicator of the finances of the Authority as to whether it is improving or deteriorating.

**Statement of Revenues, Expenses and Changes in Net Position** - The statement of revenues, expenses and changes in net position of the Authority for the year shows the detail of net income or loss being combined with the beginning net position balance, resulting in the ending net position for the year.

**Statement of Cash Flows** - The statement of cash flows reports cash activities for the year resulting from operating activities, noncapital financing activities, capital and related financing activities, and investing activities. The net result of these activities, added to the beginning of the year cash balance, reconciles to the cash balance at the end of the current year.

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

### Financial Information

**Net Position** - The following schedule presents a summary of net position comparison for the years ended December 31, 2014, 2013 and 2012:

	<u>2014</u>	<u>2013</u>	<u>2012</u>
<b>Assets</b>			
Unrestricted current assets	\$ 21,521,380	\$ 19,757,390	\$ 16,575,667
Restricted current assets	29,387,551	35,340,618	46,408,723
Capital assets, net	50,269,989	47,549,824	41,242,111
Other asset	<u>1,020,000</u>	<u>1,020,000</u>	<u>1,020,000</u>
<b>Total Assets</b>	<b><u>\$ 102,198,920</u></b>	<b><u>\$ 103,667,832</u></b>	<b><u>\$ 105,246,501</u></b>
<b>Liabilities</b>			
Current liabilities	\$ 7,430,215	\$ 4,942,052	\$ 6,118,406
Long-term debt	<u>90,386,903</u>	<u>93,065,733</u>	<u>95,361,415</u>
<b>Total Liabilities</b>	<b><u>\$ 97,817,118</u></b>	<b><u>\$ 98,007,785</u></b>	<b><u>\$ 101,479,821</u></b>

**Reading Area Water Authority  
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Management's Discussion and Analysis  
December 31, 2014

**Financial Information (continued)**

**Net Position (continued)**

	<u>2014</u>	<u>2013</u>	<u>2012</u>
<b>Net Position</b>			
Net investment in capital assets	\$ -	\$ -	\$ -
Restricted for debt service	4,148,621	4,067,766	4,099,908
Unrestricted (deficit)	<u>233,181</u>	<u>1,592,281</u>	<u>(333,228)</u>
<b>Total Net Position</b>	<b><u>\$ 4,381,802</u></b>	<b><u>\$ 5,660,047</u></b>	<b><u>\$ 3,766,680</u></b>

Current liabilities increased by 50.4% in 2014 compared to a decrease of 19.2% in 2013 and an increase of 11.7% in 2012. The 2014 increase is attributable to increases in capital accounts payable and amounts due to the City of Reading.

**Revenues** - The following schedule presents a summary of revenues for the years ended December 31, 2014, 2013 and 2012:

	<u>2014</u>	<u>2013</u>	<u>2012</u>
<b>Operating Revenues</b>			
Water billings	\$ 25,069,812	\$ 25,363,651	\$ 23,289,188
Interest and penalty charges	489,792	406,039	457,101
Tampered meter and other charges	732,964	864,513	822,344
Tapping and connection fees	102,241	61,258	202,631
Abandonment fees	<u>4,333</u>	<u>71,207</u>	<u>38,673</u>
<b>Total Operating Revenues</b>	<b><u>\$ 26,399,142</u></b>	<b><u>\$ 26,766,668</u></b>	<b><u>\$ 24,809,937</u></b>

The 2014 fiscal year's total operating revenue decreased by 1.4% compared to 2013 and increased by 7.9% in 2013 and 4.8% in 2012, respectively.

**Reading Area Water Authority  
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Management's Discussion and Analysis  
December 31, 2014

**Financial Information (continued)**

**Expenses** - The following schedule presents a summary of expenses for the years ended December 31, 2014, 2013 and 2012:

	<u>2014</u>	<u>2013</u>	<u>2012</u>
<b>Operating Expenses</b>			
Lease payments, City of Reading	\$ 9,089,655	\$ 8,831,775	\$ 13,329,961
Chemical supplies	1,563,904	1,251,861	379,710
Meter reading	539,483	539,483	538,924
Salaries, payroll taxes and employee benefits	5,266,892	4,665,693	4,447,824
Contracted services	1,439,900	1,202,805	848,176
Other	<u>3,295,956</u>	<u>2,632,035</u>	<u>1,293,028</u>
<b>Total Operating Expenses</b>	<b><u>\$ 21,195,790</u></b>	<b><u>\$ 19,123,652</u></b>	<b><u>\$ 20,837,623</u></b>

The \$2,072,138 increase in expenses is primarily the result of the \$257,880 increase in lease payments to the City of Reading combined with an increase of \$312,043 in chemical supplies expense, \$601,199 increase in salaries and employee benefits, \$237,095 increase in contracted services and \$307,720 increase in advertising expenses.

**Changes in Net Position** - The following schedule presents a summary of changes in net position for the years ended December 31, 2014, 2013 and 2012:

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Operating revenues	\$ 26,399,142	\$ 26,766,668	\$ 24,809,937
Operating expenses	<u>21,195,790</u>	<u>19,123,652</u>	<u>20,837,623</u>
<b>Operating Income before Depreciation</b>	<b>5,203,352</b>	<b>7,643,016</b>	<b>3,972,314</b>
Depreciation	<u>2,530,279</u>	<u>1,822,688</u>	<u>1,647,255</u>
<b>Operating Income</b>	<b>2,673,073</b>	<b>5,820,328</b>	<b>2,325,059</b>
Nonoperating revenues (expenses), net	<u>(3,951,318)</u>	<u>(3,926,961)</u>	<u>(1,904,389)</u>
<b>Increase (Decrease) in Net Position</b>	<b><u>\$ (1,278,245)</u></b>	<b><u>\$ 1,893,367</u></b>	<b><u>\$ 420,670</u></b>

**Reading Area Water Authority  
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Management's Discussion and Analysis  
December 31, 2014

**Financial Information (continued)**

**Changes in Net Position (continued)**

**Statement of Changes in Net Position  
Year Ended December 31, 2014**

	<u>Beginning Balance</u>	<u>Increase (Decrease)</u>	<u>Ending Balance</u>
Net investment in capital assets	\$ -	\$ -	\$ -
Restricted	4,067,766	80,855	4,148,621
Unrestricted	<u>1,592,281</u>	<u>(1,359,100)</u>	<u>233,181</u>
<b>Total Net Position</b>	<b><u>\$ 5,660,047</u></b>	<b><u>\$ (1,278,245)</u></b>	<b><u>\$ 4,381,802</u></b>

**Statement of Changes in Net Position  
Year Ended December 31, 2013**

	<u>Beginning Balance</u>	<u>Increase (Decrease)</u>	<u>Ending Balance</u>
Net investment in capital assets	\$ -	\$ -	\$ -
Restricted	4,099,908	(32,142)	4,067,766
Unrestricted (deficit)	<u>(333,228)</u>	<u>1,925,509</u>	<u>1,592,281</u>
<b>Total Net Position</b>	<b><u>\$ 3,766,680</u></b>	<b><u>\$ 1,893,367</u></b>	<b><u>\$ 5,660,047</u></b>

**Statement of Changes in Net Position  
Year Ended December 31, 2012**

	<u>Beginning Balance</u>	<u>Increase (Decrease)</u>	<u>Ending Balance</u>
Net investment in capital assets	\$ -	\$ -	\$ -
Restricted	4,060,685	39,223	4,099,908
Unrestricted (deficit)	<u>(714,675)</u>	<u>381,447</u>	<u>(333,228)</u>
<b>Total Net Position</b>	<b><u>\$ 3,346,010</u></b>	<b><u>\$ 420,670</u></b>	<b><u>\$ 3,766,680</u></b>

**Capital Assets**

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

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Management's Discussion and Analysis  
December 31, 2014

**Capital Assets (continued)**

The Authority's capital assets as of December 31, 2014, 2013 and 2012, net of accumulated depreciation, amounted to \$50,269,989, \$47,549,824 and \$41,242,111, respectively. For the year ended December 31, 2014, this amount represents a net increase (including additions, deletions and depreciation) of \$2,720,165 from the prior year. See Note 5 for more information on capital assets.

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

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Leasehold improvements	\$ 37,616,723	\$ 30,209,641	\$ 21,198,542
Acquired systems	806,320	828,314	850,308
Equipment	5,122,523	5,105,612	4,806,427
Vehicles	598,521	801,215	614,318
Computers and software	138,743	205,007	256,759
Construction-in-progress	<u>5,987,159</u>	<u>10,400,035</u>	<u>13,515,757</u>
	<u>\$ 50,269,989</u>	<u>\$ 47,549,824</u>	<u>\$ 41,242,111</u>

**Debt Administration**

At December 31, 2014, the Authority had \$95,430,816 of Guaranteed Revenue Bonds and loans payable, compared to \$98,344,790 and \$101,239,276 at the years ended 2013 and 2012, respectively. The proceeds from these long-term borrowings were used for renovations and improvements to the water system. See Note 6 for additional information on the Authority's debt. During April 2015, the Authority issued Water Revenue Bonds, Series of 2015, to refund its Water Revenue Bonds, Series of 2007. See Note 10 for additional information.

**Economic Factors**

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

**Request for Information**

This financial report is intended to provide an overview of the finances of the Reading Area Water Authority for those with an interest in the Authority. Questions concerning any information contained in the report may be directed to the Executive Director, Reading Area Water Authority, 1801 Kutztown Road, Reading, PA 19604.

**Reading Area Water Authority**  
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Statement of Net Position

	December 31,	
	2014	2013
<b>Assets</b>		
<b>Current Assets, Unrestricted</b>		
Cash	\$ 15,717,864	\$ 13,870,685
Accounts receivable, water billings, net of allowance 2014 \$1,576,428; 2013 \$1,486,236	3,250,666	3,408,732
Accounts receivable, trash and recycling billings, net of allowance 2014 \$435,994; 2013 \$366,562	1,137,270	1,096,219
Unbilled water usage	918,453	795,039
Other receivable	81,121	-
Due from City of Reading	-	373,172
Accrued interest receivable	-	14,435
Inventory	199,213	142,349
Prepaid expenses	216,793	56,759
<b>Total Current Assets, Unrestricted</b>	<b>21,521,380</b>	<b>19,757,390</b>
<b>Current Assets, Restricted</b>		
Developer escrow deposits, cash	77,800	77,921
Trust accounts, cash and investments:		
Clearing Account	74,118	144,179
Construction Account	21,724,438	25,139,855
Debt Service Account	1,342	2,549,664
Debt Service Reserve Account	7,509,853	7,428,999
	<b>29,309,751</b>	<b>35,262,697</b>
<b>Total Current Assets, Restricted</b>	<b>29,387,551</b>	<b>35,340,618</b>
<b>Capital Assets</b>		
Capital assets not being depreciated, construction-in-progress	5,987,159	10,400,035
Capital assets being depreciated:		
Leasehold improvements	45,030,425	36,054,080
Acquired systems	879,745	879,745
Equipment	8,698,678	8,037,631
Vehicles	2,475,627	2,452,039
Computers and software	714,614	712,274
	<b>57,799,089</b>	<b>48,135,769</b>
Less accumulated depreciation	13,516,259	10,985,980
	<b>44,282,830</b>	<b>37,149,789</b>
<b>Total Capital Assets, Net</b>	<b>50,269,989</b>	<b>47,549,824</b>
<b>Other Asset</b>		
Leased land rights	1,020,000	1,020,000
<b>Total Assets</b>	<b>102,198,920</b>	<b>103,667,832</b>

See accompanying notes.

	December 31,	
	2014	2013
<b>Liabilities</b>		
<b>Current Liabilities</b>		
Accounts payable, capital	\$ 2,318,141	\$ 658,963
Accounts payable, trade	526,657	515,456
Accrued payroll and compensated absences	496,443	442,430
Accrued interest payable	321,640	323,233
Escrow deposits	77,800	77,921
Other	488	10,061
Due to City of Reading	441,521	-
Current maturities of long-term debt	3,247,525	2,913,988
<b>Total Current Liabilities</b>	<b>7,430,215</b>	<b>4,942,052</b>
<b>Long-Term Debt, Less Current Maturities</b>	<b>90,386,903</b>	<b>93,065,733</b>
<b>Total Liabilities</b>	<b>97,817,118</b>	<b>98,007,785</b>
<b>Net Position</b>		
<b>Net Position</b>		
Net investment in capital assets	-	-
Restricted for debt service	4,148,621	4,067,766
Unrestricted	233,181	1,592,281
<b>Total Net Position</b>	<b>\$ 4,381,802</b>	<b>\$ 5,660,047</b>

**Reading Area Water Authority**  
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Statement of Revenues, Expenses and Changes in Net Position

	Years Ended December 31,	
	2014	2013
<b>Operating Revenues</b>		
Water billings	\$ 25,069,812	\$ 25,363,651
Interest and penalty charges	489,792	406,039
Tampered meter and other charges	732,964	864,513
Tapping and connection fees	102,241	61,258
Abandonment fees	4,333	71,207
	<u>26,399,142</u>	<u>26,766,668</u>
<b>Total Operating Revenues</b>		
<b>Operating Expenses</b>		
Lease payments, City of Reading	9,089,655	8,831,775
Chemical supplies	1,563,904	1,251,861
Meter reading	539,483	539,483
Engineering	141,277	66,780
Legal fees	334,698	321,048
Salaries and payroll taxes	4,212,933	3,920,613
Insurance	138,244	109,819
Employee benefits	1,053,959	745,080
Grant expenditures	276,723	136,064
Utilities	706,626	644,426
Contracted services	1,439,900	1,202,805
Repairs and maintenance	698,497	696,325
Audit and accounting	26,000	49,596
Bank charges	184,822	159,054
Dues and subscriptions	21,723	13,761
Advertising	319,728	12,008
Education	9,803	11,662
Supplies	347,623	299,439
Bad debt expense	90,192	67,184
Lake Ontelaunee dredging	-	44,869
	<u>21,195,790</u>	<u>19,123,652</u>
<b>Total Operating Expenses</b>		
<b>Operating Income before Depreciation</b>	<b>5,203,352</b>	<b>7,643,016</b>
<b>Depreciation</b>	<b>2,530,279</b>	<b>1,822,688</b>
<b>Operating Income</b>	<b>2,673,073</b>	<b>5,820,328</b>

**Reading Area Water Authority**  
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Statement of Revenues, Expenses and Changes in Net Position (continued)

	<b>Years Ended December 31,</b>	
	<b>2014</b>	<b>2013</b>
<b>Nonoperating Revenues (Expenses)</b>		
Investment income	\$ 200,409	\$ 167,270
Miscellaneous income	43,188	56,744
Interest expense	(4,441,883)	(4,510,379)
Miscellaneous expense	(284,399)	(115,925)
Trash/recycling collections, net	<u>531,367</u>	<u>475,329</u>
<b>Total Nonoperating Revenues (Expenses), Net</b>	<u>(3,951,318)</u>	<u>(3,926,961)</u>
<b>Increase (Decrease) in Net Position</b>	(1,278,245)	1,893,367
<b>Net Position at Beginning of Year</b>	<u>5,660,047</u>	<u>3,766,680</u>
<b>Net Position at End of Year</b>	<u><u>\$ 4,381,802</u></u>	<u><u>\$ 5,660,047</u></u>

**Reading Area Water Authority**  
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Statement of Cash Flows

	Years Ended December 31,	
	<u>2014</u>	<u>2013</u>
<b>Cash Flows from Operating Activities</b>		
Cash receipts from water customers	\$ 26,343,602	\$ 26,336,310
Cash receipts from trash and recycling customers	6,353,801	4,278,359
Cash payments to suppliers for goods and services	(16,364,790)	(15,829,144)
Cash payments to employees for services	(4,158,920)	(3,920,613)
Cash payments to City of Reading for trash and recycling	(5,863,485)	(4,899,249)
Other receipts	43,188	56,744
Other payments	(284,399)	(115,925)
Increase (decrease) in escrow liability, net	(121)	17,631
Decrease in other liabilities	(9,573)	(3,823)
	<u>6,059,303</u>	<u>5,920,290</u>
<b>Net Cash Provided by Operating Activities</b>		
<b>Cash Flows from Capital and Related Financing Activities</b>		
Acquisition and construction of capital assets	(3,591,266)	(9,065,468)
Principal paid on long-term debt	(2,913,974)	(2,894,486)
Interest paid on long-term debt	(3,874,795)	(3,893,650)
	<u>(10,380,035)</u>	<u>(15,853,604)</u>
<b>Net Cash Used in Capital and Related Financing Activities</b>		
<b>Cash Flows from Investing Activities</b>		
Decrease in restricted assets, net	5,953,067	11,068,105
Investment income received	214,844	167,270
	<u>6,167,911</u>	<u>11,235,375</u>
<b>Net Cash Provided by Investing Activities</b>		
<b>Net Increase in Cash</b>		
	1,847,179	1,302,061
<b>Cash at Beginning of Year</b>	<u>13,870,685</u>	<u>12,568,624</u>
<b>Cash at End of Year</b>	<u>\$ 15,717,864</u>	<u>\$ 13,870,685</u>

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Statement of Cash Flows (continued)

	Years Ended December 31,	
	2014	2013
<b>Reconciliation of Operating Income to Net Cash</b>		
<b>Provided by Operating Activities</b>		
Operating income	\$ 2,673,073	\$ 5,820,328
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	2,530,279	1,822,688
Trash and recycling, net	531,367	475,329
Miscellaneous income	43,188	56,744
Miscellaneous expenses	(284,399)	(115,925)
(Increase) decrease in assets:		
Accounts receivable, water billings	158,066	(180,259)
Unbilled water usage	(123,414)	(182,915)
Accounts receivable, trash and recycling billings	(41,051)	(1,096,219)
Other receivable	(81,121)	-
Due from City of Reading	373,172	(373,172)
Inventory	(56,864)	(34,550)
Prepaid expenses	(160,034)	(12,547)
Increase (decrease) in liabilities:		
Accounts payable	11,201	(16,701)
Accrued payroll and compensated absences	54,013	110,545
Due to City of Reading	441,521	(366,864)
Escrow deposits	(121)	-
Other liabilities	(9,573)	(3,823)
<b>Net Cash Provided by Operating Activities</b>	<b>\$ 6,059,303</b>	<b>\$ 5,902,659</b>

## **Reading Area Water Authority A Component Unit of the City of Reading**

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Notes to Financial Statements  
December 31, 2014 and 2013

### **Note 1 - Nature of Activity**

The Reading Area Water Authority (the Authority), a component unit of the City of Reading (the City), was created as an operating authority in 1994 in compliance with the Pennsylvania Municipality Authorities Act. The Authority was formed to provide water services to residential, commercial and industrial users of the water system for the City and certain surrounding municipalities. The Authority is governed by a seven-member Board, each of whom is appointed by the City.

### **Note 2 - Summary of Significant Accounting Policies**

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

#### **The Financial Reporting Entity**

The Authority is a water supply and distribution entity which operates under a board of director's form of government. Accounting principles generally accepted in the United States of America require that the reporting entity consists of the primary government and organizations 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 an organization that does not meet the financial accountability criteria that is necessary in order to prevent the reporting entity's financial statements from being misleading. In such instances, that organization 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 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. The decision to include a potential component unit in the reporting entity was made based upon the above criteria. There are no agencies or entities which should be presented with the Authority.

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

#### **Measurement Focus, Basis of Accounting and Financial Statement Presentation**

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

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

**Reading Area Water Authority  
A Component Unit of the City of Reading**

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Notes to Financial Statements  
December 31, 2014 and 2013

**Note 2 - Summary of Significant Accounting Policies (continued)**

**Measurement Focus, Basis of Accounting and Financial Statement Presentation  
(continued)**

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

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

**Assets, Liabilities and Net Position**

**Project Accounts**

In accordance with the terms of the trust indenture dated September 15, 2002, the first supplemental indenture dated July 1, 2003, the second supplemental indenture dated July 15, 2007 and the third supplemental indenture dated December 19, 2011 (hereinafter collectively referred to as the "indentures"), relating to the bonded debt, funds of the Authority are accounted for by separate trust accounts; segregated for specific use and held for the benefit of the bondholders. In accordance with the indentures, the trust accounts maintained by the independent trustee are accounted for, by the trustee, using the cash basis method of accounting. A brief description of the purposes of the several revenue bond trust restricted accounts follows:

**Clearing Account**

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

**Construction Account**

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

**Debt Service Account**

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

**Reading Area Water Authority**  
**A Component Unit of the City of Reading**

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Notes to Financial Statements  
December 31, 2014 and 2013

**Note 2 - Summary of Significant Accounting Policies (continued)**

**Assets, Liabilities and Net Position (continued)**

**Project Accounts (continued)**

**Debt Service Reserve Account**

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

**Cash**

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

**Accounts Receivable**

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

**Unbilled Water Usage**

Water usage that is not billed by year-end is recorded using subsequent billings for water used through December 31.

**Investments**

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

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

**Reading Area Water Authority**  
**A Component Unit of the City of Reading**

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Notes to Financial Statements  
December 31, 2014 and 2013

**Note 2 - Summary of Significant Accounting Policies (continued)**

**Assets, Liabilities and Net Position (continued)**

**Investments (continued)**

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

Investments are carried at fair value.

**Capital Assets**

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

Leasehold improvements	10 to 40 years
Acquired systems	40 years
Equipment	3 to 40 years
Vehicles	5 to 7 years
Computers and software	3 to 5 years

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

**Bond/Note Premiums/Discounts**

Bond/note premiums/discounts are deferred and amortized over the term of the bonds/notes. Unamortized bond premiums/discounts are presented as an addition or deduction to the face amount of the revenue bonds payable.

**Compensated Absences**

The Authority records its obligation to compensate employees for earned but unused sick time as the liability is incurred. The liability has been determined according to personnel policies of the Authority.

**Reading Area Water Authority  
A Component Unit of the City of Reading**

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Notes to Financial Statements  
December 31, 2014 and 2013

**Note 2 - Summary of Significant Accounting Policies (continued)**

**Assets, Liabilities and Net Position (continued)**

**Net Position**

Net position is classified into three categories as follows:

Net investment in capital assets - Consists of capital assets, net of accumulated depreciation and debt incurred for the acquisition of capital assets.

Restricted - Amounts that have externally imposed restrictions on how the funds can be spent.

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

**Recent Accounting Pronouncement**

In February 2015, the GASB issued Statement No. 72, *Fair Value Measurement and Application*. The objective of this Statement is to improve financial reporting by clarifying the definition of fair value for financial reporting purposes, establishing general principles for measuring fair value, providing additional fair value application guidance and enhancing disclosures about fair value measurements. The Statement is effective for periods beginning after June 15, 2015 for governmental entities reporting certain assets at fair value. The Authority is currently evaluating what effects, if any, this Statement will have on the Authority's financial statements.

**Note 3 - Stewardship, Compliance and Accountability**

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

**Note 4 - Cash and Investments**

The carrying amounts of cash and investments at December 31, 2014 and 2013 consist of the following:

	<u>2014</u>	<u>2013</u>
Petty cash	\$ 550	\$ 539
Demand deposit accounts	15,795,114	13,948,067
Investments	<u>29,309,751</u>	<u>35,262,697</u>
	<u>\$ 45,105,415</u>	<u>\$ 49,211,303</u>

**Reading Area Water Authority**  
**A Component Unit of the City of Reading**

Notes to Financial Statements  
 December 31, 2014 and 2013

**Note 4 - Cash and Investments (continued)**

	<u>2014</u>	<u>2013</u>
Classification per statement of net position:		
Unrestricted current assets, cash	\$ 15,717,864	\$ 13,870,685
Restricted current assets:		
Developer escrow deposits, cash	77,800	77,921
Trust accounts, cash and investments	<u>29,309,751</u>	<u>35,262,697</u>
	<u>\$ 45,105,415</u>	<u>\$ 49,211,303</u>

**Cash**

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

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

At December 31, 2014 and 2013, the carrying amounts of the Authority's bank deposits were \$15,795,114 and \$13,948,067, respectively, and the bank balances were \$15,792,227 and \$13,937,206, respectively, of which \$394,325 and \$500,000 were covered by Federal Depository Insurance, respectively. The remaining \$15,397,901 and \$13,437,206, respectively, of deposits were exposed to custodial risk because they were uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the Authority's name.

**Investments**

As of December 31, 2014 and 2013, the Authority has the following investments with M&T Bank:

	<u>Investment Maturities (in Years)</u>	
	<u>Fair Value</u>	<u>Less than One Year</u>
<b>December 31, 2014</b>		
Federated Treasury Obligation Funds	\$ 25,531,223	\$ 25,531,223
Federal National Mortgage Association Notes	<u>3,778,528</u>	<u>3,778,528</u>
	<u>\$ 29,309,751</u>	<u>\$ 29,309,751</u>
<b>December 31, 2013</b>		
Federated Treasury Obligation Funds	\$ 31,503,093	\$ 31,503,093
Federal National Mortgage Association Notes	<u>3,759,604</u>	<u>3,759,604</u>
	<u>\$ 35,262,697</u>	<u>\$ 35,262,697</u>

**Reading Area Water Authority**  
**A Component Unit of the City of Reading**

Notes to Financial Statements  
 December 31, 2014 and 2013

**Note 4 - Cash and Investments (continued)**

**Interest Rate Risk**

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

**Credit Risk**

The Authority does not have an investment policy that would limit its investment choices to certain credit ratings. However, the Authority limits the type of investments permitted as defined in the Local Government Unit Debt Act, the Municipality Authorities Act and the related trust indentures. Permitted investments are defined in Note 2.

**Custodial Credit Risk**

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Authority will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. As of December 31, 2014 and 2013, \$29,309,751 and \$35,262,697, respectively, is held by the investment's counterparty, not in the name of the Authority.

**Note 5 - Capital Assets**

Capital asset activity for the years ended December 31, 2014 and 2013 was as follows:

	Balance January 1, 2014	Additions	Deletions	Balance December 31, 2014
Capital assets not being depreciated:				
Construction-in-progress	\$ 10,400,035	\$ 4,550,494	\$ 8,963,370	\$ 5,987,159
Capital assets being depreciated:				
Leasehold improvements	36,054,080	8,976,345	-	45,030,425
Acquired systems	879,745	-	-	879,745
Equipment	8,037,631	661,047	-	8,698,678
Vehicles	2,452,039	23,588	-	2,475,627
Computers and software	712,274	2,340	-	714,614
Total capital assets being depreciated	48,135,769	9,663,320	-	57,799,089

**Reading Area Water Authority**  
**A Component Unit of the City of Reading**

Notes to Financial Statements  
December 31, 2014 and 2013

**Note 5 - Capital Assets (continued)**

	<b>Balance January 1, 2014</b>	<b>Additions</b>	<b>Deletions</b>	<b>Balance December 31, 2014</b>
Less accumulated depreciation for:				
Leasehold improvements	\$ 5,844,439	\$ 1,569,263	\$ -	\$ 7,413,702
Acquired systems	51,431	21,994	-	73,425
Equipment	2,932,019	644,136	-	3,576,155
Vehicles	1,650,824	226,282	-	1,877,106
Computers and software	507,267	68,604	-	575,871
Total accumulated depreciation	<u>10,985,980</u>	<u>2,530,279</u>	<u>-</u>	<u>13,516,259</u>
Total capital assets being depreciated, net	<u>37,149,789</u>	<u>7,133,041</u>	<u>-</u>	<u>44,282,830</u>
Total capital assets, net	<u>\$ 47,549,824</u>	<u>\$ 11,683,535</u>	<u>\$ 8,963,370</u>	<u>\$ 50,269,989</u>
	<b>Balance January 1, 2013</b>	<b>Additions</b>	<b>Deletions</b>	<b>Balance December 31, 2013</b>
Capital assets not being depreciated:				
Construction-in-progress	\$ 13,515,757	\$ 6,797,699	\$ 9,913,421	\$ 10,400,035
Capital assets being depreciated:				
Leasehold improvements	26,128,777	9,925,303	-	36,054,080
Acquired systems	879,745	-	-	879,745
Equipment	7,150,390	887,241	-	8,037,631
Vehicles	2,040,851	411,188	-	2,452,039
Computers and software	689,883	22,391	-	712,274
Total capital assets being depreciated	<u>36,889,646</u>	<u>11,246,123</u>	<u>-</u>	<u>48,135,769</u>

**Reading Area Water Authority**  
**A Component Unit of the City of Reading**

Notes to Financial Statements  
December 31, 2014 and 2013

**Note 5 - Capital Assets (continued)**

	<u>Balance January 1, 2013</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance December 31, 2013</u>
Less accumulated depreciation for:				
Leasehold improvements	\$ 4,930,235	\$ 914,204	\$ -	\$ 5,844,439
Acquired systems	29,437	21,994	-	51,431
Equipment	2,343,963	588,056	-	2,932,019
Vehicles	1,426,533	224,291	-	1,650,824
Computers and software	433,124	74,143	-	507,267
Total accumulated depreciation	<u>9,163,292</u>	<u>1,822,688</u>	<u>-</u>	<u>10,985,980</u>
Total capital assets being depreciated, net	<u>27,726,354</u>	<u>9,423,435</u>	<u>-</u>	<u>37,149,789</u>
Total capital assets, net	<u>\$ 41,242,111</u>	<u>\$ 16,221,134</u>	<u>\$ 9,913,421</u>	<u>\$ 47,549,824</u>

**Note 6 - Long-Term Debt**

At December 31, 2014 and 2013, long-term debt consists of the following:

	<u>Balance Outstanding January 1, 2014</u>	<u>Additions (Payments)</u>	<u>Balance Outstanding December 31, 2014</u>
Guaranteed Water Revenue Bonds, Series of 2003 (Capital Appreciation Bonds), initial issue \$21,080,000, various interest rates ranging from 3.600% to 4.620%, maturing in amounts ranging from \$610,000 to \$2,690,000 through 2020	\$ 16,505,000	\$ (2,030,000)	\$ 14,475,000
Guaranteed Water Revenue Bonds, Series of 2007, initial issue \$25,000,000, various interest rates ranging from 4.250% to 5.000%, maturing in amounts ranging from \$125,000 to \$3,860,000 through 2027	24,605,000	(145,000)	24,460,000

**Reading Area Water Authority**  
**A Component Unit of the City of Reading**

Notes to Financial Statements  
December 31, 2014 and 2013

**Note 6 - Long-Term Debt (continued)**

	<b>Balance Outstanding January 1, 2014</b>	<b>Additions (Payments)</b>	<b>Balance Outstanding December 31, 2014</b>
Note payable to PENNVEST, maximum drawdown of \$6,550,000, interest only for the first 36 months of the loan, principal and interest due monthly thereafter; interest at 1.274% for the first five years and 2.547% thereafter through 2032, guaranteed by the City of Reading	\$ 5,318,780	\$ (275,988)	\$ 5,042,792
Water Revenue Bond, Series of 2011, initial issue \$50,000,000, various interest rates ranging from 2.350% to 5.250%, maturing in amounts ranging from \$100,000 to \$6,975,000 through 2036	50,000,000	-	50,000,000
Water Revenue Note, Series of 2012, initial issue \$2,459,000, interest at 2.100%, maturing in amounts ranging from \$86,000 to \$249,000 through 2017	1,916,010	(462,986)	1,453,024
	<b>\$ 98,344,790</b>	<b>\$ (2,913,974)</b>	<b>\$ 95,430,816</b>
	<b>Balance Outstanding January 1, 2013</b>	<b>Additions (Payments)</b>	<b>Balance Outstanding December 31, 2013</b>
Guaranteed Water Revenue Bonds, Series of 2003 (Capital Appreciation Bonds), initial issue \$21,080,000, various interest rates ranging from 3.600% to 4.620%, maturing in amounts ranging from \$610,000 to \$2,690,000 through 2020	\$ 18,535,000	\$ (2,030,000)	\$ 16,505,000
Guaranteed Water Revenue Bonds, Series of 2007, initial issue \$25,000,000, various interest rates ranging from 4.250% to 5.000%, maturing in amounts ranging from \$125,000 to \$3,860,000 through 2027	24,740,000	(135,000)	24,605,000
Note payable to PENNVEST, maximum drawdown of \$6,550,000, interest only for the first 36 months of the loan, principal and interest due monthly thereafter; interest at 1.274% for the first five years and 2.547% thereafter through 2032, guaranteed by the City of Reading	5,591,276	(272,496)	5,318,780

**Reading Area Water Authority**  
**A Component Unit of the City of Reading**

Notes to Financial Statements  
December 31, 2014 and 2013

**Note 6 - Long-Term Debt (continued)**

	<u>Balance Outstanding January 1, 2013</u>	<u>Additions (Payments)</u>	<u>Balance Outstanding December 31, 2013</u>
Water Revenue Bond, Series of 2011, initial issue \$50,000,000, various interest rates ranging from 2.350% to 5.250%, maturing in amounts ranging from \$100,000 to \$6,975,000 through 2036	\$ 50,000,000	\$ -	\$ 50,000,000
Water Revenue Note, Series of 2012, initial issue \$2,459,000, interest at 2.100%, maturing in amounts ranging from \$86,000 to \$249,000 through 2017	<u>2,373,000</u>	<u>(456,990)</u>	<u>1,916,010</u>
	<u>\$ 101,239,276</u>	<u>\$ (2,894,486)</u>	<u>\$ 98,344,790</u>

Aggregate maturities required on the long-term debt at December 31, 2014 are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total Debt Service</u>
Years Ending December 31:			
2015	\$ 3,247,525	\$ 4,088,352	\$ 7,335,877
2016	3,258,859	4,205,225	7,464,084
2017	3,280,389	4,281,971	7,562,360
2018	3,285,152	4,555,056	7,840,208
2019	3,247,113	4,636,825	7,883,938
2020-2024	17,371,434	20,624,673	37,996,107
2025-2029	21,774,443	13,523,595	35,298,038
2030-2034	26,360,901	7,900,641	34,261,542
2035-2036	<u>13,605,000</u>	<u>1,080,450</u>	<u>14,685,450</u>
	<u>\$ 95,430,816</u>	<u>\$ 64,896,788</u>	<u>\$ 160,327,604</u>
		<u>2014</u>	<u>2013</u>
Total long-term debt		<b>\$ 95,430,816</b>	\$ 98,344,790
Less current maturities		<b>(3,247,525)</b>	(2,913,988)
Less unamortized bond discount		<b>(238,106)</b>	(248,950)
Plus unamortized bond premium		<b>579,327</b>	624,178
Less unamortized interest on capital appreciation bonds		<b>(2,137,609)</b>	(2,740,297)
		<u><b>\$ 90,386,903</b></u>	<u>\$ 93,065,733</u>

**Reading Area Water Authority**  
**A Component Unit of the City of Reading**

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Notes to Financial Statements  
December 31, 2014 and 2013

**Note 6 - Long-Term Debt (continued)**

The current maturities of long-term debt reflected above were based on outstanding debt as of December 31, 2014. During April 2015, the Authority refinanced its Water Revenue Bonds, Series of 2007. See Note 10 for additional information.

**Covenants**

The Water Revenue Bond, Series of 2011, is subject to financial covenants, including a rate covenant. At December 31, 2014, the Authority was in compliance with these financial covenants.

**Bonds Payable**

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

**Note 7 - Operating Lease**

The Authority has entered into a 99-year operating lease, effective June 1, 1994, with the City 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, the Authority must provide water service free of charge to the City. Lease payments are made monthly based on an estimate of the anticipated lease payments for the year. At the end of the year, the Authority receives an annual reconciliation statement, which reflects a credit due to the Authority or a payment due to the City. Total lease expense for the years ended December 31, 2014 and 2013 was \$9,089,655 and \$8,831,775, respectively.

In December 2010, a Second Addendum to the lease was agreed upon by the City and the Authority. 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, the Authority 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 lease payment has decreased as a result of a corresponding increase in other operating expenses.

The Addendum also required the payment by the Authority to the City of \$1,020,000 for restriction on the City's Ontelaunee Township property. Under the Addendum, except in the exercise of its Take-Back Powers or with the Authority's prior written approval, the City cannot voluntarily convey or transfer any property interest in the 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 the Authority to facilitate additional payments to the City by the Authority to assist in the Act 47 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.

**Reading Area Water Authority**  
**A Component Unit of the City of Reading**

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Notes to Financial Statements  
December 31, 2014 and 2013

**Note 7 - Operating Lease (continued)**

In November 2014, a Fourth Addendum to the lease was agreed upon by the City and the Authority. 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 twelve month period multiplied by the amount of the financing fee component of the lease payment for the immediately preceding January 1 or 2.5% per annum, whichever is greater. The meter surcharge payment shall continue annually in accordance with the original amended agreement. The following is a schedule of the future minimum lease payments under the Fourth Addendum for the financing fee and meter surcharge payment:

Year Ending December 31:	
2015	\$ 10,975,000
2016	10,975,000
2017	10,975,000
2018	10,975,000
2019	10,975,000
Thereafter	<u>2,111,313,955</u>
	<u>\$ 2,166,188,955</u>

**Note 8 - Retirement Plan**

During 2011, the 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 terms of the plan, the Authority may make discretionary matching contributions. The Authority reflects its contributions to the plan as an operating expense. For the years ended December 31, 2014 and 2013, \$68,640 and \$66,841, respectively, was contributed to the plan.

**Note 9 - Commitments and Contingencies**

**Commitments**

**Management Agreement**

The Authority has entered into an agreement with Miller Environmental, Inc. for the services of a water filter plant manager and the services of the executive director, who is responsible for the management of all operational and maintenance activities of the water filter plant. The agreement is automatically renewable annually unless one of the parties gives written notice of their intent to terminate the agreement. Total expense under the agreement for the years ended December 31, 2014 and 2013 was \$401,360 and \$353,469, respectively. In February 2015, the agreement was amended to include an ending date of January 31, 2018, with automatic three-year renewals and reduced services only to the executive director associated services.

**Reading Area Water Authority**  
**A Component Unit of the City of Reading**

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Notes to Financial Statements  
December 31, 2014 and 2013

**Note 9 - Commitments and Contingencies (continued)**

**Commitments (continued)**

**Water Reading Services Agreement**

The Authority has entered into an agreement with Miller Environmental, Inc. to perform water reading services in the Authority's service area. The agreement was amended in February 2012. Under the terms of the amended agreement, the Authority pays a monthly operating fee of \$44,957 beginning March 1, 2012, plus additional hourly charges for services performed outside the scope of the agreement. The amended agreement expires February 28, 2015 and is automatically renewable for three-year terms unless one of the parties gives written notice of their intent to terminate the agreement. Total expense under the agreement was \$539,483 for the years ended December 31, 2014 and 2013.

**Capital Improvements**

The Authority has entered into contracts for various capital improvements. Outstanding commitments on these contracts totaled approximately \$150,000 as of December 31, 2014.

**Trash and Recycling Billing Agreement**

In April 2013, the Authority entered a Memorandum of Understanding with the City related to charges for trash and recycling. The Authority assumed the billing and collection billings, at no charge to the City, beginning after January 1, 2013. In addition, the City released to the Authority the accounts receivable that result from the billing of such trash and recycling service charges. In exchange for the transfer of the receivables, the Authority made payments to the City of a determined amount on April 30, 2013 and September 30, 2013. The Authority also paid a differential on the amount collected on delinquent accounts from January 1, 2013 through December 31, 2013. The agreement is through December 31, 2014 and, thereafter, on a year-to-year basis unless either party notifies the other by August 31 of any calendar year of its intention to terminate the agreement.

In March 2014, a first amendment was approved establishing payments to be made on a monthly basis for 2014 as defined in the amendment. For years after 2014, payments to be made to the City are as defined in the agreement and are to be paid monthly. The net revenue earned from trash and recycling for the years ended December 31, 2014 and 2013 was \$531,367 and \$475,329, respectively.

**Contingencies**

**Letters of Credit**

The Authority has a letter of credit of \$800,000 for general Authority matters. The Authority also has letters of credit required by the Commonwealth of Pennsylvania in connection with capital improvement projects in the amount of \$2,566,580. At December 31, 2014, all letters of credit were unused.

**Reading Area Water Authority**  
**A Component Unit of the City of Reading**

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Notes to Financial Statements  
December 31, 2014 and 2013

**Note 9 - Commitments and Contingencies (continued)**

**Contingencies (continued)**

**Concentration of Labor**

The Authority has entered into a collective bargaining agreement with the employees who operate and maintain the Authority's facilities effective through December 31, 2015. Of the Authority's total workforce, 93% is covered by the agreement.

**Litigation**

In the normal course of business, the Authority is involved in various legal proceedings. In the opinion of management, any liability resulting from such proceedings would not have a material adverse effect on the financial statements.

**Note 10 - Change in Presentation of the 2013 Financial Statements**

The presentation of the 2013 statement of net position has been changed to be in conformity with the 2014 presentation using a new position format compared to a balance sheet format as previously used.

**Note 11 - Subsequent Events**

The Authority has evaluated subsequent events through June 8, 2015. This date is the date the financial statements were available to be issued. The following subsequent events were noted:

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

2015	\$	-
2016		-
2017		205,000
2018		280,000
2019		290,000
2020-2024		13,215,000
2025-2027		11,140,000

No other material events subsequent to December 31, 2014 were noted.