



**A Component Unit of the City of Reading**

## **Financial Statements**

**December 31, 2015 and 2014**



REINSEL KUNTZ LESHER  
certified public accountants & consultants

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

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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, as of and for the years ended December 31, 2015 and 2014, and the related notes to the financial statements, which collectively comprise the Reading Area Water Authority's basic financial statements as listed in the table of contents.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of 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.

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, 2015 and 2014, 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.

## **Emphasis of Matter**

The accompanying financial statements have been prepared assuming that the Reading Area Water Authority will continue as a going concern. As discussed in Note 10 to the financial statements, the City of Reading has passed a resolution to dissolve the Reading Area Water Authority. The City of Reading must satisfy all outstanding obligations of the Reading Area Water Authority prior to dissolution. The financial statements do not include any adjustments that might result from the outcome of this uncertainty. 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 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 15, 2016  
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, 2015

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, 2015.

### **Financial Highlights**

- Current unrestricted assets exceeded current liabilities by \$15,205,652 at the close of the year. This is compared to \$14,091,165 and \$14,815,338 at the close of the 2014 and 2013 years, respectively.
- Total net position decreased by \$1,972,232 and \$1,278,245 and increased by \$1,893,367 for the years ended 2015, 2014 and 2013, respectively. The 2015 decrease is largely due to increases in the lease payment to the City of Reading, offset by increases in water billings and other operating revenues and reductions in chemical supplies, repairs and maintenance, and advertising costs. 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 \$1,743,646 for 2015 compared to net operating income of \$2,673,073 and \$5,820,328 for the 2014 and 2013 years, respectively. This decrease in net operating income is the result of an increase in lease payments to the City of Reading of \$2,433,020, offset by a reduction in chemical supplies of \$442,917, repairs and maintenance of \$119,470, advertising of \$145,571 and an increase in water billings of \$1,125,242.
- 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. This agreement was terminated as of January 1, 2016, however, the Authority continues to bill and collect the trash and recycling charges on behalf of the City of Reading and remits the collections to the City.
- During 2015, the Authority issued Water Revenue Bonds, Series of 2015, in the amount of \$25,130,000. The Bonds were issued to advance refund the Authority's Water Revenue Bonds, Series of 2007.

### **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.

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Management's Discussion and Analysis  
December 31, 2015

**Basic Financial Statements (continued)**

**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 the 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 at December 31, 2015, 2014 and 2013:

	<u>2015</u>	<u>2014</u>	<u>2013</u>
<b>Assets</b>			
Unrestricted current assets	\$ 20,166,451	\$ 21,521,380	\$ 19,757,390
Restricted current assets	23,989,566	29,387,551	35,340,618
Capital assets, net	50,940,036	50,269,989	47,549,824
Other asset	1,020,000	1,020,000	1,020,000
Deferred outflow of resources	<u>1,500,668</u>	<u>-</u>	<u>-</u>
<b>Total Assets and Deferred Outflow of Resources</b>	<b><u>\$ 97,616,721</u></b>	<b><u>\$ 102,198,920</u></b>	<b><u>\$ 103,667,832</u></b>
<b>Liabilities</b>			
Current liabilities	\$ 4,960,799	\$ 7,430,215	\$ 4,942,052
Long-term debt	<u>90,246,352</u>	<u>90,386,903</u>	<u>93,065,733</u>
<b>Total Liabilities</b>	<b><u>\$ 95,207,151</u></b>	<b><u>\$ 97,817,118</u></b>	<b><u>\$ 98,007,785</u></b>

**Reading Area Water Authority**  
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Management's Discussion and Analysis  
 December 31, 2015

**Financial Information (continued)**

**Net Position (continued)**

	<u>2015</u>	<u>2014</u>	<u>2013</u>
<b>Net Position</b>			
Net investment in capital assets	\$ -	\$ -	\$ -
Restricted for debt service	4,127,420	4,148,621	4,067,766
Unrestricted (deficit)	<u>(1,717,850)</u>	<u>233,181</u>	<u>1,592,281</u>
<b>Total Net Position</b>	<b><u>\$ 2,409,570</u></b>	<b><u>\$ 4,381,802</u></b>	<b><u>\$ 5,660,047</u></b>

Current liabilities decreased by 33.2% in 2015 compared to an increase of 50.4% in 2014 and a decrease of 19.2% in 2013. The 2015 decrease is attributable to decreases in capital and trade 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, 2015, 2014 and 2013:

	<u>2015</u>	<u>2014</u>	<u>2013</u>
<b>Operating Revenues</b>			
Water billings	\$ 26,195,054	\$ 25,069,812	\$ 25,363,651
Interest and penalty charges	583,221	489,792	406,039
Tampered meter and other charges	789,520	732,964	864,513
Tapping and connection fees	103,322	102,241	61,258
Abandonment fees	<u>14,633</u>	<u>4,333</u>	<u>71,207</u>
<b>Total Operating Revenues</b>	<b><u>\$ 27,685,750</u></b>	<b><u>\$ 26,399,142</u></b>	<b><u>\$ 26,766,668</u></b>

The 2015 fiscal year's total operating revenue increased by 4.6% compared to 2014 and decreased by 1.4% in 2014 and increased by 7.9% in 2013, respectively.

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Management's Discussion and Analysis  
December 31, 2015

**Financial Information (continued)**

**Expenses** - The following schedule presents a summary of expenses for the years ended December 31, 2015, 2014 and 2013:

	<u>2015</u>	<u>2014</u>	<u>2013</u>
<b>Operating Expenses</b>			
Lease payments, City of Reading	\$ 11,522,675	\$ 9,089,655	\$ 8,831,775
Chemical supplies	1,120,987	1,563,904	1,251,861
Meter reading	539,483	539,483	539,483
Salaries, payroll taxes and employee benefits	5,307,826	5,266,892	4,665,693
Contracted services	1,482,298	1,439,900	1,202,805
Other	<u>3,025,602</u>	<u>3,295,956</u>	<u>2,632,035</u>
<b>Total Operating Expenses</b>	<b><u>\$ 22,998,871</u></b>	<b><u>\$ 21,195,790</u></b>	<b><u>\$ 19,123,652</u></b>

The \$1,803,081 increase in expenses is primarily the result of the increase in lease payments to the City of Reading of \$2,433,020, offset by a reductions in chemical supplies of \$442,917, repairs and maintenance of \$119,470, advertising of \$145,571 and an increase in water billings of \$1,125,242.

**Changes in Net Position** - The following schedule presents a summary of changes in net position for the years ended December 31, 2015, 2014 and 2013:

	<u>2015</u>	<u>2014</u>	<u>2013</u>
Operating revenues	\$ 27,685,750	\$ 26,399,142	\$ 26,766,668
Operating expenses	<u>22,998,871</u>	<u>21,195,790</u>	<u>19,123,652</u>
<b>Operating Income before Depreciation</b>	<b>4,686,879</b>	5,203,352	7,643,016
Depreciation	<u>2,943,233</u>	<u>2,530,279</u>	<u>1,822,688</u>
<b>Operating Income</b>	<b>1,743,646</b>	2,673,073	5,820,328
Nonoperating revenues (expenses), net	<u>(3,715,878)</u>	<u>(3,951,318)</u>	<u>(3,926,961)</u>
<b>Increase (Decrease) in Net Position</b>	<b><u>\$ (1,972,232)</u></b>	<b><u>\$ (1,278,245)</u></b>	<b><u>\$ 1,893,367</u></b>

**Reading Area Water Authority  
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Management's Discussion and Analysis  
December 31, 2015

**Financial Information (continued)**

**Changes in Net Position (continued)**

**Statement of Changes in Net Position  
Year Ended December 31, 2015**

	<u>Beginning Balance</u>	<u>Increase (Decrease)</u>	<u>Ending Balance</u>
Net investment in capital assets	\$ -	\$ -	\$ -
Restricted	4,148,621	(21,201)	4,127,420
Unrestricted (deficit)	<u>233,181</u>	<u>(1,951,031)</u>	<u>(1,717,850)</u>
<b>Total Net Position</b>	<b><u>\$ 4,381,802</u></b>	<b><u>\$ (1,972,232)</u></b>	<b><u>\$ 2,409,570</u></b>

**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 (deficit)	<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>

**Capital Assets**

The Authority's investment in capital assets includes leasehold improvements, acquired systems, 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, 2015

**Capital Assets (continued)**

The Authority's capital assets as of December 31, 2015, 2014 and 2013, net of accumulated depreciation, amounted to \$50,940,036, \$50,269,989 and \$47,549,824, respectively. For the year ended December 31, 2015, this amount represents a net increase (including additions, deletions and depreciation) of \$670,047 from the prior year. See Note 5 for more information on capital assets.

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

	<u>2015</u>	<u>2014</u>	<u>2013</u>
Leasehold improvements	\$ 40,037,706	\$ 37,616,723	\$ 30,209,641
Acquired systems	784,326	806,320	828,314
Equipment	5,209,505	5,122,523	5,105,612
Vehicles	537,612	598,521	801,215
Computers and software	86,741	138,743	205,007
Construction in progress	<u>4,284,146</u>	<u>5,987,159</u>	<u>10,400,035</u>
	<u>\$ 50,940,036</u>	<u>\$ 50,269,989</u>	<u>\$ 47,549,824</u>

**Debt Administration**

At December 31, 2015, the Authority had \$93,003,292 of Guaranteed Revenue Bonds and notes payable, compared to \$95,430,816 and \$98,344,790 at the years ended 2014 and 2013, respectively. The proceeds from these long-term borrowings were used for renovations and improvements to the water system. During April 2015, the Authority issued Water Revenue Bonds, Series of 2015, to advance refund the Authority's Water Revenue Bonds, Series of 2007. See Note 6 for additional information on the Authority's debt.

**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,	
	2015	2014
<b>Assets</b>		
<b>Current Assets, Unrestricted</b>		
Cash	\$ 14,376,069	\$ 15,717,864
Accounts receivable, water billings, net of allowance 2015 \$1,608,489; 2014 \$1,576,428	3,350,950	3,250,666
Accounts receivable, trash and recycling billings, net of allowance 2015 \$458,807; 2014 \$435,994	1,010,684	1,137,270
Unbilled water usage	1,075,561	918,453
Other receivable	-	81,121
Inventory	215,376	199,213
Prepaid expenses	137,811	216,793
<b>Total Current Assets, Unrestricted</b>	<b>20,166,451</b>	<b>21,521,380</b>
<b>Current Assets, Restricted</b>		
Developer escrow deposits, cash	141,986	77,800
Trust accounts, cash and investments		
Clearing Account	22,867	74,118
Construction Account	16,336,018	21,724,438
Debt Service Account	101,741	1,342
Debt Service Reserve Account	7,386,954	7,509,853
	<b>23,847,580</b>	<b>29,309,751</b>
<b>Total Current Assets, Restricted</b>	<b>23,989,566</b>	<b>29,387,551</b>
<b>Capital Assets</b>		
Capital assets not being depreciated, construction in progress	4,284,146	5,987,159
Capital assets being depreciated		
Leasehold improvements	49,456,591	45,030,425
Acquired systems	879,745	879,745
Equipment	9,447,037	8,698,678
Vehicles	2,605,395	2,475,627
Computers and software	726,614	714,614
	<b>63,115,382</b>	<b>57,799,089</b>
Accumulated depreciation	<b>(16,459,492)</b>	<b>(13,516,259)</b>
	<b>46,655,890</b>	<b>44,282,830</b>
<b>Total Capital Assets, Net</b>	<b>50,940,036</b>	<b>50,269,989</b>
<b>Other Asset</b>		
Leased land rights	1,020,000	1,020,000
<b>Deferred Outflow of Resources, Refinancing Loss</b>	<b>1,500,668</b>	<b>-</b>
<b>Total Assets and Deferred Outflow of Resources</b>	<b>97,616,721</b>	<b>102,198,920</b>

See accompanying notes.

	December 31,	
	2015	2014
<b>Liabilities</b>		
<b>Current Liabilities</b>		
Accounts payable, capital	\$ 498,998	\$ 2,318,141
Accounts payable, trade	276,728	526,657
Accrued payroll and compensated absences	567,245	496,443
Accrued interest payable	300,208	321,640
Escrow deposits	141,986	77,800
Other	1,318	488
Due to City of Reading	70,457	441,521
Current maturities of long-term debt	<u>3,103,859</u>	<u>3,247,525</u>
<b>Total Current Liabilities</b>	<b>4,960,799</b>	<b>7,430,215</b>
<b>Long-Term Debt, Less Current Maturities</b>	<u><b>90,246,352</b></u>	<u>90,386,903</u>
<b>Total Liabilities</b>	<u><b>95,207,151</b></u>	<u>97,817,118</u>
<b>Net Position</b>		
<b>Net Position</b>		
Net investment in capital assets	-	-
Restricted for debt service	4,127,420	4,148,621
Unrestricted (deficit)	<u>(1,717,850)</u>	<u>233,181</u>
<b>Total Net Position</b>	<u><b>\$ 2,409,570</b></u>	<u><b>\$ 4,381,802</b></u>

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

	<b>Years Ended December 31,</b>	
	<b>2015</b>	<b>2014</b>
<b>Operating Revenues</b>		
Water billings	\$ 26,195,054	\$ 25,069,812
Interest and penalty charges	583,221	489,792
Tampered meter and other charges	789,520	732,964
Tapping and connection fees	103,322	102,241
Abandonment fees	14,633	4,333
	<b>27,685,750</b>	<b>26,399,142</b>
<b>Operating Expenses</b>		
Lease payments, City of Reading	11,522,675	9,089,655
Chemical supplies	1,120,987	1,563,904
Meter reading	539,483	539,483
Engineering	66,906	141,277
Legal fees	319,867	334,698
Salaries and payroll taxes	4,284,946	4,212,933
Insurance	140,636	138,244
Employee benefits	1,022,880	1,053,959
Grant expenditures	229,424	276,723
Utilities	671,628	706,626
Contracted services	1,482,298	1,439,900
Repairs and maintenance	579,027	698,497
Audit and accounting	35,250	26,000
Bank charges	197,778	184,822
Dues and subscriptions	42,184	21,723
Advertising	174,157	319,728
Education	6,208	9,803
Supplies	395,338	347,623
Bad debt expense	167,199	90,192
	<b>22,998,871</b>	<b>21,195,790</b>
<b>Operating Income before Depreciation</b>	<b>4,686,879</b>	<b>5,203,352</b>
<b>Depreciation</b>	<b>2,943,233</b>	<b>2,530,279</b>
<b>Operating Income</b>	<b>1,743,646</b>	<b>2,673,073</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>2015</b>	<b>2014</b>
<b>Nonoperating Revenues (Expenses)</b>		
Investment income	\$ 557,075	\$ 200,409
Miscellaneous income	96,533	43,188
Interest expense	(4,196,513)	(4,441,883)
Debt issuance costs	(297,960)	-
Miscellaneous expense	(112,421)	(284,399)
Trash and recycling collections, net	<u>237,408</u>	<u>531,367</u>
<b>Nonoperating Revenues (Expenses), Net</b>	<u>(3,715,878)</u>	<u>(3,951,318)</u>
<b>Decrease in Net Position</b>	<b>(1,972,232)</b>	<b>(1,278,245)</b>
<b>Net Position at Beginning of Year</b>	<u>4,381,802</u>	<u>5,660,047</u>
<b>Net Position at End of Year</b>	<u><u>\$ 2,409,570</u></u>	<u><u>\$ 4,381,802</u></u>

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

	<b>Years Ended December 31,</b>	
	<b>2015</b>	<b>2014</b>
<b>Cash Flows from Operating Activities</b>		
Cash receipts from water customers	\$ 27,261,159	\$ 26,343,602
Cash receipts from trash and recycling customers	6,325,881	6,353,801
Cash payments to suppliers for goods and services	(19,022,949)	(16,374,363)
Cash payments to employees for services	(4,214,144)	(4,158,920)
Cash payments to City of Reading for trash and recycling	(5,961,887)	(5,863,485)
Other receipts	96,533	43,188
Other payments	(112,421)	(284,399)
	<u>4,372,172</u>	<u>6,059,424</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	(5,432,424)	(3,591,266)
Proceeds from long-term debt	25,130,000	-
Premium on long-term debt	2,318,963	-
Principal paid on long-term debt	(3,097,524)	(2,913,974)
Long-term debt escrow deposit	(27,138,072)	-
Interest paid on long-term debt	(3,216,197)	(3,874,795)
Debt issuance costs	(297,960)	-
	<u>(11,733,214)</u>	<u>(10,380,035)</u>
<b>Net Cash Used in Capital and Related Financing Activities</b>		
<b>Cash Flows from Investing Activities</b>		
Decrease in restricted assets, net	5,462,172	5,952,946
Investment income received	557,075	214,844
	<u>6,019,247</u>	<u>6,167,790</u>
<b>Net Cash Provided by Investing Activities</b>		
	<u>(1,341,795)</u>	<u>1,847,179</u>
<b>Net Increase (Decrease) in Cash</b>		
<b>Cash at Beginning of Year</b>	<u>15,717,864</u>	<u>13,870,685</u>
<b>Cash at End of Year</b>	<u><u>\$ 14,376,069</u></u>	<u><u>\$ 15,717,864</u></u>

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Statement of Cash Flows (continued)

	<b>Years Ended December 31,</b>	
	<b>2015</b>	<b>2014</b>
<b>Reconciliation of Operating Income to Net Cash</b>		
<b>Provided by Operating Activities</b>		
Operating income	\$ 1,743,646	\$ 2,673,073
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation	2,943,233	2,530,279
Trash and recycling, net	237,408	531,367
Miscellaneous income	96,533	43,188
Miscellaneous expenses	(112,421)	(284,399)
(Increase) decrease in assets		
Accounts receivable, water billings	(100,284)	158,066
Unbilled water usage	(157,108)	(123,414)
Accounts receivable, trash and recycling billings	126,586	(41,051)
Other receivable	81,121	(81,121)
Due from City of Reading	-	373,172
Inventory	(16,163)	(56,864)
Prepaid expenses	78,982	(160,034)
Increase (decrease) in liabilities		
Accounts payable	(249,929)	11,201
Accrued payroll and compensated absences	70,802	54,013
Due to City of Reading	(371,064)	441,521
Other liabilities	830	(9,573)
<b>Net Cash Provided by Operating Activities</b>	<b>\$ 4,372,172</b>	<b>\$ 6,059,424</b>

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

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Notes to Financial Statements  
December 31, 2015 and 2014

### **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 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, 2015 and 2014

**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, and depreciation on capital assets. 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, the third supplemental indenture dated December 19, 2011, and the fourth supplemental indenture dated April 15, 2015 (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, 2015 and 2014

**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, 2015 and 2014

**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.

**Deferred Outflow of Resources**

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflow of resources. This separate financial statement element represents a consumption of net position that applies to future periods and will not be recognized as an outflow of resources (expense) until then. The Authority has a deferred outflow of resources related to a loss on refunding of bonds that results from the difference in the carrying value of refunded debt and its reacquisition price. The amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

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

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Notes to Financial Statements  
December 31, 2015 and 2014

**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 "investment in capital assets" or "restricted" and are available for Authority operations.

**Recent Accounting Pronouncement**

In February 2015, the Governmental Accounting Standards Board 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 consist of the following at December 31:

	<u>2015</u>	<u>2014</u>
Petty cash	\$ 550	\$ 550
Demand deposit accounts	14,517,505	15,795,114
Investments	<u>23,847,580</u>	<u>29,309,751</u>
	<u>\$ 38,365,635</u>	<u>\$ 45,105,415</u>

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

Notes to Financial Statements  
 December 31, 2015 and 2014

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

	<u>2015</u>	<u>2014</u>
Classification per statement of net position		
Unrestricted current assets, cash	\$ 14,376,069	\$ 15,717,864
Restricted current assets		
Developer escrow deposits, cash	141,986	77,800
Trust accounts, cash and investments	<u>23,847,580</u>	<u>29,309,751</u>
	<u>\$ 38,365,635</u>	<u>\$ 45,105,415</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, 2015 and 2014, the carrying amounts of the Authority's bank deposits were \$14,517,505 and \$15,795,114, respectively, and the bank balances were \$14,510,549 and \$15,792,227, respectively, of which \$357,108 and \$394,325 were covered by Federal Depository Insurance, respectively. The remaining \$14,153,441 and \$15,397,901, 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**

The Authority has the following investments as of December 31:

	<u>Investment Maturities (in Years)</u>	
	<u>Fair Value</u>	<u>Less than One Year</u>
<b>2015</b>		
Federated Treasury Obligation Funds	\$ 22,627,963	\$ 22,627,963
Federal Home Loan Bank Note	<u>1,219,617</u>	<u>1,219,617</u>
	<u>\$ 23,847,580</u>	<u>\$ 23,847,580</u>
<b>2014</b>		
Federated Treasury Obligation Funds	\$ 25,531,223	\$ 25,531,223
Federal Home Loan Bank Note	<u>3,778,528</u>	<u>3,778,528</u>
	<u>\$ 29,309,751</u>	<u>\$ 29,309,751</u>

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

Notes to Financial Statements  
 December 31, 2015 and 2014

**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, 2015 and 2014, \$23,847,580 and \$29,309,751, respectively, is held by the investment's counterparty, not in the name of the Authority.

**Note 5 - Capital Assets**

Capital asset activity was as follows at December 31:

	Balance January 1, 2015	Additions	Deletions	Balance December 31, 2015
Capital assets not being depreciated				
Construction in progress	\$ 5,987,159	\$ 2,580,653	\$ 4,283,666	\$ 4,284,146
Capital assets being depreciated				
Leasehold improvements	45,030,425	4,426,166	-	49,456,591
Acquired systems	879,745	-	-	879,745
Equipment	8,698,678	748,359	-	9,447,037
Vehicles	2,475,627	129,768	-	2,605,395
Computers and software	714,614	12,000	-	726,614
Total capital assets being depreciated	57,799,089	5,316,293	-	63,115,382

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

Notes to Financial Statements  
December 31, 2015 and 2014

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

	<u>Balance January 1, 2015</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance December 31, 2015</u>
Less accumulated depreciation for				
Leasehold improvements	\$ 7,413,702	\$ 2,005,183	\$ -	\$ 9,418,885
Acquired systems	73,425	21,994	-	95,419
Equipment	3,576,155	661,377	-	4,237,532
Vehicles	1,877,106	190,677	-	2,067,783
Computers and software	575,871	64,002	-	639,873
Total accumulated depreciation	<u>13,516,259</u>	<u>2,943,233</u>	<u>-</u>	<u>16,459,492</u>
Total capital assets being depreciated, net	<u>44,282,830</u>	<u>2,373,060</u>	<u>-</u>	<u>46,655,890</u>
Total capital assets, net	<u>\$ 50,269,989</u>	<u>\$ 4,953,713</u>	<u>\$ 4,283,666</u>	<u>\$ 50,940,036</u>
	<u>Balance January 1, 2014</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance December 31, 2014</u>
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	<u>48,135,769</u>	<u>9,663,320</u>	<u>-</u>	<u>57,799,089</u>

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

Notes to Financial Statements  
 December 31, 2015 and 2014

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

	Balance January 1, 2014	Additions	Deletions	Balance December 31, 2014
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>

**Note 6 - Long-Term Debt**

Long-term debt consists of the following at December 31:

	Balance Outstanding January 1, 2015	Additions (Payments)	Balance Outstanding December 31, 2015	Due Within One Year
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	\$ 14,475,000	\$ (2,030,000)	\$ 12,445,000	\$ 2,185,000
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. The Bonds were refunded during 2015	24,460,000	(24,460,000)	-	-

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

Notes to Financial Statements  
 December 31, 2015 and 2014

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

	Balance Outstanding January 1, 2015	Additions (Payments)	Balance Outstanding December 31, 2015	Due Within One Year
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	\$ 5,042,792	\$ (279,525)	\$ 4,763,267	\$ 265,859
Water Revenue Bonds, 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	(315,000)	49,685,000	165,000
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	1,453,024	(472,999)	980,025	488,000
Water Revenue Bonds, Series of 2015, initial issue \$25,130,000, various interest rates ranging from 3.000% to 5.000%, maturing in amounts ranging from \$57,000 to \$577,000 through 2027	-	25,130,000	25,130,000	-
	<b>\$ 95,430,816</b>	<b>\$ (2,427,524)</b>	<b>\$ 93,003,292</b>	<b>\$ 3,103,859</b>

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

Notes to Financial Statements  
 December 31, 2015 and 2014

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

	Balance Outstanding January 1, 2014	Additions (Payments)	Balance Outstanding December 31, 2014	Due Within One Year
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	\$ 2,030,000
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	150,000
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	5,318,780	(275,988)	5,042,792	279,525
Water Revenue Bonds, 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	315,000

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

Notes to Financial Statements  
 December 31, 2015 and 2014

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

	Balance Outstanding January 1, 2014	Additions (Payments)	Balance Outstanding December 31, 2014	Due Within One Year
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	\$ 473,000
	<u>\$ 98,344,790</u>	<u>\$ (2,913,974)</u>	<u>\$ 95,430,816</u>	<u>\$ 3,247,525</u>

Aggregate maturities required on the long-term debt at December 31, 2015 are as follows:

	Principal	Interest	Total Debt Service
2016	\$ 3,103,859	\$ 2,995,481	\$ 6,099,340
2017	3,320,390	3,079,202	6,399,592
2018	3,395,152	3,359,300	6,754,452
2019	3,362,113	3,448,294	6,810,407
2020	3,379,254	5,304,601	8,683,855
2021-2025	18,669,997	12,892,267	31,562,264
2026-2030	22,518,236	11,907,725	34,425,961
2031-2035	28,279,291	6,556,484	34,835,775
2036	6,975,000	366,188	7,341,188
	<u>\$ 93,003,292</u>	<u>\$ 49,909,542</u>	<u>\$ 142,912,834</u>

	2015	2014
Total long-term debt	\$ 93,003,292	\$ 95,430,816
Less current maturities	(3,103,859)	(3,247,525)
Less unamortized bond discount	(227,263)	(238,106)
Plus unamortized bond premium	2,165,550	579,327
Less unamortized interest on capital appreciation bonds	(1,591,368)	(2,137,609)
	<u>\$ 90,246,352</u>	<u>\$ 90,386,903</u>

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

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Notes to Financial Statements  
December 31, 2015 and 2014

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

**Covenants**

The Water Revenue Bonds, Series of 2011 and Series of 2015, are subject to financial covenants, including a rate covenant. At December 31, 2015, 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.

**Refunding of Series of 2007 Guaranteed Water Revenue Bonds**

In April 2015, the Authority issued \$25,130,000 in Water Revenue Bonds, Series of 2015, to advance refund the Authority's Guaranteed Water Revenue Bonds, Series of 2007, pay issuance costs and deposit funds into the 2015 Debt Service Reserve Fund. The proceeds of the new bonds were placed in an irrevocable trust to provide for future debt service payments on the Series of 2007 Bonds. The advance refunding resulted in an economic gain (difference between the present value of the debt service payments on the old and new debt) of \$1,534,685. For financial reporting purposes, the debt has been considered defeased. As of December 31, 2015, there was \$24,310,000 of defeased bonds outstanding.

**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, 2015 and 2014 was \$11,522,675 and \$9,089,655, 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.

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

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Notes to Financial Statements  
December 31, 2015 and 2014

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

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.

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:

2016	\$	10,975,000
2017		10,975,000
2018		10,975,000
2019		10,975,000
2020		11,206,875
Thereafter		<u>2,100,107,080</u>
	\$	<u>2,155,213,955</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, 2015 and 2014, \$80,815 and \$68,640, respectively, was contributed to the plan.

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

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Notes to Financial Statements  
December 31, 2015 and 2014

**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, 2015 and 2014 was \$365,097 and \$401,360, 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.

During February 2015, the Authority hired a full time water plant manager and amended the portion of the agreement for these services.

**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 expired February 28, 2015. In January 2016, the Authority approved hiring employees internally to perform these services. Total expense under the agreement was \$539,483 for each of the years ended December 31, 2015 and 2014.

**Capital Improvements**

The Authority has entered into contracts for various capital improvements. Outstanding commitments on these contracts totaled approximately \$3,319,000 as of December 31, 2015.

**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 of the 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.

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

**Commitments (continued)**

**Trash and Recycling Billing Agreement (continued)**

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, 2015 and 2014 was \$237,408 and \$531,367, respectively.

The agreement was terminated as of January 1, 2016. The Authority continues to bill and collect the trash and recycling charges on behalf of the City and remits the collections to the City.

**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. The maximum amount that can be drawn on the letters of credit is \$4,000,000. At December 31, 2015, all letters of credit were unused.

**Concentration of Labor**

The Authority has entered into a collective bargaining agreement with the employees who operate and maintain the Authority's facilities effective through December 31, 2015. The agreement is currently in the negotiation process. Of the Authority's total workforce, 89% 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.

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**Note 10 - Subsequent Events**

The Authority has evaluated subsequent events through June 15, 2016. This date is the date the financial statements were available to be issued. The following events subsequent to December 31, 2015 were noted:

The Authority awarded contracts for capital projects totaling approximately \$2,725,000 in February and May 2016.

In May 2016, the City passed a resolution under Section 5619 of the Pennsylvania Municipal Authorities Act to terminate the lease and operating agreement, dissolve the Authority, and require the Authority to convey the water system and all property of the Authority to the City. Under the Act, the City must satisfy all outstanding obligations of the Authority prior to transfer of the assets. The City has also requested that all current Authority Board Members resign their positions. Substantial doubt about the Authority's ability to continue as a going concern is raised as a result of the above mentioned items.

No other material events subsequent to December 31, 2015 were noted.