

READING SCHOOL DISTRICT
ANNUAL FINANCIAL REPORT
Year Ended June 30, 2015



Certified Public Accountants and Business Consultants

INTRODUCTORY SECTION

READING SCHOOL DISTRICT
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YEAR ENDED JUNE 30, 2015

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FINANCIAL SECTION

Independent Auditors' Report

To the Board of School Directors
Reading School District
Reading, Pennsylvania

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the Reading School District as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Reading School District'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.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain 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 auditors' 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 opinions.

To the Board of School Directors
Reading School District
Reading, Pennsylvania

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the Reading School District as of June 30, 2015, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note Q to the financial statements, for the year ended June 30, 2015, the Reading School District adopted new accounting guidance, implementing Governmental Accounting Standards Board Statement No. 68, Accounting and Financial Reporting for Pensions - An Amendment of GASB Statement No. 27. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 6 through 16, budgetary comparison schedule on page 60, schedule of school district's proportionate share of the net pension liability on page 61, schedule of school district contributions on page 62, and postemployment benefits other than pension funding progress on page 63 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Reading School District's basic financial statements. The supplementary information listed in the table of contents and the schedule of expenditures of federal awards, as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

To the Board of School Directors
Reading School District
Reading, Pennsylvania

The supplementary information listed in the table of contents and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information and the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required By Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 22, 2016, on our consideration of Reading School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Reading School District's internal control over financial reporting and compliance.

A handwritten signature in cursive script that reads "Maillie LLP".

Oaks, Pennsylvania
March 22, 2016



READING SCHOOL DISTRICT BUSINESS OFFICE

800 Washington Street, Reading, PA 19601-3591
Phone: 610-371-5665 Fax: 610-371-5833

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited) YEAR ENDED JUNE 30, 2015

The discussion and analysis of the financial performance of the Reading School District (the "District") provides an overall review of the District's financial activities for the fiscal year ended June 30, 2014. The intent of this discussion and analysis is to look at the District's financial performance as a whole. Readers also should review the financial statements and the notes to the financial statements to enhance their understanding of the District's financial performance.

The Management's Discussion and Analysis ("MD&A") is an element of the reporting model adopted by the Governmental Accounting Standards Board ("GASB") in its Statement No. 34, *Basic Financial Statements--and Management's Discussion and Analysis--for State and Local Governments*, issued June 1999. Comparative information between the current year and the prior year is required to be presented in the MD&A.

FINANCIAL HIGHLIGHTS

- The General Fund fund balance increased from \$26,106,964, as of July 1, 2014, to \$36,958,138 for an increase of \$10,878,174 or a 42% increase over the prior year ending fund balance.
- Due to implementing a daily cash flow analysis, the June 30, 2015 General Fund cash balance increased by more than \$15,000,000 over the prior fiscal year-end.
- On April 28, 2015, Moody's Investors Service removed the negative outlook from the District's general obligations rating, affecting \$305,500,000 in outstanding rated debt at the time of issuing the rating update.

OVERVIEW OF FINANCIAL STATEMENTS

The accompanying financial statements have been prepared in accordance with GASB Statement No. 34 and represent both entity-wide and fund level financial statements using both the accrual basis and modified accrual basis of accounting, respectively.

Entity-Wide Financial Statements

The first two statements are entity-wide financial statements--the Statement of Net Position and the Statement of Activities. These provide both long-term and short-term information about the District's overall financial status.

The entity-wide statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Position includes all of the District's assets, deferred outflows of resources and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities regardless of when cash is received or paid. The two entity-wide statements report the District's net position and how it has changed. Net Position, the difference between the District's assets, deferred outflows of resources and liabilities, is one way to measure the District's financial health or position.

READING SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)
YEAR ENDED JUNE 30, 2015

Over time, increases and decreases in the District's net position is an indication of whether its financial health is improving or deteriorating, respectively.

To assess the overall health of the District, the reader needs to consider additional nonfinancial factors, such as changes in the District's property tax base and the performance of the students.

The entity-wide financial statements of the District are divided into two categories:

- **Governmental Activities** - All of the District's basic services are included here, such as instruction, administration and community services. Property taxes, state subsidies, federal subsidies and grants finance most of these activities.
- **Business-Type Activities** - The District operates a food service operation and charges staff and students to cover the costs of the food service operation.

Fund Level Financial Statements

The remaining statements are fund financial statements that focus on individual parts of the District's operations in more detail than the entity-wide statements. The Governmental Funds statements tell how the District's general services were financed in the short term as well as what remains for future spending. Proprietary Fund statements offer short-term and long-term financial information about the activities that the District operates like a business. For this District, this is our Food Service Fund. Fiduciary Fund statements provide information about financial relationships for which the District acts solely as a trustee or agent for the benefit of others.

- **Governmental Funds** - Most of the District's activities are reported in Governmental Funds, which focus on the determination of financial position and change in financial position, not on income determination. Governmental Funds are reported using the modified accrual accounting method, which measures cash and all other financial assets that can readily be converted to cash. The Governmental Funds statements provide a detailed short-term view of the District's operations and the services it provides. Governmental Funds information helps the reader determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. The relationship (or differences) between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and Governmental Funds is reconciled in the financial statements.
- **Proprietary Funds** - These funds are used to account for the District activities that are similar to business operations in the private sector; or where the reporting is on determining net income, financial position, changes in financial position and a significant portion of funding through user charges. When the District charges customers for services it provides - whether to outside customers or to other units within the District - these services are generally reported in Proprietary Funds. The Food Service Fund is the District's Proprietary Fund and is the same as the business-type activities reported in the government-wide statements.

READING SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)
YEAR ENDED JUNE 30, 2015

- **Fiduciary Funds** - The District is the trustee, or fiduciary, for some scholarship funds. All of the District's fiduciary activities are reported in a separate Statement of Fiduciary Net Position. These activities are excluded from the District's other financial statements because the District cannot use these assets to finance its operations.

The financial statements also include notes that explain some of the information in the financial statements and provide more detail.

FINANCIAL ANALYSIS OF THE DISTRICT - ENTITY-WIDE STATEMENTS

The District's total net position was a negative \$446,005,884 at June 30, 2015, and a negative \$146,847,327 at June 30, 2014. This represents a decrease of \$299,158,557 over the prior year. The following tables (A-1) present condensed financial information for the net position of the District as of June 30, 2015 and 2014.

Table A-1
Statement of Net Position
June 30, 2015

	Governmental Activities	Business-Type Activities	Totals
ASSETS AND DEFERRED OUTFLOWS			
Current assets	\$ 91,178,001	\$ 5,087,868	\$ 96,265,869
Capital assets	252,117,383	828,591	252,945,974
Deferred outflows of resources	17,551,760	552,000	18,103,760
TOTAL ASSETS AND DEFERRED OUTFLOWS	360,847,144	6,468,459	367,315,603
LIABILITIES AND DEFERRED INFLOWS			
Current liabilities	37,317,996	75,036	37,393,032
Noncurrent liabilities	715,356,059	12,652,659	728,008,718
Deferred inflows of resources	23,683,382	728,000	24,411,382
TOTAL LIABILITIES AND DEFERRED INFLOWS	776,357,437	13,455,695	789,813,132
NET POSITION			
Net investment in capital assets	(56,717,024)	828,591	(55,888,433)
Unrestricted	(358,793,269)	(7,815,827)	(366,609,096)
TOTAL NET POSITION	\$ (415,510,293)	\$ (6,987,236)	\$ (422,497,529)

READING SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)
YEAR ENDED JUNE 30, 2015

Table A-1
Statement of Net Position
June 30, 2014

	Governmental Activities	Business-Type Activities	Totals
ASSETS AND DEFERRED OUTFLOWS			
Current assets	\$ 111,366,484	\$ 5,834,329	\$ 117,200,813
Capital assets	223,198,391	698,815	223,897,206
Deferred outflows of resources	969,540	-	969,540
TOTAL ASSETS AND DEFERRED OUTFLOWS	335,534,415	6,533,144	342,067,559
LIABILITIES AND DEFERRED INFLOWS			
Current liabilities	31,553,472	77,095	31,630,567
Noncurrent liabilities	450,105,785	2,597,845	452,703,630
Deferred inflows of resources	4,580,689	-	4,580,689
TOTAL LIABILITIES AND DEFERRED INFLOWS	486,239,946	2,674,940	488,914,886
NET POSITION			
Net investment in capital assets	(65,259,427)	698,815	(64,560,612)
Unrestricted	(85,446,104)	3,159,389	(82,286,715)
TOTAL NET POSITION	\$ (150,705,531)	\$ 3,858,204	\$ (146,847,327)

Most of the District's assets are invested in capital assets (e.g., buildings, land and equipment). In 2014-2015, the Other Postemployment Benefits Obligation (e.g., hospitalization, prescription, dental, vision and life insurance paid for employees after retirement) as a noncurrent liability totaled \$117,510,842 compared to \$109,488,761 in 2013-2014. This increase had a negative impact on the District's total net position when compared to the prior fiscal years. At June 30, 2015, the District was required to implement Governmental Accounting Standards Board (GASB) Statement Number 68 – Accounting and Financial Reporting for Pensions. As a result, the District recorded a net pension liability of \$275,402,000 for its proportionate share of the net pension liability due to the Public School Employees' Retirement System (PSERS). The Commonwealth of Pennsylvania contributes reimburses the District quarterly based on a standards formula determined by the hire date of the employees and the aid ratio of the District. For 2014-2015, the District was reimbursed approximately 80% of the contributions it made to PSERS from the Commonwealth.

The results of this year's operations as a whole are reported in the Statement of Activities. All expenses are reported in the first column. Specific charges, grants, revenues and subsidies that directly relate to specific expense categories are presented to determine the final amount of the District's activities that are supported by other general revenues. The two largest general revenues are the Basic Education subsidy provided by the Commonwealth of Pennsylvania and the Local Taxes assessed to community taxpayers.

READING SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)
YEAR ENDED JUNE 30, 2015

The following tables present condensed financial information for the Statement of Activities in a different format so that the reader can see the total revenues for the year.

Table A-2
Changes in Net Position
Fiscal Year Ended June 30, 2015

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Totals</u>
REVENUES			
Program revenues			
Operating and contributions	\$ 65,467,034	\$ 12,499,637	\$ 77,966,671
Charges for services	250,453	501,400	751,853
General revenues			
Property taxes	21,246,182	-	21,246,182
Other taxes	15,297,779	-	15,297,779
Grants, subsidies and contributions, unrestricted	121,309,284	-	121,309,284
Investment earnings	509,719	3,235	512,954
Gain on sale of capital assets	319	-	319
Miscellaneous	1,036,017	-	1,036,017
	<u>225,116,787</u>	<u>13,004,272</u>	<u>238,121,059</u>
EXPENSES			
Instruction	140,322,674	-	140,322,674
Instructional student support	15,667,808	-	15,667,808
Administrative and financial support	22,662,899	-	22,662,899
Operation and maintenance of plant	18,601,700	-	18,601,700
Pupil transportation	5,855,037	-	5,855,037
Food services	1,329	-	1,329
Student activities	1,905,302	-	1,905,302
Community services	1,202,682	-	1,202,682
Interest on long-term debt	12,827,439	-	12,827,439
Unallocated depreciation	4,871,679	-	4,871,679
Food service	-	15,056,712	15,056,712
	<u>223,918,549</u>	<u>15,056,712</u>	<u>238,975,261</u>
CHANGE IN NET POSITION	<u>\$ 1,198,238</u>	<u>\$ (2,052,440)</u>	<u>\$ (854,202)</u>

READING SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)
YEAR ENDED JUNE 30, 2015

Table A-2
Changes in Net Position
Fiscal Year Ended June 30, 2014

	Governmental Activities	Business-Type Activities	Totals
REVENUES			
Program revenues			
Operating and contributions	\$ 56,046,949	\$ 9,862,427	\$ 65,909,376
Charges for services	335,189	786,696	1,121,885
General revenues			
Property taxes	23,806,739	-	23,806,739
Other taxes	14,247,912	-	14,247,912
Grants, subsidies and contributions, unrestricted	121,441,791	-	121,441,791
Investment earnings	435,489	3,440	438,929
Gain on sale of capital assets	399	-	399
Miscellaneous	1,394,299	-	1,394,299
	<u>217,708,767</u>	<u>10,652,563</u>	<u>228,361,330</u>
EXPENSES			
Instruction	130,166,505	-	130,166,505
Instructional student support	13,694,997	-	13,694,997
Administrative and financial support	21,317,970	-	21,317,970
Operation and maintenance of plant	18,017,595	-	18,017,595
Pupil transportation	5,937,211	-	5,937,211
Facilities acquisition, construction and improvement	2,271,575	-	2,271,575
Student activities	1,883,558	-	1,883,558
Community services	993,241	-	993,241
Interest on long-term debt	15,123,071	-	15,123,071
Unallocated depreciation	4,868,047	-	4,868,047
Food service	-	10,813,399	10,813,399
	<u>214,273,770</u>	<u>10,813,399</u>	<u>225,087,169</u>
CHANGE IN NET POSITION	<u>\$ 3,434,997</u>	<u>\$ (160,836)</u>	<u>\$ 3,274,161</u>

The tables on the next page present condensed financial information on the expenses of the District by function for both the Governmental Activities and the Business-Type Activities of the District. Table A-3 illustrates both the gross and net costs of services. Unrestricted grants, subsidies and contributions are deducted to reflect the amount needed to be funded by other revenue sources. Table A-4 for business-type activities reflects condensed financial activities of the food service program, the only business-type activity of the District.

READING SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)
YEAR ENDED JUNE 30, 2015

Table A-3
Governmental Activities
Fiscal Years Ended June 30, 2015 and 2014

Functions/Programs	Cost of Services Total	2014-2015 Net	Cost of Services Total	2013-2014 Net
Instruction	\$ 140,322,674	\$ 87,503,603	\$ 130,166,505	\$ 87,138,921
Instructional student support	15,667,808	13,919,349	13,694,997	12,306,638
Administrative/financial support	22,662,899	20,743,856	21,317,970	19,882,701
Operation and maintenance	18,601,700	16,887,090	18,017,595	16,643,636
Pupil transportation	5,855,037	4,358,717	5,937,211	4,481,869
Facilities acquisition, construction and improvement	-	-	2,271,575	2,271,575
Food services	1,329	1,329	-	-
Student activities	1,905,302	1,569,749	1,883,558	1,616,666
Community services	1,202,682	983,610	993,241	786,607
Interest on long-term debt	12,827,439	7,362,080	15,123,071	7,894,972
Unallocated depreciation	4,871,679	4,871,679	4,868,047	4,868,047
TOTAL GOVERNMENTAL ACTIVITIES	\$ <u>223,918,549</u>	158,201,062	\$ <u>214,273,770</u>	157,891,632
Less unrestricted grants, subsidies		<u>121,309,284</u>		<u>121,441,791</u>
AMOUNT NEEDED TO BE FUNDED BY OTHER REVENUE SOURCES		\$ <u>36,891,778</u>		\$ <u>36,449,841</u>

Table A-3
Business-Type Activities
Fiscal Years Ended June 30, 2015 and 2014

Functions/Programs	Cost of Services Total	2014-2015 Net	Cost of Services Total	2013-2014 Net
Food services	\$ <u>15,056,712</u>	\$ <u>2,055,675</u>	\$ <u>10,813,399</u>	\$ <u>164,276</u>

THE DISTRICT FUNDS

General Fund

At June 30, 2015, the District reported an unassigned General Fund balance of \$17,985,138, which represents 7.9% of total budgeted expenditures for 2015-2016. Included in the budget for the 2015-2016 school year, the District assigned approximately \$1,554,033 to balance the FY 2015-2016 budget. At June 30, 2015, the District reported an assigned General Fund balance of \$19,000,000 to allocate to future expenditures as follows: \$7,000,000 for healthcare insurance; \$9,000,000 for repairs, maintenance, construction and infrastructure projects; \$2,000,000 for curriculum enhancements; and \$1,000,000 for future pension plan contributions.

READING SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)
YEAR ENDED JUNE 30, 2015

Capital Projects Fund

At June 30, 2014, the Capital Projects Fund had a fund balance of \$15,176,252, which was a decrease of \$33,025,494 from the prior year. The Capital Projects Fund was funded by bond funds. The District has been spending the bond funds on renovations to various elementary and secondary buildings as well as other capital improvements.

GENERAL FUND BUDGET

During the fiscal year, the Board of School Directors authorizes revisions to the original budget to accommodate differences from the original budget to the actual expenditures of the District. All adjustments are confirmed again at the time the annual audit is accepted. This is done after the end of the fiscal year in accordance with state law. A schedule showing the District's original and final budget amounts compared with amounts actually paid and received is provided in the financial statements. There were amendments to the original budget to reflect federal programs awarded subsequent to original budget adoption.

CAPITAL ASSETS

In order to comply with GASB Statement No. 34, the District compiles an inventory of capital assets over \$4,000. Additions are identified through the purchasing process. Deletions are identified when an asset is disposed of. Depreciation is calculated using the straight-line method. The table below depicts the District's Capital Assets.

Table A-5
Governmental Activities
Capital Assets - Net of Depreciation

	<u>2014-2015</u>	<u>2013-2014</u>
Land	\$ 14,645,066	\$ 14,645,066
Land improvements	2,201,842	2,195,357
Building and improvements	238,835,376	213,225,117
Leasehold improvements	13,298,495	13,298,495
Furniture and equipment	20,114,485	18,807,264
Vehicles	1,870,493	1,870,493
Construction in progress	37,673,534	29,904,215
Accumulated depreciation	<u>(76,521,908)</u>	<u>(70,747,616)</u>
	<u>\$ 252,117,383</u>	<u>\$ 223,198,391</u>

READING SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)
YEAR ENDED JUNE 30, 2015

DEBT ADMINISTRATION

As of July 1, 2014, the District had total outstanding bonds in the amount of \$390,945,000. During 2014-2015, the District made payments against principal in the amount of \$10,267,489. On July 30, 2014, the District refinanced the District's Series of 2007 allowing for a reduction in interest expense. The amount of outstanding debt shown in Table A-6 does not include unamortized bond interest.

Table A-6
Outstanding Debt

	<u>Balance</u> <u>June 30, 2015</u>	<u>Balance</u> <u>June 30, 2014</u>
General Obligation Bonds		
Series A of 2003	\$ 1,700,000	\$ 1,825,000
Series B of 2003	102,960,000	102,960,000
Series of 2005	87,070,000	89,425,000
Series of 2007	-	9,790,000
Series of 2008	97,330,000	98,500,000
Series A of 2011	50,845,000	55,970,000
Series AA of 2011	11,745,000	13,105,000
Series of 2012	9,370,000	9,490,000
General Obligation Notes		
Series A of 2014	620,000	620,000
Series B of 2014	9,260,000	9,260,000
Series C of 2014	9,895,000	-
	<u>\$ 380,795,000</u>	<u>\$ 390,945,000</u>

OTHER LONG-TERM LIABILITIES

Other long-term obligations include OPEB and compensated absences for specific employees of the District. More detailed information about long-term liabilities is included in the notes to the basic financial statements.

Table A-7
Other Long-Term Debt

	<u>Balance</u> <u>June 30, 2015</u>	<u>Balance</u> <u>June 30, 2014</u>
Other long-term debt	\$ <u>395,040,501</u>	\$ <u>111,808,466</u>

READING SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)
YEAR ENDED JUNE 30, 2015

COMPARISON OF REVENUE AND EXPENDITURE CATEGORIES

The comparison of budgeted revenue and expenditures between FY 2014-2015 and FY 2013-2014 is depicted in the tables below.

Table A-8
Budgeted Revenues

	<u>2014-2015</u>	<u>2013-2014</u>
Local	15.45%	15.01%
State	73.84%	73.49%
Federal/other	10.71%	11.50%

Table A-9
Budgeted Expenditures

	<u>2014-2015</u>	<u>2013-2014</u>
Instruction	59.98%	59.52%
Support services	28.35%	27.63%
Non-instruction/community	1.19%	1.46%
Fund transfers/debt	10.48%	11.39%

ECONOMIC FACTORS AND ISSUES THAT WILL IMPACT THE FUTURE OF THE DISTRICT

Education is a labor-intensive business. As such, personnel and personnel associated costs will continue to be the most significant challenge facing the District, especially due to unfunded mandates. The most significant unfunded mandate is the cost of retirement. Retirement costs have been steadily increasing each year. The District's contribution is calculated based on two factors: the total wages of the employees enrolled in the plan and the contribution rate established from year-to-year by the Pennsylvania School Employees' Retirement System ("PSERS") board. The rate established by the PSERS Board is established based on the pension plan's balance and the expected future payout of those enrolled. The rates are 25.56% for FY 2015-2016 and 30.03% for FY 2016-2017. Without significant pension reform by the State, these increases are unsustainable.

Additionally, health care costs continue to increase at a rate faster than revenues. While the District has embarked on measures to curtail the escalation of healthcare costs, unless concessions are achieved in future collective bargaining agreements, health care costs will continue to adversely impact operating costs. When factoring in the unfunded mandate of the Affordable Health Care Act, the cost of health care will continue to be an issue that impacts the future of the District.

The state of the national, state and local economy will also impact the District. Of particular concern is the federal budget and the impact decreasing revenues would have on the District. With a free and reduced lunch count of nearly 95% of the student population, the District has heavily relied on supplemental funding from the federal government. Should federal funding continue to decrease, the level of programs and services will be severely impacted.

READING SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)
YEAR ENDED JUNE 30, 2015

State funding is a considerable portion of the District's revenue. While discussions have centered around reforming the funding formula by the State, future increases in State funding are anticipated to be nominal, especially in the areas of Special Education and Charter Schools. Adding to the uncertainty is how funding reform may occur since there is a movement to eliminate property taxes as a source of revenue without identifying an adequate and predictable revenue source of replacement. As such, the political process is not within the control of the District and future state funding changes could adversely impact the District.

While property taxes were increased for the second time in nearly ten years in 2014-2015, it is anticipated, due to Act I which limits the increase in property tax rates, local revenues will not increase significantly in the future until property values stabilize. Adding to the challenge was the reluctance by the governance body to increase local property taxes in FY 2013-2014, however, there was a tax increase in FY 2014-2015. Any additional revenue that may result from future property tax increases is projected to be nominal due to the local economy and the decreasing property values.

Being able to attract and retain qualified staff will be a future issue. At the end of FY 2014-2015, every collective bargaining agreement has expired. In some cases, several bargaining agreements will be more than two years or more outstanding. Without a resolution to the expired agreements, labor costs in the future are unpredictable.

Three other cost factors will impact the future of the District. They are Debt Service, Charter Schools and Other Postemployment Benefit Obligations (OPEB).

Currently, Debt Service consumes more than ten percent of the general operating budget. Because the District utilized Capital Appreciation Bonds (CAB) as a funding vehicle, reducing the annual debt service to an acceptable level without adversely impacting operations is doubtful; and the District's ability to meet future capital needs, due to aging buildings and infrastructure, is bleak.

Also, Charter Schools have adversely impacted all districts in Pennsylvania, including Reading. Without State reform of the funding and creation of Charter Schools, the District is certain to lose enrollment and revenue without the ability to offset the costs. Adding the unfunded state and federal mandates, increasing number of non-traditional students requiring specialized programming continues to have a financial impact on the District.

Finally, Other Postemployment Benefit Obligations (OPEB), totaling \$117,510,842 as of June 30, 2015, remain unfunded.

FINANCIAL MANAGEMENT

Our financial report is designed to provide our citizens, taxpayers, parents, students, investors and creditors with a general overview of the District's finances and to show the Board's accountability for the money it receives and spends. If you have questions about this report or wish to request additional financial information, please contact the Chief Financial Officer at the Reading School District, 800 Washington Street, Reading, PA 19601-3691, (610) 371-5665.

READING SCHOOL DISTRICT
STATEMENT OF NET POSITION
JUNE 30, 2015

	Governmental Activities	Business-Type Activities	Totals
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES			
ASSETS			
Cash and investments	\$ 70,117,439	\$ 4,864,501	\$ 74,981,940
Taxes receivable	6,721,185	-	6,721,185
Interfund receivables	1,537,373	(1,537,373)	-
Intergovernmental receivables	12,566,663	1,533,034	14,099,697
Other receivables	198,989	78,768	277,757
Inventories	-	148,938	148,938
Prepaid expenses	36,352	-	36,352
Capital assets			
Land	14,645,066	-	14,645,066
Land improvements	2,201,842	-	2,201,842
Buildings and improvements	238,835,376	-	238,835,376
Leasehold improvements	13,298,495	-	13,298,495
Furniture and equipment	20,114,485	3,471,511	23,585,996
Vehicles	1,870,493	-	1,870,493
Construction in progress	37,673,534	-	37,673,534
Accumulated depreciation	(76,521,908)	(2,642,920)	(79,164,828)
TOTAL ASSETS	343,295,384	5,916,459	349,211,843
DEFERRED OUTFLOWS OF RESOURCES			
Deferred charge on refunding	852,760	-	852,760
Deferred outflows of resources - pension activity	16,699,000	552,000	17,251,000
TOTAL DEFERRED OUTFLOWS OF RESOURCES	17,551,760	552,000	18,103,760
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	\$ 360,847,144	\$ 6,468,459	\$ 367,315,603
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION			
LIABILITIES			
Accounts payable	\$ 14,962,885	\$ 75,036	\$ 15,037,921
Accrued salaries and benefits	16,929,637	-	16,929,637
Payroll deductions and withholdings	1,232,209	-	1,232,209
Unearned revenue	91,835	-	91,835
Accrued interest	3,958,801	-	3,958,801
Interest rate option agreement deferral	142,629	-	142,629
Long-term liabilities			
Portion due or payable within one year			
Bonds payable, net	11,560,000	-	11,560,000
Portion due or payable after one year			
Bonds payable, net	316,565,055	-	316,565,055
Bond discounts	(160,390)	-	(160,390)
Bond premiums	5,003,552	-	5,003,552
Accumulated compensated absences	2,048,347	79,312	2,127,659
Net pension liability	266,589,000	8,813,000	275,402,000
Other postemployment benefits	113,750,495	3,760,347	117,510,842
TOTAL LIABILITIES	752,674,055	12,727,695	765,401,750
DEFERRED INFLOWS OF RESOURCES			
Derivative investment liability	1,642,382	-	1,642,382
Deferred inflows of resources - pension activity	22,041,000	728,000	22,769,000
TOTAL DEFERRED INFLOWS OF RESOURCES	23,683,382	728,000	24,411,382
TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES	776,357,437	13,455,695	789,813,132
NET POSITION			
Net investment in capital assets	(56,717,024)	828,591	(55,888,433)
Unrestricted	(358,793,269)	(7,815,827)	(366,609,096)
TOTAL NET POSITION	(415,510,293)	(6,987,236)	(422,497,529)
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	\$ 360,847,144	\$ 6,468,459	\$ 367,315,603

See accompanying notes to the basic financial statements.

READING SCHOOL DISTRICT

STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2015

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
GOVERNMENTAL ACTIVITIES				
Instruction	\$ 140,322,674	\$ 755	\$ 52,818,316	\$ -
Instructional student support	15,667,808	-	1,748,459	-
Administrative/financial support services	22,662,899	-	1,919,043	-
Operation/maintenance of plant services	18,601,700	-	1,714,610	-
Pupil transportation	5,855,037	-	1,496,320	-
Food services	1,329	-	-	-
Student activities	1,905,302	140,599	194,954	-
Community services	1,202,682	109,099	109,973	-
Interest on long-term debt	12,827,439	-	5,465,359	-
Unallocated depreciation	4,871,679	-	-	-
TOTAL GOVERNMENTAL ACTIVITIES	223,918,549	250,453	65,467,034	-
BUSINESS-TYPE ACTIVITIES				
Food service	15,056,712	501,400	12,499,637	-
TOTAL DISTRICT ACTIVITIES	\$ 238,975,261	\$ 751,853	\$ 77,966,671	\$ -

GENERAL REVENUES

Taxes

Property taxes, levied for general purposes

Taxes levied for specific purposes

Grants and entitlements not restricted to specific programs

Investment earnings

Gain on sale of capital assets

Miscellaneous

TOTAL GENERAL REVENUES

CHANGE IN NET POSITION

NET POSITION AT BEGINNING OF YEAR, restated

NET POSITION AT END OF YEAR

See accompanying notes to the basic financial statements.

Net (Expense) Revenue and Changes in Net Position		
<u>Governmental</u> <u>Activities</u>	<u>Business-Type</u> <u>Activities</u>	<u>Totals</u>
\$ (87,503,603)	\$ -	\$ (87,503,603)
(13,919,349)	-	(13,919,349)
(20,743,856)	-	(20,743,856)
(16,887,090)	-	(16,887,090)
(4,358,717)	-	(4,358,717)
(1,329)	-	(1,329)
(1,569,749)	-	(1,569,749)
(983,610)	-	(983,610)
(7,362,080)	-	(7,362,080)
(4,871,679)	-	(4,871,679)
(158,201,062)	-	(158,201,062)
<u>-</u>	<u>(2,055,675)</u>	<u>(2,055,675)</u>
<u>(158,201,062)</u>	<u>(2,055,675)</u>	<u>(160,256,737)</u>
21,246,182	-	21,246,182
15,297,779	-	15,297,779
121,309,284	-	121,309,284
509,719	3,235	512,954
319	-	319
1,036,017	-	1,036,017
<u>159,399,300</u>	<u>3,235</u>	<u>159,402,535</u>
1,198,238	(2,052,440)	(854,202)
<u>(416,708,531)</u>	<u>(4,934,796)</u>	<u>(421,643,327)</u>
<u>\$ (415,510,293)</u>	<u>\$ (6,987,236)</u>	<u>\$ (422,497,529)</u>

READING SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2015

	<u>General Fund</u>	<u>Capital Projects Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS				
Cash and cash equivalents	\$ 46,726,399	\$ 15,236,344	\$ 109,990	\$ 62,072,733
Investments	-	8,044,706	-	8,044,706
Taxes receivable	6,721,185	-	-	6,721,185
Interfund receivables	1,537,373	-	-	1,537,373
Intergovernmental receivables	12,566,663	-	-	12,566,663
Other receivables	198,989	-	-	198,989
Prepaid expenses	36,352	-	-	36,352
TOTAL ASSETS	\$ 67,786,961	\$ 23,281,050	\$ 109,990	\$ 91,178,001
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES				
LIABILITIES				
Accounts payable	\$ 6,851,114	\$ 8,104,798	\$ 6,973	\$ 14,962,885
Accrued salaries and benefits	16,929,637	-	-	16,929,637
Payroll deductions and withholdings	1,232,209	-	-	1,232,209
Unearned revenue, grants	91,835	-	-	91,835
TOTAL LIABILITIES	25,104,795	8,104,798	6,973	33,216,566
DEFERRED INFLOWS OF RESOURCES				
Unavailable revenue, property taxes	5,697,028	-	-	5,697,028
FUND BALANCES				
Restricted	-	15,176,252	103,017	15,279,269
Assigned	19,000,000	-	-	19,000,000
Unassigned	17,985,138	-	-	17,985,138
TOTAL FUND BALANCES	36,985,138	15,176,252	103,017	52,264,407
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	\$ 67,786,961	\$ 23,281,050	\$ 109,990	\$ 91,178,001

See accompanying notes to the basic financial statements.

READING SCHOOL DISTRICT

RECONCILIATION OF TOTAL GOVERNMENTAL FUNDS BALANCES TO NET POSITION OF GOVERNMENTAL ACTIVITIES JUNE 30, 2015

TOTAL GOVERNMENTAL FUNDS BALANCES	\$ 52,264,407
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets used in governmental activities are not current financial resources and therefore are not reported in the funds. These assets consist of:	
Land	14,645,066
Land improvements	2,201,842
Buildings and improvements	238,835,376
Leasehold improvements	13,298,495
Furniture and equipment	20,114,485
Vehicles	1,870,493
Construction in progress	37,673,534
Accumulated depreciation	(76,521,908)
Deferred inflows and outflows of resources related to pension activities are not financial resources and therefore not reported in the governmental funds.	(5,342,000)
Some of the District's revenues will be collected after year-end but are not available soon enough to pay for the current period's expenditures and therefore are unavailable in the funds.	5,697,028
Income received on terminated investment derivatives, net of amortization.	(142,629)
Some liabilities are not due and payable in the current period and therefore are not reported in the funds. Those liabilities consist of:	
Bonds payable, net	(328,125,055)
Bond discounts	160,390
Bond premiums	(5,003,552)
Accrued interest	(3,958,801)
Accumulated compensated absences	(2,048,347)
Net pension liability	(266,589,000)
Other postemployment benefits	(113,750,495)
Issuance of debt and debt refundings resulting in deferred charges which will be amortized over the life of the related debt but do not represent current rights.	
Deferred charge on refunding, net of amortization	852,760
Governments are required to report investment derivative instruments at fair value in their economic resources measurement focus financial statements. Fair value of the investment derivatives is recorded at year-end.	<u>(1,642,382)</u>
NET POSITION OF GOVERNMENTAL ACTIVITIES	<u>\$ (415,510,293)</u>

See accompanying notes to the basic financial statements.

READING SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2015

	<u>General Fund</u>	<u>Capital Projects Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
REVENUES				
Local sources	\$ 38,353,036	\$ 55,126	\$ 107,910	\$ 38,516,072
State sources	162,512,475	-	-	162,512,475
Federal sources	23,925,261	-	-	23,925,261
TOTAL REVENUES	<u>224,790,772</u>	<u>55,126</u>	<u>107,910</u>	<u>224,953,808</u>
EXPENDITURES				
Instructional services	131,890,134	-	-	131,890,134
Support services	59,547,833	-	-	59,547,833
Operation of noninstructional services	2,880,898	-	74,396	2,955,294
Facilities acquisition, construction and improvement	-	33,080,620	-	33,080,620
Debt service				
Principal	9,097,486	-	1,170,000	10,267,486
Interest	10,488,166	-	2,850,000	13,338,166
Bond issuance costs	-	-	164,778	164,778
TOTAL EXPENDITURES	<u>213,904,517</u>	<u>33,080,620</u>	<u>4,259,174</u>	<u>251,244,311</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>10,886,255</u>	<u>(33,025,494)</u>	<u>(4,151,264)</u>	<u>(26,290,503)</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	-	-	45,000	45,000
Transfers out	(45,000)	-	-	(45,000)
Refunding bonds issued	-	-	9,910,000	9,910,000
Discount on refunding bonds issued	-	-	17,043	17,043
Payment to refunded bond escrow agent	-	-	(9,807,265)	(9,807,265)
Sale of assets	319	-	-	319
Insurance proceeds	36,600	-	-	36,600
TOTAL OTHER FINANCING SOURCES (USES)	<u>(8,081)</u>	<u>-</u>	<u>164,778</u>	<u>156,697</u>
NET CHANGE IN FUND BALANCES	10,878,174	(33,025,494)	(3,986,486)	(26,133,806)
FUND BALANCES AT BEGINNING OF YEAR, restated	<u>26,106,964</u>	<u>48,201,746</u>	<u>4,089,503</u>	<u>78,398,213</u>
FUND BALANCES AT END OF YEAR	<u>\$ 36,985,138</u>	<u>\$ 15,176,252</u>	<u>\$ 103,017</u>	<u>\$ 52,264,407</u>

See accompanying notes to the basic financial statements.

READING SCHOOL DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF
REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
TO THE STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2015

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS \$ (26,133,806)

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

Capital outlays are reported in Governmental Funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation (\$5,774,292) is exceeded by capital outlays (\$34,693,284) in the current period. 28,918,992

Because some revenues will not be collected for several months after the District's fiscal year ends, they are not considered as "available" revenues in the Governmental Funds. Unavailable revenues decreased by this amount this year. 126,060

The issuance of long-term debt (e.g., bonds, leases) provides current financial resources to Governmental Funds, while the repayment of the principal of long-term debt consumes the current financial resources of Governmental Funds. Neither transaction, however, has any effect on net position. 7,502,946

Bond discounts, premiums and deferred charges are a use of current financial resources in the Governmental Funds. In the statement of net position, bond discounts, premiums and deferred charges are amortized. 307,221

Some expenses reported in the statement of activities do not require the use of current financial resources and are not reported as expenditures in Governmental Funds:

Accrued interest not reflected in Governmental Funds	47,047
Compensated absences not reflected in Governmental Funds	191,754
Pension expense not reflected in Governmental Funds	(5,928,000)
Derivative instruments and deferred outflows and inflows	2,945,999

Postemployment benefits are recognized when they are paid on the fund statements. With the implementation of GASB Statement No. 45, an estimated liability for future benefits due will be phased in over several years. This amount represents the difference between the estimated annual cost and the amount paid. (6,779,975)

CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES \$ 1,198,238

See accompanying notes to the basic financial statements.

READING SCHOOL DISTRICT
STATEMENT OF NET POSITION
PROPRIETARY FUND
JUNE 30, 2015

	<u>Food Service Fund</u>
ASSETS	
CURRENT ASSETS	
Cash and cash equivalents	\$ 4,741,643
Investments	122,858
State subsidy receivable	16,967
Federal subsidy receivable	1,516,067
Accounts receivable	78,768
Inventories	148,938
TOTAL CURRENT ASSETS	<u>6,625,241</u>
PROPERTY AND EQUIPMENT	
Furniture and equipment	3,471,511
Accumulated depreciation	<u>(2,642,920)</u>
PROPERTY AND EQUIPMENT, net	<u>828,591</u>
TOTAL ASSETS	<u>7,453,832</u>
DEFERRED OUTFLOWS OF RESOURCES	
Deferred outflows of resources - pension activity	<u>552,000</u>
LIABILITIES	
CURRENT LIABILITIES	
Accounts payable	75,036
Interfund payables	1,537,373
TOTAL CURRENT LIABILITIES	<u>1,612,409</u>
NONCURRENT LIABILITIES	
Other postemployment benefits obligation	3,760,347
Net pension liability	8,813,000
Long-term portion of compensated absences	79,312
TOTAL NONCURRENT LIABILITIES	<u>12,652,659</u>
TOTAL LIABILITIES	<u>14,265,068</u>
DEFERRED INFLOWS OF RESOURCES	
Deferred inflows of resources - pension activity	<u>728,000</u>
NET POSITION	
Net investment in capital assets	828,591
Unrestricted	<u>(7,815,827)</u>
TOTAL NET POSITION	<u>\$ (6,987,236)</u>

See accompanying notes to the basic financial statements.

READING SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET POSITION
PROPRIETARY FUND
YEAR ENDED JUNE 30, 2015

	<u>Food Service Fund</u>
OPERATING REVENUES	
Food sales	\$ 188,266
Charges for services	<u>313,134</u>
TOTAL OPERATING REVENUES	<u>501,400</u>
OPERATING EXPENSES	
Salaries	3,738,133
Employee benefits	3,841,356
Purchased professional and technical services	69,611
Purchased property services	309,072
Other purchased services	83,128
Supplies	6,870,770
Other	1,035
Depreciation	<u>143,607</u>
TOTAL OPERATING EXPENSES	<u>15,056,712</u>
OPERATING LOSS	<u>(14,555,312)</u>
NONOPERATING REVENUES	
Interest income	3,235
State sources	1,128,078
Federal sources	<u>11,371,559</u>
TOTAL NONOPERATING REVENUES	<u>12,502,872</u>
CHANGE IN NET POSITION	(2,052,440)
NET POSITION AT BEGINNING OF YEAR, restated	<u>(4,934,796)</u>
NET POSITION AT END OF YEAR	<u>\$ (6,987,236)</u>

See accompanying notes to the basic financial statements.

READING SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
YEAR ENDED JUNE 30, 2015

	<u>Food Service Fund</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from customers	\$ 484,050
Payments to suppliers	(7,743,686)
Payments to employees	(6,141,675)
NET CASH USED BY OPERATING ACTIVITIES	<u>(13,401,311)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
State sources	1,173,786
Federal sources	11,187,136
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	<u>12,360,922</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Equipment acquisition	<u>(273,383)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchase of investments	(21)
Earnings on investments	3,235
NET CASH PROVIDED BY INVESTING ACTIVITIES	<u>3,214</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(1,310,558)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>6,052,201</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 4,741,643</u>
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES	
Operating loss	\$ (14,555,312)
Adjustments to reconcile operating loss to net cash used by operating activities	
Depreciation	143,607
Pension expense	196,000
Increase in	
Accounts receivable	(17,350)
Inventories	(25,910)
Increase (decrease) in	
Accounts payable	(2,059)
Other postemployment benefits	1,242,106
Compensated absences	(292)
Interfund payable	<u>(382,101)</u>
NET CASH USED BY OPERATING ACTIVITIES	<u>\$ (13,401,311)</u>

See accompanying notes to the basic financial statements.

READING SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
JUNE 30, 2015

	<u>Private- Purpose Trust Funds</u>	<u>Agency Funds</u>
ASSETS		
Cash	\$ 852,478	\$ 165,083
Investments	<u>184,321</u>	<u>-</u>
TOTAL ASSETS	<u>\$ 1,036,799</u>	<u>\$ 165,083</u>
LIABILITIES AND NET POSITION		
CURRENT LIABILITIES		
Other current liabilities	\$ 54,000	\$ 165,083
NET POSITION		
Held in trust for scholarships	<u>982,799</u>	<u>-</u>
TOTAL LIABILITIES AND NET POSITION	<u>\$ 1,036,799</u>	<u>\$ 165,083</u>

See accompanying notes to the basic financial statements.

READING SCHOOL DISTRICT
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FIDUCIARY FUNDS
YEAR ENDED JUNE 30, 2015

	<u>Private- Purpose Trust Funds</u>
ADDITIONS	
Contributions	\$ 114,000
Earnings on investments	1,267
Appreciation of investments	<u>3,071</u>
TOTAL ADDITIONS	118,338
DEDUCTIONS	
Scholarships	<u>99,169</u>
CHANGE IN NET POSITION	19,169
NET POSITION AT BEGINNING OF YEAR	<u>963,630</u>
NET POSITION AT END OF YEAR	<u><u>\$ 982,799</u></u>

See accompanying notes to the basic financial statements.

READING SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE A - NATURE OF BUSINESS

Reading School District (the "District") is coterminous with the City of Reading. The District currently operates 13 elementary schools, four middle schools, one intermediate high school and one senior high school. In addition, the District operates one alternative education programs.

Reading School District is a unit established, organized and empowered by the Commonwealth of Pennsylvania for the express purpose of carrying out on the local level the Commonwealth's obligation to public education, as established by the constitution of the Commonwealth and by the school law code of the same (Article II; Act 150, July 1968).

The public school system of the Commonwealth is administered by a Board of School Directors, to be elected or appointed as provided. At each election of school directors, each qualified voter shall be entitled to cast one vote for each school director to be elected.

Reading School District is governed by a board of nine members who are residents of the District and who are elected every two years, on a staggered basis, for a four-year term. The Board of School Directors has the power and duty to establish, equip, furnish and maintain a sufficient number of elementary, secondary and other schools necessary to educate every person residing in such district between the ages of six and 21 years, who may attend.

In order to establish, enlarge, equip, furnish, operate and maintain any schools herein provided, or to pay any school indebtedness which the District is required to pay, or to pay any indebtedness that may at any time hereafter be created by the District, the Board of School Directors is vested with all necessary authority and power annually to levy and collect the necessary taxes required and granted by the legislature, in addition to the annual state appropriation, and is vested with all the necessary power and authority to comply with and carry out any or all of the provision of the Public School Code of 1949 as amended.

The Superintendent of Schools is the executive officer of the Board of Directors and in that capacity administers the District in conformity with Board policies and the School Laws of Pennsylvania. The Superintendent is directly responsible to and therefore appointed by, the Board of School Directors. The Superintendent is responsible for the overall administration, supervision and operation of the District.

The accounting policies of the District conform to generally accepted accounting principles as applicable to governments. A summary of the more significant policies and practices of the District follows.

READING SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Reporting Entity

In evaluating the District as a reporting entity, management has addressed all potential component units for which the District may or may not be financially accountable and, as such, be includable within the District's financial statements.

GASB Statement No. 14, *The Financial Reporting Entity*, as amended by GASB Statement No. 61, established the criteria for determining the activities, organizations and functions of government to be included in the financial statements of the reporting entity. In evaluating the District as a reporting entity, management has addressed all potential component units which may or may not fall within the District's financial accountability. The criteria used to evaluate component units for possible inclusion as part of the District's reporting entity are financial accountability and the nature and significance of the relationship.

Based on the application of these criteria, the following is a brief review of each potential component unit addressed in defining the District's reporting entity.

Reading School District Public Museum and Art Gallery - Reading School District Public Museum and Art Gallery is situated within the geographical boundaries of the District, thereby providing a public service to citizens. The Museum receives a portion of its operating revenues from the District, with the majority of its support coming from the Museum Foundation. The Museum is governed by a separate board, which substantially limits the oversight responsibility of the District, thereby excluding the Museum from the District's reporting entity.

Reading School District School Authority - The Authority was formed to aid in providing financing for construction at new facilities or add on to existing facilities. Although the Authority would need to be a blended component unit, it is presently inactive.

Fund Accounting

The accounts of the District are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each are accounted for with a separate set of self-balancing accounts which are comprised of each fund's assets, liabilities, fund equity, revenues and expenditures or expenses. The funds are grouped into three types. The following is a description of the fund types used by the District in the accompanying basic financial statements.

Governmental Fund Types - Governmental Funds are used to account for the District's expendable financial resources and related liabilities except those accounted for in the Proprietary Fund. The measurement focus is upon determination of changes in financial position.

READING SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The following are the District's major Governmental Fund Types:

- **General Fund** - This is the general operating fund of the District. All activities of the District are accounted for through this fund except for those required to be accounted for in another fund.
- **Capital Projects Fund** - This fund accounts for financial resources used to acquire or construct major capital projects. The revenue in this fund comes from the sale of bonds or from capital appropriations from the General Fund.

The District also has the following nonmajor Governmental Fund Types:

- **Special Revenue Fund** - This fund accounts for financial resources set aside to fund the District's student activities.
- **Debt Service Fund** - This fund accounts for financial resources that are restricted for the repayment of the general long-term debt of the District.

Proprietary Fund Type

Food Service Fund - This fund is used to account for the District's food service operations that are financed and operated in a manner similar to private business enterprises. The fund accounts for all revenues, food purchases and costs and expenses for its food service program.

Fiduciary Fund Types

Trust Funds - Trust Funds are utilized to account for assets held by the District in a trustee capacity. The District's Trust Fund accounts for monies contributed for scholarships and memorials.

Agency Fund - The Student Activity Fund accounts for the receipts and disbursements of monies from student activity organizations. These organizations exist at the explicit approval of, and are subject to revocation by, the District governing body. This accounting reflects the District agency relationship with the student activity organizations. Accordingly, revenues and expenditures of this fund are not included in the revenues and expenditures of the District.

Entity-Wide Financial Statements

The entity-wide financial statements include the statement of net position and the statement of activities. These statements report financial information for the District as a whole, excluding fiduciary activities such as the Trust and Agency Funds. Individual funds are not displayed but the statements distinguish governmental activities (generally supported by taxes and District general revenues) from business-type activities (generally financed in whole or in part with fees charged for services).

READING SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The statement of activities reports the expenses of a given function offset by program revenues directly connected with the functional program. A function is an assembly of similar activities and may include portions of a fund or summarize more than one fund to capture the expenses and program revenues associated with a distinct functional activity. Program revenues include: (1) charges for services which report fees and other charges to users of the District's services; (2) operating grants and contributions which finance annual operating activities; and (3) capital grants and contributions which fund the acquisition, construction, or rehabilitation of capital assets. These revenues are subject to externally imposed restrictions to these program uses. Taxes and other revenue sources not properly included with program revenues are reported as general revenues.

Deferred Inflows and Deferred Outflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption at net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The District has two items that qualify for reporting in this category. The deferred charge on refunding reported in the government-wide statement of net position. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt. The deferred outflow related to pension activity is the result of pension contributions subsequent to the measurement date.

In addition to liabilities, the statement of net position and balance sheet - Governmental Funds will sometimes report separate sections for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The District has three types of items that qualify for reporting in this category. Delinquent taxes not collected within 60 days of year-end and, therefore, are not available under modified accrual reporting are reflected as deferred inflows of resources on the General Fund balance sheet. Derivative investment liabilities represent changes in the fair value of derivative instruments that are applicable for future reporting periods when additional events will occur. Deferred inflows related to pension activity result from net differences between projected and actual investment earnings of the pension plan, changes in the District's proportionate share of the total pension plan from year to year, and the difference between actual contributions and the District's proportionate share of total contributions.

Fund Financial Statements

Fund financial statements are provided for Governmental, Proprietary and Fiduciary Funds. Major individual Governmental and Enterprise Funds are reported in separate columns with composite columns for nonmajor funds.

READING SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The entity-wide statements report using the economic resources measurement focus and the accrual basis of accounting generally including the reclassification or elimination of internal activity (between or within funds). Proprietary and Fiduciary Funds financial statements also report using the same focus and basis of accounting although internal activity is not eliminated in these statements.

Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax revenues, net of any uncollectible amounts, are recognized in the year for which they are levied while grants are recognized when grantor eligibility requirements are met.

Governmental Funds financial statements report using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when they are both measurable and available. Available means collectible within the current period or soon enough thereafter to pay current liabilities. The District considers revenues to be available if they are collected within 60 days of the end of the fiscal year. Property taxes levied but collected beyond 60 days after year-end are recorded as unavailable revenue to be recognized as revenue when the taxes are collected. Expenditures are recorded when the related fund liability is incurred, except for general obligation bond principal and interest which are reported as expenditures in the year due.

Major revenue sources susceptible to accrual include property taxes, intergovernmental revenues and investment income. In general, other revenues are recognized when cash is received.

Operating income reported in Proprietary Fund financial statements includes revenues and expenses related to the primary, continuing operations of the fund. Principal operating revenues for the Proprietary Fund are charges for services. Principal operating expenses are the costs of providing goods or services and include administrative expenses and depreciation of capital assets. Other revenues and expenses are classified as nonoperating in the financial statements.

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as needed.

Cash and Cash Equivalents

For purposes of reporting cash flows, cash and cash equivalents include cash on hand, amounts due from banks and highly liquid investments with original maturities of 90 days or less.

READING SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments

Investments are carried at fair value.

Revenue from State and Federal Sources

State subsidies represent current year entitlements and are recognized as revenue in the current fiscal year even though funds may be received in the following year. Federal program funds applicable to expenditures of the current fiscal year but expected to be received in the next fiscal year are accrued as current year revenues.

Inventories

Inventory of food and paper supplies with the Food Service Fund is carried at cost, using the first-in, first-out (FIFO) method of accounting and is subsequently charged to expense when consumed.

Capital Assets and Depreciation

The District's property, plant and equipment with useful lives of more than one year are stated at historical cost and comprehensively reported in the entity-wide financial statements. Proprietary Fund capital assets also are reported in the fund financial statements. Donated assets are stated at fair value on the date donated. Capital assets are defined by the District as assets with an initial, individual cost of more than \$4,000 and an estimated useful life in excess of one year. Management has elected to include certain homogenous asset categories with individual assets less than \$4,000 as composite groups for financial reporting purposes. In addition, capital assets purchased with long-term debt may be capitalized regardless of the thresholds established. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the asset value or materially extend useful lives are not capitalized.

Capital assets are depreciated using the straight-line method. When capital assets are disposed, the cost and applicable accumulated depreciation are removed from the respective accounts, and the resulting gain or loss is recorded in operations. Estimated useful lives for depreciable assets generally are as follows:

	<u>Years</u>
Land improvements	20
Buildings and improvements	20-50
Leasehold improvements	30
Furniture, fixtures and equipment	5-20
Vehicles	8

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Long-Term Debt, Deferred Debt Expense and Bond Discounts/Premiums

In the entity-wide financial statements, outstanding debt is reported as liabilities. Bond discounts or premiums, and the difference between the reacquisition price and the net carrying value of refunded debt are capitalized and amortized over the terms of the respective bonds using the straight-line method.

Compensated Absences

Full-time District employees earn sick leave at various rates governed by contracts, terms and conditions of employment and administrative personnel benefit programs.

Full-time District administrative and support staff earn vacations based upon job classifications and length of service.

Compensated absences are reported as accrued in the entity-wide and Proprietary Fund financial statements. Governmental Funds report only matured compensated absences payable to currently terminated employees; these liabilities are included in accrued salaries and benefits.

Net Position

Net position represents the difference between assets and liabilities. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the District or through external restrictions imposed by creditors, granters, or laws or regulations of other governments. When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first and then unrestricted resources as they are needed.

Fund Balances

Fund balances of the Governmental Funds are classified, if applicable, as follows:

- ***Nonspendable*** - Amounts that cannot be spent because they are in nonspendable form (e.g., inventory) or legally or contractually required to be maintained intact (e.g., inventory and prepaid expenses).
- ***Restricted*** - Amounts limited by external parties or legislation (e.g., grants or donations and constraints imposed through a debt covenant).
- ***Committed*** - Amounts limited by Board policy (e.g., future anticipated costs). These constraints can be removed or changed by equal levels of action. Action or constraint resources should occur prior to fiscal year-end.

READING SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

- **Assigned** - Amounts that are intended for a particular purpose such as future benefits funding or segregation of an amount intended to be used at some time in the future. Intent can be expressed by the School Board or by an official to which the School Board delegates the authority. As of June 30, 2015, the School Board has not delegated the authority to assign fund balance.
- **Unassigned** - Amounts available for consumption or not restricted in any manner.

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balances are available, the District considers restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the District considers amounts to have been spent first out of committed funds, then assigned funds and, finally, unassigned funds, as needed, unless the Board has provided otherwise in its commitment or assignment actions.

Property Taxes

Property taxes attach as an enforceable lien on property when levied, taxes are levied on July 1 and are payable on or before October 31. Taxes paid prior to September 1 are payable at a 2% discount, and taxes paid after October 31 are assessed at a 10% penalty. Taxes are liened with the County on January 15. Assessed values are established by the County Board of Assessments using square footage, market value and "like-kind" property comparisons. The District tax rate for the year ended June 30, 2015, was 17.41 mills (\$17.41 per \$1,000 of assessed valuation) as levied by the Board of School Directors.

Use of Estimates in the Preparation of Financial Statements

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

Budgetary Information

With the enactment of Act 1 of 2006, school districts of the Commonwealth of Pennsylvania are required to prepare a preliminary budget as well as a proposed final budget. The Board of School Directors is required to adopt the preliminary budget at least 90 days prior to the primary election. The District follows the procedures outlined below in establishing the budgetary information reflected in the basic financial statements:

1. Prior to May 31, the District Board submits a proposed operating budget for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and the means for financing them for the General Fund.
2. A public hearing is conducted to obtain taxpayer comments.

READING SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3. Prior to June 30, the budget is legally enacted through passage of a resolution.
4. The budget of the District is the approved spending plan of the District for the year and the Board is prohibited from obligating funds in excess of these amounts. The Board of School Directors may, during the fiscal year, amend the budget by making additional appropriations or increase existing appropriations to meet emergencies. Legal budgetary control is maintained by the District Board at the department level. Transfers between departments, whether between funds or within a fund, or revisions that alter the total revenues and expenditures of any fund must be approved by the District Board. Budget information in the combined operating statements is presented at or below the legal level of budgetary control.
5. Budgetary data is included in the District's management information system and is employed as a management control device during the year.
6. Budgets for the General Fund are adopted substantially on the modified accrual basis of accounting, which is consistent with generally accepted accounting principles.
7. There were supplemental budgetary appropriations or amendments proposed or approved during the year.
8. All annual appropriations lapse at the end of the fiscal year.

Encumbrances

Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is employed as an extension of formal budgetary integration and project control in the General Fund.

Excess of Expenditures Over Appropriations

The following General Fund functions incurred expenditures in excess of appropriations in the following amounts for the year ended June 30, 2015:

Other instructional programs	\$ 117,880
Nonpublic school services	22,163
Adult education programs	1,541
Administrative services	481,926
Pupil health	80,757
Business services	41,306
Student transportation services	185,468

READING SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The excess of expenditures over appropriations was financed with positive budget variances in other functions.

Pension Plan

Substantially all full-time and part-time employees of the District participate in a cost-sharing multiple-employer defined benefit pension plan. The District recognizes annual pension expenditures or expenses equal to its contractually required contributions, subject to the modified accrual basis of accounting in Governmental Funds. (That is, if contributions from Governmental Funds are required but not made, the difference would not be reported as an expenditure until payable with expendable, available financial resources.) The District made all required contributions for the year ended June 30, 2015, and has recognized them as expenditures and expenses in the Governmental and Proprietary Funds, respectively.

NOTE C - CASH AND INVESTMENTS

Cash

Custodial credit risk is the risk that, in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a specific deposit policy for custodial credit risk. As of June 30, 2015, the carrying amount of the District's deposits was \$67,831,937, and the bank balance was \$70,648,326. Of the bank balance, \$1,000,000 was covered by federal depository insurance, and \$69,647,944 was exposed to custodial credit risk because it was uninsured and the collateral held by the depository's agent was not in the District's name.

Investments

Investment Policy - Under Section 440.1 of the Public School Code of 1949, as amended, the District is permitted to invest funds in the following types of investments:

- Obligations of (a) the United States of America or any of its agencies or instrumentalities backed by the full faith and credit of the United States of America; (b) the Commonwealth of Pennsylvania or any of its agencies or instrumentalities backed by the full faith and credit of the Commonwealth; or (c) any political subdivision of the Commonwealth of Pennsylvania or any of its agencies or instrumentalities backed by the full faith and credit of the political subdivision.
- Deposits in savings accounts or time deposits or share accounts of institutions insured by the Federal Deposit Insurance Corporation ("FDIC") to the extent that such accounts are so insured and, for any amounts above the insured maximum, provided that approved collateral as provided by laws therefore shall be pledged by the depository.

READING SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE C - CASH AND INVESTMENTS (Continued)

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

The Pennsylvania Local Government Investment Trust (“PLGIT”) was established as a common law trust organization under laws of the Commonwealth of Pennsylvania. Shares of this fund are offered to certain Pennsylvania school districts, intermediate units and area vocational technical schools. The purpose of the funds is to enable governmental units to pool their available funds for investment in instruments authorized by Section 440.1 of the Pennsylvania Public School Code of 1949, as amended.

As of June 30, 2015, the District has the following investments:

<u>Investment Type</u>	<u>Percentage of Investments</u>	<u>Maturities</u>	<u>Fair Value</u>
PSDLAF	96.32%	< 1 year	\$ 8,044,706
Certificates of deposit	2.21%	< 5 years	184,321
PLGIT	1.47%	N/A	<u>122,858</u>
			<u>\$ 8,351,885</u>

Interest Rate Risk - The District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

READING SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE C - CASH AND INVESTMENTS (Continued)

Credit Risk - The District has no formal investment policy that would limit its investment choices to certain credit ratings.

Concentration of Credit Risk - The District does not have a limitation on concentration in an investment in any one issuer.

Custodial Credit Risk - For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral security that are in the possession of an outside party. The District had no investments subject to custodial credit risk.

NOTE D - INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

The composition of interfund balances as of June 30, 2015, is as follows:

<u>Receivable By</u>	<u>Amount</u>	<u>Payable From</u>	<u>Amount</u>
General Fund	\$ <u>1,537,373</u>	Food Service Fund	\$ <u>1,537,373</u>

These interfund receivables/payables represent planned transfers between funds to reimburse operating expenditures for which cash was not moved prior to year-end.

The District made the following interfund operating transfers during the fiscal year ended June 30, 2015. The transfers were made to make debt payments.

<u>Transfer In</u>	<u>Amount</u>	<u>Transfer Out</u>	<u>Amount</u>
Nonmajor Funds	\$ <u>45,000</u>	General Fund	\$ <u>45,000</u>

READING SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE E - CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2015, was as follows:

	Beginning Balance	Additions	Deletions	Ending Balance
GOVERNMENTAL ACTIVITIES				
Capital assets not being depreciated				
Land	\$ 14,645,066	\$ -	\$ -	\$ 14,645,066
Construction-in-progress	29,904,215	34,039,184	(26,269,865)	37,673,534
TOTAL CAPITAL ASSETS NOT BEING DEPRECIATED	44,549,281	34,039,184	(26,269,865)	52,318,600
Capital assets being depreciated				
Land improvements	2,195,357	6,485	-	2,201,842
Buildings and improvements	213,225,117	25,610,259	-	238,835,376
Leasehold improvements	13,298,495	-	-	13,298,495
Furniture and equipment	18,807,264	1,307,221	-	20,114,485
Vehicles	1,870,493	-	-	1,870,493
TOTAL CAPITAL ASSETS BEING DEPRECIATED	249,396,726	26,923,965	-	276,320,691
Accumulated depreciation				
Land improvements	(1,587,080)	(109,783)	-	(1,696,863)
Buildings and improvements	(49,089,975)	(4,401,987)	-	(53,491,962)
Leasehold improvements	(3,091,290)	(443,283)	-	(3,534,573)
Furniture and equipment	(15,269,695)	(731,057)	-	(16,000,752)
Vehicles	(1,709,576)	(88,182)	-	(1,797,758)
TOTAL ACCUMULATED DEPRECIATION	(70,747,616)	(5,774,292)	-	(76,521,908)
TOTAL CAPITAL ASSETS BEING DEPRECIATED, net	178,649,110	21,149,673	-	199,798,783
GOVERNMENTAL ACTIVITIES CAPITAL ASSETS, net	\$ 223,198,391	\$ 55,188,857	\$ (26,269,865)	\$ 252,117,383
BUSINESS-TYPE ACTIVITIES				
Capital assets being depreciated				
Furniture and equipment	\$ 3,198,128	\$ 273,383	\$ -	\$ 3,471,511
Accumulated depreciation	(2,499,313)	(143,607)	-	(2,642,920)
BUSINESS-TYPE ACTIVITIES CAPITAL ASSETS, net	\$ 698,815	\$ 129,776	\$ -	\$ 828,591

READING SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE E - CAPITAL ASSETS (Continued)

Depreciation expense was charged to functions/programs as follows:

GOVERNMENTAL ACTIVITIES	
Instruction	\$ 503,936
Instructional student support	44,580
Administrative and financial support services	23,961
Operation and maintenance of plant services	307,084
Student activities	23,052
Unallocated depreciation	<u>4,871,679</u>
	<u>\$ 5,774,292</u>
 BUSINESS-TYPE ACTIVITIES	
Food services	<u>\$ 143,607</u>

NOTE F - BONDS AND NOTES PAYABLE

The District has issued various general obligation serial bonds and notes to finance capital projects and to advance refund certain general obligation bonds.

General Obligation Bonds - Series A of 2003 - On July 1, 2003, the Board of School Directors authorized the District to issue \$25,935,000 of Current Interest Bonds ("CIBs"). Bond proceeds were used to refinance certain general obligation notes, finance certain school building construction and improvements projects, restructure certain debt service obligations and to pay bond issuance costs. CIB interest is paid semi-annually on July 15 and January 15 of each year beginning January 15, 2005. Rates range from 3.00% to 5.00%. These bonds were partially refunded by the General Obligation Bonds, Series of 2007. The bonds mature July 1, 2018. \$ 1,700,000

General Obligation Bonds - Series B of 2003 - On July 15, 2003, the Board of School Directors authorized the District to issue \$27,642,014 of Capital Appreciation Bonds ("CABs"). Bond proceeds were used to refinance certain general obligation notes, finance certain school building construction and improvements projects, restructure certain debt service obligations and to pay bond issuance costs. The CABs do not pay interest currently. The bonds will accrete interest at rates ranging from 4.93% to 5.03%. Interest accrued and due at the time of surrender. The bonds mature July 15, 2034. 102,960,000

SUBTOTAL FORWARD \$ 104,660,000

READING SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE F - BONDS AND NOTES PAYABLE (Continued)

SUBTOTAL FORWARDED \$ 104,660,000

General Obligation Bonds - Series of 2005 - On December 15, 2005, the Board of School Directors authorized the District to issue \$100,000,000 of CIBs. Bond proceeds were used to finance certain school building construction and improvements projects, for capitalization of interest on the bonds and to pay bond issuance costs. CIB interest is paid semi-annually on July 15 and January 15 of each year beginning July 15, 2006. Rates range from 3.20% to 5.00%. The bonds mature January 15, 2036. 87,070,000

General Obligation Bonds - Series of 2008 - On August 15, 2008, the Board of School Directors authorized the District to issue \$101,235,000 of CIBs. Bond proceeds were used to finance acquisition, construction, reconstruction, expansion, renovation, equipping and furnishing various existing and new school buildings, and to pay bond issuance costs. CIB interest is paid semi-annually on March 1 and September 1 of each year beginning March 1, 2009. Rates range from 3.50% to 5.00%. The bonds mature March 1, 2038. 97,330,000

General Obligation Notes - Series A of 2011 - On July 8, 2012, the Board of School Directors authorized the District to issue \$60,865,000 of CINs. Note proceeds were used to current refund a portion of the District's General Obligation Bonds, Series A of 2001, pay a portion of a termination payment due on a 2006 SWAP agreement related to the Series A of 2001 bonds, and to pay bond issuance costs. CIN interest is paid semi-annually an April 1 and October 1 of each year beginning April 1, 2012. Rates range from 2.00% to 5.00%. The notes mature April 1, 2023. 50,845,000

General Obligation Notes - Series AA at 2011 - On July 8, 2012, the Board of School Directors authorized the District to issue \$14,415,000 of CINs. Note proceeds were used to pay a portion of a termination payment due on a SWAP agreement related to the Series A of 2001 bonds, and to pay bond issuance costs. CIN interest is paid semi-annually on April 1 and October 1 of each year beginning April 1, 2012. Rates range from 3.875% to 7.125%. The notes mature April 1, 2023. 11,745,000

General Obligation Bonds - Series of 2012 - On May 15, 2012, the Board of School Directors authorized the District to issue \$10,000,000 of CIBs. Bond proceeds were used for the advanced refunding of a portion of the District's Series A of 2003 bonds and to pay bond issuance costs. CIB interest is paid semi-annually on April 1 and October 1 of each year beginning October 1, 2012. Rates range from 0.85% to 3.25%. The bonds mature April 1, 2025. 9,370,000

SUBTOTAL FORWARD \$ 361,020,000

READING SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE F - BONDS AND NOTES PAYABLE (Continued)

SUBTOTAL FORWARDED \$ 361,020,000

General Obligation Notes - Series A of 2014 - On June 30, 2014, the Board of School Directors authorized the District to issue \$620,000 of General Obligation Notes. Note proceeds were used for the current refunding of a portion of the District's Series A of 2003 bonds and to pay bond issuance costs. Interest is paid semi-annually on February 1 and August 1 of each year beginning February 1, 2015 at a rate of 3.0%. The bonds mature February 1, 2023. 620,000

General Obligation Notes - Series B of 2014 - On June 30, 2014, the Board of School Directors authorized the District to issue \$9,260,000 of General Obligation Notes. Note proceeds were used for the current refunding of all of the District's Series C of 2003 bonds and to pay bond issuance costs. Interest is paid semi-annually on February 1 and August 1 of each year beginning February 1, 2015. Rates range from 1.0% to 3.25%. The bonds mature February 1, 2024. 9,260,000

General Obligation Notes - Series C of 2014 - On July 30, 2014, the Board of School Directors authorized the District to issue \$9,910,000 of General Obligation Notes. Note proceeds were used for the current refunding of all of the District's Series 2007 bonds and to pay bond issuance costs. Interest is paid semi-annually on February 1 and August 1 of each year beginning February 1, 2015. Rates range from 1.0% to 4.0%. The bonds mature February 1, 2025. 9,895,000

\$ 380,795,000

READING SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE F - BONDS AND NOTES PAYABLE (Continued)

The following summarizes the changes in general obligation bonds and notes payable of governmental activities for the year ended June 30, 2015:

	Balance July 1, 2014	Additions	Reductions	Balance June 30, 2015	Amounts Due Within One Year
GOVERNMENTAL ACTIVITIES					
Bonds and notes payable	\$ 390,945,000	\$ 9,910,000	\$ (20,060,000)	\$ 380,795,000	\$ 11,560,000
Bond premium	5,487,329	17,043	(500,820)	5,003,552	-
Bond discount	(220,166)	-	59,776	(160,390)	-
Unamortized bond interest	(55,316,999)	-	2,647,054	(52,669,945)	-
Deferred charge on refunding	(969,540)	(60,834)	177,614	(852,760)	-
Compensated absences	2,240,101	-	(191,754)	2,048,347	-
Net pension liability	266,003,000	22,627,000	(22,041,000)	266,589,000	-
Other postemployment benefits	106,970,520	6,779,975	-	113,750,495	-
	<u>\$ 715,139,245</u>	<u>\$ 39,273,184</u>	<u>\$ (39,909,130)</u>	<u>\$ 714,503,299</u>	<u>\$ 11,560,000</u>
TOTAL GOVERNMENTAL ACTIVITIES					
BUSINESS-TYPE ACTIVITIES					
Compensated absences	\$ 79,604	\$ -	\$ (292)	\$ 79,312	\$ -
Net pension liability	8,793,000	748,000	(728,000)	8,813,000	-
Other postemployment benefits	2,518,241	1,242,106	-	3,760,347	-
	<u>\$ 11,390,845</u>	<u>\$ 1,990,106</u>	<u>\$ (728,292)</u>	<u>\$ 12,652,659</u>	<u>\$ -</u>
TOTAL BUSINESS-TYPE ACTIVITIES					

Payments of long-term debt from bonds payable are to be funded by the General Fund. Presented below is a summary of debt service requirements to maturity by years:

Year Ending June 30,	Principal Maturities	Interest Maturities	Total Maturities
2016	\$ 11,560,000	\$ 12,926,357	\$ 24,486,357
2017	12,105,000	12,387,538	24,492,538
2018	12,670,000	11,812,273	24,482,273
2019	13,275,000	11,209,237	24,484,237
2020	13,915,000	10,571,199	24,486,199
2021 to 2025	75,215,000	46,144,050	121,359,050
2026 to 2030	89,695,000	32,603,648	122,298,648
2031 to 2035	95,875,000	23,950,993	119,825,993
2036 to 2038	56,485,000	8,996,787	65,481,787
	<u>\$ 380,795,000</u>	<u>\$ 170,602,082</u>	<u>\$ 551,397,082</u>

READING SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE G - FUND BALANCES

As of June 30, 2015, fund balances are composed of the following:

	<u>General Fund</u>	<u>Capital Projects Fund</u>	<u>Nonmajor Funds</u>	<u>Total Governmental Funds</u>
RESTRICTED				
Capital	\$ -	\$ 15,176,252	\$ 102,634	\$ 15,278,886
Debt service	-	-	383	383
ASSIGNED				
Repairs, maintenance and construction projects	9,000,000	-	-	9,000,000
Health care insurance	7,000,000	-	-	7,000,000
Curriculum enhancements	2,000,000	-	-	2,000,000
Future pension contributions (PSERS)	1,000,000	-	-	1,000,000
UNASSIGNED	<u>17,985,138</u>	<u>-</u>	<u>-</u>	<u>17,985,138</u>
	<u>\$ 36,985,138</u>	<u>\$ 15,176,252</u>	<u>\$ 103,017</u>	<u>\$ 52,264,407</u>

NOTE H - COMPENSATED ABSENCES

Vested or accumulated vacation, sick leave, or sabbatical leave that is expected to be liquidated with expendable available financial resources is reported as an expenditure and a fund liability of the Governmental Fund that will pay it. Amounts of vested or accumulated vacation, sick leave, or sabbatical leave that are not expected to be liquidated with expendable available financial resources are reported in the governmental activities. Vested or accumulated vacation or sick leave of the Proprietary Fund is recorded as an expense and liability of those funds as benefits accrue to employees. No liability is recognized for nonvesting accumulating rights to receive sick pay benefits; however, a liability is recognized for that portion of accumulating sick leave benefits that is estimated will be taken as "terminal leave" prior to retirement. An analysis of compensated absences at June 30, 2015, including changes during the year, is presented below:

	<u>Balance July 1, 2014</u>	<u>Net Change</u>	<u>Balance June 30, 2015</u>
COMPENSATED ABSENCES			
Governmental activities	\$ -	\$ (191,754)	\$ (191,754)
Business-type activities	<u>-</u>	<u>(292)</u>	<u>(292)</u>
	<u>\$ -</u>	<u>\$ (192,046)</u>	<u>\$ (192,046)</u>

READING SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE I - PENSION PLAN

Summary of Significant Accounting Policies

Pensions - For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions and pension expense, information about the fiduciary net position of the Public School Employees' Retirement System (PSERS) and additions to/deductions from PSERS's fiduciary net position have been determined on the same basis as they are reported by PSERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

General Information About the Pension Plan

Plan Description - PSERS is a governmental cost-sharing multi-employer defined benefit pension plan that provides retirement benefits to public school employees of the Commonwealth of Pennsylvania. The members eligible to participate in the System include all full-time public school employees, part-time hourly public school employees who render at least 500 hours of service in the school year and part-time per diem public school employees who render at least 80 days of service in the school year in any of the reporting entities in Pennsylvania. PSERS issues a publicly available financial report that can be obtained at www.psers.state.pa.us.

Benefits Provided - PSERS provides retirement, disability and death benefits. Members are eligible for monthly retirement benefits upon reaching (a) age 62 with at least one year of credited service; (b) age 60 with 30 or more years of credited service; or (c) 35 or more years of service regardless of age. Act 120 of 2010 (Act 120) preserves the benefits of existing members and introduced benefit reductions for individuals who become new members on or after July 1, 2011. Act 120 created two membership classes, Membership Class T-E (Class T-E) and Membership Class T-F (Class T-F). To qualify for normal retirement, Class T-E and Class T-F members must work until age 65 with a minimum three years of service or attain a total combination of age and service that is equal to or greater than 92 with a minimum of 35 years of service. Benefits are generally equal to 2% or 2.5%, depending on membership class, of the member's final average salary (as defined in the Code) multiplied by the number of years of credited service. For members whose membership started prior to July 1, 2011, after completion of five years of service, a member's right to the defined benefits is vested and early retirement benefits may be elected. For Class T-E and Class T-F members, the right to benefits is vested after ten years of service.

Participants are eligible for disability retirement benefits after completion of five years of credited service. Such benefits are generally equal to 2% or 2.5%, depending upon membership class, of the member's final average salary (as defined in the Code) multiplied by the number of years of credited service, but not less than one-third of such salary nor greater than the benefit the member would have had at normal retirement age. Members over normal retirement age may apply for disability benefits.

READING SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE I - PENSION PLAN (Continued)

Death benefits are payable upon the death of an active member who has reached age 62 with at least one year of credited service (age 65 with at least three years of credited service for Class T-E and Class T-F members) or who has at least five years of credited service (ten years for Class T-E and Class T-F members). Such benefits are actuarially equivalent to the benefit that would have been effective if the member had retired on the day before death.

Contributions

Members Contributions

- Active members who joined the System prior to July 22, 1983, contribute at 5.25% (Membership Class T-C) or at 6.50% (Membership Class T-D) of the member's qualifying compensation.
- Members who joined the System on or after July 22, 1983, and who were active or inactive as of July 1, 2001, contribute at 6.25% (Membership Class T-C) or at 7.50% (Membership Class T-D) of the member's qualifying compensation.
- Members who joined the System after June 30, 2001 and before July 1, 2011, contribute at 7.50% (automatic Membership Class T-D). For all new hires and for members who elected Class T-D membership, the higher contribution rates began with services rendered on or after January 1, 2002.
- Members who joined the System after June 30, 2011, automatically contribute at the Membership Class T-E rate of 7.5% (base rate) of the member's qualifying compensation. All new hires after June 30, 2011, who elect Class T-F membership, contribute at 10.3% (base rate) of the member's qualifying compensation. Membership Class T-E and Class T-F are affected by a "shared risk" provision in Act 120 of 2010 that in future fiscal years could cause the Membership Class T-E contribution rate to fluctuate between 7.5% and 9.5% and the Membership Class T-F contribution rate to fluctuate between 10.3% and 12.3%.

Employer Contributions

The School District's contractually required contribution rate for the fiscal year ended June 30, 2015, was 20.50% of covered payroll, actuarially determined as an amount that, when combined with employee contributions is expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the plan from the School District were \$17,251,000 for the year ended June 30, 2015.

READING SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE I - PENSION PLAN (Continued)

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

At June 30, 2015, the School District reported a liability of \$275,402,000 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by rolling forward the System's total pension liability as of June 30, 2013 to June 30, 2014. The School District's proportion of the net pension liability was calculated utilizing the employer's one-year reported covered payroll as it relates to the total one-year reported covered payroll. At June 30, 2014, the School District's proportion was 0.6958%, which was a decrease of 0.0076% from its proportion measured as of June 30, 2013.

For the year ended June 30, 2015, the School District recognized pension expense of \$23,375,000. At June 30, 2015, the School District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Governmental Activities:		
Net difference between projected and actual investment earnings	\$ -	\$ 19,058,000
Changes in proportions	-	2,428,000
Difference between employer contributions and proportionate share of total contributions	-	555,000
Contributions subsequent to the measurement date	<u>16,699,000</u>	<u>-</u>
	<u>\$ 16,699,000</u>	<u>\$ 22,041,000</u>
Business-type Activities:		
Net difference between projected and actual investment earnings	\$ -	\$ 630,000
Changes in proportions	-	80,000
Difference between employer contributions and proportionate share of total contributions	-	18,000
Contributions subsequent to the measurement date	<u>552,000</u>	<u>-</u>
	<u>\$ 552,000</u>	<u>\$ 728,000</u>

READING SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE I - PENSION PLAN (Continued)

\$17,251,000 reported as deferred outflows of resources related to pensions resulting from School District contributions subsequent to the measurement date will be recognized as a reduction of the new pension liability in the year ended June 30, 2015. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending
June 30,

Governmental activities:

2016	\$ (5,483,000)
2017	(5,483,000)
2018	(5,483,000)
2019	(5,483,000)
2020	<u>(109,000)</u>
	<u>\$ (22,041,000)</u>

Business-type activities:

2016	\$ (181,000)
2017	(181,000)
2018	(181,000)
2019	(181,000)
2020	<u>(4,000)</u>
	<u>\$ (728,000)</u>

Actuarial Assumptions - The total pension liability as of June 30, 2014, was determined by rolling forward the System's total pension liability as of the June 30, 2013 actuarial valuation to June 30, 2014, using the following actuarial assumptions, applied to all periods included in the measurement:

- **Actuarial Cost Method** - Entry Age Normal - level % of pay
- **Investment Return** - 7.5%, includes inflation at 3.00%
- **Salary Increases** - Effective average of 5.50%, which reflects an allowance for inflation of 3.00, real wage growth of 1% and merit or seniority increases of 1.50%
- Mortality rates were based on the RP-2000 Combined Healthy Annuitant Table (male and female) with age set back three years for both males and females. For disabled annuitants, the RP-2000 Combined Disabled Tables (male and female) with age set back seven years for males and three years for females.

READING SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE I - PENSION PLAN (Continued)

The actuarial assumptions used in the June 30, 2013 valuation were based on the experience study that was performed for the five-year period ending June 30, 2010. The recommended assumption changes based on this experience study were adopted by the Board at its March 11, 2011 Board meeting and were effective beginning with the June 30, 2011 actuarial valuation.

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

The plan's policy in regard to the allocation of invested plan assets is established and may be amended by the Board. Plan assets are managed with a long-term objective of achieving and maintaining a fully funded status for the benefits provided through the pension.

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Public markets global equity	19%	5.0%
Private markets (equity)	21%	6.5%
Private real estate	13%	4.7%
Global fixed income	8%	2.0%
U.S. long treasuries	3%	1.4%
TIPS	12%	1.2%
High yield bonds	6%	1.7%
Cash	3%	0.9%
Absolute return	10%	4.8%
Risk parity	5%	3.9%
MLPs/Infrastructure	3%	5.3%
Commodities	6%	3.3%
Financing (LIBOR)	(9%)	1.1%
	<u>100%</u>	

The above was the Board's adopted asset allocation policy and best estimates of geometric real rates of return for each major asset class as of June 30, 2014.

READING SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE I - PENSION PLAN (Continued)

Discount Rate - The discount rate used to measure the total pension liability was 7.50%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rate and that contributions from employers will be made at contractually required rates, actuarially determined. Based on those assumptions, the plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the School District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate - The following presents the net pension liability, calculated using the discount rate of 7.50%, as well as what the net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.50%) or one percentage point higher (8.50%) than the current rate:

	1% Decrease <u>6.50%</u>	Current Discount Rate <u>7.50%</u>	1% Increase <u>8.50%</u>
School District's proportionate share of the net pension liability	\$ <u>343,527,000</u>	\$ <u>275,402,000</u>	\$ <u>217,243,000</u>

Pension Plan Fiduciary Net Position - Detailed information about PSERS's fiduciary net position is available in the PSERS Comprehensive Annual Financial Report which can be found on the System's website at www.psers.state.pa.us.

NOTE J - JOINT VENTURE

The District is a participating member of the Reading Muhlenberg Career and Technology Center ("RMCTC"). RMCTC is operated by a joint board consisting of school directors from each member district. The board of directors of each member district must approve RMCTC's annual operating budget. Each member pays a private share of the operating costs of RMCTC based on the number of students from each district. For the fiscal year ended June 30, 2015, RMCTC's budget was \$8,807,593 and the District's share was \$5,155,379. The financial statements of RMCTC are available from RMCTC, located at 2615 Warren Road, Reading, PA 19604.

READING SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE K - LEASE AGREEMENT - COLLEGE STADIUM

The District entered into a \$2,000,000 lease agreement with Albright College for the construction and lease of the college stadium. The amount of \$2,000,000 was paid to the college prior to June 30, 2010, and recorded as leasehold improvements. Under the terms of the lease agreement, the District has the right to use the stadium for a period of 25 years with an option to renew the lease for an additional 74-year term. During the first 25 years, no additional rental fee will be charged to the District. In the event the lease is renewed beyond the 25-year initial agreement, the District will be responsible for one-third of all capital improvements and repairs and maintenance costs.

NOTE L - RISK MANAGEMENT

The District is exposed to various risks of loss related to theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District has purchased various insurance policies to safeguard the assets of the District from risk of loss. The District funds health insurance claims up to a limit of \$350,000 per claim. An excess loss insurance policy is in place for claims in excess of this threshold. Included in the financial statements is a liability of \$2,958,531 for outstanding estimated claims at June 30, 2015.

CLAIM LIABILITY AT BEGINNING OF YEAR	\$ -
Incurred claims	35,320,523
Payments on claims	<u>(34,953,306)</u>
 CLAIM LIABILITY AT END OF YEAR	 \$ <u><u>367,217</u></u>

The District also funds worker compensation claims up to a limit of \$400,000 per claim. An excess loss insurance policy is in place for claims in excess of this threshold. There was a liability included in the financial statements for outstanding estimated claims at June 30, 2015, in the amount of \$249,492.

NOTE M - CONTINGENT LIABILITIES, LITIGATION AND OTHER MATTERS

The District is a defendant in several actions related to tax assessment valuations and labor grievances. In the opinion of District officials, the ultimate outcome of these actions will not have a material adverse effect on the District's financial statements.

The District receives federal, state and local funding through a number of programs. Payments made by these sources under contractual agreements are provisional and subject to redetermination based on filing reports and audits of those reports. Final settlements due from or to these sources are recorded in the year in which the related services are performed. Any adjustments resulting from subsequent examinations are recognized in the year in which the results of such examinations become known. District officials do not expect any significant adjustments as a result of these examinations.

READING SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE M - CONTINGENT LIABILITIES, LITIGATION AND OTHER MATTERS (Continued)

Amounts received or receivable from grantor agencies are subject to audit adjustment by granter agencies, principally the state and federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time although the District expects such amounts, if any, to be immaterial.

NOTE N - POST-EMPLOYMENT HEALTHCARE PLAN

Plan Description

The District has implemented Governmental Accounting Standards Board Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, for certain post-employment healthcare benefits and life insurance benefits provided by the District. This statement generally provides for prospective implementation - i.e., that employers set the beginning net OPEB obligation at zero as of the beginning of the initial year. Accordingly, for financial reporting purposes, no liability is reported for the post-employment benefits liability at the date of transition.

The District's post-employment healthcare plan is a single-employer defined benefit healthcare plan. The plan provides medical insurance benefits to eligible retirees and their spouses through the District's health insurance plan, which covers both active and retired members. It also provides pharmacy, dental, vision and life insurance benefits. The District self-insures healthcare benefits. The Board of School Directors has the authority to establish and amend benefit provisions through the collective bargaining process with members of the professional and support staff, an agreement with administrative employees and individual employment contracts with certain employees. The plan does not issue any financial report and is not included in the report of any public employee retirement system or any other entity.

Funding Policy

The contribution requirements of plan members are established and may be amended by the Board of School Directors and are also negotiated between the District and union representatives. The required contribution is based on projected pay-as-you-go financing. For professional employees hired prior to July 1, 1987, and all administrators, the retiree contributes the PSERS premium assistance amount and the District contributes 100% of the remaining cost of the current premiums for eligible retired plan members and their spouses. For professional employees hired on or after July 1, 1987, and all support staff, the retired plan member pays the retiree contribution rate supplied by the District from the year 2003-2004, and the balance of the premium is paid by the District.

READING SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE N - POST-EMPLOYMENT HEALTHCARE PLAN (Continued)

Annual OPEB Cost and Net OPEB Obligation

The District's annual other post-employment benefit cost (expense) is calculated based on the annual required contribution of the employer ("ARC"), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years.

The following table shows the components of the District's OPEB cost for the year, the amount actually contributed to the plan and changes in the District's net OPEB obligation to the plan.

Annual required contribution (ARC)	\$ 15,085,493
Adjustment to ARC	<u>(1,623,612)</u>
ANNUAL OPEB COST (EXPENSE)	13,461,881
Contributions made	<u>(5,439,800)</u>
INCREASE IN NET OPEB OBLIGATION	8,022,081
Net OPEB obligation at beginning of year	<u>109,488,761</u>
 NET OPEB OBLIGATION AT END OF YEAR	 <u><u>\$ 117,510,842</u></u>

The District's annual OPEB cost, its percentage of annual OPEB cost contributed to the plan and the net OPEB obligation as of June 30 were as follows:

<u>Fiscal Year Ended June 30,</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
2010	\$ 31,579,797	22.6%	\$ 59,980,621
2011	38,837,586	23.2%	85,969,707
2012	12,609,419	38.8%	93,684,826
2013	13,260,446	37.4%	101,984,672
2014	12,835,689	41.5%	109,488,761
2015	13,461,881	40.4%	117,510,842

READING SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE N - POST-EMPLOYMENT HEALTHCARE PLAN (Continued)

Funded Status and Funding Progress

The schedule of funding progress of OPEB is as follows (in thousands):

Actuarial Valuation Date July 1,	(a) Actuarial Value of Assets	(b) Entry Age Actuarial Accrued Liability (AAL)	(c) Unfunded AAL (UAAL) (b)-(a)	(d) Funded Ratio (a)/(b)	(e) Covered Payroll	(f) UAAL as a Percentage of Covered Payroll (c)/(e)
2009	\$ -	\$ 331,745	\$ 331,745	0%	\$ tbd	tbd
2011	-	162,785	162,785	0%	tbd	tbd
2013	-	162,561	162,561	0%	tbd	tbd

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality and healthcare cost trends. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

Actuarial Methods and Assumptions

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

READING SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE N - POST-EMPLOYMENT HEALTHCARE PLAN (Continued)

In the July 1, 2013 actuarial valuation, the entry age normal method was used. The actuarial assumptions included a 3.25% investment rate of return and an annual healthcare cost trend rate increasing as shown in the schedule below. The UAAL is being amortized based on the level dollar, 30-year closed amortization period. The remaining amortization period at June 30, 2015, was 23 years. Healthcare costs and premium rates are assumed to increase as shown in the following table:

Fiscal Year Ending June 30,	Increase in Health Cost Over Prior Year	
	Under Age 65	Over Age 65
2016	6.00%	6.20%
2017	5.60%	5.80%
2018	6.10%	5.60%
2019	6.30%	5.50%
2024	5.90%	5.40%
2029	6.90%	5.40%
2034	6.70%	5.50%
2039	6.20%	5.30%
2044	5.90%	6.70%
2054	5.60%	6.10%
2076 and later (<65)		
2089 and later (65+)	4.50%	4.60%

NOTE O - INVESTMENT IN DERIVATIVE INSTRUMENT

In June 2008, the GASB issued Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments* ("GASB 53"). GASB 53 addresses the recognition, measurement and disclosure of information regarding derivative instruments entered into by state and local governments. The requirements of this statement are effective for financial statements for periods beginning after June 30, 2009. The District adopted GASB 53 in fiscal 2010. All derivatives are to be reported on the statement of net position at fair value; depending on whether a derivative is deemed a hedge or an investment instrument under GASB 53, the changes in fair value are reported either on the statement of net position as a deferral, or in the statement of activities as investment revenue or loss.

The District engaged an independent party to perform the valuation on the derivative instrument that it holds, a basis swap. Under GASB 53, the District's basis swap does not qualify since there is no identified financial risk being hedged by the basis swap that can be expressed as an investment derivative, and the change in fair value is reported in the statement of activities.

READING SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE O - INVESTMENT IN DERIVATIVE INSTRUMENT (Continued)

Terms and Fair Value

The terms and value of the District's Swap Portfolio are as follows:

<u>Governmental Activities</u>	<u>Counterparty</u>	<u>Issuer Pays</u>	<u>Issuer Receives</u>	<u>Initial Notional</u>	<u>Maturity Date</u>	<u>Market Value</u>
Investment Derivative Basis Swap - 2003	Wells Fargo	BMA	67% of LIBOR + 30 basis points	\$ <u>102,960,000</u>	1/17/34	\$ <u>(1,642,382)</u>

The fair value takes into consideration the prevailing interest rate environment, the specific terms and conditions of a given transaction and any upfront payments that may have been received. The fair value was estimated using the zero-coupon discounting method. This method calculates the future payments required by the swap, assuming that the current forward rates implied by the LIBOR swap yield curve are the market's best estimate of future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for a hypothetical zero-coupon rate bond due on the date of each future net settlement of the swaps.

Credit Risk

As of June 30, 2015, the District was not exposed to credit risk on its outstanding swap. The District is exposed to credit risk in the amount of the derivative's fair value. This amount may increase if interest rates increase in the future. However, when interest rates decline and the fair value of the swaps is negative, the District is not exposed to credit risk. The District will be exposed to interest rate risk only if the counterparty to the swap defaults or if the swap is terminated.

Basis Risk

Basis risk is the risk that the interest rate paid by the District on the underlying variable rate bonds to bondholders temporarily differs from the variable swap rate received from the applicable counterparty. The District bears risk on its swap. The swap has basis risk since the District receives a percentage of LIBOR to offset the actual variable bond rate the District pays on its bonds. The District is exposed to basis risk should the floating rate that it receives on a swap be less than the actual variable rate the District pays on the bonds. Depending on the magnitude and duration of any basis risk shortfall, the expected cost of the basis risk may vary.

Tax Risk

Tax risk is a specific type of basis risk. Tax risk is a permanent mismatch between the interest rate paid on the District's underlying variable-rate bonds and the rate received on the swap caused by a reduction or elimination in the benefits of the tax exemption for municipal bonds; e.g., a tax cut that results in an increase in the ratio of tax-exempt to taxable yields. The District is receiving 67% of LIBOR (a taxable index) on the swaps and would experience a shortfall relative to the rate paid on its bonds if marginal tax rates decrease relative to expected levels, thus increasing the overall cost of its synthetic fixed-rate debt.

READING SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE O - INVESTMENT IN DERIVATIVE INSTRUMENT (Continued)

Termination Risk

The District or the counterparty may terminate the swap if the other party fails to perform under the terms of the respective contracts. If the swap is terminated, the associated variable-rate bonds would no longer be hedged to a fixed rate. If at the time of termination the swap has a negative fair value, the District would be liable to the counterparty for a payment equal to the swap's fair value.

NOTE P - COMMITMENTS

As of June 30, 2015, the District was committed to capital projects for the construction and renovations at the Reading High School, NEMS UV replacement and other projects. Anticipated construction commitments are as follows:

<u>Project</u>	<u>Project Amount</u>	<u>Completed to June 30, 2015</u>	<u>Commitments</u>
Reading High School			
Gym renovations	\$ 1,366,867	\$ 49,598	\$ 1,317,269
Miscellaneous building repairs	<u>42,375,476</u>	<u>37,623,936</u>	<u>4,751,540</u>
	<u>\$ 43,742,343</u>	<u>\$ 37,673,534</u>	<u>\$ 6,068,809</u>

NOTE Q - PRIOR PERIOD ADJUSTMENTS

The School District implemented GASB Statement No. 68, Accounting and Financial Reporting for Pensions - An Amendment of GASB Statement No. 27, effective July 1, 2014.

The objective of GASB Statement No. 68 is to improve accounting and financial reporting by state and local governments for pension plans. GASB Statement No. 68 states that local governments have to record their share of the Public School Employees' Retirement System (PSERS) unfunded liability.

For the government-wide governmental activities, the School District has treated their proportionate share of beginning of year net pension liability of \$278,759,000 and beginning of year deferred outflows of resources of \$12,756,000 as having been recognized in the period incurred. The School District has adjusted beginning net position for the governmental activities from (\$150,705,531) to (\$416,708,531).

For the proprietary fund food service fund and the government-wide business-type activities, the School District has treated their proportionate share of beginning of year net pension liability of \$9,187,000 and beginning of year deferred outflows of resources of \$394,000 as having been recognized in the period incurred. The School District has adjusted beginning net position for the proprietary fund food service fund and for the business-type activities from \$3,858,204 to (\$4,934,796).

READING SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE R - SUBSEQUENT EVENTS

In September 2015, the District issued General Obligation Notes, Series A of 2015, General Obligation Notes, Series B of 2015 and General Obligation Bonds, Series C of 2015, for \$95,995,000. The purpose of the issue was to finance the current refunding of the District's General Obligation Bonds, Series of 2005, General Obligation Bonds, Series of 2008, General Obligation Notes, Series A of 2011, and payment of the costs of issuing the bonds.

In August 2015, the District issued Tax and Revenue Anticipation Note, Series of 2015, for \$20,000,000. The purpose of the note was to meet current expenses, in anticipation of the receipt of current taxes and revenues.

In December 2015, the District issued Tax and Revenue Anticipation Note, Series A of 2015, for \$30,000,000. The purpose of the note was to meet current expenses, in anticipation of the receipt of current taxes and revenues.

In February 2016, the District terminated the basis swap derivative instrument disclosed in Note O.

REQUIRED SUPPLEMENTARY INFORMATION

READING SCHOOL DISTRICT
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
YEAR ENDED JUNE 30, 2015

	Budgeted Amounts		Actual GAAP Basis	Variance With Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Local sources	\$ 34,098,168	\$ 34,099,204	\$ 38,353,036	\$ 4,253,832
State sources	162,981,529	162,980,493	162,512,475	(468,018)
Federal sources	23,652,502	23,652,502	23,925,261	272,759
TOTAL REVENUES	220,732,199	220,732,199	224,790,772	4,058,573
EXPENDITURES				
Instruction				
Regular programs	92,813,448	89,625,761	87,360,400	2,265,361
Special programs	34,801,478	37,520,855	35,668,082	1,852,773
Vocational programs	5,189,238	5,189,238	5,155,379	33,859
Other instructional programs	951,970	1,000,054	1,122,864	(122,810)
Nonpublic school programs	349,268	424,216	446,379	(22,163)
Adult education programs	182,868	162,361	163,902	(1,541)
Pre-kindergarten programs	1,755,149	2,119,334	1,973,128	146,206
TOTAL INSTRUCTION	136,043,419	136,041,819	131,890,134	4,151,685
Support services				
Pupil personnel services	7,309,266	7,346,681	6,871,188	475,493
Instructional staff services	4,347,051	4,729,393	3,555,431	1,173,962
Administrative services	16,094,372	16,109,619	16,636,886	(527,267)
Pupil health	2,884,789	2,885,899	2,966,656	(80,757)
Business services	1,552,738	1,552,232	1,593,538	(41,306)
Operation and maintenance of plant services	20,435,047	20,435,023	17,346,745	3,088,278
Student transportation services	5,554,510	5,552,295	5,841,826	(289,531)
Data processing services	5,803,481	5,415,377	4,470,652	944,725
Other support services	268,078	289,214	264,911	24,303
TOTAL SUPPORT SERVICES	64,249,332	64,315,733	59,547,833	4,767,900
Operation of noninstructional services				
Food Service	-	-	1,329	(1,329)
Student activities	1,632,540	1,632,542	1,819,824	(187,282)
Community services	1,138,168	1,073,366	1,059,745	13,621
TOTAL OPERATION OF NON- INSTRUCTIONAL SERVICES	2,770,708	2,705,908	2,880,898	(174,990)
Debt service	23,762,912	23,762,911	19,585,652	4,177,259
TOTAL EXPENDITURES	226,826,371	226,826,371	213,904,517	12,921,854
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES				
	(6,094,172)	(6,094,172)	10,886,255	(16,980,427)
OTHER FINANCING SOURCES				
Transfers in	5,085,000	5,085,000	(45,000)	5,130,000
Sale of capital assets	-	-	319	(319)
Insurance proceeds	-	-	36,600	(36,600)
TOTAL OTHER FINANCING SOURCES	5,085,000	5,085,000	(8,081)	5,093,081
NET CHANGE IN FUND BALANCE	(1,009,172)	(1,009,172)	10,878,174	11,887,346
FUND BALANCE AT BEGINNING OF YEAR	26,106,964	26,106,964	26,106,964	-
FUND BALANCE AT END OF YEAR	\$ 25,097,792	\$ 25,097,792	\$ 36,985,138	\$ 11,887,346

READING SCHOOL DISTRICT

SCHEDULE OF THE SCHOOL DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY YEAR ENDED JUNE 30, 2015

School District's proportion of the net pension liability (asset)	<u>0.6958%</u>
School District's proportionate share of the net pension liability (asset)	\$ <u>275,402,000</u>
School District's covered-employee payroll	\$ <u>88,789,952</u>
School District's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	<u>310.17%</u>
The plan's fiduciary net position as a percentage of the total pension liability	<u>57.24%</u>

READING SCHOOL DISTRICT
SCHEDULE OF SCHOOL DISTRICT CONTRIBUTIONS
YEAR ENDED JUNE 30, 2015

Contractually required contribution	\$ 17,251,000
Contributions in relation to the contractually required contribution	<u>17,251,000</u>
CONTRIBUTION EXCESS (DEFICIENCY)	\$ <u><u>-</u></u>
School District's covered-employee payroll	\$ <u><u>86,253,094</u></u>
Contributions as a percentage of covered-employee payroll	20.00%

READING SCHOOL DISTRICT
POSTEMPLOYMENT BENEFITS OTHER THAN
PENSION FUNDING PROGRESS
YEAR ENDED JUNE 30, 2015

SCHEDULE OF FUNDING PROGRESS (In Thousands)

Actuarial Valuation Date July 1,	(a) Actuarial Value of Assets	(b) Entry Age Actuarial Accrued Liability (AAL)	(c) Unfunded AAL (UAAL) (b)-(a)	(d) Funded Ratio (a)/(b)	(e) Covered Payroll	(f) UAAL as a Percentage of Covered Payroll (c)/(e)
2009	\$ -	\$ 331,745	\$ 331,745	0%	\$ (TBD)	(TBD)
2011	-	162,785	162,785	0%	(TBD)	(TBD)
2013	-	162,561	162,561	0%	(TBD)	(TBD)

SUPPLEMENTARY INFORMATION SECTION

READING SCHOOL DISTRICT
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
JUNE 30, 2015

	Special Revenue Fund	Debt Service Fund	Total Nonmajor Governmental Funds
	<u> </u>	<u> </u>	<u> </u>
ASSETS			
Cash and investments	\$ <u>109,607</u>	\$ <u>383</u>	\$ <u>109,990</u>
LIABILITIES AND FUND BALANCES			
LIABILITIES			
Accounts payable	\$ 6,973	\$ -	\$ 6,973
FUND BALANCES			
Restricted	<u>102,634</u>	<u>383</u>	<u>103,017</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 109,607</u>	<u>\$ 383</u>	<u>\$ 109,990</u>

READING SCHOOL DISTRICT

COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES NONMAJOR GOVERNMENTAL FUNDS YEAR ENDED JUNE 30, 2015

	Special Revenue Fund	Debt Service Fund	Total Nonmajor Governmental Funds
REVENUES			
Earnings on investments	\$ 256	\$ 2	\$ 258
Other revenues	<u>107,652</u>	<u>-</u>	<u>107,652</u>
TOTAL REVENUES	<u>107,908</u>	<u>2</u>	<u>107,910</u>
EXPENDITURES			
Student activities	74,396	-	74,396
Debt service			
Principal	-	1,170,000	1,170,000
Interest	-	2,850,000	2,850,000
Bond issuance costs	-	164,778	164,778
TOTAL EXPENDITURES	<u>74,396</u>	<u>4,184,778</u>	<u>4,259,174</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>33,512</u>	<u>(4,184,776)</u>	<u>(4,151,264)</u>
OTHER FINANCING SOURCES (USES)			
Transfers in	-	45,000	45,000
Refunding bond issued	-	9,910,000	9,910,000
Premium on refunding bonds issued	-	17,043	17,043
Payment to refunded bond escrow agent	-	(9,807,265)	(9,807,265)
TOTAL OTHER FINANCING SOURCES (USES)	<u>-</u>	<u>164,778</u>	<u>164,778</u>
NET CHANGE IN FUND BALANCES BALANCES	33,512	(4,019,998)	(3,986,486)
FUND BALANCES AT BEGINNING OF YEAR	<u>69,122</u>	<u>4,020,381</u>	<u>4,089,503</u>
FUND BALANCES AT END OF YEAR	<u>\$ 102,634</u>	<u>\$ 383</u>	<u>\$ 103,017</u>

Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With Government Auditing Standards

To the Board of School Directors
Reading School District
Reading, Pennsylvania

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the Reading School District as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Reading School District's basic financial statements, and have issued our report thereon dated March 22, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Reading School District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Reading School District's internal control. Accordingly, we do not express an opinion on the effectiveness of the Reading School District's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

To the Board of School Directors
Reading School District
Reading, Pennsylvania

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Reading School District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Maillie LLP

Oaks, Pennsylvania
March 22, 2016

***Independent Auditors' Report on Compliance for Each Major Federal Program and
Report on Internal Control Over Compliance in Accordance With OMB Circular A-133***

To the Board of School Directors
Reading School District
Reading, Pennsylvania

Report on Compliance for Each Major Federal Program

We have audited the Reading School District's compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that could have a direct and material effect on each of the Reading School District's major federal programs for the year ended June 30, 2015. Reading School District's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts and grants applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the Reading School District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Reading School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

To the Board of School Directors
Reading School District
Reading, Pennsylvania

Opinion on Each Major Federal Program

In our opinion, the Reading School District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2015.

Report on Internal Control Over Compliance

Management of the Reading School District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Reading School District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program as a basis for designing auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Reading School District's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Purpose of this Report

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Maillie LLP

Oaks, Pennsylvania
March 22, 2016

**SUPPLEMENTARY INFORMATION - MAJOR FEDERAL
AWARD PROGRAMS AUDIT**

READING SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2015

Federal Grantor/Project Title	Source Code	Federal CFDA Number	Grant Period Beginning/ Ending Dates
U.S. DEPARTMENT OF EDUCATION			
Impact Aid - Title VIII	D	84.041	Various years
Passed through the Pennsylvania Department of Education			
Title I Grants - Improving Basic Programs	I	84.010	07/01/12-09/30/14
Title I Grants - Improving Basic Programs	I	84.010	07/01/13-09/30/15
Title I Grants - Improving Basic Programs	I	84.010	07/01/15-09/30/16
School Improvement Set Aside	I	84.010	04/09/13-09/30/14
School Improvement Set Aside	I	84.010	07/29/14-09/30/15
School Improvement Set Aside	I	84.010	06/19/15-09/30/16
Academic Achievement Award	I	84.010	03/24/15-09/30/15
Title II Part A - Improving Teacher Quality	I	84.367	07/01/13-09/30/14
Title II Part A - Improving Teacher Quality	I	84.367	07/01/14-09/30/15
Title III Language Inst LEP/Immigrant Students	I	84.365	07/01/13-09/30/15
Title III Language Inst LEP/Immigrant Students	I	84.365	07/01/14-09/30/15
After School Learning Centers - Cohort 6 Year 1	I	84.287	10/01/11-09/30/12
After School Learning Centers - Cohort 6 Year 2	I	84.287	10/01/12-09/30/13
After School Learning Centers - Cohort 6 Year 3	I	84.287	10/01/13-09/30/14
After School Learning Centers - Cohort 7 Year 1	I	84.287	10/01/14-09/30/15
Passed through the Berks County Intermediate Unit			
IDEA EHA-B - Special Education Grant	I	84.027	07/01/13-09/30/14
IDEA EHA-B - Special Education Grant	I	84.027	07/01/14-09/30/15
IDEA - Section 619	I	84.173	07/01/13-06/30/14
IDEA - Section 619	I	84.173	07/01/14-06/30/15
Passed through the Reading-Muhlenberg AVTS			
Vocational Education - Basic Grant to States (Perkins)	I	84.048	07/01/13-06/30/14
Vocational Education - Basic Grant to States (Perkins)	I	84.048	07/01/14-06/30/15
TOTAL FORWARD			
U.S. DEPARTMENT OF DEFENSE			
Marine Corps Junior ROTC Program	D		07/01/13-06/30/14
Marine Corps Junior ROTC Program	D		07/01/14-06/30/15
TOTAL FORWARD			

Source Codes

- I - Indirect Funding
- D - Direct Funding

<u>Grant Amount</u>	<u>Total Received for the Year</u>	<u>Accrued or (Deferred) Revenue at July 1, 2014</u>	<u>Revenue Recognized</u>	<u>Expenditures</u>	<u>Accrued or (Deferred) Revenue at June 30, 2015</u>
N/A	\$ 34,636	\$ -	\$ 34,636	\$ 34,636	\$ -
\$ 13,597,185	-	(1,384,226)	1,384,226	1,384,226	-
12,917,325	5,739,563	1,847,271	3,888,605	3,888,605	(3,687)
13,613,532	9,203,011	-	10,800,118	10,800,118	1,597,107
866,448	529,496	412,126	117,370	117,370	-
636,990	339,728	-	379,252	379,252	39,524
776,534	-	-	667	667	667
50,000	14,286	-	26,764	26,764	12,478
1,211,858	158,978	158,978	-	-	-
1,227,105	982,774	-	1,227,105	1,227,105	244,331
890,490	178,098	124,402	53,696	53,696	-
923,299	615,533	-	729,725	729,725	114,192
500,000	-	(69,944)	-	-	(69,944)
500,000	-	33,582	-	-	33,582
500,000	281,171	163,594	119,744	119,744	2,167
400,000	133,566	-	270,714	270,714	137,148
2,664,825	2,264,825	2,264,825	-	-	-
2,794,280	320,147	-	2,794,280	2,794,280	2,474,133
9,694	9,694	9,694	-	-	-
10,054	-	-	10,054	10,054	10,054
119,055	19,465	19,465	-	-	-
119,055	76,756	-	111,338	111,338	34,582
	<u>20,901,727</u>	<u>3,579,767</u>	<u>21,948,294</u>	<u>21,948,294</u>	<u>4,626,334</u>
N/A	11,656	11,656	-	-	-
N/A	152,715	-	166,688	166,688	13,973
	<u>\$ 164,371</u>	<u>\$ 11,656</u>	<u>\$ 166,688</u>	<u>\$ 166,688</u>	<u>\$ 13,973</u>

READING SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2015

Federal Grantor/Project Title	Source Code	Federal CFDA Number	Grant Period Beginning/Ending Dates
U.S. DEPARTMENT OF EDUCATION			
TOTAL FORWARDED			
U.S. DEPARTMENT OF DEFENSE			
TOTAL FORWARDED			
CORPORATION FOR NATIONAL AND COMMUNITY SERVICE			
Passed through the Berks County Intermediate Unit			
ELECT	I	93.558	07/01/13-06/30/14
ELECT	I	93.558	07/01/14-06/30/15
TOTAL CORPORATION FOR NATIONAL AND COMMUNITY SERVICE			
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			
Passed through the Pennsylvania Department of Public Welfare			
ACCESS Medical Assistance Program	I	93.778	07/01/13-06/30/14
ACCESS Medical Assistance Program	I	93.778	07/01/14-06/30/15
TOTAL U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			
U.S. DEPARTMENT OF AGRICULTURE			
Passed through Ender York, Inc.			
Cash in Lieu of Commodities	I	10.555	07/01/14-06/30/15
Passed through the Pennsylvania Department of Education			
Severe Need Breakfast	I	10.553	07/01/13-06/30/14
Severe Need Breakfast	I	10.553	07/01/14-06/30/15
After School Snacks	I	10.555	07/01/13-06/30/14
After School Snacks	I	10.555	07/01/14-06/30/15
National School Lunch Program	I	10.555	07/01/13-06/30/14
National School Lunch Program	I	10.555	07/01/14-06/30/15
TOTAL U.S. DEPARTMENT OF AGRICULTURE			
TOTAL FEDERAL AWARDS			

Source Codes
I - Indirect Funding
D - Direct Funding

See accompanying notes to the schedule of expenditures of federal awards.

<u>Grant Amount</u>	<u>Total Received for the Year</u>	<u>Accrued or (Deferred) Revenue at July 1, 2014</u>	<u>Revenue Recognized</u>	<u>Expenditures</u>	<u>Accrued or (Deferred) Revenue at June 30, 2015</u>
	\$ <u>20,901,727</u>	\$ <u>3,579,767</u>	\$ <u>21,948,294</u>	\$ <u>21,948,294</u>	\$ <u>4,626,334</u>
	<u>164,371</u>	<u>11,656</u>	<u>166,688</u>	<u>166,688</u>	<u>13,973</u>
\$ 71,000	-	-	-	-	-
71,000	<u>63,900</u>	<u>-</u>	<u>71,000</u>	<u>71,000</u>	<u>7,100</u>
	<u>63,900</u>	<u>-</u>	<u>71,000</u>	<u>71,000</u>	<u>7,100</u>
N/A	92,233	92,233	-	-	-
N/A	<u>95,616</u>	<u>-</u>	<u>160,518</u>	<u>160,518</u>	<u>64,902</u>
	<u>187,849</u>	<u>92,233</u>	<u>160,518</u>	<u>160,518</u>	<u>64,902</u>
N/A	757,921	-	757,921	757,921	-
N/A	245,155	245,155	-	-	-
N/A	2,515,171	-	2,939,093	2,939,093	423,922
N/A	4,199	4,199	-	-	-
N/A	21,613	-	24,268	24,268	2,655
N/A	1,082,377	1,082,377	-	-	-
N/A	<u>6,560,787</u>	<u>-</u>	<u>7,650,277</u>	<u>7,650,277</u>	<u>1,089,490</u>
	<u>11,187,223</u>	<u>1,331,731</u>	<u>11,371,559</u>	<u>11,371,559</u>	<u>1,516,067</u>
	\$ <u><u>32,505,070</u></u>	\$ <u><u>5,015,387</u></u>	\$ <u><u>33,718,059</u></u>	\$ <u><u>33,718,059</u></u>	\$ <u><u>6,228,376</u></u>

READING SCHOOL DISTRICT
NOTES TO THE SCHEDULE OF EXPENDITURES OF
FEDERAL AWARDS
YEAR ENDED JUNE 30, 2015

NOTE A - BASIS OF ACCOUNTING

The District uses the modified accrual method of recording transactions. Revenues are recorded when measurable and available. Expenditures are recorded when incurred.

NOTE B - FEDERAL EXPENDITURES

The schedule of expenditures of federal awards reflects federal expenditures for all individual grants which were active during the fiscal year. Additionally, the schedule reflects expenditures for certain state grants.

NOTE C - ACCESS PROGRAM

The ACCESS Program services is a medical assistance program that reimburses local educational agencies for direct eligible health-related provided to enrolled special needs students. Reimbursements are federal source revenues but are classified as fee-for-service and are not considered federal financial assistance. The amount of ACCESS funding recognized for the year ended June 30, 2015, was \$160,518.

READING SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2015

A. SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued: **Unmodified**

Internal control over financial reporting:

Significant deficiencies identified: **No**

Significant deficiencies identified that are considered to be material weaknesses: **No**

Noncompliance material to financial statements noted: **No**

Federal Awards

Internal control over major programs:

Significant deficiencies identified: **No**

Significant deficiencies identified that are considered to be material weaknesses: **No**

Type of auditors' report issued on compliance for major programs: **Unmodified**

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of the Circular: **No**

Identification of major programs:

<u>Program</u>	<u>CFDA</u>
Child Nutrition Cluster Title I	10.553, 10.555 84.010

The threshold used for distinguishing Types A and B programs was \$1,011,542. Auditee qualified as a low-risk auditee: **No**

B. FINDINGS - FINANCIAL STATEMENT AUDIT

None.

C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAMS AUDIT

None

READING SCHOOL DISTRICT
SCHEDULE OF PRIOR AUDIT FINDINGS
YEAR ENDED JUNE 30, 2015

2014-001 **Child Nutrition Cluster - Allowable Activities**
Federal CFDA #10.553 and #10.555
(Period Ending June 30, 2014)

Description of Finding: During our audit, we noted that the District does not require employees in the food services program to semi-annually certify that all time worked is for a single cost objective.

Current Status: This finding has been corrected in the current year, as controls have been put in place to ensure all food services employees semi-annually certify that all time worked is for a single cost objective.