

READING SCHOOL DISTRICT

ANNUAL FINANCIAL REPORT

Year Ended June 30, 2016



Certified Public Accountants and Business Consultants

INTRODUCTORY SECTION

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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, 2016, 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, 2016, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

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 56, schedule of school district's proportionate share of the net pension liability on page 57, schedule of school district contributions on page 58, and postemployment benefits other than pension funding progress on page 59 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 audit requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, 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 August 4, 2017, 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.

Maullie LLP

Oaks, Pennsylvania
August 4, 2017



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, 2016

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, 2016. 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 \$36,958,138, as of July 1, 2015, to \$46,684,210 for an increase of \$9,699,072 or a 25% increase over the prior year ending fund balance.
- In October 2015, the District refinanced \$95,995,000 in general obligation bonds for a net present value savings in excess of \$4,400,000.

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, 2016

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, 2016

- **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 \$427,219,099 at June 30, 2016, and a negative \$422,497,529 at June 30, 2015. This represents a decrease of \$4,721,570 over the prior year. The following tables (A-1) present condensed financial information for the net position of the District as of June 30, 2016 and 2015.

Table A-1
Statement of Net Position
June 30, 2016

	Governmental Activities	Business-Type Activities	Totals
ASSETS AND DEFERRED OUTFLOWS			
Current assets	\$ 92,136,734	\$ 4,588,413	\$ 96,725,147
Capital assets	253,266,750	744,665	254,011,415
Deferred outflows of resources	21,907,513	690,000	22,597,513
TOTAL ASSETS AND DEFERRED OUTFLOWS	367,310,997	6,023,078	373,334,075
LIABILITIES AND DEFERRED INFLOWS			
Current liabilities	34,842,416	108,632	34,951,048
Noncurrent liabilities	744,004,194	13,547,932	757,552,126
Deferred inflows of resources	7,793,000	257,000	8,050,000
TOTAL LIABILITIES AND DEFERRED INFLOWS	786,639,610	13,913,564	800,553,174
NET POSITION			
Net investment in capital assets	(70,860,244)	744,665	(70,115,579)
Unrestricted	(348,468,369)	(8,635,151)	(357,103,520)
TOTAL NET POSITION	\$ (419,328,613)	\$ (7,890,486)	\$ (427,219,099)

READING SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)
YEAR ENDED JUNE 30, 2016

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	<u>17,551,760</u>	<u>552,000</u>	<u>18,103,760</u>
TOTAL ASSETS AND DEFERRED OUTFLOWS	<u>360,847,144</u>	<u>6,468,459</u>	<u>367,315,603</u>
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	<u>23,683,382</u>	<u>728,000</u>	<u>24,411,382</u>
TOTAL LIABILITIES AND DEFERRED INFLOWS	<u>776,357,437</u>	<u>13,455,695</u>	<u>789,813,132</u>
NET POSITION			
Net investment in capital assets	(56,717,024)	828,591	(55,888,433)
Unrestricted	<u>(358,793,269)</u>	<u>(7,815,827)</u>	<u>(366,609,096)</u>
TOTAL NET POSITION	<u>\$ (415,510,293)</u>	<u>\$ (6,987,236)</u>	<u>\$ (422,497,529)</u>

Most of the District's assets are invested in capital assets (e.g., buildings, land and equipment). In 2015-2016, the Other Postemployment Benefits Obligation (e.g., hospitalization, prescription, dental, vision and life insurance paid for employees after retirement) as a noncurrent liability totaled \$124,716,719 compared to \$117,510,842 in 2014-2015. 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 \$296,883,000 in 2015-2016 compared to \$275,402,000 in 2014-2015 for its proportionate share of the net pension liability due to the Public School Employees' Retirement System (PSERS). The Commonwealth of Pennsylvania contributes reimbursements to the District quarterly based on a standards formula determined by the hire date of the employees and the aid ratio of the District. For 2015-2016 and 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, 2016

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, 2016

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Totals</u>
REVENUES			
Program revenues			
Operating and contributions	\$ 61,108,085	\$ 13,336,006	\$ 74,444,091
Charges for services	347,632	580,692	928,324
General revenues			
Property taxes	21,713,339	-	21,713,339
Other taxes	16,019,541	-	16,019,541
Grants, subsidies and contributions, unrestricted	127,132,457	-	127,132,457
Investment earnings	952,876	2,257	955,133
Miscellaneous	1,012,587	-	1,012,587
	<u>228,286,517</u>	<u>13,918,955</u>	<u>242,205,472</u>
EXPENSES			
Instruction	143,700,614	-	143,700,614
Instructional student support	17,467,145	-	17,467,145
Administrative and financial support	24,656,929	-	24,656,929
Operation and maintenance of plant	19,847,661	-	19,847,661
Pupil transportation	5,221,682	-	5,221,682
Food services	-	-	-
Student activities	2,054,470	-	2,054,470
Community services	1,163,972	-	1,163,972
Interest on long-term debt	13,108,713	-	13,108,713
Refunds of prior year revenues	5,159	-	5,159
Unallocated depreciation	4,878,492	-	4,878,492
Food service	-	14,822,205	14,822,205
	<u>232,104,837</u>	<u>14,822,205</u>	<u>246,927,042</u>
CHANGE IN NET POSITION	\$ <u>(3,818,320)</u>	\$ <u>(903,250)</u>	\$ <u>(4,721,570)</u>

READING SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)
YEAR ENDED JUNE 30, 2016

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

	Governmental Activities	Business-Type Activities	Totals
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>
TOTAL REVENUES			
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>
TOTAL EXPENSES			
CHANGE IN NET POSITION	<u>\$ 1,198,238</u>	<u>\$ (2,052,440)</u>	<u>\$ (854,202)</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, 2016

Table A-3
Governmental Activities
Fiscal Years Ended June 30, 2016 and 2015

Functions/Programs	Cost of Services Total	2015-2016 Net	Cost of Services Total	2014-2015 Net
Instruction	\$ 143,700,614	\$ 92,728,456	\$ 140,322,674	\$ 87,503,603
Instructional student support	17,467,145	15,463,159	15,667,808	13,919,349
Administrative/financial support	24,656,929	22,447,125	22,662,899	20,743,856
Operation and maintenance	19,847,661	17,957,013	18,601,700	16,887,090
Pupil transportation	5,221,682	3,586,882	5,855,037	4,358,717
Food services	-	-	1,329	1,329
Student activities	2,054,470	1,677,406	1,905,302	1,569,749
Community services	1,163,972	909,483	1,202,682	983,610
Interest on long-term debt	13,108,713	10,995,945	12,827,439	7,362,080
Refunds of prior year revenues	5,159	5,159	-	-
Unallocated depreciation	4,878,492	4,878,492	4,871,679	4,871,679
TOTAL GOVERNMENTAL ACTIVITIES	\$ <u>232,104,837</u>	170,649,120	\$ <u>223,918,549</u>	158,201,062
Less unrestricted grants, subsidies		<u>127,132,457</u>		<u>121,309,284</u>
AMOUNT NEEDED TO BE FUNDED BY OTHER REVENUE SOURCES		\$ <u>43,516,663</u>		\$ <u>36,891,778</u>

Table A-4
Business-Type Activities
Fiscal Years Ended June 30, 2016 and 2015

Functions/Programs	Cost of Services Total	2015-2016 Net	Cost of Services Total	2014-2015 Net
Food services	\$ <u>14,822,205</u>	\$ <u>905,507</u>	\$ <u>15,056,712</u>	\$ <u>2,055,675</u>

THE DISTRICT FUNDS

General Fund

At June 30, 2016, the District reported an unassigned General Fund balance of \$18,684,210, which represents 7.8% of total budgeted expenditures for 2016-2017. Included in the budget for the 2016-2017 school year, the District assigned approximately \$1,534,349 to balance the FY 2016-2017 budget. At June 30, 2016, the District reported an assigned General Fund balance of \$28,000,000 to allocate to future expenditures as follows: \$7,000,000 for healthcare insurance; \$10,000,000 for repairs, maintenance, construction and infrastructure projects; \$2,000,000 for curriculum enhancements; \$3,000,000 for future pension plan contributions; and \$6,000,000 for feasibility planning.

READING SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)
YEAR ENDED JUNE 30, 2016

Capital Projects Fund

At June 30, 2016, the Capital Projects Fund had a fund balance of \$8,803,995, which was a decrease of \$6,372,257 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

	2015-2016	2014-2015
Land	\$ 14,645,066	\$ 14,645,066
Land improvements	2,201,842	2,201,842
Building and improvements	238,968,499	238,835,376
Leasehold improvements	13,298,495	13,298,495
Furniture and equipment	20,391,789	20,114,485
Vehicles	1,870,493	1,870,493
Construction in progress	44,822,740	37,673,534
Accumulated depreciation	(82,932,174)	(76,521,908)
	\$ 253,266,750	\$ 252,117,383

READING SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)
YEAR ENDED JUNE 30, 2016

DEBT ADMINISTRATION

As of July 1, 2016, the District had total outstanding bonds in the amount of \$375,560,000. During 2015-2016, the District made payments against principal in the amount of \$4,435,000. On October 29, 2015, the District refinanced the District's Series of 2005, 2008 and Series A of 2011 allowing for a reduction in principal and 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, 2016</u>	<u>Balance</u> <u>June 30, 2015</u>
General Obligation Bonds		
Series A of 2003	\$ 955,000	\$ 1,700,000
Series B of 2003	102,960,000	102,960,000
Series of 2005	-	87,070,000
Series of 2008	94,825,000	97,330,000
Series A of 2011	41,660,000	50,845,000
Series AA of 2011	10,325,000	11,745,000
Series of 2012	9,250,000	9,370,000
Series C of 2015	8,725,000	-
General Obligation Notes		
Series A of 2014	620,000	620,000
Series B of 2014	9,140,000	9,260,000
Series C of 2014	9,830,000	9,895,000
Series A of 2015	84,540,000	-
Series B of 2015	<u>2,730,000</u>	<u>-</u>
	<u>\$ 375,560,000</u>	<u>\$ 380,795,000</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, 2016</u>	<u>Balance</u> <u>June 30, 2015</u>
Other long-term debt	<u>\$ 423,642,011</u>	<u>\$ 395,040,501</u>

READING SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)
YEAR ENDED JUNE 30, 2016

COMPARISON OF REVENUE AND EXPENDITURE CATEGORIES

The comparison of budgeted revenue and expenditures between FY 2015-2016 and FY 2014-2015 is depicted in the tables below.

Table A-8
Budgeted Revenues

	<u>2015-2016</u>	<u>2014-2015</u>
Local	16.08%	15.45%
State	76.14%	73.84%
Federal/other	7.78%	10.71%

Table A-9
Budgeted Expenditures

	<u>2015-2016</u>	<u>2014-2015</u>
Instruction	61.17%	59.98%
Support services	29.23%	28.35%
Non-instruction/community	1.28%	1.19%
Fund transfers/debt	8.32%	10.48%

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. During the 2015-2016 and 2016-2017 school years, the District successfully negotiated all outstanding collective bargaining agreements. Within these agreements, the District negotiated changes to the current healthcare network and employee healthcare contributions to all for significant savings to the District. However, 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, 2016

State funding is a considerable portion of the District's revenue. With the creation and implementation of the fair funding formula, state funding has become more predictable based on the various components of the formula; however 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 third time in nearly fifteen years in 2015-2016, 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. 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 2015-2016, several collective bargaining agreements remained in status-quo. However, by the end of the 2016-2017 school year, all six of the collective bargaining agreements and the two Act 93 agreements were settled. With the successful completion of negotiations, future labor costs are now more predictable.

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, continues to be a concern.

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 \$124,716,719 as of June 30, 2016, 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, 2016

	Governmental Activities	Business-Type Activities	Totals
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES			
ASSETS			
Cash and investments	\$ 55,447,607	\$ 3,396,294	\$ 58,843,901
Taxes receivable	7,378,264	-	7,378,264
Interfund receivables	2,345,822	(2,345,822)	-
Intergovernmental receivables	26,652,826	3,116,718	29,769,544
Other receivables	293,926	228,867	522,793
Inventories	-	192,356	192,356
Prepaid expenses	18,289	-	18,289
Capital assets			
Land	14,645,066	-	14,645,066
Land improvements	2,201,842	-	2,201,842
Buildings and improvements	238,968,499	-	238,968,499
Leasehold improvements	13,298,495	-	13,298,495
Furniture and equipment	20,391,789	3,536,101	23,927,890
Vehicles	1,870,493	-	1,870,493
Construction in progress	44,822,740	-	44,822,740
Accumulated depreciation	(82,932,174)	(2,791,436)	(85,723,610)
TOTAL ASSETS	345,403,484	5,333,078	350,736,562
DEFERRED OUTFLOWS OF RESOURCES			
Deferred charge on refunding	1,027,513	-	1,027,513
Deferred outflows of resources - pension activity	20,880,000	690,000	21,570,000
TOTAL DEFERRED OUTFLOWS OF RESOURCES	21,907,513	690,000	22,597,513
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	\$ 367,310,997	\$ 6,023,078	\$ 373,334,075
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION			
LIABILITIES			
Accounts payable	\$ 5,676,586	\$ 108,632	\$ 5,785,218
Accrued salaries and benefits	22,768,927	-	22,768,927
Payroll deductions and withholdings	1,890,625	-	1,890,625
Unearned revenue	628,618	-	628,618
Accrued interest	3,742,724	-	3,742,724
Interest rate option agreement deferral	134,936	-	134,936
Long-term liabilities			
Portion due or payable within one year			
Bonds payable, net	4,435,000	-	4,435,000
Portion due or payable after one year			
Bonds payable, net	320,851,672	-	320,851,672
Bond discounts	(199,358)	-	(199,358)
Bond premiums	8,822,801	-	8,822,801
Accumulated compensated absences	1,985,295	56,997	2,042,292
Net pension liability	287,383,000	9,500,000	296,883,000
Other postemployment benefits	120,725,784	3,990,935	124,716,719
TOTAL LIABILITIES	778,846,610	13,656,564	792,503,174
DEFERRED INFLOWS OF RESOURCES			
Deferred inflows of resources - pension activity	7,793,000	257,000	8,050,000
NET POSITION			
Net investment in capital assets	(70,860,244)	744,665	(70,115,579)
Unrestricted	(348,468,369)	(8,635,151)	(357,103,520)
TOTAL NET POSITION	(419,328,613)	(7,890,486)	(427,219,099)
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	\$ 367,310,997	\$ 6,023,078	\$ 373,334,075

See accompanying notes to the basic financial statements.

READING SCHOOL DISTRICT

STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2016

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
GOVERNMENTAL ACTIVITIES				
Instruction	\$ 143,700,614	\$ 42,967	\$ 50,929,191	\$ -
Instructional student support	17,467,145	-	2,003,986	-
Administrative/financial support services	24,656,929	-	2,209,804	-
Operation/maintenance of plant services	19,847,661	-	1,890,648	-
Pupil transportation	5,221,682	-	1,634,800	-
Student activities	2,054,470	156,384	220,680	-
Community services	1,163,972	148,281	106,208	-
Interest on long-term debt	13,108,713	-	2,112,768	-
Refunds of prior year revenues	5,159	-	-	-
Unallocated depreciation	4,878,492	-	-	-
TOTAL GOVERNMENTAL ACTIVITIES	232,104,837	347,632	61,108,085	-
BUSINESS-TYPE ACTIVITIES				
Food service	14,822,205	580,692	13,336,006	-
TOTAL DISTRICT ACTIVITIES	\$ 246,927,042	\$ 928,324	\$ 74,444,091	\$ -

GENERAL REVENUES

Taxes

Property taxes, levied for general purposes

Taxes levied for specific purposes

Grants and entitlements not restricted to specific programs

Investment earnings

Miscellaneous

TOTAL GENERAL REVENUES

CHANGE IN NET POSITION

NET POSITION AT BEGINNING OF YEAR

NET POSITION AT END OF YEAR

See accompanying notes to the basic financial statements.

<u>Net (Expense) Revenue and Changes in Net Position</u>		
<u>Governmental</u>	<u>Business-Type</u>	
<u>Activities</u>	<u>Activities</u>	<u>Totals</u>
\$ (92,728,456)	\$ -	\$ (92,728,456)
(15,463,159)	-	(15,463,159)
(22,447,125)	-	(22,447,125)
(17,957,013)	-	(17,957,013)
(3,586,882)	-	(3,586,882)
(1,677,406)	-	(1,677,406)
(909,483)	-	(909,483)
(10,995,945)	-	(10,995,945)
(5,159)	-	(5,159)
<u>(4,878,492)</u>	<u>-</u>	<u>(4,878,492)</u>
(170,649,120)	-	(170,649,120)
<u>-</u>	<u>(905,507)</u>	<u>(905,507)</u>
<u>(170,649,120)</u>	<u>(905,507)</u>	<u>(171,554,627)</u>
21,713,339	-	21,713,339
16,019,541	-	16,019,541
127,132,457	-	127,132,457
952,876	2,257	955,133
<u>1,012,587</u>	<u>-</u>	<u>1,012,587</u>
<u>166,830,800</u>	<u>2,257</u>	<u>166,833,057</u>
(3,818,320)	(903,250)	(4,721,570)
<u>(415,510,293)</u>	<u>(6,987,236)</u>	<u>(422,497,529)</u>
<u>\$ (419,328,613)</u>	<u>\$ (7,890,486)</u>	<u>\$ (427,219,099)</u>

READING SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2016

	<u>General Fund</u>	<u>Capital Projects Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS				
Cash and cash equivalents	\$ 46,541,213	\$ 8,755,608	\$ 150,786	\$ 55,447,607
Taxes receivable	7,378,264	-	-	7,378,264
Interfund receivables	2,297,435	48,387	-	2,345,822
Intergovernmental receivables	26,652,826	-	-	26,652,826
Other receivables	293,926	-	-	293,926
Prepaid expenses	18,289	-	-	18,289
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
TOTAL ASSETS	<u>\$ 83,181,953</u>	<u>\$ 8,803,995</u>	<u>\$ 150,786</u>	<u>\$ 92,136,734</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES				
LIABILITIES				
Accounts payable	\$ 4,903,990	\$ 735,218	\$ 37,378	\$ 5,676,586
Accrued salaries and benefits	22,768,927	-	-	22,768,927
Payroll deductions and withholdings	1,890,625	-	-	1,890,625
Unearned revenue, grants	628,618	-	-	628,618
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
TOTAL LIABILITIES	<u>30,192,160</u>	<u>735,218</u>	<u>37,378</u>	<u>30,964,756</u>
DEFERRED INFLOWS OF RESOURCES				
Unavailable revenue, property taxes	6,305,583	-	-	6,305,583
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
FUND BALANCES				
Nonspendable	18,289	-	-	18,289
Restricted	-	8,068,777	113,408	8,182,185
Assigned	28,000,000	-	-	28,000,000
Unassigned	18,665,921	-	-	18,665,921
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
TOTAL FUND BALANCES	<u>46,684,210</u>	<u>8,068,777</u>	<u>113,408</u>	<u>54,866,395</u>
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	<u>\$ 83,181,953</u>	<u>\$ 8,803,995</u>	<u>\$ 150,786</u>	<u>\$ 92,136,734</u>

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, 2016

TOTAL GOVERNMENTAL FUNDS BALANCES	\$ 54,866,395
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	238,968,499
Leasehold improvements	13,298,495
Furniture and equipment	20,391,789
Vehicles	1,870,493
Construction in progress	44,822,740
Accumulated depreciation	(82,932,174)
Deferred inflows and outflows of resources related to pension activities are not financial resources and therefore not reported in the governmental funds.	13,087,000
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.	6,305,583
Income received on terminated investment derivatives, net of amortization.	(134,936)
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	(325,286,672)
Bond discounts	199,358
Bond premiums	(8,822,801)
Accrued interest	(3,742,724)
Accumulated compensated absences	(1,985,295)
Net pension liability	(287,383,000)
Other postemployment benefits	(120,725,784)
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	<u>1,027,513</u>
NET POSITION OF GOVERNMENTAL ACTIVITIES	<u>\$ (419,328,613)</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, 2016

	<u>General Fund</u>	<u>Capital Projects Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
REVENUES				
Local sources	\$ 38,807,810	\$ 35,227	\$ 149,445	\$ 38,992,482
State sources	168,901,981	-	-	168,901,981
Federal sources	19,167,878	-	-	19,167,878
Refunds of prior year expenses	583,917	-	-	583,917
TOTAL REVENUES	<u>227,461,586</u>	<u>35,227</u>	<u>149,445</u>	<u>227,646,258</u>
EXPENDITURES				
Instructional services	136,549,488	-	-	136,549,488
Support services	64,117,809	-	-	64,117,809
Operation of noninstructional services	2,914,425	-	138,671	3,053,096
Facilities acquisition, construction and improvement	-	7,142,702	-	7,142,702
Debt service				
Principal	2,470,000	-	-	2,470,000
Interest	11,737,337	-	45,748	11,783,085
Bond issuance costs	-	-	1,140,238	1,140,238
Refunds of prior year revenues	5,159	-	-	5,159
TOTAL EXPENDITURES	<u>217,794,218</u>	<u>7,142,702</u>	<u>1,324,657</u>	<u>226,261,577</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>9,667,368</u>	<u>(7,107,475)</u>	<u>(1,175,212)</u>	<u>1,384,681</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	-	-	-	-
Transfers out	-	-	-	-
Refunding bonds issued	-	-	95,995,000	95,995,000
Discount on refunding bonds issued	-	-	(55,283)	(55,283)
Premium on refunding bonds issued	-	-	6,644,195	6,644,195
Payment to refunded bond escrow agent	-	-	(101,398,309)	(101,398,309)
Sale of assets	-	-	-	-
Insurance proceeds	31,704	-	-	31,704
TOTAL OTHER FINANCING SOURCES (USES)	<u>31,704</u>	<u>-</u>	<u>1,185,603</u>	<u>1,217,307</u>
NET CHANGE IN FUND BALANCES	9,699,072	(7,107,475)	10,391	2,601,988
FUND BALANCES AT BEGINNING OF YEAR	<u>36,985,138</u>	<u>15,176,252</u>	<u>103,017</u>	<u>52,264,407</u>
FUND BALANCES AT END OF YEAR	<u>\$ 46,684,210</u>	<u>\$ 8,068,777</u>	<u>\$ 113,408</u>	<u>\$ 54,866,395</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, 2016

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS \$ 2,601,988

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 (\$6,410,266) is exceeded by capital outlays (\$7,559,633) in the current period.

1,149,367

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.

608,555

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.

2,838,383

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.

(3,605,528)

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	216,077
Compensated absences not reflected in Governmental Funds	63,052
Pension expense not reflected in Governmental Funds	(2,365,000)
Derivative instruments and deferred outflows and inflows	1,650,075

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.

(6,975,289)

CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES \$ (3,818,320)

See accompanying notes to the basic financial statements.

READING SCHOOL DISTRICT
STATEMENT OF NET POSITION
PROPRIETARY FUND
JUNE 30, 2016

	<u>Food Service Fund</u>
ASSETS	
CURRENT ASSETS	
Cash and cash equivalents	\$ 3,396,294
State subsidy receivable	134,676
Federal subsidy receivable	2,982,042
Accounts receivable	228,867
Inventories	192,356
TOTAL CURRENT ASSETS	<u>6,934,235</u>
PROPERTY AND EQUIPMENT	
Furniture and equipment	3,536,101
Accumulated depreciation	(2,791,436)
PROPERTY AND EQUIPMENT, net	<u>744,665</u>
TOTAL ASSETS	<u>7,678,900</u>
DEFERRED OUTFLOWS OF RESOURCES	
Deferred outflows of resources - pension activity	<u>690,000</u>
LIABILITIES	
CURRENT LIABILITIES	
Accounts payable	108,632
Interfund payables	2,345,822
TOTAL CURRENT LIABILITIES	<u>2,454,454</u>
NONCURRENT LIABILITIES	
Other postemployment benefits obligation	3,990,935
Net pension liability	9,500,000
Long-term portion of compensated absences	56,997
TOTAL NONCURRENT LIABILITIES	<u>13,547,932</u>
TOTAL LIABILITIES	<u>16,002,386</u>
DEFERRED INFLOWS OF RESOURCES	
Deferred inflows of resources - pension activity	<u>257,000</u>
NET POSITION	
Net investment in capital assets	744,665
Unrestricted	(8,635,151)
TOTAL NET POSITION	<u>\$ (7,890,486)</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, 2016

	<u>Food Service Fund</u>
OPERATING REVENUES	
Food sales	\$ 139,555
Charges for services	<u>441,137</u>
TOTAL OPERATING REVENUES	<u>580,692</u>
OPERATING EXPENSES	
Salaries	3,838,821
Employee benefits	2,989,410
Purchased professional and technical services	110,452
Purchased property services	430,458
Other purchased services	102,145
Supplies	7,152,126
Other	50,277
Depreciation	<u>148,516</u>
TOTAL OPERATING EXPENSES	<u>14,822,205</u>
OPERATING LOSS	<u>(14,241,513)</u>
NONOPERATING REVENUES	
Interest income	2,257
State sources	1,294,088
Federal sources	<u>12,041,918</u>
TOTAL NONOPERATING REVENUES	<u>13,338,263</u>
CHANGE IN NET POSITION	(903,250)
NET POSITION AT BEGINNING OF YEAR	<u>(6,987,236)</u>
NET POSITION AT END OF YEAR	<u>\$ (7,890,486)</u>

See accompanying notes to the basic financial statements.

READING SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
YEAR ENDED JUNE 30, 2016

	<u>Food Service Fund</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from customers	\$ 430,593
Payments to suppliers	(7,046,831)
Payments to employees	(6,541,958)
NET CASH USED BY OPERATING ACTIVITIES	<u>(13,158,196)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
State sources	1,176,379
Federal sources	10,575,943
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	<u>11,752,322</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Equipment acquisition	<u>(64,590)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Sale of investments	122,858
Earnings on investments	2,257
NET CASH PROVIDED BY INVESTING ACTIVITIES	<u>125,115</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(1,345,349)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>4,741,643</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 3,396,294</u>
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES	
Operating loss	\$ (14,241,513)
Adjustments to reconcile operating loss to net cash used by operating activities	
Depreciation	148,516
Pension expense	78,000
Increase in	
Accounts receivable	(150,099)
Inventories	(43,418)
Increase (decrease) in	
Accounts payable	33,596
Other postemployment benefits	230,588
Compensated absences	(22,315)
Interfund payable	808,449
NET CASH USED BY OPERATING ACTIVITIES	<u>\$ (13,158,196)</u>

See accompanying notes to the basic financial statements.

READING SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
JUNE 30, 2016

	Private- Purpose Trust Funds	Agency Funds
ASSETS		
Cash	\$ <u>1,326,063</u>	\$ <u>163,258</u>
LIABILITIES AND NET POSITION		
CURRENT LIABILITIES		
Other current liabilities	\$ -	\$ 163,258
NET POSITION		
Held in trust for scholarships	<u>1,326,063</u>	<u>-</u>
TOTAL LIABILITIES AND NET POSITION	\$ <u>1,326,063</u>	\$ <u>163,258</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, 2016

	<u>Private- Purpose Trust Funds</u>
ADDITIONS	
Contributions	\$ 407,645
Earnings on investments	4,486
Appreciation of investments	<u>378</u>
TOTAL ADDITIONS	412,509
DEDUCTIONS	
Scholarships	<u>69,245</u>
CHANGE IN NET POSITION	343,264
NET POSITION AT BEGINNING OF YEAR	<u>982,799</u>
NET POSITION AT END OF YEAR	<u><u>\$ 1,326,063</u></u>

See accompanying notes to the basic financial statements.

READING SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2016

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, 2016

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, 2016

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, 2016

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, 2016

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, 2016

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, 2016

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, 2016, 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, 2016

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, 2016:

Vocational programs	\$ 245,371
Other instructional programs	2,405,352
Administrative services	2,158,133
Pupil health	437,669
Student activities	80,336
Refunds of prior year revenues	5,159

READING SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2016

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, 2016, 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, 2016, the carrying amount of the District's deposits was \$60,333,222, and the bank balance was \$63,604,410. Of the bank balance, \$1,000,000 was covered by federal depository insurance, and \$62,604,410 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 - State statutes authorize the District to invest in: 1) obligations, participations and other instruments of any Federal agency, 2) repurchase agreements with respect to U.S. Treasury bills or obligations, 3) negotiable certificates of deposit, 4) bankers' acceptances, 5) commercial paper, 6) shares of an investment company registered under the Investment Company Act of 1940 whose shares are registered under the Securities Act of 1933, and 7) savings or demand deposits. The specific conditions under which the District may invest in these categories are detailed in Pennsylvania Act No. 53 of 1973, as amended by Pennsylvania Act No. 10 of 2016. Investments are stated at fair value or amortized cost, as applicable.

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.

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, 2016

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, 2016, is as follows:

<u>Receivable By</u>	<u>Amount</u>	<u>Payable From</u>	<u>Amount</u>
Capital Projects Fund	\$ 48,387	Food Service Fund	\$ 48,387
General Fund	<u>2,297,435</u>	Food Service Fund	<u>2,297,435</u>
	<u>\$ 2,345,822</u>		<u>\$ 2,345,822</u>

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

READING SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE E - CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2016, 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	<u>37,673,534</u>	<u>7,149,206</u>	<u>-</u>	<u>44,822,740</u>
TOTAL CAPITAL ASSETS NOT BEING DEPRECIATED	<u>52,318,600</u>	<u>7,149,206</u>	<u>-</u>	<u>59,467,806</u>
Capital assets being depreciated				
Land improvements	2,201,842	-	-	2,201,842
Buildings and improvements	238,835,376	133,123	-	238,968,499
Leasehold improvements	13,298,495	-	-	13,298,495
Furniture and equipment	20,114,485	277,304	-	20,391,789
Vehicles	<u>1,870,493</u>	<u>-</u>	<u>-</u>	<u>1,870,493</u>
TOTAL CAPITAL ASSETS BEING DEPRECIATED	<u>276,320,691</u>	<u>410,427</u>	<u>-</u>	<u>276,731,118</u>
Accumulated depreciation				
Land improvements	(1,696,863)	(110,094)	-	(1,806,957)
Buildings and improvements	(53,491,962)	(5,100,268)	-	(58,592,230)
Leasehold improvements	(3,534,573)	(443,283)	-	(3,977,856)
Furniture and equipment	(16,000,752)	(707,549)	-	(16,708,301)
Vehicles	<u>(1,797,758)</u>	<u>(49,072)</u>	<u>-</u>	<u>(1,846,830)</u>
TOTAL ACCUMULATED DEPRECIATION	<u>(76,521,908)</u>	<u>(6,410,266)</u>	<u>-</u>	<u>(82,932,174)</u>
TOTAL CAPITAL ASSETS BEING DEPRECIATED, net	<u>199,798,783</u>	<u>(5,999,839)</u>	<u>-</u>	<u>193,798,944</u>
 GOVERNMENTAL ACTIVITIES CAPITAL ASSETS, net	 <u>\$ 252,117,383</u>	 <u>\$ 1,149,367</u>	 <u>\$ -</u>	 <u>\$ 253,266,750</u>
 BUSINESS-TYPE ACTIVITIES				
Capital assets being depreciated				
Furniture and equipment	\$ 3,471,511	\$ 64,590	\$ -	\$ 3,536,101
Accumulated depreciation	<u>(2,642,920)</u>	<u>(148,516)</u>	<u>-</u>	<u>(2,791,436)</u>
 BUSINESS-TYPE ACTIVITIES CAPITAL ASSETS, net	 <u>\$ 828,591</u>	 <u>\$ (83,926)</u>	 <u>\$ -</u>	 <u>\$ 744,665</u>

READING SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE E - CAPITAL ASSETS (Continued)

Depreciation expense was charged to functions/programs as follows:

GOVERNMENTAL ACTIVITIES	
Instruction	\$ 555,349
Instructional student support	45,017
Administrative and financial support services	12,941
Operation and maintenance of plant services	887,187
Student activities	31,280
Unallocated depreciation	<u>4,878,492</u>
	<u>\$ 6,410,266</u>
BUSINESS-TYPE ACTIVITIES	
Food services	<u>\$ 148,516</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. \$ 955,000

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 \$ 103,915,000

READING SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE F - BONDS AND NOTES PAYABLE (Continued)

SUBTOTAL FORWARDED \$ 103,915,000

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. 94,825,000

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. 41,660,000

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. 10,325,000

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. 9,250,000

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

SUBTOTAL FORWARD \$ 260,595,000

READING SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE F - BONDS AND NOTES PAYABLE (Continued)

SUBTOTAL FORWARDED \$ 260,595,000

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. 9,140,000

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. 9,830,000

General Obligation Notes - Series A of 2015 - On October 29, 2015, the Board of School Directors authorized the District to issue \$84,540,000 of General Obligation Notes. Note proceeds were used for the current refunding of all of the District's Series 2005 bonds and to pay bond issuance costs. Interest is paid semi-annually on February 1 and August 1 of each year beginning February 1, 2016. Rates range from 2.0% to 5.0%. The bonds mature February 1, 2036. 84,540,000

General Obligation Notes - Series B of 2015 - On October 29, 2015, the Board of School Directors authorized the District to issue \$2,730,000 of General Obligation Notes. Note proceeds were used for the advance refunding of a portion of the District's Series 2008 bonds and to pay bond issuance costs. Interest is paid semi-annually on February 1 and August 1 of each year beginning February 1, 2016. Rates range from 2.0% to 5.0%. The bonds mature February 1, 2036. 2,730,000

General Obligation Bonds - Series C of 2015 - On October 29, 2015, the Board of School Directors authorized the District to issue \$8,725,000 of General Obligation Bonds. Bond proceeds were used for the advance refunding of a portion of the District's Series A of 2011 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 2.0% to 5.0%. The bonds mature February 1, 2022. 8,725,000

\$ 375,560,000

READING SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2016

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, 2016:

	Balance <u>July 1, 2015</u>	<u>Additions</u>	<u>Reductions</u>	Balance <u>June 30, 2016</u>	Amounts Due Within One Year
GOVERNMENTAL ACTIVITIES					
Bonds and notes payable	\$ 380,795,000	\$ 95,995,000	\$ (101,230,000)	\$ 375,560,000	\$ 4,435,000
Bond premium	5,003,552	6,644,194	(2,824,945)	8,822,801	-
Bond discount	(160,390)	(55,283)	16,315	(199,358)	-
Unamortized bond interest	(52,669,945)	-	2,396,617	(50,273,328)	-
Compensated absences	2,048,347	-	(63,052)	1,985,295	-
Net pension liability	266,589,000	20,794,000	-	287,383,000	-
Other postemployment benefits	113,750,495	6,975,289	-	120,725,784	-
	<u>715,356,059</u>	<u>130,353,200</u>	<u>(101,705,065)</u>	<u>744,004,194</u>	<u>4,435,000</u>
TOTAL GOVERNMENTAL ACTIVITIES					
BUSINESS-TYPE ACTIVITIES					
Compensated absences	\$ 79,312	\$ -	\$ (22,315)	\$ 56,997	\$ -
Net pension liability	8,813,000	687,000	-	9,500,000	-
Other postemployment benefits	3,760,347	230,588	-	3,990,935	-
	<u>12,652,659</u>	<u>917,588</u>	<u>(22,315)</u>	<u>13,547,932</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:

<u>Year Ending June 30,</u>	<u>Principal Maturities</u>	<u>Interest Maturities</u>	<u>Total Maturities</u>
2017	\$ 4,435,000	\$ 12,479,495	\$ 16,914,495
2018	13,315,000	12,271,972	25,586,972
2019	13,950,000	11,636,656	25,586,656
2020	14,625,000	10,964,868	25,589,868
2021	15,330,000	10,254,264	25,584,264
2022 to 2026	81,635,000	40,709,718	122,344,718
2027 to 2031	92,775,000	29,741,553	122,516,553
2032 to 2036	101,910,000	19,941,904	121,851,904
2037 to 2038	37,585,000	2,698,712	40,283,712
	<u>\$ 375,560,000</u>	<u>\$ 150,699,142</u>	<u>\$ 526,259,142</u>

READING SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE G - FUND BALANCES

As of June 30, 2016, 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>
NONSPENDABLE				
Prepaid expenses	\$ 18,289	\$ -	\$ -	\$ 18,289
RESTRICTED				
Capital	-	8,068,777	113,408	8,182,185
ASSIGNED				
Repairs, maintenance and construction projects	10,000,000	-	-	10,000,000
Health care insurance	7,000,000	-	-	7,000,000
Curriculum enhancements	2,000,000	-	-	2,000,000
Future pension contributions (PSERS)	3,000,000	-	-	3,000,000
Feasibility planning	6,000,000	-	-	6,000,000
UNASSIGNED	<u>18,665,921</u>	<u>-</u>	<u>-</u>	<u>18,665,921</u>
	<u>\$ 46,684,210</u>	<u>\$ 8,068,777</u>	<u>\$ 113,408</u>	<u>\$ 54,866,395</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, 2016, including changes during the year, is presented below:

	<u>Balance July 1, 2015</u>	<u>Net Change</u>	<u>Balance June 30, 2016</u>
COMPENSATED ABSENCES			
Governmental activities	\$ 2,048,347	\$ (63,052)	\$ 1,985,295
Business-type activities	<u>79,312</u>	<u>(22,315)</u>	<u>56,997</u>
	<u>\$ 2,127,659</u>	<u>\$ (85,367)</u>	<u>\$ 2,042,292</u>

READING SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2016

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, 2016

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, 2016, was 25.00% 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 \$21,570,000 for the year ended June 30, 2016.

READING SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2016

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, 2016, the School District reported a liability of \$296,883,000 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015, 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, 2014 to June 30, 2015. 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, 2015, the School District's proportion was 0.6854%, which was a decrease of 0.0104% from its proportion measured as of June 30, 2014.

For the year ended June 30, 2016, the School District recognized pension expense of \$24,013,000. At June 30, 2016, 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		
Difference between expected and actual experience	\$ -	\$ 1,186,000
Changes in assumptions	-	-
Net difference between projected and actual investment earnings	-	582,000
Changes in proportions	-	5,257,000
Difference between employer contributions and proportionate share of total contributions	-	768,000
Contributions subsequent to the measurement date	<u>20,880,000</u>	<u>-</u>
	<u>\$ 20,880,000</u>	<u>\$ 7,793,000</u>
BUSINESS-TYPE ACTIVITIES		
Difference between expected and actual experience	\$ -	\$ 39,000
Changes in assumptions	-	-
Net difference between projected and actual investment earnings	-	19,000
Changes in proportions	-	174,000
Difference between employer contributions and proportionate share of total contributions	-	25,000
Contributions subsequent to the measurement date	<u>690,000</u>	<u>-</u>
	<u>\$ 690,000</u>	<u>\$ 257,000</u>

READING SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE I - PENSION PLAN (Continued)

\$21,570,000 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, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ending</u> <u>June 30,</u>		
Governmental activities:		
2017	\$	(3,291,000)
2018		(3,291,000)
2019		(3,291,000)
2020		<u>2,080,000</u>
	\$	<u><u>(7,793,000)</u></u>
Business-type activities:		
2017	\$	(109,000)
2018		(109,000)
2019		(109,000)
2020		<u>70,000</u>
	\$	<u><u>(257,000)</u></u>

Actuarial Assumptions - The total pension liability as of June 30, 2015, was determined by rolling forward the System's total pension liability as of the June 30, 2014 actuarial valuation to June 30, 2015, 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, 2016

NOTE I - PENSION PLAN (Continued)

The actuarial assumptions used in the June 30, 2014 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	22.5%	4.8%
Private markets (equity)	15.0%	6.6%
Private real estate	12.0%	4.5%
Global fixed income	7.5%	2.4%
U.S. long treasuries	3.0%	1.4%
TIPS	12.0%	1.1%
High yield bonds	6.0%	3.3%
Cash	3.0%	0.7%
Absolute return	10.0%	4.9%
Risk parity	10.0%	3.7%
MLPs/Infrastructure	5.0%	5.2%
Commodities	8.0%	3.1%
Financing (LIBOR)	-14.0%	1.1%
	<u>100.0%</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, 2015.

READING SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2016

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 6.50%	Current Discount Rate 7.50%	1% Increase 8.50%
School District's proportionate share of the net pension liability	\$ <u>365,937,000</u>	\$ <u>296,883,000</u>	\$ <u>238,843,000</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, 2016, RMCTC's budget was \$9,052,904 and the District's share was \$5,318,108. 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, 2016

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 \$2,872,100 for outstanding estimated claims at June 30, 2016.

CLAIM LIABILITY AT BEGINNING OF YEAR	\$ 2,958,531
Incurred claims	38,946,468
Payments on claims	<u>(39,032,899)</u>
 CLAIM LIABILITY AT END OF YEAR	 \$ <u>2,872,100</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, 2016, in the amount of \$417,925.

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, 2016

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

Amounts received or receivable from grantor agencies are subject to audit adjustment by grantor 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, 2016

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)	\$ 15,020,513
Adjustment to ARC	<u>(1,981,536)</u>
ANNUAL OPEB COST (EXPENSE)	13,038,977
Contributions made	<u>(5,833,100)</u>
INCREASE IN NET OPEB OBLIGATION	7,205,877
Net OPEB obligation at beginning of year	<u>117,510,842</u>
 NET OPEB OBLIGATION AT END OF YEAR	 <u>\$ 124,716,719</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>
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
2016	13,038,977	44.7%	124,716,719

READING SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2016

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)
2011	\$ -	\$ 162,785	\$ 162,785	0%	\$ tbd	tbd
2013	-	162,561	162,561	0%	tbd	tbd
2015	-	200,334	200,334	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, 2016

NOTE N - POST-EMPLOYMENT HEALTHCARE PLAN (Continued)

In the July 1, 2015 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, 2016, was 21 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
2017	5.50%	5.50%
2018	5.90%	5.90%
2019	5.80%	5.80%
2020	5.70%	5.70%
2021	5.80%	5.80%
2026	6.10%	6.10%
2031	5.80%	5.80%
2036	5.80%	5.80%
2041	5.70%	5.70%
2046	5.30%	5.30%
2056	5.10%	5.10%
2086 and later (<65)	4.00%	4.00%
2086 and later (65+)		

NOTE O - COMMITMENTS

As of June 30, 2016, 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:

Project	Project Amount	Completed to June 30, 2016	Commitments
Miscellaneous building repairs	\$ 44,524,282	\$ 43,252,474	\$ 1,271,808

REQUIRED SUPPLEMENTARY INFORMATION

READING SCHOOL DISTRICT
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
YEAR ENDED JUNE 30, 2016

	Budgeted Amounts		Actual GAAP Basis	Variance With Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Local sources	\$ 39,387,877	\$ 36,074,878	\$ 38,807,810	\$ 2,732,932
State sources	167,944,996	170,857,996	168,901,981	(1,956,015)
Federal sources	17,056,259	17,056,259	19,167,878	2,111,619
Refunds of prior year expenses	-	400,000	583,917	183,917
TOTAL REVENUES	224,389,132	224,389,133	227,461,586	3,072,453
EXPENDITURES				
Instruction				
Regular programs	93,283,393	93,016,233	88,515,913	4,500,320
Special programs	38,358,530	38,358,529	36,898,214	1,460,315
Vocational programs	5,167,502	5,167,502	5,412,873	(245,371)
Other instructional programs	745,087	745,087	3,150,439	(2,405,352)
Nonpublic school programs	424,000	424,400	310,966	113,434
Adult education programs	215,269	215,269	170,527	44,742
Pre-kindergarten programs	2,178,494	2,178,495	2,090,556	87,939
TOTAL INSTRUCTION	140,372,275	140,105,515	136,549,488	3,556,027
Support services				
Pupil personnel services	7,880,997	7,951,478	7,502,062	449,416
Instructional staff services	5,221,727	5,219,728	4,669,939	549,789
Administrative services	16,753,659	16,805,654	18,963,787	(2,158,133)
Pupil health	2,800,210	2,729,731	3,167,400	(437,669)
Business services	1,749,476	2,016,635	1,381,435	635,200
Operation and maintenance of plant services	21,288,113	20,788,115	18,173,076	2,615,039
Student transportation services	5,742,966	5,742,966	5,216,649	526,317
Support services - central	5,355,723	5,409,977	4,831,083	578,894
Other support services	280,067	280,068	212,378	67,690
TOTAL SUPPORT SERVICES	67,072,938	66,944,352	64,117,809	2,826,543
Operation of noninstructional services				
Food Service	-	-	-	-
Student activities	1,853,125	1,853,125	1,933,461	(80,336)
Community services	1,182,069	1,077,815	980,964	96,851
TOTAL OPERATION OF NON- INSTRUCTIONAL SERVICES	3,035,194	2,930,940	2,914,425	16,515
Debt service	17,512,359	17,512,359	14,207,337	3,305,022
Refunds of prior year revenues	-	-	5,159	(5,159)
TOTAL EXPENDITURES	227,992,766	227,493,166	217,794,218	9,698,948
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(3,603,634)	(3,104,033)	9,667,368	(12,771,401)
OTHER FINANCING SOURCES				
Transfers in	1,550,000	1,550,000	-	1,550,000
Insurance proceeds	-	-	31,704	(31,704)
TOTAL OTHER FINANCING SOURCES	1,550,000	1,550,000	31,704	1,518,296
NET CHANGE IN FUND BALANCE	(2,053,634)	(1,554,033)	9,699,072	11,253,105
FUND BALANCE AT BEGINNING OF YEAR	36,985,138	36,985,138	36,985,138	-
FUND BALANCE AT END OF YEAR	\$ 34,931,504	\$ 35,431,105	\$ 46,684,210	\$ 11,253,105

READING SCHOOL DISTRICT
SCHEDULE OF THE SCHOOL DISTRICT'S PROPORTIONATE
SHARE OF THE NET PENSION LIABILITY
LAST TWO FISCAL YEARS

	<u>2016</u>	<u>2015</u>
School District's proportion of the net pension liability (asset)	<u>0.6854%</u>	<u>0.6958%</u>
School District's proportionate share of the net pension liability (asset)	<u>\$ 296,883,000</u>	<u>\$ 275,402,000</u>
School District's covered-employee payroll	<u>\$ 88,186,592</u>	<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>336.65%</u>	<u>310.17%</u>
The plan's fiduciary net position as a percentage of the total pension liability	<u>45.64%</u>	<u>57.24%</u>

READING SCHOOL DISTRICT
SCHEDULE OF SCHOOL DISTRICT CONTRIBUTIONS
LAST TWO FISCAL YEARS

	<u>2016</u>	<u>2015</u>
Contractually required contribution	\$ 21,570,000	\$ 17,251,000
Contributions in relation to the contractually required contribution	<u>21,570,000</u>	<u>17,251,000</u>
CONTRIBUTION (EXCESS) DEFICIENCY	\$ <u> -</u>	\$ <u> -</u>
School District's covered-employee payroll	\$ <u>86,280,000</u>	\$ <u>86,253,094</u>
Contributions as a percentage of covered-employee payroll	<u>25.00%</u>	<u>20.00%</u>

READING SCHOOL DISTRICT
POSTEMPLOYMENT BENEFITS OTHER THAN
PENSION FUNDING PROGRESS
YEAR ENDED JUNE 30, 2016

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)
2011	\$ -	\$ 162,785	\$ 162,785	0%	\$ (TBD)	(TBD)
2013	-	162,561	162,561	0%	(TBD)	(TBD)
2015	-	200,334	200,334	0%	(TBD)	(TBD)

SUPPLEMENTARY INFORMATION SECTION

READING SCHOOL DISTRICT
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
JUNE 30, 2016

	Special Revenue Fund	Debt Service Fund	Total Nonmajor Governmental Funds
	<u> </u>	<u> </u>	<u> </u>
ASSETS			
Cash and investments	\$ 150,786	\$ -	\$ 150,786
	<u> </u>	<u> </u>	<u> </u>
LIABILITIES AND FUND BALANCES			
LIABILITIES			
Accounts payable	\$ 37,378	\$ -	\$ 37,378
FUND BALANCES			
Restricted	113,408	-	113,408
	<u> </u>	<u> </u>	<u> </u>
TOTAL LIABILITIES AND FUND BALANCES	\$ 150,786	\$ -	\$ 150,786
	<u> </u>	<u> </u>	<u> </u>

READING SCHOOL DISTRICT
COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2016

	Special Revenue Fund	Debt Service Fund	Total Nonmajor Governmental Funds
REVENUES			
Earnings on investments	\$ 547	\$ -	\$ 547
Other revenues	148,898	-	148,898
TOTAL REVENUES	149,445	-	149,445
EXPENDITURES			
Student activities	138,671	-	138,671
Debt service			
Interest	-	45,748	45,748
Bond issuance costs	-	1,140,238	1,140,238
TOTAL EXPENDITURES	138,671	1,185,986	1,324,657
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	10,774	(1,185,986)	(1,175,212)
OTHER FINANCING SOURCES (USES)			
Refunding bond issued	-	95,995,000	95,995,000
Discount on refunding bonds issued	-	(55,283)	(55,283)
Premium on refunding bonds issued	-	6,644,195	6,644,195
Payment to refunded bond escrow agent	-	(101,398,309)	(101,398,309)
TOTAL OTHER FINANCING SOURCES (USES)	-	1,185,603	1,185,603
NET CHANGE IN FUND BALANCES BALANCES	10,774	(383)	10,391
FUND BALANCES AT BEGINNING OF YEAR	102,634	383	103,017
FUND BALANCES AT END OF YEAR	\$ 113,408	\$ -	\$ 113,408

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, 2016, 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 August 4, 2017.

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.

The image shows a handwritten signature in black ink that reads "Maillie LLP". The signature is written in a cursive, flowing style.

Oaks, Pennsylvania
August 4, 2017

***Independent Auditors' Report on Compliance for Each Major Federal Program and
Report on Internal Control Over Compliance; and Report on the Schedule of Expenditures of
Federal Awards in Accordance with the Uniform Guidance***

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) *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, 2016. 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 the audit requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). Those standards and the Uniform Guidance 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, 2016.

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 the Uniform Guidance, 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.

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

Report on Schedule of Expenditures of Federal Awards Required By the Uniform Guidance

We have audited 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, 2016, and the related notes to the financial statements, which collectively comprise the basic financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the audit requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (the Uniform Guidance) and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the financial statements as a whole.

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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.



Oaks, Pennsylvania
August 4, 2017

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

READING SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2016

Federal Grantor/Project Title	Source Code	Federal CFDA Number	Pass-Through Grantor's Number	Grant Period Beginning/Ending Dates
U.S. DEPARTMENT OF EDUCATION				
Impact Aid - Title VIII	D	84.041	N/A	Various years
Passed through the Pennsylvania Department of Education				
Title I Grants - Improving Basic Programs	I	84.010	013-14-0355	07/01/13-09/30/15
Title I Grants - Improving Basic Programs	I	84.010	013-15-0355	07/01/14-09/30/16
Title I Grants - Improving Basic Programs	I	84.010	013-16-0355	07/01/15-09/30/17
School Improvement Set Aside	I	84.010	042-14-0355	07/29/14-09/30/15
School Improvement Set Aside	I	84.010	042-15-0355	06/19/15-09/30/16
School Improvement Set Aside	I	84.010	042-16-0355	04/29/16-09/30/17
Academic Achievement Award	I	84.010	077-15-0355	03/24/15-09/30/15
Total CFDA 84.010				
Title II Part A - Improving Teacher Quality	I	84.367	020-15-0355	07/01/14-09/30/15
Title II Part A - Improving Teacher Quality	I	84.367	020-16-0355	07/01/15-09/30/16
Total CFDA 84.367				
Title III Language Inst LEP/Immigrant Students	I	84.365	010-15-0355	07/10/14-09/30/15
Title III Language Inst LEP/Immigrant Students	I	84.365	010-16-0355	07/01/15-09/30/16
Total CFDA 84.365				
After School Learning Centers - Cohort 6 Year 1	I	84.287	FC4100058703	10/01/11-09/30/12
After School Learning Centers - Cohort 6 Year 2	I	84.287	FC4100058703	10/01/12-09/30/13
After School Learning Centers - Cohort 6 Year 3	I	84.287	FC4100058703	10/01/13-09/30/14
After School Learning Centers - Cohort 7 Year 1	I	84.287	FC4100068092	10/01/14-09/30/15
After School Learning Centers - Cohort 7 Year 2	I	84.287	FC4100068092	10/01/15-09/30/16
Total CFDA 84.287				
Passed through the Berks County Intermediate Unit				
IDEA EHA-B - Special Education Grant	I	84.027	N/A	07/01/14-09/30/15
IDEA EHA-B - Special Education Grant	I	84.027	N/A	07/01/15-09/30/16
Total CFDA 84.027				
IDEA - Section 619	I	84.173	N/A	07/01/14-06/30/15
IDEA - Section 619	I	84.173	N/A	07/01/15-06/30/16
Total CFDA 84.173				
Total Special Education Cluster				
Passed through the Reading-Muhlenberg AVTS				
Vocational Education - Basic Grant to States (Perkins)	I	84.048	380-15-1053	07/01/14-06/30/15
Vocational Education - Basic Grant to States (Perkins)	I	84.048	380-16-1053	07/01/15-06/30/16
Total CFDA 84.048				
TOTAL FORWARD				
U.S. DEPARTMENT OF DEFENSE				
Marine Corps Junior ROTC Program	D		N/A	07/01/14-06/30/15
Marine Corps Junior ROTC Program	D		N/A	07/01/15-06/30/16
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, 2015</u>	<u>Revenue Recognized</u>	<u>Expenditures</u>	<u>Accrued or (Deferred) Revenue at June 30, 2016</u>	<u>Total Amount Passed Thru to Subrecipients</u>
N/A	\$ 37,383	\$ -	\$ 37,383	\$ 37,383	\$ -	-
\$ 12,917,325	-	(3,686)	3,686	3,686	-	-
13,613,532	4,410,521	1,597,107	2,402,995	2,402,995	(410,419)	-
12,976,962	-	-	9,321,250	9,321,250	9,321,250	-
636,990	297,262	39,524	257,738	257,738	-	-
776,534	724,765	667	660,606	660,606	(63,492)	-
728,320	-	-	37,160	37,160	37,160	-
50,000	35,714	12,478	23,236	23,236	-	-
	<u>5,468,262</u>	<u>1,646,090</u>	<u>12,706,671</u>	<u>12,706,671</u>	<u>8,884,499</u>	<u>-</u>
1,227,105	244,331	244,331	-	-	-	-
1,213,812	-	-	1,213,812	1,213,812	1,213,812	-
	<u>244,331</u>	<u>244,331</u>	<u>1,213,812</u>	<u>1,213,812</u>	<u>1,213,812</u>	<u>-</u>
923,299	307,766	114,192	131,423	131,423	(62,151)	-
879,644	-	-	667,640	667,640	667,640	-
	<u>307,766</u>	<u>114,192</u>	<u>799,063</u>	<u>799,063</u>	<u>605,489</u>	<u>-</u>
500,000	-	(69,944)	-	-	(69,944)	-
500,000	-	33,582	-	-	33,582	-
500,000	-	2,167	-	-	2,167	-
400,000	208,520	137,148	71,372	71,372	-	-
400,000	112,518	-	278,920	278,920	166,402	-
	<u>321,038</u>	<u>102,953</u>	<u>350,292</u>	<u>350,292</u>	<u>132,207</u>	<u>-</u>
2,794,280	2,474,133	2,474,133	-	-	-	-
2,748,337	978,351	-	2,748,337	2,748,337	1,769,986	-
	<u>3,452,484</u>	<u>2,474,133</u>	<u>2,748,337</u>	<u>2,748,337</u>	<u>1,769,986</u>	<u>-</u>
10,054	10,054	10,054	-	-	-	-
11,661	-	-	11,661	11,661	11,661	-
	<u>10,054</u>	<u>10,054</u>	<u>11,661</u>	<u>11,661</u>	<u>11,661</u>	<u>-</u>
	<u>3,462,538</u>	<u>2,484,187</u>	<u>2,759,998</u>	<u>2,759,998</u>	<u>1,781,647</u>	<u>-</u>
119,055	34,583	34,583	-	-	-	-
122,656	89,429	-	115,197	115,197	25,768	-
	<u>124,012</u>	<u>34,583</u>	<u>115,197</u>	<u>115,197</u>	<u>25,768</u>	<u>-</u>
	<u>9,965,330</u>	<u>4,626,336</u>	<u>17,982,416</u>	<u>17,982,416</u>	<u>12,643,422</u>	<u>-</u>
N/A	13,973	13,973	-	-	-	-
N/A	129,683	-	141,410	141,410	11,727	-
	<u>\$ 143,656</u>	<u>\$ 13,973</u>	<u>\$ 141,410</u>	<u>\$ 141,410</u>	<u>\$ 11,727</u>	<u>\$ -</u>

READING SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2016

Federal Grantor/Project Title	Source Code	Federal CFDA Number	Pass-Through Grantor's 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	N/A	07/01/14-06/30/15
ELECT	I	93.558	N/A	07/01/15-06/30/16
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	N/A	07/01/14-06/30/15
ACCESS Medical Assistance Program	I	93.778	N/A	07/01/15-06/30/16
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	N/A	07/01/14-06/30/15
Passed through the Pennsylvania Department of Education				
After School Snacks	I	10.555	N/A	07/01/14-06/30/15
After School Snacks	I	10.555	N/A	07/01/15-06/30/16
National School Lunch Program	I	10.555	N/A	07/01/14-06/30/15
National School Lunch Program	I	10.555	N/A	07/01/15-06/30/16
Total CFDA 10.555				
Severe Need Breakfast	I	10.553	N/A	07/01/14-06/30/15
Severe Need Breakfast	I	10.553	N/A	07/01/15-06/30/16
Total CFDA 10.553				
Summer Food	I	10.559	N/A	07/01/14-06/30/15
Summer Food	I	10.559	N/A	07/01/15-06/30/16
Total CFDA 10.559				
Total Child Nutrition Cluster				
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.

Grant Amount	Total Received for the Year	Accrued or (Deferred) Revenue at July 1, 2015	Revenue Recognized	Expenditures	Accrued or (Deferred) Revenue at June 30, 2016	Total Amount Passed Thru to Subrecipients
	\$ 9,965,330	\$ 4,626,336	\$ 17,982,416	\$ 17,982,416	\$ 12,643,422	\$ -
	143,656	13,973	141,410	141,410	11,727	-
\$ 71,000	7,100	7,100	-	-	-	-
71,000	-	-	71,000	71,000	71,000	-
	7,100	7,100	71,000	71,000	71,000	-
N/A	64,903	64,903	-	-	-	-
N/A	32,944	-	135,232	135,232	102,288	-
	97,847	64,903	135,232	135,232	102,288	-
N/A	803,376	-	803,376	803,376	-	-
N/A	2,655	2,655	-	-	-	-
N/A	17,932	-	24,138	24,138	6,206	-
N/A	1,040,137	1,040,137	-	-	-	-
N/A	5,698,397	-	7,736,580	7,736,580	2,038,183	-
	7,562,497	1,042,792	8,564,094	8,564,094	2,044,389	-
N/A	423,922	423,922	-	-	-	-
N/A	2,447,595	-	3,385,249	3,385,249	937,654	-
	2,871,517	423,922	3,385,249	3,385,249	937,654	-
N/A	49,353	49,353	-	-	-	-
N/A	92,575	-	92,575	92,575	-	-
	141,928	49,353	92,575	92,575	-	-
	10,575,942	1,516,067	12,041,918	12,041,918	2,982,043	-
	10,575,942	1,516,067	12,041,918	12,041,918	2,982,043	-
	\$ 20,789,875	\$ 6,228,379	\$ 30,371,976	\$ 30,371,976	\$ 15,810,480	\$ -

READING SCHOOL DISTRICT
NOTES TO THE SCHEDULE OF EXPENDITURES OF
FEDERAL AWARDS
YEAR ENDED JUNE 30, 2016

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, 2016, was \$135,232.

NOTE D - INDIRECT COST RATES

The School District has not elected to use the 10% de minimis indirect cost rate as allowed in the Uniform Guidance, Section 414.

READING SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2016

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 2 CFR 200.516(a): **No**

Identification of major programs:

<u>Program</u>	<u>CFDA</u>
Title I	84.010

The threshold used for distinguishing Types A and B programs was \$911,159. 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, 2016

None.