

CITY OF READING



Basic Financial Statements

December 31, 2018

OHIO AUDITOR OF STATE
KEITH FABER



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Members of Council
City of Reading
1000 Market Street
Reading, Ohio 45215

We have reviewed the *Independent Auditor's Report* of the City of Reading, Hamilton County, prepared by Plattenburg & Associates, Inc., for the audit period January 1, 2018 through December 31, 2018. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The City of Reading is responsible for compliance with these laws and regulations.

A handwritten signature in black ink that reads "Keith Faber".

Keith Faber
Auditor of State
Columbus, Ohio

October 22, 2020

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INDEPENDENT AUDITOR'S REPORT

Honorable Mayor and City Council
City of Reading

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 City of Reading (the City) as of and for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise the City's basic financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

Opinions

In our opinion, the financial statements referred to previously 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 City, as of December 31, 2018, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matters

As discussed in Note 16 to the financial statements, during the year ended December 31, 2018, the City adopted the provisions of Governmental Accounting Standards Board Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pension. We did not modify our opinion regarding this matter.

As discussed in Note 17 to the financial statements, during 2020, the financial impact of COVID-19 and the ensuing emergency measures will impact subsequent periods of the City. We did not modify our opinion regarding this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information and schedules of pension information and other postemployment information to 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 Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated August 18, 2020, on our consideration of the City's internal control over financial reporting and 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 City's internal control over financial reporting and compliance.

Plattenburg & Associates, Inc.

Plattenburg & Associates, Inc.

Cincinnati, Ohio

August 18, 2020

City of Reading, Ohio
Management's Discussion and Analysis
For The Year Ended December 31, 2018
(Unaudited)

The City of Reading's discussion and analysis of the annual financial reports provides a review of the financial performance for the fiscal year ending December 31, 2018. The intent of this discussion and analysis is to look at the City's financial performance as a whole; readers should also review the notes to the basic financial statements and financial statements to enhance their understanding of the City's performance.

Financial Highlights

- The City's total net position decreased \$1,146,565. Net position of governmental activities decreased \$1,082,977, net position of business-type activities decreased by \$63,588.
- The General Fund reported a net change in fund balance of \$318,679.
- Business-type operations reflected operating loss of \$63,588.

Overview of the Financial Statements

This annual report consists of a series of financial statements. These statements are presented so that the reader can understand the City's financial situation as a whole and also give a detailed view of the City's fiscal condition.

The Statement of Net Position and Statement of Activities provide information about the activities of the City as a whole and present a longer-term view of the City's finances. Major fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as the amount of funds available for future spending. The fund financial statements also look at the City's most significant funds with all other nonmajor funds presented in total in one column.

Government-wide Financial Statements

The analysis of the City as a whole begins with the Government-wide Financial Statements. These reports provide information that will help the reader to determine if the City of Reading is financially better off or worse off as a result of the year's activities. These statements include all assets and deferred outflows, and liabilities and deferred inflows using the accrual basis of accounting similar to the accounting used by private sector companies. All current year revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the City's net position and changes to those assets. This change informs the reader whether the City's financial position, as a whole, has improved or diminished. In evaluating the overall financial health, the reader of these financial statements needs to take into account non-financial factors that also impact the City's financial well-being. Some of these factors include the City's tax base and the condition of capital assets.

City of Reading, Ohio
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In the Government-wide Financial Statements, the City is divided into two kinds of activities.

- **Governmental Activities** - Most of the City's services are reported here including police, fire, street maintenance, parks and recreation, and general administration. Income taxes, property taxes, intergovernmental revenue, charges for services, and interest finance most of these activities.
- **Business-Type Activities** - These services include water. Service fees for these operations are charged based upon the amount of usage or a usage fee. The intent is that the fees charged recoup operational costs.

Fund Financial Statements

Information about the City's major funds is presented in the Fund Financial Statements. Fund financial statements provide detailed information about the City's major funds - not the City as a whole. Some funds are required by State law and bond covenants. Other funds may be established by the City, with approval of council, to help control, manage and report money received for a particular purpose or to show that the City is meeting legal responsibilities for use of grants. The City's major funds are General, EPA Brownsfield Grant, Streets and Curbs, Capital Improvement and Water Funds.

Governmental Funds - Most of the City's services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps to determine whether there are more or less financial resources that can be spent in the near future on services provided to our residents. 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 - When the City charges citizens for the services it provides, with the intent of recapturing operating costs, these services are generally reported in proprietary funds. Proprietary funds use the same basis of accounting as business-type activities; therefore, these statements will essentially match.

Fiduciary Funds - The City is the fiscal agent for three agency funds. All of the City's fiduciary activities are reported in separate Statements of Fiduciary Assets and Liabilities. We exclude these activities from the City's other financial statements because the City cannot use these assets to finance its operations. The City is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

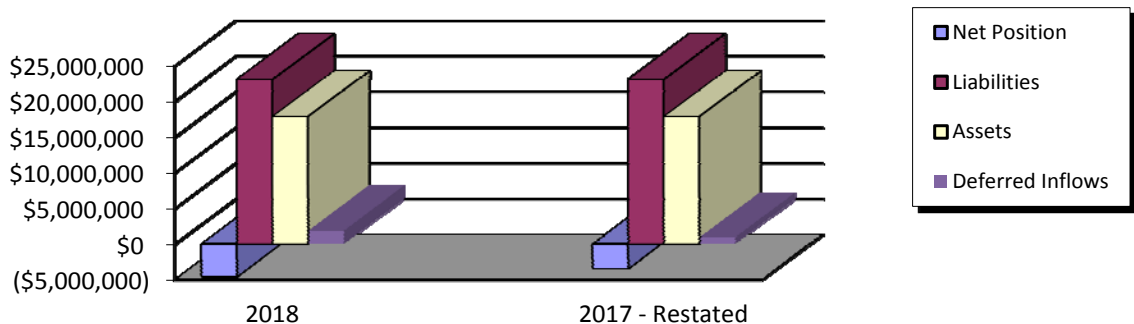
City of Reading, Ohio
Management's Discussion and Analysis
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(Unaudited)

The City as a Whole

As stated previously, the Statement of Net Position looks at the City as a whole. Table 1 provides a summary of the City's net position for 2018 compared to 2017.

Table 1
Net Position

| | Governmental Activities | | Business-Type Activities | | Total | |
|---|-------------------------|----------------------|--------------------------|------------------|----------------------|----------------------|
| | 2018 | 2017 - Restated | 2018 | 2017 - Restated | 2018 | 2017 - Restated |
| Assets: | | | | | | |
| Current and Other Assets | \$7,087,698 | \$7,096,511 | \$521,356 | \$576,389 | \$7,609,054 | \$7,672,900 |
| Capital Assets | 9,773,943 | 9,684,414 | 495,857 | 515,312 | 10,269,800 | 10,199,726 |
| Total Assets | 16,861,641 | 16,780,925 | 1,017,213 | 1,091,701 | 17,878,854 | 17,872,626 |
| Deferred Outflows of Resources: | | | | | | |
| OPEB | 843,142 | 32,575 | 10,978 | 2,303 | 854,120 | 34,878 |
| Pension | 1,571,898 | 2,561,906 | 54,442 | 99,539 | 1,626,340 | 2,661,445 |
| Total Deferred Outflows of Resources | 2,415,040 | 2,594,481 | 65,420 | 101,842 | 2,480,460 | 2,696,323 |
| Liabilities: | | | | | | |
| Long-Term Liabilities | 22,183,650 | 22,141,159 | 361,129 | 399,066 | 22,544,779 | 22,540,225 |
| Other Liabilities | 417,919 | 347,129 | 117,624 | 200,905 | 535,543 | 548,034 |
| Total Liabilities | 22,601,569 | 22,488,288 | 478,753 | 599,971 | 23,080,322 | 23,088,259 |
| Deferred Inflows of Resources: | | | | | | |
| Property Taxes | 585,000 | 600,000 | 0 | 0 | 585,000 | 600,000 |
| OPEB | 224,299 | 0 | 17,225 | 0 | 241,524 | 0 |
| Pension | 992,861 | 331,189 | 62,726 | 6,055 | 1,055,587 | 337,244 |
| Total Deferred Inflows of Resources | 1,802,160 | 931,189 | 79,951 | 6,055 | 1,882,111 | 937,244 |
| Net Position: | | | | | | |
| Net Investment In Capital Assets | 6,955,020 | 6,759,074 | 495,857 | 515,312 | 7,450,877 | 7,274,386 |
| Restricted | 3,848,983 | 4,219,942 | 0 | 0 | 3,848,983 | 4,219,942 |
| Unrestricted | (15,931,051) | (15,023,087) | 28,072 | 72,205 | (15,902,979) | (14,950,882) |
| Total Net Position | (\$5,127,048) | (\$4,044,071) | \$523,929 | \$587,517 | (\$4,603,119) | (\$3,456,554) |



The net pension liability (NPL) is the reported by the City at December 31, 2018 and is reported pursuant to GASB Statement 68, "Accounting and Financial Reporting for Pensions—an Amendment of GASB Statement 27." For fiscal year 2018, the City adopted GASB Statement 75, "Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions," which significantly revises accounting for

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costs and liabilities related to other postemployment benefits (OPEB). For reasons discussed below, many end users of this financial statement will gain a clearer understanding of the City's actual financial condition by adding deferred inflows related to pension and OPEB, the net pension liability and the net OPEB liability to the reported net position and subtracting deferred outflows related to pension and OPEB.

Governmental Accounting Standards Board standards are national and apply to all government financial reports prepared in accordance with generally accepted accounting principles. Prior accounting for pensions (GASB 27) and postemployment benefits (GASB 45) focused on a funding approach. This approach limited pension and OPEB costs to contributions annually required by law, which may or may not be sufficient to fully fund each plan's *net pension liability* or *net OPEB liability*. GASB 68 and GASB 75 take an earnings approach to pension and OPEB accounting; however, the nature of Ohio's statewide pension/OPEB plans and state law governing those systems requires additional explanation in order to properly understand the information presented in these statements.

GASB 68 and GASB 75 require the net pension liability and the net OPEB liability to equal the City's proportionate share of each plan's collective:

1. Present value of estimated future pension/OPEB benefits attributable to active and inactive employees' past service
2. Minus plan assets available to pay these benefits.

GASB notes that pension and OPEB obligations, whether funded or unfunded, are part of the "employment exchange" – that is, the employee is trading his or her labor in exchange for wages, benefits, and the promise of a future pension and other postemployment benefits. GASB noted that the unfunded portion of this promise is a present obligation of the government, part of a bargained-for benefit to the employee, and should accordingly be reported by the government as a liability since they received the benefit of the exchange. However, the City is not responsible for certain key factors affecting the balance of these liabilities. In Ohio, the employee shares the obligation of funding pension benefits with the employer. Both employer and employee contribution rates are capped by State statute. A change in these caps requires action of both Houses of the General Assembly and approval of the Governor. Benefit provisions are also determined by State statute. The Ohio revised Code permits, but does not require the retirement systems to provide healthcare to eligible benefit recipients. The retirement systems may allocate a portion of the employer contributions to provide for these OPEB benefits.

The employee enters the employment exchange with the knowledge that the employer's promise is limited not by contract but by law. The employer enters the exchange also knowing that there is a specific, legal limit to its contribution to the retirement system. In Ohio, there is no legal means to enforce the unfunded liability of the pension/OPEB plan *as against the public employer*. State law operates to mitigate/lessen the moral obligation of the public employer to the employee, because all parties enter the employment exchange with notice as to the law. The retirement system is responsible for the administration of the pension and OPEB plans.

Most long-term liabilities have set repayment schedules or, in the case of compensated absences (i.e. sick and vacation leave), are satisfied through paid time-off or termination payments. There is no repayment schedule for the net pension liability or the net OPEB liability. As explained above, changes in

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benefits, contribution rates, and return on investments affect the balance of these liabilities, but are outside the control of the local government. In the event that contributions, investment returns, and other changes are insufficient to keep up with required payments, State statute does not assign/identify the responsible party for the unfunded portion. Due to the unique nature of how the net pension liability and the net OPEB liability are satisfied, these liabilities are separately identified within the long-term liability section of the statement of net position.

In accordance with GASB 68 and GASB 75, the City's statements prepared on an accrual basis of accounting include an annual pension expense and an annual OPEB expense for their proportionate share of each plan's *change* in net pension liability and net OPEB liability, respectively, not accounted for as deferred inflows/outflows.

As a result of implementing GASB 75, the City is reporting a net OPEB liability and deferred inflows/outflows of resources related to OPEB on the accrual basis of accounting. This implementation also had the effect of restating net position at December 31, 2017, from \$4,021,999 to (\$3,456,554).

The City saw an increase in Capital Assets for Governmental Activities mainly due to current year depreciation expense being less than current year additions. Long-Term Liabilities increased mainly due to an increase in other amounts. Business-Type Activities Capital Assets decreased mainly due to current year depreciation expense exceeding current year additions. Business-Type Activities Long-Term Liabilities decreased slightly mainly due to paying off debt.

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Table 2 shows the changes in net position at year end and revenue and expense comparisons of 2018 to 2017.

Table 2
Changes in Net Position

| | Governmental Activities | | Business-Type Activities | | Total | |
|--|-------------------------|----------------------|--------------------------|------------------|----------------------|----------------------|
| | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 |
| Program Revenues: | | | | | | |
| Charges for Services | \$1,131,081 | \$1,161,536 | \$1,627,802 | \$1,521,228 | \$2,758,883 | \$2,682,764 |
| Operating Grants and Contributions | 1,290,208 | 651,311 | 0 | 0 | 1,290,208 | 651,311 |
| Total Program Revenues | <u>2,421,289</u> | <u>1,812,847</u> | <u>1,627,802</u> | <u>1,521,228</u> | <u>4,049,091</u> | <u>3,334,075</u> |
| General Revenues: | | | | | | |
| Income Taxes | 7,415,828 | 6,920,328 | 0 | 0 | 7,415,828 | 6,920,328 |
| Property Taxes | 570,620 | 565,066 | 0 | 0 | 570,620 | 565,066 |
| Grants and Entitlements | 140,716 | 164,361 | 0 | 0 | 140,716 | 164,361 |
| Other Revenues | 484,911 | 460,285 | 13,610 | 2,990 | 498,521 | 463,275 |
| Total General Revenues | <u>8,612,075</u> | <u>8,110,040</u> | <u>13,610</u> | <u>2,990</u> | <u>8,625,685</u> | <u>8,113,030</u> |
| Total Revenues | <u>11,033,364</u> | <u>9,922,887</u> | <u>1,641,412</u> | <u>1,524,218</u> | <u>12,674,776</u> | <u>11,447,105</u> |
| Program Expenses: | | | | | | |
| General Government | 2,550,335 | 2,292,606 | 0 | 0 | 2,550,335 | 2,292,606 |
| Public Safety | 7,063,761 | 6,186,436 | 0 | 0 | 7,063,761 | 6,186,436 |
| Leisure Time Activities | 344,668 | 340,089 | 0 | 0 | 344,668 | 340,089 |
| Community Development | 177,805 | 182,182 | 0 | 0 | 177,805 | 182,182 |
| Basic Utility Service | 500,072 | 475,042 | 0 | 0 | 500,072 | 475,042 |
| Transportation and Street Repair | 1,443,141 | 602,027 | 0 | 0 | 1,443,141 | 602,027 |
| Interest and Other Charges | 36,559 | 45,351 | 0 | 0 | 36,559 | 45,351 |
| Water Utility | 0 | 0 | 1,705,000 | 1,457,348 | 1,705,000 | 1,457,348 |
| Total Program Expenses | <u>12,116,341</u> | <u>10,123,733</u> | <u>1,705,000</u> | <u>1,457,348</u> | <u>13,821,341</u> | <u>11,581,081</u> |
| Increase (Decrease) in Net Position before Transfers | (1,082,977) | (200,846) | (63,588) | 66,870 | (1,146,565) | (133,976) |
| Transfers - Internal Activities | 0 | (48,092) | 0 | 48,092 | 0 | 0 |
| Change in Net Position | (1,082,977) | (248,938) | (63,588) | 114,962 | (1,146,565) | (133,976) |
| Net Position - Beginning of Year, Restated | <u>(4,044,071)</u> | <u>N/A</u> | <u>587,517</u> | <u>N/A</u> | <u>(3,456,554)</u> | <u>N/A</u> |
| Net Position - End of Year | <u>(\$5,127,048)</u> | <u>(\$4,044,071)</u> | <u>\$523,929</u> | <u>\$587,517</u> | <u>(\$4,603,119)</u> | <u>(\$3,456,554)</u> |

The information necessary to restate the 2017 beginning balances and the 2017 OPEB expense amounts for the effects of the initial implementation of GASB 75 is not available. Therefore, 2017 functional expenses still include OPEB expense of \$34,878 computed under GASB 45. GASB 45 required recognizing pension expense equal to the contractually required contributions to the plan. Under GASB 75, OPEB expense represents additional amounts earned, adjusted by deferred inflows/outflows. The contractually required contribution is no longer a component of OPEB expense. Under GASB 75, the 2018 statements report OPEB expense of \$670,976. Consequently, in order to compare 2018 total program expenses to 2017, the following adjustments are needed:

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| | Governmental Activities | Business-type Activities | Total |
|--|----------------------------|-----------------------------|--------------|
| Total 2018 operating expenses under GASB 75 | \$12,116,341 | \$1,705,000 | \$13,821,341 |
| OPEB expense under GASB 75 | (609,651) | (61,325) | (670,976) |
| 2018 contractually required contribution | 14,264 | 0 | 14,264 |
| Adjusted 2018 operating expenses | 11,520,954 | 1,643,675 | 13,164,629 |
| Total 2017 operating expenses under GASB 45 | 10,123,733 | 1,457,348 | 11,581,081 |
| Change in operating expenses not related to OPEB | \$1,397,221 | \$186,327 | \$1,583,548 |

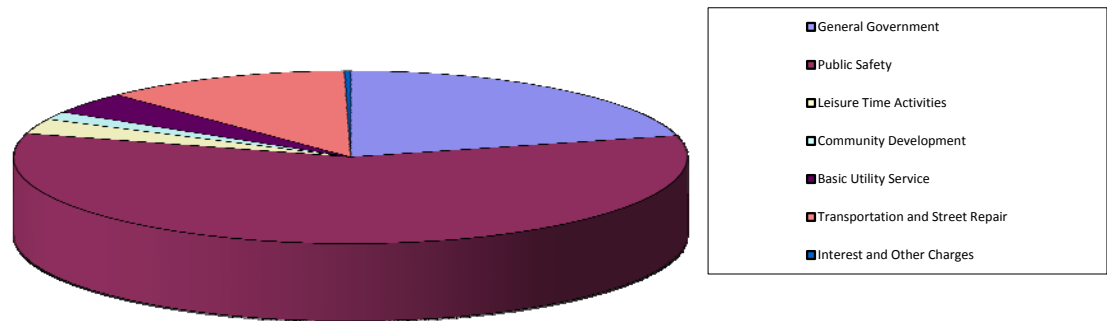
Income taxes increased mainly due to an increase in income tax collections in 2018 as compared to 2017. Public Safety expenses increased mainly due to increases in personnel costs and general inflationary factors. Transportation and Street Repair expenses increased due to an increase in repairs and maintenance to streets. The Business-Type Activities revenues and expenses remained relatively consistent.

Governmental Activities

The 2.0% income tax is the largest source of revenue for the City. Revenues generated by the earnings tax represent approximately 86% of the City’s governmental activities general revenues.

Governmental Activities
Program Expenses for 2018

| | Percentage |
|----------------------------------|------------|
| General Government | 21.0% |
| Public Safety | 58.4% |
| Leisure Time Activities | 2.8% |
| Community Development | 1.5% |
| Basic Utility Service | 4.1% |
| Transportation and Street Repair | 11.9% |
| Interest and Other Charges | 0.3% |
| Total | 100% |



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General Government includes legislative and executive as well as judicial expenses. Leaf and brush pickup, storm sewer projects, aggressive street resurfacing program, amenities in the parks, and police and fire services all culminate into a full service city.

Business-Type Activities

The City's business-type activity includes water. This program had operating revenues of \$1,641,412 and operating expenses of \$1,705,000 for fiscal year 2018. Business activities receive no support from tax revenues. The business activities net position at the end of the year was \$523,939, which decreased \$63,588 from 2017. The City had one business-type (enterprise) fund that was a major fund: the Water fund.

The City's Funds

The City has four major governmental funds: the General Fund, EPA Brownsfield Grant Fund, Streets and Curbs Fund and Capital Improvement Fund. Assets of the General fund comprised \$2,795,291(39%), the EPA Brownsfield Grant fund comprised \$1,106,158 (15%), the Streets and Curbs fund compromised \$878,930 (12%), and the Capital Improvement fund comprised \$774,213 (11%) of the total \$7,087,698 governmental funds' assets.

General Fund: Fund balance at December 31, 2018 was \$1,048,174 an increase in fund balance of \$318,679 from 2017. The general fund had an increase in fund balance mainly due to an increase in property and income taxes received.

EPA Brownsfield Grant Fund: Fund balance at December 31, 2018 was \$1,103,052 an increase in fund balance of \$131,639 from 2017. The EPA Brownsfield grant had an increase in fund balance mainly due to an increase in intergovernmental revenue.

Streets and Curbs Fund: Fund balance at December 31, 2018 was \$878,930 a decrease in fund balance of \$75,889 from 2017. The Streets and Curbs fund had a decrease in fund balance mainly due to the increase of capital outlay expenditures.

Capital Improvement Fund: Fund balance at December 31, 2018 was \$451,009 a decrease in fund balance of \$44,664. The capital improvement fund had a decrease in fund balance due to expenditures exceeding revenues during the year.

General Fund Budgeting Highlights

The City's General Fund budget is formally adopted at the object level. Financial reports, which compare actual performance with the budget, are prepared quarterly and presented to the Council so the Council is able to review the financial status and measure the effectiveness of the budgetary controls.

As the City completed the year, its General Fund balance reported an actual fund balance of \$208,829, on a Non-GAAP Budgetary Basis.

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Variations from the final budget amounts to the actual amounts are primarily due to the following reasons: The City overestimated the taxes revenue and charges for services revenue amount and overestimated the general government and public safety expenditures for 2018.

Capital Assets and Debt Administration

Capital Assets

At year end, the City had \$10,269,800 invested in land, buildings and improvements, equipment and infrastructure. Table 3 shows 2018 balances compared to 2017:

Table 3
Capital Assets, Net of Depreciation

| | Governmental Activities | | Business-Type Activities | | Total | |
|----------------------------|-------------------------|--------------------|--------------------------|------------------|---------------------|---------------------|
| | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 |
| Land | \$1,311,475 | \$1,311,475 | \$6,135 | \$6,135 | \$1,317,610 | \$1,317,610 |
| Buildings and Improvements | 1,614,499 | 1,614,499 | 102,532 | 102,532 | 1,717,031 | 1,717,031 |
| Equipment | 5,014,718 | 4,927,276 | 194,579 | 194,579 | 5,209,297 | 5,121,855 |
| Infrastructure | 8,294,965 | 7,957,914 | 1,479,654 | 1,479,654 | 9,774,619 | 9,437,568 |
| Accumulated Depreciation | (6,461,714) | (6,126,750) | (1,287,043) | (1,267,588) | (7,748,757) | (7,394,338) |
| Total Net Capital Assets | <u>\$9,773,943</u> | <u>\$9,684,414</u> | <u>\$495,857</u> | <u>\$515,312</u> | <u>\$10,269,800</u> | <u>\$10,199,726</u> |

The increases in net capital assets was the result of the current year depreciation expense being less than current year additions.

See Note 6 in the notes to the basic financial statements for further details on the City's capital assets.

Debt

At year-end the City had \$2,818,923 in general obligation bonds, notes, loans and capital leases.

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Table 4
Outstanding Debt at Year End

| | | 2018 | 2017 |
|--|-------------|---------------------------|---------------------------|
| Governmental Activities | | | |
| <u>Bonds and Notes Payable</u> | | | |
| 2013 Various Purpose Bonds | 2.72% | \$58,335 | \$116,668 |
| 2003 Streetscape Bonds | 4.59% | 250,000 | 300,000 |
| 2011 Dump Truck Acquisition Bonds | 2.00%-4.50% | 57,200 | 77,200 |
| 2011 Fire Truck Acquisition Bonds | 2.00%-5.00% | 0 | 65,000 |
| 2014 Public Improvement Bonds | 3.50% | 50,000 | 100,000 |
| Subtotal Bonds and Notes | | <u>415,535</u> | <u>658,868</u> |
| <u>OPWC Loans Payable</u> | | | |
| 2010 Waxwing Improvements | 0.00% | 170,794 | 185,027 |
| 2011 Jefferson Avenue Improvements | 0.00% | 443,318 | 477,420 |
| 2012 Trillium Court & Krylon Drive Improvements | 0.00% | 248,032 | 266,404 |
| 2013 Jefferson / Willow / Voorhees Road Improvements | 0.00% | 239,604 | 255,578 |
| 2014 Julie Terrace improvements | 0.00% | 80,514 | 85,708 |
| 2015 Leonard Street Improvements | 0.00% | 82,043 | 86,869 |
| 2015 Brown Street Improvements | 0.00% | 118,956 | 125,954 |
| 2015 5th Street & Flora Avenue Improvements | 0.00% | 121,084 | 128,206 |
| 2016 Bolster Drive Improvements | 0.00% | 200,410 | 211,544 |
| 2016 Alwil Drive Improvements | 0.00% | 215,644 | 227,966 |
| 2018 Benson Street Improvements | 0.00% | 141,225 | 0 |
| 2018 Galbraith Road Improvements | 0.00% | 195,826 | 0 |
| Subtotal Loans | | <u>2,257,450</u> | <u>2,050,676</u> |
| <u>Capital Leases Payable</u> | | | |
| Equipment Capital Lease | 2.92% | <u>145,938</u> | <u>215,796</u> |
| Total Government Activities | | <u><u>\$2,818,923</u></u> | <u><u>\$2,925,340</u></u> |

See Notes 7 - 8 in the notes to the basic financial statements for further details on the City's long-term obligations.

Economic Factors

The City is not immune to economic conditions that have negatively affected many public and private entities. Management has been committed to providing its residents with full disclosure of the financial position of the City.

Contacting the City's Financial Department

This financial report is designed to provide our citizens, taxpayers, customers and investors, and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the City Auditor, City of Reading, 1000 Market Street, Reading, Ohio 45215.

City of Reading, Ohio
Statement of Net Position
December 31, 2018

| | Governmental Activities | Business-Type Activities | Total |
|---|----------------------------|-----------------------------|----------------------|
| Assets: | | | |
| Equity in Pooled Cash and Investments | \$3,072,181 | \$385,544 | \$3,457,725 |
| Receivables (Net): | | | |
| Taxes | 2,211,228 | 0 | 2,211,228 |
| Accounts | 107,091 | 131,886 | 238,977 |
| Intergovernmental | 367,378 | 0 | 367,378 |
| Land Held for Resale | 1,200,483 | 0 | 1,200,483 |
| Prepaid Items | 129,337 | 3,926 | 133,263 |
| Nondepreciable Capital Assets | 1,311,475 | 6,135 | 1,317,610 |
| Depreciable Capital Assets, Net | 8,462,468 | 489,722 | 8,952,190 |
| Total Assets | 16,861,641 | 1,017,213 | 17,878,854 |
| Deferred Outflows of Resources: | | | |
| Pension | 1,571,898 | 54,442 | 1,626,340 |
| OPEB | 843,142 | 10,978 | 854,120 |
| Total Deferred Outflows of Resources | 2,415,040 | 65,420 | 2,480,460 |
| Liabilities: | | | |
| Accounts Payable | 190,525 | 110,303 | 300,828 |
| Accrued Wages and Benefits | 226,072 | 7,321 | 233,393 |
| Accrued Interest Payable | 1,322 | 0 | 1,322 |
| Long-Term Liabilities: | | | |
| Due Within One Year | 752,733 | 605 | 753,338 |
| Due In More Than One Year | | | |
| Net Pension Liability | 9,713,677 | 211,344 | 9,925,021 |
| Net OPEB Liability | 8,598,681 | 149,180 | 8,747,861 |
| Other Amounts | 3,118,559 | 0 | 3,118,559 |
| Total Liabilities | 22,601,569 | 478,753 | 23,080,322 |
| Deferred Inflows of Resources: | | | |
| Property Taxes | 585,000 | 0 | 585,000 |
| OPEB | 224,299 | 17,225 | 241,524 |
| Pension | 992,861 | 62,726 | 1,055,587 |
| Total Deferred Inflows of Resources | 1,802,160 | 79,951 | 1,882,111 |
| Net Position: | | | |
| Net Investment in Capital Assets | 6,955,020 | 495,857 | 7,450,877 |
| Restricted for: | | | |
| Debt Service | 385 | 0 | 385 |
| Capital Projects | 902,297 | 0 | 902,297 |
| Street Maintenance and Repair | 489,173 | 0 | 489,173 |
| State Highway | 146,064 | 0 | 146,064 |
| EPA Brownsfield Grant | 1,103,052 | 0 | 1,103,052 |
| Streets and Curbs | 878,930 | 0 | 878,930 |
| Motor Vehicle Permissive | 171,700 | 0 | 171,700 |
| Other Purposes | 157,382 | 0 | 157,382 |
| Unrestricted | (15,931,051) | 28,072 | (15,902,979) |
| Total Net Position | (\$5,127,048) | \$523,929 | (\$4,603,119) |

See accompanying notes to the basic financial statements.

City of Reading, Ohio
Statement of Activities
For the Fiscal Year Ended December 31, 2018

| | Expenses | Program Revenues | | Net (Expense) Revenue and Changes in Net Position | | |
|---|---------------------|-----------------------------------|---------------------------------------|--|-----------------------------|--------------------|
| | | Charges for Services and Sales | Operating Grants and Contributions | Governmental Activities | Business-Type Activities | Total |
| Governmental Activities: | | | | | | |
| General Government | \$2,550,335 | \$304,955 | \$0 | (\$2,245,380) | \$0 | (\$2,245,380) |
| Public Safety | 7,063,761 | 229,793 | 104,447 | (6,729,521) | 0 | (6,729,521) |
| Community Development | 177,805 | 76,996 | 0 | (100,809) | 0 | (100,809) |
| Leisure Time Activities | 344,668 | 82,264 | 0 | (262,404) | 0 | (262,404) |
| Transportation and Street Repair | 1,443,141 | 437,073 | 1,185,761 | 179,693 | 0 | 179,693 |
| Basic Utility Service | 500,072 | 0 | 0 | (500,072) | 0 | (500,072) |
| Interest and Other Charges | 36,559 | 0 | 0 | (36,559) | 0 | (36,559) |
| Total Governmental Activities | 12,116,341 | 1,131,081 | 1,290,208 | (9,695,052) | 0 | (9,695,052) |
| Business-Type Activities: | | | | | | |
| Water Utility | 1,705,000 | 1,627,802 | 0 | 0 | (77,198) | (77,198) |
| Total Business-Type Activities | 1,705,000 | 1,627,802 | 0 | 0 | (77,198) | (77,198) |
| Totals | \$13,821,341 | \$2,758,883 | \$1,290,208 | (9,695,052) | (77,198) | (9,772,250) |
| General Revenues: | | | | | | |
| Income Taxes | | | | 7,415,828 | 0 | 7,415,828 |
| Property Taxes Levied for: | | | | | | |
| General Purposes | | | | 288,069 | 0 | 288,069 |
| Capital Projects Purposes | | | | 282,551 | 0 | 282,551 |
| Grants and Entitlements, Not Restricted | | | | 140,716 | 0 | 140,716 |
| Other Revenues | | | | 484,911 | 13,610 | 498,521 |
| Total General Revenues and Transfers | | | | 8,612,075 | 13,610 | 8,625,685 |
| Change in Net Position | | | | (1,082,977) | (63,588) | (1,146,565) |
| Net Position - Beginning of Year, Restated | | | | (4,044,071) | 587,517 | (3,456,554) |
| Net Position - End of Year | | | | (\$5,127,048) | \$523,929 | (\$4,603,119) |

See accompanying notes to the basic financial statements.

City of Reading, Ohio
Balance Sheet
Governmental Funds
December 31, 2018

| | General | EPA Brownsfield Grant | Streets and Curbs | Capital Improvement | Other Governmental Funds | Total Governmental Funds |
|--|--------------------|-----------------------------|----------------------|------------------------|--------------------------------|--------------------------------|
| Assets: | | | | | | |
| Equity in Pooled Cash and Investments | \$616,389 | \$183,413 | \$878,930 | \$173,271 | \$1,220,178 | \$3,072,181 |
| Receivables (Net): | | | | | | |
| Taxes | 1,904,893 | 0 | 0 | 306,335 | 0 | 2,211,228 |
| Accounts | 80,923 | 0 | 0 | 0 | 26,168 | 107,091 |
| Intergovernmental | 70,642 | 0 | 0 | 16,869 | 279,867 | 367,378 |
| Land Held for Resale | 0 | 922,745 | 0 | 277,738 | 0 | 1,200,483 |
| Prepaid Items | 122,444 | 0 | 0 | 0 | 6,893 | 129,337 |
| Total Assets | 2,795,291 | 1,106,158 | 878,930 | 774,213 | 1,533,106 | 7,087,698 |
| Liabilities: | | | | | | |
| Accounts Payable | 175,257 | 3,106 | 0 | 0 | 12,162 | 190,525 |
| Accrued Wages and Benefits | 224,582 | 0 | 0 | 0 | 1,490 | 226,072 |
| Compensated Absences | 13,934 | 0 | 0 | 0 | 0 | 13,934 |
| Total Liabilities | 413,773 | 3,106 | 0 | 0 | 13,652 | 430,531 |
| Deferred Inflows of Resources: | | | | | | |
| Property Taxes | 331,335 | 0 | 0 | 306,335 | 0 | 637,670 |
| Income Taxes | 940,246 | 0 | 0 | 0 | 0 | 940,246 |
| Grants and Other Taxes | 61,763 | 0 | 0 | 16,869 | 237,325 | 315,957 |
| Total Deferred Inflows of Resources | 1,333,344 | 0 | 0 | 323,204 | 237,325 | 1,893,873 |
| Fund Balances: | | | | | | |
| Nonspendable | 122,444 | 0 | 0 | 0 | 6,893 | 129,337 |
| Restricted | 0 | 1,103,052 | 878,930 | 451,009 | 1,270,165 | 3,703,156 |
| Assigned | 166,100 | 0 | 0 | 0 | 5,104 | 171,204 |
| Unassigned | 759,630 | 0 | 0 | 0 | (33) | 759,597 |
| Total Fund Balances | 1,048,174 | 1,103,052 | 878,930 | 451,009 | 1,282,129 | 4,763,294 |
| Total Liabilities, Deferred Inflows and Fun | \$2,795,291 | \$1,106,158 | \$878,930 | \$774,213 | \$1,533,106 | \$7,087,698 |

See accompanying notes to the basic financial statements.

City of Reading, Ohio
 Reconciliation of Total Governmental Fund Balance to
 Net Position of Governmental Activities
 December 31, 2018

| | | |
|--|-------------|-----------------------------|
| Total Governmental Fund Balance | | \$4,763,294 |
| Amounts reported for governmental activities in the statement of net position are different because: | | |
| Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. | | |
| Capital assets used in the operation of Governmental Funds | | 9,773,943 |
| Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds. | | |
| Income Taxes | \$940,246 | |
| Delinquent Property Taxes | 52,670 | |
| Intergovernmental | 315,957 | |
| | | <u>1,308,873</u> |
| In the statement of net position interest payable is accrued when incurred; whereas, in the governmental funds interest is reported as a liability only when it will require the use of current financial resources. | | |
| | | (1,322) |
| Some liabilities reported in the statement of net position do not require the use of current financial resources and, therefore, are not reported as liabilities in governmental funds. | | |
| Compensated Absences | | (1,038,435) |
| Deferred outflows and inflows or resources related to pensions/OPEB are applicable to future periods and, therefore, are not reported in the funds. | | |
| Deferred outflows of resources related to pensions | 1,571,898 | |
| Deferred inflows of resources related to pensions | (992,861) | |
| Deferred outflows of resources related to OPEB | 843,142 | |
| Deferred inflows of resources related to OPEB | (224,299) | |
| | | <u>1,197,880</u> |
| Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds. | | |
| Net Pension Liability | (9,713,677) | |
| Net OPEB Liability | (8,598,681) | |
| Other Amounts | (2,818,923) | |
| | | <u>(21,131,281)</u> |
| Net Position of Governmental Activities | | <u><u>(\$5,127,048)</u></u> |

See accompanying notes to the basic financial statements.

City of Reading, Ohio
Statement of Revenues, Expenditures
and Changes in Fund Balance
Governmental Funds
For the Fiscal Year Ended December 31, 2018

| | General | EPA Brownsfield Grant | Streets and Curbs | Capital Improvement | Other Governmental Funds | Total Governmental Funds |
|---|--------------------|-----------------------------|----------------------|------------------------|--------------------------------|--------------------------------|
| Revenues: | | | | | | |
| Property and Other Taxes | \$283,979 | \$0 | \$0 | \$278,428 | \$0 | \$562,407 |
| Income Taxes | 7,567,248 | 0 | 0 | 0 | 0 | 7,567,248 |
| Charges for Services | 810,002 | 0 | 0 | 0 | 289,378 | 1,099,380 |
| Intergovernmental | 158,545 | 303,380 | 399,205 | 33,808 | 575,604 | 1,470,542 |
| Fines, Licenses & Permits | 219,336 | 0 | 0 | 0 | 45,571 | 264,907 |
| Other Revenues | 236,479 | 0 | 0 | 0 | 0 | 236,479 |
| Total Revenues | 9,275,589 | 303,380 | 399,205 | 312,236 | 910,553 | 11,200,963 |
| Expenditures: | | | | | | |
| Current: | | | | | | |
| General Government | 2,234,706 | 0 | 0 | 0 | 33 | 2,234,739 |
| Public Safety | 5,512,279 | 0 | 0 | 0 | 100,871 | 5,613,150 |
| Community Development | 173,433 | 0 | 0 | 0 | 0 | 173,433 |
| Leisure Time Activities | 284,425 | 0 | 0 | 0 | 0 | 284,425 |
| Transportation and Street Repair | 0 | 171,741 | 305,606 | 0 | 388,646 | 865,993 |
| Basic Utility Service | 500,072 | 0 | 0 | 0 | 0 | 500,072 |
| Capital Outlay | 0 | 0 | 628,256 | 96,577 | 572,280 | 1,297,113 |
| Debt Service: | | | | | | |
| Principal | 0 | 0 | 130,278 | 228,190 | 85,000 | 443,468 |
| Interest and Other Charges | 0 | 0 | 0 | 32,133 | 5,050 | 37,183 |
| Total Expenditures | 8,704,915 | 171,741 | 1,064,140 | 356,900 | 1,151,880 | 11,449,576 |
| Excess of Revenues Over (Under) Expenditures | 570,674 | 131,639 | (664,935) | (44,664) | (241,327) | (248,613) |
| Other Financing Sources (Uses): | | | | | | |
| Issuance of Long-Term Capital-Related Debt | 0 | 0 | 337,051 | 0 | 0 | 337,051 |
| Transfers In | 0 | 0 | 251,995 | 0 | 0 | 251,995 |
| Transfers (Out) | (251,995) | 0 | 0 | 0 | 0 | (251,995) |
| Total Other Financing Sources (Uses) | (251,995) | 0 | 589,046 | 0 | 0 | 337,051 |
| Net Change in Fund Balance | 318,679 | 131,639 | (75,889) | (44,664) | (241,327) | 88,438 |
| Fund Balance - Beginning of Year, Restated | 729,495 | 971,413 | 954,819 | 495,673 | 1,523,456 | 4,674,856 |
| Fund Balance - End of Year | \$1,048,174 | \$1,103,052 | \$878,930 | \$451,009 | \$1,282,129 | \$4,763,294 |

See accompanying notes to the basic financial statements.

City of Reading, Ohio
 Reconciliation of the Statement of Revenues, Expenditures, and Changes
 in Fund Balance of Governmental Funds to the Statement of Activities
 For the Fiscal Year Ended December 31, 2018

Net Change in Fund Balance - Total Governmental Funds \$88,438

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

Governmental funds report capital asset additions 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 of the difference between capital asset additions and depreciation in the current period.

| | | |
|--|-----------|--------|
| Capital assets used in governmental activities | \$587,705 | |
| Depreciation Expense | (498,176) | |
| | | 89,529 |

Governmental funds report City pension/OPEB contributions as expenditures. However in the Statement of Activities, the cost of pension/OPEB benefits earned net of employee contributions is reported as pension/OPEB expense.

| | | |
|---|-------------|-------------|
| City pension contributions | 804,518 | |
| Cost of benefits earned net of employee contributions - Pension | (1,223,867) | |
| City OPEB contributions | 14,264 | |
| Cost of benefits earned net of employee contributions - OPEB | (609,651) | |
| | | (1,014,736) |

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.

| | | |
|---------------------------|-------------|-----------|
| Income Taxes | (\$151,420) | |
| Delinquent Property Taxes | 8,246 | |
| Intergovernmental | (24,425) | |
| | | (167,599) |

Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position. 443,468

In the statement of activities interest expense is accrued when incurred; whereas, in governmental funds an interest expenditure is reported when due. 624

Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.

| | | |
|----------------------|--|-----------|
| Compensated Absences | | (185,650) |
|----------------------|--|-----------|

Proceeds from debt issues are an other financing source in the funds, but a debt issue increases long-term liabilities in the statement of net position. (337,051)

Change in Net Position of Governmental Activities (\$1,082,977)

See accompanying notes to the basic financial statements.

City of Reading, Ohio
Statement of Net Position
Proprietary Funds
December 31, 2018

| | <u>Water</u> |
|---------------------------------------|------------------|
| Current Assets: | |
| Equity in Pooled Cash and Investments | \$385,544 |
| Receivables (Net): | |
| Accounts | 131,886 |
| Prepaid Items | <u>3,926</u> |
| Total Current Assets | <u>521,356</u> |
| Noncurrent Assets: | |
| Capital Assets: | |
| Nondepreciable Capital Assets | 6,135 |
| Depreciable Capital Assets, Net | <u>489,722</u> |
| Total Noncurrent Assets | <u>495,857</u> |
| Total Assets | <u>1,017,213</u> |
| Deferred Outflows of Resources: | |
| Pension | 54,442 |
| OPEB | <u>10,978</u> |
| Total Deferred Outflows of Resources | <u>65,420</u> |
| Liabilities: | |
| Current Liabilities: | |
| Accounts Payable | 110,303 |
| Accrued Wages and Benefits | 7,321 |
| Compensated Absences | <u>605</u> |
| Total Current Liabilities | <u>118,229</u> |
| Long-Term Liabilities: | |
| Net Pension Liability | 211,344 |
| Net OPEB Liability | <u>149,180</u> |
| Total Noncurrent Liabilities | <u>360,524</u> |
| Total Liabilities | <u>478,753</u> |
| Deferred Inflows of Resources: | |
| OPEB | 17,225 |
| Pension | <u>62,726</u> |
| Total Deferred Inflows of Resources | <u>79,951</u> |
| Net Position: | |
| Net Investment in Capital Assets | 495,857 |
| Unrestricted | <u>28,072</u> |
| Total Net Position | <u>\$523,929</u> |

See accompanying notes to the basic financial statements.

City of Reading, Ohio
Statement of Revenues, Expenses
and Changes in Fund Net Position
Proprietary Funds
For the Fiscal Year Ended December 31, 2018

| | <u>Water</u> |
|--|------------------|
| Operating Revenues: | |
| Charges for Services | \$1,627,802 |
| Other Revenues | <u>13,610</u> |
| Total Operating Revenues | <u>1,641,412</u> |
| Operating Expenses: | |
| Personal Services | 373,573 |
| Contractual Services | 110,233 |
| Supplies and Materials | 1,183,726 |
| Depreciation | 19,455 |
| Other Expense | <u>18,013</u> |
| Total Operating Expenses | <u>1,705,000</u> |
| Change in Net Position | (63,588) |
| Net Position - Beginning of Year, Restated | <u>587,517</u> |
| Net Position - End of Year | <u>\$523,929</u> |

See accompanying notes to the basic financial statements.

City of Reading, Ohio
Statement of Cash Flows
Proprietary Funds
For the Fiscal Year Ended December 31, 2018

| | <u>Water</u> |
|--|--------------------------|
| Cash Flows from Operating Activities: | |
| Cash Received from Customers | \$1,640,064 |
| Cash Payments to Employees | (300,209) |
| Cash Payments to Suppliers | <u>(1,400,162)</u> |
| Net Cash Provided (Used) by Operating Activities | <u>(60,307)</u> |
| Net Increase (Decrease) in Cash and Cash Equivalents | (60,307) |
| Cash and Cash Equivalents - Beginning of Year, Restated | <u>445,851</u> |
| Cash and Cash Equivalents - End of Year | <u><u>385,544</u></u> |
| Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities | |
| Operating Income (Loss) | (63,588) |
| Adjustments: | |
| Depreciation | 19,455 |
| Changes in Assets & Liabilities: | |
| (Increase) Decrease in Receivables | (1,348) |
| (Increase) Decrease in Prepaid Items | (3,926) |
| (Increase) Decrease in Deferred Outflows of Resources | 36,422 |
| Increase (Decrease) in Net OPEB Liability | 1,392 |
| Increase (Decrease) in Payables | (88,190) |
| Increase (Decrease) in Accrued Liabilities | 4,933 |
| Increase (Decrease) in Deferred Inflows of Resources | 73,896 |
| Increase (Decrease) in Net Pension Liability | <u>(39,353)</u> |
| Net Cash Provided (Used) by Operating Activities | <u><u>(\$60,307)</u></u> |

See accompanying notes to the basic financial statements.

City of Reading, Ohio
Statement of Fiduciary Net Position
Fiduciary Funds
December 31, 2018

| | <u>Agency</u> |
|---------------------------------------|---------------------------|
| Assets: | |
| Equity in Pooled Cash and Investments | \$936,859 |
| Receivables (Net): | |
| Accounts | <u>235,947</u> |
| Total Assets | <u><u>1,172,806</u></u> |
| Liabilities: | |
| Undistributed Monies | <u>1,172,806</u> |
| Total Liabilities | <u><u>\$1,172,806</u></u> |

See accompanying notes to the basic financial statements.

City of Reading, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2018

Note 1 – Description of the City and Reporting Entity

The City of Reading, Ohio (the “City”) operates under a seven-member council. An elected City Auditor is responsible for fiscal control of the City’s resources. Services provided by the City include public service, public safety, recreation and development.

Reporting Entity

A reporting entity is comprised of the primary government, component units and other organizations that are included to ensure that financial statements are not misleading. The primary government of the City consists of all funds, departments, boards and agencies that are not legally separate from the City. The City operates under a seven-member council. An elected City Auditor is responsible for fiscal control of the resources of the City. Services provided by the City include public services, public safety, recreation, and development.

Component units are legally separate organizations for which the City is financially accountable. The City is financially accountable for an organization if the City appoints a voting majority of the organization’s governing board; and (1) the City is able to significantly influence the programs or services performed or provided by the organization; or (2) the City is legally entitled to or can otherwise access the organization’s resources; the City is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the City is obligated for the debt of the organizations. Component units may also include organizations for which the City authorizes the issuance of debt or the levying of taxes, or determines the budget. There are no component units included as part of this report.

Note 2 – Summary of Significant Accounting Policies

The financial statements of the City have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental and proprietary funds. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial principles. The most significant of the City’s accounting policies are described below.

Measurement Focus

Government-Wide Financial Statements

The government-wide financial statements are prepared using the full accrual measurement focus. All assets, liabilities and deferred outflows/inflows associated with the operation of the City are included on the Statement of Net Position.

Fund Financial Statements

All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and deferred outflows and current liabilities and deferred inflows generally are included on the balance sheet. The statement of revenues, expenditures and changes in fund balances reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial

City of Reading, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2018

resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements therefore include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

Like the government-wide statements, all proprietary funds are accounted for on a flow of economic resources measurement focus. All assets and all liabilities associated with the operation of these funds are included on the statement of net position. The statement of revenues, expenses and changes in fund net position presents increases (i.e., revenues) and decreases (i.e., expenses) in total net position. The statement of cash flows provides information about how the City finances and meets the cash flow needs of its proprietary activities.

Basis of Presentation

The City's basic financial statements consist of government-wide statements, including a statement of net position and a statement of activities, and fund financial statements which provide a more detailed level of financial information.

Government-Wide Financial Statements

The statement of net position and the statement of activities display information about the City as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The statements distinguish between those activities of the City that are governmental and those that are considered business-type activities.

The statement of net position presents the financial condition of the governmental and business-type activities of the City at year-end. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the City's governmental activities and for the business-type activities of the City. Direct expenses are those that are specifically associated with a service, program or department and therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program, grants and contributions that are restricted to meeting the operational or capital requirements of a particular program and interest earned on grants that is required to be used to support a particular program.

Revenues which are not classified as program revenues are presented as general revenues of the City, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each business segment or governmental function is self-financing or draws from the general revenues of the City.

Fund Financial Statements

During the year, the City segregates transactions related to certain City functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the City at this more detailed level. The focus of governmental and enterprise fund financial statements is on major funds. Each major fund is presented in a separate column. Non-major funds are aggregated and presented in a single column. Fiduciary funds are reported by type.

City of Reading, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2018

Fund Accounting

The City uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self balancing set of accounts. There are three categories of funds: governmental, proprietary and fiduciary.

Governmental Funds

Governmental funds are those through which most governmental functions typically are financed. Governmental fund reporting focuses on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and deferred outflow, and liabilities and deferred inflows is reported as fund balance. The following are the City's major governmental funds:

General Fund - The general fund accounts for all financial resources except those required to be accounted for in another fund. The general fund balance is available to the City for any purpose provided it is expended or transferred according to the charter of the City and/or the general laws of Ohio.

EPA Brownfield Grant Fund – This special revenue fund accounts for financial resources used for the EPA Brownfield Grant for the City.

Streets and Curbs Fund – This special revenue fund accounts for financial resources used for various street and curb improvements in the City.

Capital Improvement Fund – This capital projects fund accounts for financial resources used for various capital improvements for the City.

The other governmental funds of the City account for grants and other resources that are generally restricted to use for a particular purpose.

Proprietary Funds

Proprietary fund reporting focuses on changes in net position, financial position and cash flows. Proprietary funds are classified as either enterprise or internal service. The City does not have an internal service fund.

Enterprise Funds - Enterprise funds may be used to account for any activity for which a fee is charged to external users for goods or services. The following is the City's major enterprise fund:

Water Fund - This fund accounts for provision of water treatment and distribution to the residents and commercial users of the water system.

City of Reading, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2018

Fiduciary Funds

Fiduciary fund reporting focuses on net position and changes in net position. The fiduciary fund category is split into four classifications: agency funds, pension trust funds, investment trust funds and private-purpose trust funds. The City has three Agency funds. The Sewer Disposal Trust Fund (Agency Fund) accounts for money collected for sewer services to be paid to the Metropolitan Sewer District for services provided. The City also has a Warranty Bonds Fund (Agency Fund) to account for warranty bonds collected. The City also has a Mayor's Court Cash Fund (Agency Fund) to account for amounts held on behalf of other governments and bonds deposited with the court pending final disposition of various causes. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. Trust funds are used to account for assets held under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the City's own programs. The City currently has no trust funds.

Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Proprietary and fiduciary funds also use the accrual basis of accounting. Differences in the accrual and modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred inflows and in the presentation of expenses versus expenditures.

Revenues - Exchange and Non-exchange Transactions

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the City, available means expected to be received within thirty days of year-end.

Nonexchange transactions, in which the City receives value without directly giving equal value in return, include income taxes, property taxes, grants, entitlements and donations. On an accrual basis, revenue from income taxes is recognized in the period in which the income is earned. Revenue from property taxes is recognized in the year for which the taxes are levied. Revenue from grants, entitlements and donations is recognized in the year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted; matching requirements, in which the City must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the City on a reimbursement basis. On a modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at year-end: income tax, state-levied locally shared taxes (including gasoline tax), fines and forfeitures, interest, grants and fees.

City of Reading, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2018

Deferred Outflows/Inflows of Resources

In addition to assets, the statements of financial position will sometimes report a separate section for deferred outflows of resources. Deferred outflows of resources, represents a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense/expenditure) until then. For the City, deferred outflows of resources are reported on the government wide statement of net position for pension and OPEB. The deferred outflows of resources related to pension and OPEB are explained in Notes 9 and 10.

In addition to liabilities, the statements of financial position report a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period and will not be recognized as an inflow of resources (revenue) until that time. For the City, deferred inflows of resources include property taxes, income taxes, grants and other taxes, OPEB and pension. Property taxes represent amounts for which there is an enforceable legal claim as of December 31, 2018, but which were levied to finance year 2019 operations. These amounts have been recorded as deferred inflows on both the government-wide statement of net position and the governmental fund financial statements. Unavailable revenue is reported only on the governmental funds balance sheet, and represents receivables which will not be collected within the available period. For the City, unavailable revenue includes accounts receivable. These amounts are deferred and recognized as inflows of resources in the period the amounts become available. Deferred inflows of resources related to pension and OPEB are reported on the government-wide statement of net position. (See Notes 9 and 10.)

Expenses/Expenditures

On the accrual basis of accounting, expenses are recognized at the time they are incurred.

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of cost, such as depreciation and amortization, are not recognized in governmental funds.

Equity in Pooled Cash

To improve cash management the City's cash and investments are pooled. Monies for all funds, except cash and investments held in segregated accounts, are maintained in this pool. Individual fund integrity is maintained through City records. Each fund's interest in the pool is presented as "Equity in Pooled Cash" on the balance sheet.

Investments are reported at fair value which is based on quoted market prices, with the exception of nonparticipating repurchase agreements, which are reported at cost. For investments in open-end mutual funds, fair value is determined by the fund's share price.

For purposes of the statement of cash flows and for presentation on the statement of net position/balance sheet, investments with an original maturity of three months or less and investments of the cash management pool are considered to be cash equivalents.

City of Reading, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2018

Following the Ohio Revised Code, the City has, by resolution, specified the funds to receive an allocation of interest earnings. The City received no investment earnings in 2018.

Capital Assets

General capital assets are those assets not specifically related to activities reported in the proprietary funds. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net position but are not reported in the fund financial statements. Capital assets utilized by the proprietary funds are reported both in the business-type activities column of the government-wide statement of net position and in the respective proprietary funds.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their acquisition values as of the date received. The City's infrastructure consists of bridges, culverts, curbs, sidewalks, storm sewers, streets, and water and sewer lines. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not. The City uses a \$5,000 capitalization threshold.

All reported capital assets are depreciated except for land and construction in progress. Improvements are depreciated over the remaining useful lives of the related capital assets. Useful lives for infrastructure were estimated based on the City's historical records of necessary improvements and replacement. Depreciation is computed using the straight-line method over the following useful lives:

| <u>Description</u> | <u>Estimated Lives</u> |
|----------------------------|------------------------|
| Buildings and Improvements | 15-40 years |
| Equipment | 5-20 years |
| Infrastructure | 50 years |

Compensated Absences

The City reports compensated absences in accordance with the provisions of GASB No. 16, "Accounting for Compensated Absences." Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the employer will compensate the employees for the benefits through paid time off or some other means.

Sick leave benefits are accrued as a liability using the vesting method. The entire compensated absence liability is reported on the government-wide financial statements.

For governmental funds, the current portion of unpaid compensated absences is the amount that is normally expected to be paid using expendable available financial resources. These amounts are recorded in the account "compensated absences payable" in the fund from which the employees who have accumulated leave are paid. Compensated absences are reported in governmental funds only if they have matured. The noncurrent portion of the liability is not reported. In proprietary funds, the entire amount of compensated absences is reported as a fund liability.

City of Reading, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2018

Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements, and all payables, accrued liabilities and long-term obligations payable from proprietary funds are reported on the proprietary fund financial statements.

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources, are reported as obligations of the funds. However, claims and judgments and compensated absences will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current year. Bonds, capital leases and long-term loans are recognized as a liability on the fund financial statements when due.

Fund Balance

In accordance with Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, the City classifies its fund balance based on the purpose for which the resources were received and the level of constraint placed on the resources. The following categories are used:

Nonspendable – resources that are not in spendable form or have legal or contractual requirements to maintain the balance intact.

Restricted – resources that have external purpose restraints imposed on them by providers, such as creditors, grantors, or other regulators.

Committed – resources that are constrained for specific purposes that are internally imposed by the government at its highest level of decision making authority, City Council.

Assigned – resources that are intended to be used for specific purposes as approved through the City's formal purchasing procedure by the City Auditor.

Unassigned – residual fund balance within the General Fund that is not restricted, committed, or assigned. In other governmental funds, the unassigned classification is used only to report a deficit balance resulting from incurred expenses for specific purposes exceeding amounts which had been restricted, committed or assigned for said purposes.

The City applies restricted resources first when expenditures are incurred for purposes for which either restricted or unrestricted (committed, assigned, and unassigned) amounts are available. Similarly, within unrestricted fund balance, committed amounts are reduced first followed by assigned, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

Pensions/Other Postemployment Benefits (OPEB)

For purposes of measuring the net pension/OPEB liability, deferred outflows of resources and deferred inflows of resources related to pensions/OPEB, and pension/OPEB expense, information about the fiduciary net position of the pension/OPEB plans and additions to/deductions from their fiduciary net

City of Reading, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2018

position have been determined on the same basis as they are reported by the pension/OPEB plan. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. The pension/OPEB plans report investments at fair value.

Net Position

Net position represents the difference between assets and deferred outflow of resources, and liabilities and deferred inflows of resources. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets. Net position are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the City or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. The City applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position are available. Of the City's \$3,848,983 in restricted net position, none were restricted by enabling legislation.

Operating Revenues and Expenses

The City, in its proprietary fund, distinguishes operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the City's enterprise fund are charges to customers for sales and services. Operating expenses for the enterprise fund includes the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Contributions of Capital

Contributions of capital in proprietary fund financial statements arise from outside contributions of capital assets, tap-in fees to the extent they exceed the cost of the connection to the system, or from grants or outside contributions of resources restricted to capital acquisition and construction.

Interfund Activity

Transfers between governmental and business-type activities on the government-wide statements are reported in the same manner as general revenues.

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and after nonoperating revenues/expenses in proprietary funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

As a general rule, the effect of interfund (internal) activity has been eliminated from the government-wide statement of activities. The interfund services provided and used are not eliminated through the process of consolidation.

City of Reading, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2018

Prepaid Items

Payments made for services that will benefit periods beyond December 31, 2018, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense in the year in which services are consumed.

Estimates

The preparation of the financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

Note 3 – Equity in Pooled Cash

Cash resources of several individual funds are combined to form a pool of cash and investments. Each fund type's portion of this pool is displayed on the combined balance sheet as "Equity in Pooled Cash." State statute requires the classification of monies held by the City into three categories:

Active Monies - Those monies required to be kept in a "cash" or "near cash" status for immediate use by the City. Such monies must by law be maintained either as cash in the City treasury, in depository accounts payable or withdrawable on demand.

Inactive Monies – Those monies not required for use within the current two year period of designated depositories. Ohio law permits inactive monies to be deposited or invested as certificates of deposit maturing not later than the end of the current period of designated depositories, or as savings or deposit accounts, including, but not limited to passbook accounts.

Interim Monies – Those monies which are not needed for immediate use but which will be needed before the end of the current period of designation of depositories. Ohio law permits interim monies to be invested or deposited in the following securities:

- (1) Bonds, notes, or other obligations of or guaranteed by the United States, or those for which the faith of the United States is pledged for the payment of principal and interest.
- (2) Bonds, notes, debentures, or other obligations or securities issued by any federal governmental agency.
- (3) No-load money market mutual funds consisting exclusively of obligations described in (1) or (2) above and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions.
- (4) Interim deposits in the eligible institutions applying for interim monies to be evidenced by time certificates of deposit maturing not more than one year from date of deposit, or by savings or deposit accounts, including, but limited to, passbook accounts.

City of Reading, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2018

- (5) Bonds and other obligations of the State of Ohio.
- (6) The Ohio State Treasurer's investment pool (STAR Ohio).
- (7) Commercial paper and banker's acceptances which meet the requirements established by Ohio Revised Code, Sec. 135.142.
- (8) Under limited circumstances, corporate debt interests in either of the two highest rating classifications by at least two nationally recognized rating agencies.

Protection of the City's deposits is provided by the Federal Deposit Insurance Corporation (FDIC), by eligible securities pledged by the financial institution as security for repayment, or by the financial institution's participation in the Ohio Pooled Collateral System (OPCS), a collateral pool of eligible securities deposited with a qualified trustee and pledged to the Treasurer of State to secure the repayment of all public monies deposited in the financial institution.

Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the City, and must be purchased with the expectation that it will be held to maturity. Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the treasurer or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

Deposits

Custodial credit risk for deposits is the risk that in the event of bank failure, the City will not be able to recover deposits or collateral securities that are in the possession of an outside party. As of December 31, 2018, \$3,986,373 of the City's bank balance of \$4,486,373 was exposed to custodial credit risk because it was uninsured and collateralized.

The City has no deposit policy for custodial risk beyond the requirements of State statute. Ohio law requires that deposits either be insured or protected by:

Eligible securities pledged to the City and deposited with a qualified trustee by the financial institution as security for repayment whose market value at all times shall be at least 105% of the deposits being secured; or

Participation in the Ohio Pooled Collateral System (OPCS), a collateral pool of eligible securities deposited with a qualified trustee and pledged to the Treasurer of State to secure the repayment of all public monies deposited in the financial institution. OPCS requires the total market value of the securities pledged to be 102% of the deposits being secured or a rate set by the Treasurer of State.

Investments

At year end the City held no investments.

City of Reading, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2018

Note 4 – Receivables

Receivables at year end, consisted primarily of taxes (income taxes, property and other taxes), accounts, and intergovernmental arising from grants and entitlement.

No allowances for doubtful accounts have been recorded because uncollectible amounts are expected to be insignificant.

Property Taxes

Property taxes include amounts levied against all real and public utility property located in the City. Property tax revenue received during 2018 for real and public utility property taxes represents collections of the 2017 taxes.

2018 real property taxes are levied after October 1, 2018, on the assessed value as of January 1, 2018, the lien date. Assessed values are established by State law at 35 percent of appraised market value. 2018 real property taxes are collected in and intended to finance 2019 operations.

Public utility tangible personal property currently is assessed at varying percentages of true value; public utility real property is assessed at 35 percent of true value. 2018 public utility property taxes became a lien December 31, 2018, are levied after October 1, 2018, and are collected in 2019 with real property taxes.

The assessed values of real and public utility property upon which current year property tax receipts were based are as follows:

| | Amount |
|----------------|----------------------|
| Real Property | \$167,901,850 |
| Public Utility | 10,722,180 |
| Total | <u>\$178,624,030</u> |

Real property taxes are payable annually or semi-annually. The first payment is due January 20 with the remainder payable by June 20.

The County Treasurer collects property taxes on behalf of all taxing districts in the county, including the City. The County Auditor periodically remits to the City its portion of the taxes collected. Accrued property taxes receivable represents real and public utility taxes and outstanding delinquencies which are measurable as of year end for which there is an enforceable legal claim. Although total property tax collections for the next year are measurable, amounts to be received during the available period are not subject to reasonable estimation at year end, nor were they levied to finance current year operations. The receivable is therefore offset by deferred revenue.

Income Taxes

The City levies a two percent income tax on wages, salaries, commissions and other compensation in addition to net profits of business activity. The tax applies to all income earned within the City plus income earned by residents who earned income outside the City. A credit up to two percent is allowed if an individual pays income taxes to another municipality.

City of Reading, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2018

Additional increases in the income tax rate require voter approval.

Employers within the City withhold income tax on employee compensation and remit at least quarterly. Corporations and other individual taxpayers pay estimated taxes quarterly based on an annual declaration and file an annual tax return.

Note 5 – Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City carries commercial general liability insurance against these risks and all other risks of loss, including workers' compensation and accident insurance. Employee health insurance is provided by a self-insured risk sharing pool. See Note 14.

There have been no significant reductions in insurance coverage from that of prior years and settlements have not exceeded insurance coverage for any of the past three fiscal years.

Note 6 – Capital Assets

Capital asset activity for the current year end was as follows:

| | Beginning Balance | Additions | Deletions | Ending Balance |
|--|----------------------|-----------------|----------------|--------------------|
| Governmental Activities | | | | |
| <i>Capital Assets, not being depreciated:</i> | | | | |
| Land | \$1,311,475 | \$0 | \$0 | \$1,311,475 |
| <i>Capital Assets, being depreciated:</i> | | | | |
| Buildings and Improvements | 1,614,499 | 0 | 0 | 1,614,499 |
| Equipment | 4,927,276 | 250,654 | 163,212 | 5,014,718 |
| Infrastructure | 7,957,914 | 337,051 | 0 | 8,294,965 |
| Total Capital Assets, being depreciated | <u>14,499,689</u> | <u>587,705</u> | <u>163,212</u> | <u>14,924,182</u> |
| Totals at Historical Cost | <u>15,811,164</u> | <u>587,705</u> | <u>163,212</u> | <u>16,235,657</u> |
| Less Accumulated Depreciation: | | | | |
| Buildings and Improvements | 1,473,887 | 31,325 | 0 | 1,505,212 |
| Equipment | 3,576,944 | 297,939 | 163,212 | 3,711,671 |
| Infrastructure | 1,075,919 | 168,912 | 0 | 1,244,831 |
| Total Accumulated Depreciation | <u>6,126,750</u> | <u>498,176</u> | <u>163,212</u> | <u>6,461,714</u> |
| Governmental Activities Capital Assets, Net | <u>\$9,684,414</u> | <u>\$89,529</u> | <u>\$0</u> | <u>\$9,773,943</u> |

City of Reading, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2018

Depreciation expense was charged to governmental functions as follows:

| | |
|----------------------------------|-------------------------|
| General Government | \$88,992 |
| Public Safety | 177,646 |
| Leisure Time Activities | 42,387 |
| Transportation and Street Repair | <u>189,151</u> |
| Total Depreciation Expense | <u><u>\$498,176</u></u> |

| | Beginning Balance | Additions | Deletions | Ending Balance |
|--|-------------------------|--------------------------|-------------------|-------------------------|
| Business-Type Activities | | | | |
| <i>Capital Assets, not being depreciated:</i> | | | | |
| Land | <u>\$6,135</u> | <u>\$0</u> | <u>\$0</u> | <u>\$6,135</u> |
| <i>Capital Assets, being depreciated:</i> | | | | |
| Building and Improvements | 102,532 | 0 | 0 | 102,532 |
| Equipment | 194,579 | 0 | 0 | 194,579 |
| Infrastructure | <u>1,479,654</u> | <u>0</u> | <u>0</u> | <u>1,479,654</u> |
| Total Capital Assets, being depreciated | <u>1,776,765</u> | <u>0</u> | <u>0</u> | <u>1,776,765</u> |
| Totals at Historical Cost | <u><u>1,782,900</u></u> | <u><u>0</u></u> | <u><u>0</u></u> | <u><u>1,782,900</u></u> |
| Less Accumulated Depreciation: | | | | |
| Building and Improvements | 63,688 | 1,494 | 0 | 65,182 |
| Equipment | 194,579 | 0 | 0 | 194,579 |
| Infrastructure | <u>1,009,321</u> | <u>17,961</u> | <u>0</u> | <u>1,027,282</u> |
| Total Accumulated Depreciation | <u><u>1,267,588</u></u> | <u><u>19,455</u></u> | <u><u>0</u></u> | <u><u>1,287,043</u></u> |
| Business-Type Activities Capital Assets, Net | <u><u>\$515,312</u></u> | <u><u>(\$19,455)</u></u> | <u><u>\$0</u></u> | <u><u>\$495,857</u></u> |

Note 7 – Long-Term Debt

A schedule of changes in bonds, notes and other long-term obligations of the City during the current year follows:

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City of Reading, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2018

| | | Restated Beginning Balance | Additions | Deletions | Ending Balance | Due Within One Year |
|---|------------|----------------------------------|-------------|---------------|-------------------|------------------------|
| Governmental Activities | | | | | | |
| <u>General Obligation Bonds and Notes</u> | | | | | | |
| 2013 Various Purpose Bonds | 2.72% | \$116,668 | \$0 | (\$58,333) | \$58,335 | \$58,335 |
| 2003 Streetscape Bonds | 4.59% | 300,000 | 0 | (50,000) | 250,000 | 50,000 |
| 2011 Dump Truck Acquisition Bonds | 2.00-4.50% | 77,200 | 0 | (20,000) | 57,200 | 20,000 |
| 2011 Fire Truck Acquisition Bonds | 2.00-5.00% | 65,000 | 0 | (65,000) | 0 | 0 |
| 2014 Public Improvement Bonds | 3.50% | 100,000 | 0 | (50,000) | 50,000 | 50,000 |
| Total General Obligation Bonds and Notes | | 658,868 | 0 | (243,333) | 415,535 | 178,335 |
| OPWC Loans: | | | | | | |
| 2010 Waxwing Drive Improvement | 0.00% | 185,027 | 0 | (14,233) | 170,794 | 14,233 |
| 2011 Jefferson Avenue Improvements | 0.00% | 477,420 | 0 | (34,102) | 443,318 | 34,102 |
| 2012 Trillium Court & Krylon Drive Improvements | 0.00% | 266,404 | 0 | (18,372) | 248,032 | 18,372 |
| 2013 Jefferson/Willow/Voorhees Improvements | 0.00% | 255,578 | 0 | (15,974) | 239,604 | 15,974 |
| 2014 Julie Terrace Improvements | 0.00% | 85,708 | 0 | (5,194) | 80,514 | 5,194 |
| 2015 Leonard Street Improvements | 0.00% | 86,869 | 0 | (4,826) | 82,043 | 4,826 |
| 2015 Brown Street Improvements | 0.00% | 125,954 | 0 | (6,998) | 118,956 | 6,998 |
| 2015 5th Street & Flora Avenue Improvements | 0.00% | 128,206 | 0 | (7,122) | 121,084 | 7,122 |
| 2016 Bolser Drive Improvements | 0.00% | 211,544 | 0 | (11,134) | 200,410 | 11,134 |
| 2016 Alwil Drive Improvements | 0.00% | 227,966 | 0 | (12,322) | 215,644 | 12,322 |
| 2018 Benson Street Stormwater Replacement | 0.00% | 0 | 141,225 | 0 | 141,225 | 7,062 |
| 2018 Galbraith Road Phase II Improvements | 0.00% | 0 | 195,826 | 0 | 195,826 | 9,791 |
| Total OPWC Loans | | 2,050,676 | 337,051 | (130,277) | 2,257,450 | 147,130 |
| Capital Leases: | | | | | | |
| Equipment Capital Lease | 2.92% | 215,796 | 0 | (69,858) | 145,938 | 71,912 |
| Total Capital Leases | | 215,796 | 0 | (69,858) | 145,938 | 71,912 |
| Net Pension Liability: | | | | | | |
| OPERS | 0.00% | 2,751,794 | 0 | (1,055,470) | 1,696,324 | 0 |
| OP&F | 0.00% | 8,245,597 | 0 | (228,244) | 8,017,353 | 0 |
| Total Net Pension Liability | | 10,997,391 | 0 | (1,283,714) | 9,713,677 | 0 |
| Net OPEB Liability: | | | | | | |
| OPERS | 0.00% | 1,186,197 | 11,172 | 0 | 1,197,369 | 0 |
| OP&F | 0.00% | 6,179,446 | 1,221,866 | 0 | 7,401,312 | 0 |
| Total Net OPEB Liability | | 7,365,643 | 1,233,038 | 0 | 8,598,681 | 0 |
| Total Long-Term Debt | | 21,288,374 | 1,570,089 | (1,727,182) | 21,131,281 | 397,377 |
| Compensated Absences | | 852,785 | 504,943 | (305,359) | 1,052,369 | 355,356 |
| Total Long-Term Liabilities | | \$22,141,159 | \$2,075,032 | (\$2,032,541) | \$22,183,650 | \$752,733 |
| Business-Type Activities | | | | | | |
| <u>Net Pension Liability:</u> | | | | | | |
| OPERS | | \$250,697 | \$0 | (\$39,353) | \$211,344 | \$0 |
| <u>Net OPEB Liability:</u> | | | | | | |
| OPERS | | 147,788 | 1,392 | 0 | 149,180 | 0 |
| Compensated Absences | | 581 | 605 | (581) | 605 | 605 |
| Total Long-Term Liabilities | | \$399,066 | \$1,997 | (\$39,934) | \$361,129 | \$605 |

City of Reading, Ohio
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For The Year Ended December 31, 2018

In 2018, the City issued two Ohio Public Works Commission (OPWC) loans. One was in the amount of \$195,826 to finance road improvements on Galbraith Road. The second was in the amount of \$141,225 to finance stormwater replacement lines on Benson Street. These loans are interest free and will be paid off in 2038.

In 2016, the City issued one Ohio Public Works Commission (OPWC) Loans in the amount of \$469,127 to finance the various improvements to Bolser Drive and Alwil Drive. This loan is interest free and will be paid off in 2036.

In 2015, the City issued one Ohio Public Works Commission (OPWC) Loan in the amount of \$370,131 to finance the various improvements to Leonard Street, Brown Street, and 5th Street. This loan is interest free and will be paid off in 2036.

In 2014, the City issued one Ohio Publics Works Commission (OPWC) Loan in the amount of \$103,887 to finance the various improvements to Julie Terrace. This loan is interest free and will be paid off in 2034.

In 2013, the City issued two Ohio Public Works Commission (OPWC) Loans in the amount of \$352,574 to finance the various improvements to Jefferson, Willow, Voorhees and Harmes Avenue. These loans are interest free and will be paid off in 2033.

In 2012, the City issued one Ohio Public Works Commission (OPWC) Loan in the amount of \$375,465 to finance the various improvements to Knollcrest Drive, Trillium Court and Krylon Drive. This loans is interest free and will be paid off in 2032.

In 2011, the City issued one Ohio Public Works Commission (OPWC) Loan in the amount of \$682,030 to finance the various improvements to Jefferson Avenue. This loan is interest free and will be paid off in 2031.

In 2010, the City issued one Ohio Public Works Commission (OPWC) Loan in the amount of \$284,662 to finance the various improvements to Waxwing Drive. This loan is interest free and will be paid off in 2030.

The City's bonds and capital leases will be paid from the Capital Improvement Fund and the Fire/EMS Capital Improvement Fund. The Real Estate Acquisition Bonds are paid from the General Fund. The OPWC loans will be paid out of the streets and curbs fund. Compensated Absences will be paid from the fund from which the person is paid. Historically, this is the General Fund or a Special Revenue Fund.

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City of Reading, Ohio
Notes to the Basic Financial Statements
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The annual requirements to pay principal and interest on long-term debt at December 31, 2018 are as follows:

| Year Ending December 31 | General Obligation Bonds | | OPWC Loan |
|----------------------------|-----------------------------|-----------------|--------------------|
| | Principal | Interest | Principal |
| 2019 | \$178,335 | \$17,512 | \$147,130 |
| 2020 | 70,000 | 10,980 | 147,131 |
| 2021 | 69,400 | 7,885 | 147,131 |
| 2022 | 50,000 | 4,590 | 147,131 |
| 2023 | 47,800 | 2,295 | 147,131 |
| 2024-2028 | 0 | 0 | 735,655 |
| 2029-2033 | 0 | 0 | 597,194 |
| 2034-2038 | 0 | 0 | 188,947 |
| Total | <u>\$415,535</u> | <u>\$43,262</u> | <u>\$2,257,450</u> |

Note 8 – Leases

Lessee

During 2015 The City entered into a capital lease for an Altec Bucket Truck, Southeastern Backhoe, Tri County doors, a Zimmer Tractor and a BrewPro Hot Box.

The lease meets the criteria of capital lease which defines a capital lease generally as one that transfers benefits and risks of ownership to the lessee.

The following is a schedule of the future minimum lease payments required under the capital lease and the present value of the minimum lease payments as of fiscal year end.

| Fiscal Year Ending December 31, | Long-Term Debt |
|---|------------------|
| 2019 | \$75,653 |
| 2020 | 75,651 |
| Total Minimum Lease Payments | 151,304 |
| Less: Amount Representing Interest | (5,366) |
| Present Value of Minimum Lease Payments | <u>\$145,938</u> |

Note 9 - Defined Benefit Pension Plans

Net Pension Liability/Net Other Postemployment Benefits (OPEB) Liability

Pensions and OPEB are a component of exchange transactions—between an employer and its employees—of salaries and benefits for employee services. Pensions are provided to an employee—on a deferred-payment basis—as part of the total compensation package offered by an employer for employee services each financial period.

City of Reading, Ohio
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The net pension liability and the net OPEB liability represent the City's proportionate share of each pension/OPEB plan's collective actuarial present value of projected benefit payments attributable to past periods of service, net of each pension/OPEB plan's fiduciary net position. The net pension/OPEB liability calculation is dependent on critical long-term variables, including estimated average life expectancies, earnings on investments, cost of living adjustments and others. While these estimates use the best information available, unknowable future events require adjusting this estimate annually.

Ohio Revised Code limits the City's obligation for this liability to annually required payments. The City cannot control benefit terms or the manner in which pensions/OPEB are financed; however, the City does receive the benefit of employees' services in exchange for compensation including pension and OPEB.

GASB 68/75 assumes the liability is solely the obligation of the employer, because (1) they benefit from employee services; and (2) State statute requires funding to come from these employers. All pension contributions to date have come solely from these employers (which also includes pension costs paid in the form of withholdings from employees). The retirement systems may allocate a portion of the employer contributions to provide for these OPEB benefits. In addition, health care plan enrollees pay a portion of the health care costs in the form of a monthly premium. State statute requires the retirement systems to amortize unfunded pension liabilities within 30 years. If the pension amortization period exceeds 30 years, each retirement system's board must propose corrective action to the State legislature. Any resulting legislative change to benefits or funding could significantly affect the net pension/OPEB liability. Resulting adjustments to the net pension/OPEB liability would be effective when the changes are legally enforceable. The Ohio revised Code permits, but does not require the retirement systems to provide healthcare to eligible benefit recipients.

The remainder of this note includes the pension disclosures. See Note 10 for the OPEB disclosures.

Plan Description – Ohio Public Employees Retirement System (OPERS)

Plan Description - The City's employees participate in the Ohio Public Employees Retirement System (OPERS). OPERS administers three separate pension plans. The traditional pension plan is a cost-sharing, multiple-employer defined benefit pension plan. The member-directed plan is a defined contribution plan and the combined plan is a cost-sharing, multiple-employer defined benefit pension plan with defined contribution features. While members (e.g. City employees) may elect the member-directed plan and the combined plan, substantially all employee members are in OPERS' traditional plan; therefore, the following disclosure focuses on the traditional pension plan.

OPERS provides retirement, disability, survivor and death benefits, and annual cost of living adjustments to members of the traditional and combined plans. Authority to establish and amend benefits is provided by Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report that includes financial statements, required supplementary information and detailed information about OPERS' fiduciary net position that may be obtained by visiting www.opers.org/financial/reports.shtml, by writing to the Ohio Public Employees Retirement System, 277 East Town Street, Columbus, Ohio 43215-4642, or by calling 800-222-7377.

Senate Bill (SB) 343 was enacted into law with an effective date of January 7, 2013. In the legislation, members in the tradition and combined plans were categorized into three groups with varying

City of Reading, Ohio
Notes to the Basic Financial Statements
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provisions of the law applicable to each group. The following table provides age and service requirements for retirement and the retirement formula applied to final average salary (FAS) for the three member groups under the traditional and combined plans as per the reduced benefits adopted by SB 343 (see OPERS CAFR referenced above for additional information, including requirements for reduced and unreduced benefits):

| <u>Group A</u> Eligible to retire prior to January 7, 2013 or five years after January 7, 2013 | <u>Group B</u> 20 years of service credit prior to January 7, 2013 or eligible to retire ten years after January 7, 2013 | <u>Group C</u> Members not in other Groups and members hired on or after January 7, 2013 |
|---|---|---|
| <u>State and Local</u> | <u>State and Local</u> | <u>State and Local</u> |
| Age and Service Requirements: Age 60 with 60 months of service credit or Age 55 with 25 years of service credit | Age and Service Requirements: Age 60 with 60 months of service credit or Age 55 with 25 years of service credit | Age and Service Requirements: Age 57 with 25 years of service credit or Age 62 with 5 years of service credit |
| Traditional Plan Formula: 2.2% of FAS multiplied by years of service for the first 30 years and 2.5% for service years in excess of 30 | Traditional Plan Formula: 2.2% of FAS multiplied by years of service for the first 30 years and 2.5% for service years in excess of 30 | Traditional Plan Formula: 2.2% of FAS multiplied by years of service for the first 35 years and 2.5% for service years in excess of 35 |
| <u>Public Safety</u> | <u>Public Safety</u> | <u>Public Safety</u> |
| Age and Service Requirements: Age 48 with 25 years of service credit or Age 52 with 15 years of service credit | Age and Service Requirements: Age 48 with 25 years of service credit or Age 52 with 15 years of service credit | Age and Service Requirements: Age 52 with 25 years of service credit or Age 56 with 15 years of service credit |
| <u>Law Enforcement</u> | <u>Law Enforcement</u> | <u>Law Enforcement</u> |
| Age and Service Requirements: Age 52 with 15 years of service credit | Age and Service Requirements: Age 48 with 25 years of service credit or Age 52 with 15 years of service credit | Age and Service Requirements: Age 48 with 25 years of service credit or Age 56 with 15 years of service credit |
| <u>Public Safety and Law Enforcement</u> | <u>Public Safety and Law Enforcement</u> | <u>Public Safety and Law Enforcement</u> |
| Traditional Plan Formula: 2.5% of FAS multiplied by years of service for the first 25 years and 2.1% for service years in excess of 25 | Traditional Plan Formula: 2.5% of FAS multiplied by years of service for the first 25 years and 2.1% for service years in excess of 25 | Traditional Plan Formula: 2.5% of FAS multiplied by years of service for the first 25 years and 2.1% for service years in excess of 25 |

Final average Salary (FAS) represents the average of the three highest years of earnings over a member's career for Groups A and B. Group C is based on the average of the five highest years of earnings over a member's career.

Members who retire before meeting the age and years of service credit requirement for unreduced benefits receive a percentage reduction in the benefit amount.

When a traditional plan benefit recipient has received benefits for 12 months, an annual cost of living adjustment (COLA) is provided. This COLA is calculated on the base retirement benefit at the date of retirement and is not compounded. Members retiring under the combined plan receive a cost-of-living adjustment of the defined benefit portion of their pension benefit. For those retiring prior to January 7, 2013, the COLA will continue to be a 3 percent simple annual COLA. For those retiring subsequent to January 7, 2013, beginning in calendar year 2019, the COLA will be based on the average percentage increase in the Consumer Price Index, capped at 3 percent.

City of Reading, Ohio
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Funding Policy - The Ohio Revised Code (ORC) provides statutory authority for member and employer contributions as follows:

| | <u>State and Local</u> |
|---|----------------------------|
| 2018 Statutory Maximum Contribution Rates | |
| Employer | 14.0 % |
| Employee | 10.0 % |
| 2018 Actual Contribution Rates | |
| Employer: | |
| Pension | 14.0 % |
| Post-employment Health Care Benefits | <u>0.0</u> |
| Total Employer | <u>14.0 %</u> |
| Employee | <u>10.0 %</u> |

Employer contribution rates are actuarially determined and are expressed as a percentage of covered payroll. For 2018, The City’s contractually required contribution was \$232,439 for the traditional plan. Of this amount \$19,955 is reported as accrued wages and benefits.

Plan Description – Ohio Police & Fire Pension Fund (OPF)

Plan Description – City full-time police and firefighters participate in Ohio Police and Fire Pension Fund (OPF), a cost-sharing, multiple-employer defined benefit pension plan administered by OPF. OPF provides retirement and disability pension benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by the Ohio State Legislature and are codified in Chapter 742 of the Ohio Revised Code. OPF issues a publicly available financial report that includes financial information and required supplementary information and detailed information about OPF fiduciary net position. The report that may be obtained by visiting the OPF website at www.op-f.org or by writing to the Ohio Police and Fire Pension Fund, 140 East Town Street, Columbus, Ohio 43215-5164.

Upon attaining a qualifying age with sufficient years of service, a member of OPF may retire and receive a lifetime monthly pension. OPF offers four types of service retirement: normal, service commuted, age/service commuted and actuarially reduced. Each type has different eligibility guidelines and is calculated using the member’s average annual salary. The following discussion of the pension formula relates to normal service retirement.

For members hired after July 1, 2013, the minimum retirement age is 52 for normal service retirement with at least 25 years of service credit. For members hired on or before after July 1, 2013, the minimum retirement age is 48 for normal service retirement with at least 25 years of service credit.

The annual pension benefit for normal service retirement is equal to a percentage of the allowable average annual salary. The percentage equals 2.5 percent for each of the first 20 years of service credit,

City of Reading, Ohio
Notes to the Basic Financial Statements
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2.0 percent for each of the next five years of service credit and 1.5 percent for each year of service credit in excess of 25 years. The maximum pension of 72 percent of the allowable average annual salary is paid after 33 years of service credit (see OPF CAFR referenced above for additional information, including requirements for Deferred Retirement Option Plan provisions and reduced and unreduced benefits):

Under normal service retirement, retired members who are at least 55 years old and have been receiving OPF benefits for at least one year may be eligible for a cost-of-living allowance adjustment. The age 55 provision for receiving a COLA does not apply to those who are receiving a permanent and total disability benefit, surviving beneficiaries, and statutory survivors. Members participating in the DROP program have separate eligibility requirements related to COLA.

Members retiring under normal service retirement, with less than 15 years of service credit on July 1, 2013, and members whose pension benefit became effective on or after July 1, 2013, will receive a COLA equal to a percentage of the member's base pension benefit where the percentage is the lesser of three percent or the percentage increase in the consumer price index, if any, over the 12 month period that ends on the thirtieth day of September of the immediately preceding year, rounded to the nearest one-tenth of one percent.

Funding Policy – The Ohio Revised Code (ORC) provides statutory authority for member and employer contributions as follows:

| | Safety Officers |
|---|--------------------|
| 2018 Statutory Maximum Contribution Rates | |
| Employer | 19.50 % |
| Employee | 12.25 % |
| 2018 Actual Contribution Rates | |
| Employer: | |
| Pension | 19.00 % |
| Post-employment Health Care Benefits | 0.50 |
| Total Employer | <u>19.50 %</u> |

Employer contribution rates are expressed as a percentage of covered payroll. The City's contractually required contribution to OPF was \$597,830 for 2018. Of this amount \$55,069 is reported as accrued wages and benefits.

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

The net pension liability for OPERS was measured as of December 31, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. OPF's total pension liability was measured as of December 31, 2017, and was determined by rolling forward the total pension liability as of January 1, 2017 to December 31, 2017. The City's proportion of the net pension liability was based on the City's share of contributions to the pension plan

City of Reading, Ohio
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relative to the contributions of all participating entities. Following is information related to the proportionate share of the City's defined benefit pension plans:

| | <u>OPERS</u> | <u>OPF</u> | <u>Total</u> |
|--|---------------------|--------------------|---------------------|
| Proportionate Share of the: | | | |
| Net Pension Liability | \$1,907,668 | \$8,017,353 | \$9,925,021 |
| Proportion of the Net Pension Liability: | | | |
| Current Measurement Date | 0.01216000% | 0.13063000% | 0.14279000% |
| Prior Measurement Date | <u>0.01322200%</u> | <u>0.13018200%</u> | <u>0.14340400%</u> |
| Change in Proportionate Share | <u>-0.00106200%</u> | <u>0.00044800%</u> | <u>-0.00061400%</u> |
| Pension Expense | \$332,013 | \$928,637 | \$1,260,650 |

At December 31, 2018, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | <u>OPERS</u> | <u>OPF</u> | <u>Total</u> |
|--|------------------|--------------------|--------------------|
| Deferred Outflows of Resources: | | | |
| Differences between expected and actual experience | \$1,948 | \$121,669 | \$123,617 |
| Changes in assumptions | 227,980 | 349,358 | 577,338 |
| Changes in employer proportionate share of net pension liability | 29,043 | 66,073 | 95,116 |
| Contributions subsequent to the measurement date | <u>232,439</u> | <u>597,830</u> | <u>830,269</u> |
| Total Deferred Outflows of Resources | <u>\$491,410</u> | <u>\$1,134,930</u> | <u>\$1,626,340</u> |
| Deferred Inflows of Resources: | | | |
| Differences between expected and actual experience | \$37,594 | \$14,504 | \$52,098 |
| Changes in employer proportionate share of net pension liability | 119,041 | 197,558 | 316,599 |
| Net difference between projected and actual earnings on pension plan investments | <u>409,551</u> | <u>277,339</u> | <u>686,890</u> |
| Total Deferred Inflows of Resources | <u>\$566,186</u> | <u>\$489,401</u> | <u>\$1,055,587</u> |

\$830,269 reported as deferred outflows of resources related to pension resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending December 31, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

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City of Reading, Ohio
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| Year Ending December 31: | OPERS | OPF | Total |
|-----------------------------|-----------------|--------------------|--------------------|
| 2019 | \$171,620 | \$132,901 | \$304,521 |
| 2020 | 98,706 | (91,480) | 7,226 |
| 2021 | (188,551) | (180,345) | (368,896) |
| 2022 | (145,423) | (168,291) | (313,714) |
| 2023 | 88,873 | 0 | 88,873 |
| Thereafter | 22,474 | 0 | 22,474 |
| Total | \$47,699 | (\$307,215) | (\$259,516) |

Actuarial Assumptions - OPERS

Actuarial valuations of an ongoing plan involve estimates of the values of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and cost trends. Actuarially determined amounts are subject to continual review or modification as actual results are compared with past expectations and new estimates are made about the future.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employers and plan members) and include the types of benefits provided at the time of each valuation. The total pension liability was determined by an actuarial valuation as of December 31, 2017, using the following actuarial assumptions applied to all periods included in the measurement in accordance with the requirements of GASB 67.

Key methods and assumptions used in the latest actuarial valuation, reflecting experience study results, prepared as of December 31, 2017, are presented below.

OPERS Traditional Plan

| | |
|---|--|
| Wage Inflation | 3.25 percent |
| Future Salary Increases, including inflation | 3.25 to 10.75 percent including wage inflation |
| COLA or Ad Hoc COLA: | |
| Pre-January 7, 2013 Retirees | 3 percent, simple |
| Post-January 7, 2013 Retirees | 3 percent, simple through 2018, then 2.15 percent, simple |
| Investment Rate of Return | 7.5 percent |
| Actuarial Cost Method | Individual Entry Age |

Pre-retirement mortality rates are based on the RP-2014 Employees mortality table for males and females, adjusted for mortality improvement back to the observation period base year of 2006. The base year for males and females was then established to be 2015 and 2010, respectively. Post-retirement mortality rates are based on the RP-2014 Healthy Annuitant mortality table for males and females, adjusted for mortality improvement back to the observation period base year of 2006. The base year for males and females was then established to be 2015 and 2010, respectively. Post-

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retirement mortality rates for disabled retirees are based on the RP-2014 Disabled mortality table for males and females, adjusted for mortality improvement back to the observation period base year of 2006. The base year for males and females was then established to be 2015 and 2010, respectively. Mortality rates for a particular calendar year are determined by applying the MP-2015 mortality improvement scale to all of the above described tables.

The most recent experience study was completed for the five year period ended December 31, 2015.

The long-term rate of return on defined benefit investment assets was determined using a building-block method in which best-estimate ranges of expected future real rates of return are developed for each major asset class. These ranges are combined to produce the long-term expected real rate of return by weighting the expected future real rates of return by the target asset allocation percentage, adjusted for inflation.

During 2017, OPERS managed investments in three investment portfolios: the Defined Benefit portfolio, the Health Care portfolio, and the Defined Contribution portfolio. The Defined Benefit portfolio contains the investment assets for the Traditional Pension Plan, the defined benefit component of the Combined Plan and the annuitized accounts of the Member-Directed Plan. Within the Defined Benefit portfolio, contributions into the plans are all recorded at the same time, and benefit payments all occur on the first of the month. Accordingly, the money-weighted rate of return is considered to be the same for all plans within the portfolio. The annual money-weighted rate of return expressing investment performance, net of investment expenses and adjusted for the changing amounts actually invested, for the Defined Benefit portfolio was 16.82 percent for 2017.

The allocation of investment assets with the Defined Benefit portfolio is approved by the Board of Trustees as outlined in the annual investment plan. Plan assets are managed on a total return basis with a long-term objective of achieving and maintaining a fully funded status for the benefits provided through the defined benefit pension plans. The table below displays the Board-approved asset allocation policy for 2017 and the long-term expected real rates of return:

| Asset Class | Target Allocation | Weighted Average Long-Term Expected Real Rate of Return (Arithmetic) |
|------------------------|-------------------|--|
| Fixed Income | 23.00% | 2.20% |
| Domestic Equities | 19.00% | 6.37% |
| Real Estate | 10.00% | 5.26% |
| Private Equity | 10.00% | 8.97% |
| International Equities | 20.00% | 7.88% |
| Other investments | 18.00% | 5.26% |
| Total | 100.00% | 5.66% |

Discount Rate The discount rate used to measure the total pension liability was 7.5 percent for the traditional plan and the combined plan. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and those of the contributing employers are made at

City of Reading, Ohio
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the contractually required rates, as actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefits payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the City's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate The following table presents the City's proportionate share of the net pension liability calculated using the current period discount rate assumption of 7.5 percent, as well as what the City's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one-percentage-point lower (6.5 percent) or one-percentage-point higher (8.5 percent) than the current rate:

| | 1% Decrease (6.50%) | Current Discount Rate (7.50%) | 1% Increase (8.50%) |
|---|------------------------|-------------------------------------|------------------------|
| City's proportionate share of the net pension liability: | | | |
| OPERS | \$3,022,733 | \$1,907,688 | \$673,907 |

Changes between Measurement Date and Report Date In October 2018, the OPERS Board adopted a change in the investment return assumption, reducing it from 7.5 percent to 7.2 percent. This change will be effective for the 2018 valuation. The exact amount of the impact to the City's net pension liability is not known.

Actuarial Assumptions – OPF

OPF's total pension liability as of December 31, 2017, is based on the results of an actuarial valuation date of January 1, 2017, and rolled-forward using generally accepted actuarial procedures. The total pension liability is determined by OPF's actuaries in accordance with GASB Statement No. 67, as part of their annual valuation. Actuarial valuations of an ongoing plan involve estimates of reported amounts and assumptions about probability of occurrence of events far into the future. Examples include assumptions about future employment mortality, salary increases, disabilities, retirements and employment terminations. Actuarially determined amounts are subject to continual review and potential modifications, as actual results are compared with past expectations and new estimates are made about the future. Assumptions considered were: withdrawal rates, disability retirement, service retirement, DROP elections, mortality, percent married and forms of the payment, DROP interest rate, CPI-based COLA, investment returns, salary increases and payroll growth.

Key methods and assumptions used in the latest actuarial valuation, reflecting experience study results, prepared as of January 1, 2017, compared with January 1, 2016, are presented below.

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| | January 1, 2017 | January 1, 2016 |
|----------------------------|--|--|
| Valuation Date | January 1, 2017, with actuarial liabilities rolled forward to December 31, 2017 | January 1, 2016, with actuarial liabilities rolled forward to December 31, 2016 |
| Actuarial Cost Method | Entry Age Normal | Entry Age Normal |
| Investment Rate of Return | 8.0 percent | 8.25 percent |
| Projected Salary Increases | 3.75 percent to 10.5 percent | 4.25 percent to 11 percent |
| Payroll Growth | Inflation rate of 2.75 percent plus productivity increase rate of 0.5 percent | Inflation rate of 3.25 percent plus productivity increase rate of 0.5 percent |
| Cost of Living Adjustments | 3.00 percent simple; 2.2 percent simple for increased based on the lesser of the increase in CPI and 3 percent | 3.00 percent simple; 2.6 percent simple for increased based on the lesser of the increase in CPI and 3 percent |

For the January 1, 2017, valuation, mortality for non-disabled participants is based on the RP-2014 Total Employee and Healthy Annuitant Mortality Tables rolled back to 2006, adjusted according to the rates in the following table, and projected with the Conduent Modified 2016 Improvement Scale. Rates for surviving beneficiaries are adjusted by 120 percent.

| Age | Police | Fire |
|------------|--------|------|
| 67 or less | 77% | 68% |
| 68-77 | 105% | 87% |
| 78 and up | 115% | 120% |

For the January 1, 2017, valuation, mortality for disabled retirees is based on the RP-2014 Disabled Mortality Tables rolled back to 2006, adjusted according to the rates in the following table, and projected with the Conduent Modified 2016 Improvement Scale.

| Age | Police | Fire |
|------------|--------|------|
| 59 or less | 35% | 35% |
| 60-69 | 60% | 45% |
| 70-79 | 75% | 70% |
| 80 and up | 100% | 90% |

For the January 1, 2016 valuation, rates of death were based on the RP2000 Combined Table, age-adjusted as follows. For active members, set back six years. For disability retirements, set forward five years for police and three years for firefighters. For service retirements, set back zero years for police and two years for firefighters. For beneficiaries, set back zero years. The rates are applied on a fully generational basis, with a base year of 2009, using mortality improvement Scale AA.

The most recent experience study was completed for the five year period ended December 31, 2016, the prior experience study was completed December 31, 2011.

The long-term expected rate of return on pension plan investments was determined using a building-block approach and assumes a time horizon, as defined in the Statement of Investment Policy. A forecasted rate of inflation serves as the baseline for the return expected. Various real return premiums over the baseline inflation rate have been established for each asset class. The long-term expected

City of Reading, Ohio
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nominal rate of return has been determined by calculating a weighted averaged of the expected real return premiums for each asset class, adding the projected inflation rate and adding the expected return from rebalancing uncorrelated asset classes. Best estimates of the long-term expected geometric real rates of return for each major asset class included in OPF's target asset allocation as of December 31, 2017, are summarized below:

| Asset Class | Target Allocation | Long-Term Expected Real Rate of Return |
|--|-------------------|--|
| Cash and Cash Equivalent | 0.00% | 0.00% |
| Domestic Equity | 16.00% | 5.21% |
| Non-US Equity | 16.00% | 5.40% |
| Core Fixed Income* | 20.00% | 2.37% |
| Global Inflation Protected Securities* | 20.00% | 2.33% |
| High Yield | 15.00% | 4.48% |
| Real Estate | 12.00% | 5.65% |
| Private Markets | 8.00% | 7.99% |
| Timber | 5.00% | 6.87% |
| Master Limited Partnerships | 8.00% | 7.36% |
| Total | 120.00% | |

Note: Assumptions are geometric

* levered 2x

OPF's Board of Trustees has incorporated the risk parity concept into OPF's asset liability valuation with the goal of reducing equity risk exposure, which reduces overall Total Portfolio risk without sacrificing return, and creating a more risk-balanced portfolio based on their relationship between asset classes and economic environments. From the notional portfolio perspective above, the Total Portfolio may be levered up to 1.2 times due to the application of leverage in certain fixed income asset classes.

Discount Rate The total pension liability was calculated using the discount rate of 8.00 percent. The discount rate used for 2016 was 8.25 percent. The projection of cash flows used to determine the discount rate assumed the contributions from employers and from the members would be computed based on contribution requirements as stipulated by State statute. Projected inflows from investment earning were calculated using the longer-term assumed investment rate of return 8.00 percent. Based on those assumptions, the plan's fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, a long-term expected rate of return on pension plan investments was applied to all periods of projected benefits to determine the total pension liability.

Sensitivity of the City's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

Net pension liability is sensitive to changes in the discount rate, and to illustrate the potential impact the following table presents the net pension liability calculated using the discount rate of 8.00 percent, as well as what the net pension liability would be if it were calculated using a discount rate that is one percentage point lower (7.00 percent), or one percentage point higher (9.00 percent) than the current rate.

City of Reading, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2018

| | 1% Decrease (7.00%) | Current Discount Rate (8.00%) | 1% Increase (9.00%) |
|---|------------------------|-------------------------------------|------------------------|
| City's proportionate share of the net pension liability: | | | |
| OPF | \$11,114,153 | \$8,017,353 | \$5,491,629 |

Changes between Measurement Date and Report Date There have been no pension plan amendments adopted or changes in assumptions that have impacted the actuarial valuation studies for the pension plan for the measurement date of December 31, 2018.

Note 10 - Defined Benefit Other Postemployment Benefits Plans

Net Other Postemployment Benefits (OPEB) Liability

For 2018, Governmental Accounting Standards Board (GASB) Statement No. 75, "Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions" was effective. OPEB is a component of exchange transactions—between an employer and its employees—of salaries and benefits for employee services. OPEB are provided to an employee—on a deferred-payment basis—as part of the total compensation package offered by an employer for employee services each financial period.

The net OPEB liability represents the City's proportionate share of each OPEB plan's collective actuarial present value of projected benefit payments attributable to past periods of service, net of each OPEB plan's fiduciary net position. The net OPEB liability calculation is dependent on critical long-term variables, including estimated average life expectancies, earnings on investments, cost of living adjustments and others. While these estimates use the best information available, unknowable future events require adjusting these estimates annually.

Ohio Revised Code limits the City's obligation for this liability to annually required payments. The City cannot control benefit terms or the manner in which OPEB are financed; however, the City does receive the benefit of employees' services in exchange for compensation including OPEB.

GASB 75 assumes the liability is solely the obligation of the employer, because they benefit from employee services. OPEB contributions come from these employers and health care plan enrollees which pay a portion of the health care costs in the form of a monthly premium. The Ohio revised Code permits, but does not require the retirement systems to provide healthcare to eligible benefit recipients. Any change to benefits or funding could significantly affect the net OPEB liability. Resulting adjustments to the net OPEB liability would be effective when the changes are legally enforceable. The retirement systems may allocate a portion of the employer contributions to provide for these OPEB benefits.

The proportionate share of each plan's unfunded benefits is presented as a long-term net OPEB liability on the accrual basis of accounting. Any liability for the contractually-required OPEB contribution outstanding at the end of the year is included as a liability on both the accrual and modified accrual bases of accounting.

City of Reading, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2018

Plan Description – Ohio Public Employees Retirement System (OPERS)

Plan Description - The Ohio Public Employees Retirement System (OPERS) maintains a cost-sharing, multiple-employer defined benefit post-employment health care trust, which funds multiple health care plans including medical coverage, prescription drug coverage and deposits to a Health Reimbursement Arrangement to qualifying benefit recipients of both the traditional pension and the combined plans. This trust is also used to fund health care for member-directed plan participants, in the form of a Retiree Medical Account (RMA). At retirement or refund, member directed plan participants may be eligible for reimbursement of qualified medical expenses from their vested RMA balance.

In order to qualify for postemployment health care coverage, age and service retirees under the traditional pension and combined plans must have twenty or more years of qualifying Ohio service credit. Health care coverage for disability benefit recipients and qualified survivor benefit recipients is available. The health care coverage provided by OPERS meets the definition of an Other Post Employment Benefit (OPEB) as described in GASB Statement 75. See OPERS' CAFR referenced below for additional information.

The Ohio Revised Code permits, but does not require OPERS to provide health care to its eligible benefit recipients. Authority to establish and amend health care coverage is provided to the Board in Chapter 145 of the Ohio Revised Code.

Disclosures for the health care plan are presented separately in the OPERS financial report. Interested parties may obtain a copy by visiting <https://www.opers.org/financial/reports.shtml>, by writing to OPERS, 277 East Town Street, Columbus, Ohio 43215-4642, or by calling (614) 222-5601 or 800-222-7377.

Funding Policy - The Ohio Revised Code provides the statutory authority requiring public employers to fund postemployment health care through their contributions to OPERS. When funding is approved by OPERS' Board of Trustees, a portion of each employer's contribution to OPERS is set aside to fund OPERS health care plans. Beginning in 2018, health care is not being funded.

Employer contribution rates are expressed as a percentage of the earnable salary of active members. In 2018, state and local employers contributed at a rate of 14.0 percent of earnable salary and public safety and law enforcement employers contributed at 18.1 percent. These are the maximum employer contribution rates permitted by the Ohio Revised Code. Active member contributions do not fund health care.

Each year, the OPERS Board determines the portion of the employer contribution rate that will be set aside to fund health care plans. The portion of employer contributions allocated to health care for members in the Traditional Pension Plan was 1.0 percent during calendar year 2017. As recommended by OPERS' actuary, the portion of employer contributions allocated to health care beginning January 1, 2018 decreased to 0 percent for both plans. The OPERS Board is also authorized to establish rules for the retiree or their surviving beneficiaries to pay a portion of the health care provided. Payment amounts vary depending on the number of covered dependents and the coverage selected.

Employer contribution rates are actuarially determined and are expressed as a percentage of covered payroll. The City's contractually required contribution was \$0 for 2018.

City of Reading, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2018

Plan Description – Ohio Police & Fire Pension Fund (OPF)

Plan Description – The City contributes to the Ohio Police and Fire Pension Fund (OPF) sponsored healthcare program, a cost-sharing, multiple-employer defined post-employment healthcare plan administered by a third-party provider. This program is not guaranteed and is subject to change at any time upon action of the Board of Trustees. OPF provides health care benefits including coverage for medical, prescription drug, dental, vision, and Medicare Part B Premium to retirees, qualifying benefit recipients and their eligible dependents.

OPF provides access to postretirement health care coverage for any person who receives or is eligible to receive a monthly service, disability, or statutory survivor benefit, or is a spouse or eligible dependent child of such person. The health care coverage provided by OPF meets the definition of an Other Post Employment Benefit (OPEB) as described in Government Accounting Standards Board (GASB) Statement No. 75.

The Ohio Revised Code allows, but does not mandate, OPF to provide OPEB benefits. Authority for the OPF Board of Trustees to provide health care coverage to eligible participants and to establish and amend benefits is codified in Chapter 742 of the Ohio Revised Code.

OPF issues a publicly available financial report that includes financial information and required supplementary information for the plan. The report may be obtained by visiting the OPF website at www.op-f.org or by writing to the Ohio Police and Fire Pension Fund, 140 East Town Street, Columbus, Ohio 43215-5164.

Funding Policy – The Ohio Revised Code provides for contribution requirements of the participating employers and of plan members to the OPF defined benefit pension plan. Participating employers are required to contribute to the pension plan at rates expressed as percentages of the payroll of active pension plan members, currently 19.5 percent and 24 percent of covered payroll for police and fire employer units, respectively. The Ohio Revised Code states that the employer contribution may not exceed 19.5 percent of covered payroll for police employer units and 24 percent of covered payroll for fire employer units. Active members do not make contributions to the OPEB Plan.

OPF maintains funds for health care in two separate accounts. There is one account for health care benefits and one account for Medicare Part B reimbursements. A separate health care trust accrual account is maintained for health care benefits under IRS Code Section 115 trust. An Internal Revenue Code 401(h) account is maintained for Medicare Part B reimbursements.

The Board of Trustees is authorized to allocate a portion of the total employer contributions made into the pension plan to the Section 115 trust and the Section 401(h) account as the employer contribution for retiree health care benefits. For 2018, the portion of employer contributions allocated to health care was 0.5 percent of covered payroll. The amount of employer contributions allocated to the health care plan each year is subject to the Trustees' primary responsibility to ensure that pension benefits are adequately funded and is limited by the provisions of Sections 115 and 401(h).

The OPF Board of Trustees is also authorized to establish requirements for contributions to the health care plan by retirees and their eligible dependents or their surviving beneficiaries. Payment amounts vary depending on the number of covered dependents and the coverage selected.

City of Reading, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2018

Beginning January 1, 2019, OPF is changing its retiree health care model and the current self-insured health care plan will no longer be offered. In its place is a stipend-based health care model. A stipend funded by OPF will be placed in individual Health Reimbursement Accounts that retirees will use to be reimbursed for health care expenses.

The City's contractually required contribution to OPF was \$14,264 for 2018.

Net OPEB Liability

The net OPEB liability and total OPEB liability for OPERS were determined by an actuarial valuation as of December 31, 2016, rolled forward to the measurement date of December 31, 2017, by incorporating the expected value of health care cost accruals, the actual health care payment, and interest accruals during the year. OPF's total OPEB liability was measured as of December 31, 2017, and was determined by rolling forward the total OPEB liability as of January 1, 2017, to December 31, 2017. The City's proportion of the net OPEB liability was based on the City's share of contributions to the retirement plan relative to the contributions of all participating entities. Following is information related to the proportionate share:

| | <u>OPERS</u> | <u>OPF</u> | <u>Total</u> |
|---------------------------------------|---------------------|--------------------|---------------------|
| Proportionate Share of the: | | | |
| Net OPEB Liability | \$1,346,549 | \$7,401,312 | \$8,747,861 |
| Proportion of the Net OPEB Liability: | | | |
| Current Measurement Date | 0.01240000% | 0.13063000% | 0.14303000% |
| Prior Measurement Date | <u>0.01320732%</u> | <u>0.13018200%</u> | <u>0.14338932%</u> |
| Change in Proportionate Share | <u>-0.00080732%</u> | <u>0.00044800%</u> | <u>-0.00035932%</u> |
| OPEB Expense | \$89,739 | \$581,237 | \$670,976 |

At December 31, 2018, the City reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

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City of Reading, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2018

| | OPERS | OPF | Total |
|---|------------------|------------------|------------------|
| Deferred Outflows of Resources: | | | |
| Differences between expected and actual experience | \$1,049 | \$0 | \$1,049 |
| Changes in assumptions | 98,043 | 722,211 | 820,254 |
| Changes in employer proportionate share of net OPEB liability | 0 | 18,553 | 18,553 |
| Contributions subsequent to the measurement date | 0 | 14,264 | 14,264 |
| Total Deferred Outflows of Resources | \$99,092 | \$755,028 | \$854,120 |
| Deferred Inflows of Resources: | | | |
| Differences between expected and actual experience | \$0 | \$37,329 | \$37,329 |
| Net difference between projected and actual earnings on OPEB plan investments | 100,309 | 48,719 | 149,028 |
| Changes in employer proportionate share of net OPEB liability | 55,167 | 0 | 55,167 |
| Total Deferred Inflows of Resources | \$155,476 | \$86,048 | \$241,524 |

\$14,264 reported as deferred outflows of resources related to pension resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ending December 31, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

| Year Ending December 31: | OPERS | OPF | Total |
|-----------------------------|-------------------|------------------|------------------|
| 2019 | (\$4,077) | \$90,662 | \$86,585 |
| 2020 | (4,077) | 90,662 | 86,585 |
| 2021 | (23,154) | 90,662 | 67,508 |
| 2022 | (25,077) | 90,662 | 65,585 |
| 2023 | 0 | 102,841 | 102,841 |
| Thereafter | 0 | 189,228 | 189,228 |
| Total | (\$56,385) | \$654,717 | \$598,332 |

Actuarial Assumptions - OPERS

Actuarial valuations of an ongoing plan involve estimates of the values of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and cost trends. Actuarially determined amounts are subject to continual review or modification as actual results are compared with past expectations and new estimates are made about the future.

Projections of benefits for financial reporting purposes are based on the substantive plan and include the types of coverage provided at the time of each valuation and the historical pattern of sharing of costs between OPERS and plan members. The total OPEB liability was determined by an actuarial valuation as of December 31, 2016, rolled forward to the measurement date of December 31, 2017. The actuarial valuation used the following actuarial assumptions applied to all prior periods included in

City of Reading, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2018

the measurement in accordance with the requirements of GASB 74:

| | |
|--|--|
| Wage Inflation | 3.25 percent |
| Projected Salary Increases, including inflation | 3.25 to 10.75 percent including wage inflation |
| Single Discount Rate: | |
| Current measurement date | 3.85 percent |
| Prior Measurement date | 4.23 percent |
| Investment Rate of Return | 6.50 percent |
| Municipal Bond Rate | 3.31 percent |
| Health Care Cost Trend Rate | 7.5 percent, initial 3.25 percent, ultimate in 2028 |
| Actuarial Cost Method | Individual Entry Age |

Pre-retirement mortality rates are based on the RP-2014 Employees mortality table for males and females, adjusted for mortality improvement back to the observation period base year of 2006. The base year for males and females was then established to be 2015 and 2010, respectively. Post-retirement mortality rates are based on the RP-2014 Healthy Annuitant mortality table for males and females, adjusted for mortality improvement back to the observation period base year of 2006. The base year for males and females was then established to be 2015 and 2010, respectively. Post-retirement mortality rates for disabled retirees are based on the RP-2014 Disabled mortality table for males and females, adjusted for mortality improvement back to the observation period base year of 2006. The base year for males and females was then established to be 2015 and 2010, respectively. Mortality rates for a particular calendar year are determined by applying the MP-2015 mortality improvement scale to all of the above described tables.

The most recent experience study was completed for the five year period ended December 31, 2015.

The long-term expected rate of return on health care investment assets was determined using a building-block method in which best-estimate ranges of expected future real rates of return are developed for each major asset class. These ranges are combined to produce the long-term expected real rate of return by weighting the expected future real rates of return by the target asset allocation percentage, adjusted for inflation.

During 2017, OPERS managed investments in three investment portfolios: the Defined Benefit portfolio, the Health Care portfolio and the Defined Contribution portfolio. The Health Care portfolio includes the assets for health care expenses for the Traditional Pension Plan, Combined Plan and Member-Directed Plan eligible members. Within the Health Care portfolio, contributions into the plans are assumed to be received continuously throughout the year based on the actual payroll payable at the time contributions are made, and health care-related payments are assumed to occur mid-year. Accordingly, the money-weighted rate of return is considered to be the same for all plans within the portfolio. The annual money-weighted rate of return expressing investment performance, net of investment expenses and adjusted for the changing amounts actually invested, for the Health Care portfolio is 15.2 percent for 2017.

The allocation of investment assets with the Health Care portfolio is approved by the Board of Trustees as outlined in the annual investment plan. Assets are managed on a total return basis with a long-term

City of Reading, Ohio
Notes to the Basic Financial Statements
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objective of continuing to offer a sustainable health care program for current and future retirees. OPERS' primary goal is to achieve and maintain a fully funded status for the benefits provided through the defined pension plans. Health care is a discretionary benefit. The table below displays the Board-approved asset allocation policy for 2017 and the long-term expected real rates of return:

| Asset Class | Target Allocation | Weighted Average Long-Term Expected Real Rate of Return (Arithmetic) |
|------------------------------|-------------------|--|
| Fixed Income | 34.00% | 1.88% |
| Domestic Equities | 21.00% | 6.37% |
| Real Estate Investment Trust | 6.00% | 5.91% |
| International Equities | 22.00% | 7.88% |
| Other investments | 17.00% | 5.39% |
| Total | 100.00% | 4.98% |

Discount Rate A single discount rate of 3.85 percent was used to measure the OPEB liability on the measurement date of December 31, 2017. A single discount rate of 4.23 percent was used to measure the OPEB liability on the measurement date of December 31, 2016. Projected benefit payments are required to be discounted to their actuarial present value using a single discount rate that reflects (1) a long-term expected rate of return on OPEB plan investments (to the extent that the health care fiduciary net position is projected to be sufficient to pay benefits), and (2) tax-exempt municipal bond rate based on an index of 20-year general obligation bonds with an average AA credit rating as of the measurement date (to the extent that the contributions for use with the long-term expected rate are not met). This single discount rate was based on an expected rate of return on the health care investment portfolio of 6.50 percent and a municipal bond rate of 3.31 percent. The projection of cash flows used to determine this single discount rate assumed that employer contributions will be made at rates equal to the actuarially determined contribution rate. Based on these assumptions, the health care fiduciary net position and future contributions were sufficient to finance health care costs through 2034. As a result, the long-term expected rate of return on health care investments was applied to projected costs through the year 2034, and the municipal bond rate was applied to all health care costs after that date.

Sensitivity of the City's Proportionate Share of the Net OPEB Liability to Changes in the Discount Rate

The following table presents the City's proportionate share of the net OPEB liability calculated using the single discount rate of 3.85 percent, as well as what the City's proportionate share of the net OPEB liability would be if it were calculated using a discount rate that is one-percentage-point lower (2.85 percent) or one-percentage-point higher (4.85 percent) than the current rate:

| | 1% Decrease (2.85%) | Discount Rate (3.85%) | 1% Increase (4.85%) |
|---|------------------------|--------------------------|------------------------|
| City's proportionate share of the net OPEB liability: | | | |
| OPERS | \$1,788,948 | \$1,346,549 | \$988,652 |

City of Reading, Ohio
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Sensitivity of the City’s Proportionate Share of the Net OPEB Liability to Changes in the Health Care Cost Trend Rate Changes in the health care cost trend rate may also have a significant impact on the net OPEB liability. The following table presents the net OPEB liability calculated using the assumed trend rates, and the expected net OPEB liability if it were calculated using a health care cost trend rate that is 1.0 percent lower or 1.0 percent higher than the current rate.

Retiree health care valuations use a health care cost-trend assumption that changes over several years built into the assumption. The near-term rates reflect increases in the current cost of health care; the trend starting in 2018 is 7.50 percent. If this trend continues for future years, the projection indicates that years from now virtually all expenditures will be for health care. A more reasonable alternative is that in the not-too-distant future, the health plan cost trend will decrease to a level at, or near, wage inflation. On this basis, the actuaries project premium rate increases will continue to exceed wage inflation for approximately the next decade, but by less each year, until leveling off at an ultimate rate, assumed to be 3.25 percent in the most recent valuation.

| | Current Health Care Cost Trend Rate | | |
|--|--|-------------------|--------------------|
| | <u>1% Decrease</u> | <u>Assumption</u> | <u>1% Increase</u> |
| City's proportionate share of the net OPEB liability OPERS | \$1,288,360 | \$1,346,549 | \$1,406,656 |

Changes between Measurement Date and Report Date In October 2018, the OPERS Board adopted a change in the investment return assumption, reducing it from 6.5 percent to 6.0 percent. This change will be effective for the 2018 valuation. The exact amount of impact to the City’s net OPEB liability is not known.

Actuarial Assumptions – OPF

OPF’s total OPEB liability as of December 31, 2017, is based on the results of an actuarial valuation date of January 1, 2017, and rolled-forward using generally accepted actuarial procedures. The total OPEB liability is determined by OPF’s actuaries in accordance with GASB Statement No. 74, as part of their annual valuation. Actuarial valuations of an ongoing plan involve estimates of reported amounts and assumptions about probability of occurrence of events far into the future. Examples include assumptions about future employment mortality, salary increases, disabilities, retirements and employment terminations. Actuarially determined amounts are subject to continual review and potential modifications, as actual results are compared with past expectations and new estimates are made about the future.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employers and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing benefit costs between the employers and plan members to that point. The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations.

Actuarial calculations reflect a long-term perspective. For a newly hired employee, actuarial calculations will take into account the employee’s entire career with the employer and also take into consideration

City of Reading, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2018

the benefits, if any, paid to the employee after termination of employment until the death of the employee and any applicable contingent annuitant. In many cases, actuarial calculations reflect several decades of service with the employer and the payment of benefits after termination.

Key methods and assumptions used in the latest actuarial valuation, reflecting experience study results, are presented below.

| | |
|----------------------------|--|
| Valuation Date | January 1, 2017, with actuarial liabilities rolled forward to December 31, 2017 |
| Actuarial Cost Method | Entry Age Normal |
| Investment Rate of Return | 8.0 percent |
| Projected Salary Increases | 3.75 percent to 10.5 percent |
| Payroll Growth | Inflation rate of 2.75 percent plus productivity increase rate of 0.5 percent |
| Single discount rate: | |
| Current measurement date | 3.24 percent |
| Prior measurement date | 3.79 percent |
| Cost of Living Adjustments | 3.00 percent simple; 2.2 percent simple for increased based on the lesser of the increase in CPI and 3 percent |

Mortality for non-disabled participants is based on the RP-2014 Total Employee and Healthy Annuitant Mortality Tables rolled back to 2006, adjusted according to the rates in the following table, and projected with the Conduent Modified 2016 Improvement Scale. Rates for surviving beneficiaries are adjusted by 120 percent.

| <u>Age</u> | <u>Police</u> | <u>Fire</u> |
|------------|---------------|-------------|
| 67 or less | 77% | 68% |
| 68-77 | 105% | 87% |
| 78 and up | 115% | 120% |

Mortality for disabled retirees is based on the RP-2014 Disabled Mortality Tables rolled back to 2006, adjusted according to the rates in the following table, and projected with the Conduent Modified 2016 Improvement Scale.

| <u>Age</u> | <u>Police</u> | <u>Fire</u> |
|------------|---------------|-------------|
| 59 or less | 35% | 35% |
| 60-69 | 60% | 45% |
| 70-79 | 75% | 70% |
| 80 and up | 100% | 90% |

The most recent experience study was completed for the five year period ended December 31, 2016, the prior experience study was completed December 31, 2011.

City of Reading, Ohio
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The long-term expected rate of return on OPEB plan investments was determined using a building-block approach and assumes a time horizon, as defined in the Statement of Investment Policy. A forecasted rate of inflation serves as the baseline for the return expected. Various real return premiums over the baseline inflation rate have been established for each asset class. The long-term expected nominal rate of return has been determined by calculating a weighted averaged of the expected real return premiums for each asset class, adding the projected inflation rate and adding the expected return from rebalancing uncorrelated asset classes. Best estimates of the long-term expected geometric real rates of return for each major asset class included in OPF’s target asset allocation as of December 31, 2017, are summarized below:

| Asset Class | Target Allocation | Long-Term Expected Real Rate of Return |
|--|-------------------|--|
| Cash and Cash Equivalent | 0.00% | 0.00% |
| Domestic Equity | 16.00% | 5.21% |
| Non-US Equity | 16.00% | 5.40% |
| Core Fixed Income* | 20.00% | 2.37% |
| Global Inflation Protected Securities* | 20.00% | 2.33% |
| High Yield | 15.00% | 4.48% |
| Real Estate | 12.00% | 5.65% |
| Private Markets | 8.00% | 7.99% |
| Timber | 5.00% | 6.87% |
| Master Limited Partnerships | 8.00% | 7.36% |
| Total | 120.00% | |

Note: Assumptions are geometric

* levered 2x

OPF’s Board of Trustees has incorporated the risk parity concept into OPF’s asset liability valuation with the goal of reducing equity risk exposure, which reduces overall Total Portfolio risk without sacrificing return, and creating a more risk-balanced portfolio based on their relationship between asset classes and economic environments. From the notional portfolio perspective above, the Total Portfolio may be levered up to 1.2 times due to the application of leverage in certain fixed income asset classes.

Discount Rate The total OPEB liability was calculated using the discount rate of 3.24 percent. The projection of cash flows used to determine the discount rate assumed the contribution from employers and from members would be computed based on contribution requirements as stipulated by state statute. Projected inflows from investment earnings were calculated using the longer-term assumed investment rate of return 8 percent. Based on those assumptions, OPF’s fiduciary net position was projected to not be able to make all future benefit payments of current plan members. Therefore, a municipal bond rate of 3.16 percent at December 31, 2017 and 3.71 percent at December 31, 2016, was blended with the long-term rate of 8 percent, which resulted in a blended discount rate of 3.24 percent. The municipal bond rate was determined using the S&P Municipal Bond 20 Year High Grade Rate Index. The OPEB plan’s fiduciary net position was projected to be available to make all projected OPEB payments until 2025. The long-term expected rate of return on health care investments was applied to projected costs through 2025, and the municipal bond rate was applied to all health care costs after that date.

City of Reading, Ohio
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Sensitivity of the City's Proportionate Share of the Net OPEB Liability to Changes in the Discount Rate

Net OPEB liability is sensitive to changes in the discount rate, and to illustrate the potential impact the following table presents the net OPEB liability calculated using the discount rate of 3.24 percent, as well as what the net OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (2.24 percent), or one percentage point higher (4.24 percent) than the current rate.

| | 1% Decrease (2.24%) | Current Discount Rate (3.24%) | 1% Increase (4.24%) |
|--|------------------------|-------------------------------------|------------------------|
| City's proportionate share of the Net OPEB Liability OPF | \$9,251,730 | \$7,401,312 | \$5,977,498 |

Sensitivity of the City's Proportionate Share of the Net OPEB Liability to Changes in the Health Care Cost Trend Rate

Net OPEB liability is sensitive to changes in the health care cost trend rate. The trend rate is the annual rate at which the cost of covered medical services is assumed to increase from the current year to the next year. Beginning in 2017, the per-capita costs are assumed to change by the following percentages each year:

| Year | Non-Medicare | Non-AARP | AARP | Rx Drug | Medicare Part B |
|----------------|--------------|----------|-------|---------|--------------------|
| 2017 | -0.47% | -2.50% | 4.50% | -0.47% | 5.20% |
| 2018 | 7.00% | 7.00% | 4.50% | 7.00% | 5.10% |
| 2019 | 6.50% | 6.50% | 4.50% | 6.50% | 5.00% |
| 2020 | 6.00% | 6.00% | 4.50% | 6.00% | 5.00% |
| 2021 | 5.50% | 5.50% | 4.50% | 5.50% | 5.00% |
| 2022 | 5.00% | 5.00% | 4.50% | 5.00% | 5.00% |
| 2023 and Later | 4.50% | 4.50% | 4.50% | 4.50% | 5.00% |

To illustrate the potential impact, the following table presents the net OPEB liability calculated using the current healthcare cost trend current rates as outlined in the table above, a one percent decrease in the trend rates and a one percent increase in the trend rates.

| | 1% Decrease | Current Rates | 1% Increase |
|--|-------------|------------------|-------------|
| City's proportionate share of the net OPEB liability OPF | \$5,749,473 | \$7,401,312 | \$9,627,434 |

Changes between Measurement Date and Report Date In March 2018, the OPF Board of Trustees approved the implementation date and framework for a new health care model. Beginning January 1, 2019, the current self-insured health care plan will no longer be offered. In its place is a stipend-based health care model. A stipend funded by OPF will be placed in individual Health Reimbursement Accounts that retirees will use to be reimbursed for health care expenses. The impact to the City's Net OPEB Liability is not known.

City of Reading, Ohio
Notes to the Basic Financial Statements
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Note 11 – Contingencies

The City is a party to various legal proceedings, which seek damages or injunctive relief generally incidental to its operations and pending projects. The City’s management is of the opinion that the ultimate disposition of various claims and legal proceedings will not have a material effect on the financial condition of the City.

Note 12 – Interfund Transactions

Interfund transactions at year end, consisted of the following transfers in and transfers out:

| | Transfers | |
|-------------------|------------------|------------------|
| | In | Out |
| General Fund | \$0 | \$251,995 |
| Streets and Curbs | 251,995 | 0 |
| Total All Funds | <u>\$251,995</u> | <u>\$251,995</u> |

Interfund balance/transfers are used to move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them and unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations; to segregate and to return money to the fund from which it was originally provided once a project is completed.

Note 13 – Accountability

As of year end the following funds had deficit fund balances:

| | |
|----------------------------------|-------|
| <u>Other Governmental Funds:</u> | |
| Police and Fire Communications | \$ 33 |

The deficits in fund balances were primarily due to accrual in GAAP. The general fund is liable for any deficit in these funds and will provide operating transfers when cash is required not when accruals occur.

Note 14 – Public Entity Risk Sharing Pools

Ohio Benefits Cooperative

The Ohio Benefits Cooperative (OBC) is a not-for-profit partnership of government and public entities throughout Ohio that have pooled resources to help control rapidly escalating benefit costs. Starting in September 2015, OBC offered a self-insured pool risk employee benefit program to its members. The City, as well as ten other members, elected to participate in the program. Under the program, the City selects the benefit package to offer its employees and OBC determines the needed contribution rates associated with that specific package. Outside the payment of monthly contribution amounts established for its covered employees, the City transfers all the risks associated with claims submitted through the program to the pool. OBC contracts with third-party administrators to process and pay all

City of Reading, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2018

program claims incurred by covered member's employees. Stop-loss coverage has been purchased for claims in excess of a set amount for individual claims and in the aggregate for the program.

Note 15 – Fund Balances

Fund balance is classified as nonspendable, restricted, committed, assigned and/or unassigned based primarily on the extent to which the City is bound to observe constraints imposed upon the use of the resources in the government funds. The constraints placed on fund balance for the major governmental funds and all other governmental funds are presented below:

| Fund Balances | General | EPA Brownsfield Grant | Streets and Curbs | Capital Improvement | Other Governmental Funds | Total |
|---------------------------------|--------------------|-----------------------------|----------------------|------------------------|--------------------------------|--------------------|
| Nonspendable: | | | | | | |
| Prepays | \$122,444 | \$0 | \$0 | \$0 | \$6,893 | \$129,337 |
| Total Nonspendable | 122,444 | 0 | 0 | 0 | 6,893 | 129,337 |
| Restricted for: | | | | | | |
| Street Maintenance and Repair | 0 | 0 | 0 | 0 | 437,246 | 437,246 |
| State Highway Improvement | 0 | 0 | 0 | 0 | 131,037 | 131,037 |
| Mayor's Court Computer | 0 | 0 | 0 | 0 | 40,044 | 40,044 |
| DUI Enforcement | 0 | 0 | 0 | 0 | 11,908 | 11,908 |
| Streets and Curbs | 0 | 0 | 878,930 | 0 | 0 | 878,930 |
| Drug Enforcement | 0 | 0 | 0 | 0 | 48,158 | 48,158 |
| Motor Vehicle Permissive | 0 | 0 | 0 | 0 | 134,709 | 134,709 |
| Alcohol Education | 0 | 0 | 0 | 0 | 12,715 | 12,715 |
| Grant | 0 | 0 | 0 | 0 | 44,557 | 44,557 |
| Special Assessment Debt Service | 0 | 0 | 0 | 0 | 385 | 385 |
| Stadium | 0 | 0 | 0 | 0 | 83,385 | 83,385 |
| Fire/EMS Capital Improvement | 0 | 0 | 0 | 0 | 202,348 | 202,348 |
| Municipal Road | 0 | 0 | 0 | 0 | 70,407 | 70,407 |
| Stadium Track Improvement | 0 | 0 | 0 | 0 | 274 | 274 |
| Growth | 0 | 0 | 0 | 0 | 50,191 | 50,191 |
| Reading Road Development | 0 | 0 | 0 | 0 | 494 | 494 |
| OPWC SCIP | 0 | 0 | 0 | 0 | 2,307 | 2,307 |
| EPA Brownsfield Grant | 0 | 1,103,052 | 0 | 0 | 0 | 1,103,052 |
| Capital Improvement | 0 | 0 | 0 | 451,009 | 0 | 451,009 |
| Total Restricted | 0 | 1,103,052 | 878,930 | 451,009 | 1,270,165 | 3,703,156 |
| Assigned to: | | | | | | |
| Debt Service | 0 | 0 | 0 | 0 | 5,104 | 5,104 |
| Budgetary | 166,100 | 0 | 0 | 0 | 0 | 166,100 |
| Total Assigned | 166,100 | 0 | 0 | 0 | 5,104 | 171,204 |
| Unassigned (Deficit) | 759,630 | 0 | 0 | 0 | (33) | 759,597 |
| Total Fund Balance | \$1,048,174 | \$1,103,052 | \$878,930 | \$451,009 | \$1,282,129 | \$4,763,294 |

City of Reading, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2018

Note 16 – Implementation of New Accounting Principles and Restatement of Net Position

For fiscal year 2018, the City implemented Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*, GASB Statement No. 85, *Omnibus 2017*, and GASB Statement No. 86, *Certain Debt Extinguishments*.

GASB Statement No. 75 improves the accounting and financial reporting by state and local governments for postemployment benefits other than pension (OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. The implementation of GASB Statement No. 75 affected the District’s postemployment benefit plan disclosures, as presented in Note 10 to the basic financial statements, and added required supplementary information which can be found following these notes to the basic financial statements.

GASB Statement No. 85 addresses practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and OPEB. The implementation of GASB Statement No. 85 did not have an effect on the financial statements of the City.

GASB Statement No. 86 improves consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources – resources other than the proceeds of refunding debt - are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance. The implementation of GASB Statement No. 86 did not have an effect on the financial statements of the City.

A net position restatement is required in order to implement GASB Statement No. 75. A net position and fund balance restatement is also required to eliminate interfund receivables and payables improperly recorded in prior years. The net position and fund balances at January 1, 2018 have been restated as follows:

| | General | Capital Improvement | Other Governmental | Governmental Activities | Business-Type Activities * |
|--|------------------|------------------------|-----------------------|----------------------------|-------------------------------|
| Fund balance/net position as previously reported | \$615,535 | \$609,633 | \$1,458,506 | \$3,224,047 | \$797,952 |
| Adjustments: | | | | | |
| Equity in Pooled Cash and Investments | (4,805) | 0 | 0 | (4,805) | 4,805 |
| Interfund Receivable/Internal Balances | 0 | (113,960) | 0 | (113,960) | (69,755) |
| Interfund Payable/Internal Balances | 118,765 | 0 | 64,950 | 183,715 | 0 |
| Net OPEB Liability | 0 | 0 | 0 | (7,365,643) | (147,788) |
| Deferred Outflow | | | | | |
| Payments Subsequent to Measurement Date | 0 | 0 | 0 | 32,575 | 2,303 |
| Restated Fund Balance/Net Position January 1, 2018 | <u>\$729,495</u> | <u>\$495,673</u> | <u>\$1,523,456</u> | <u>(\$4,044,071)</u> | <u>\$587,517</u> |

* The water fund is the only business-type activity at the City so the above restatements are reflected on both necessary statements.

Other than employer contributions subsequent to the measurement date, the City made no restatement for deferred inflows/outflows of resources as the information needed to generate these restatements was not available.

City of Reading, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2018

Note 17 – Subsequent Events

The United States and the State of Ohio declared a state of emergency in March 2020 due to the COVID-19 pandemic. The financial impact of COVID-19 and the ensuing emergency measures will impact subsequent periods of the City. The City's investment portfolio has incurred a significant decline in fair value, in 2020, consistent with the general decline in financial markets. However, because the values of individual investments fluctuate with market conditions, and due to market volatility, the amount of losses that will be recognized in subsequent periods, if any, cannot be determined. In addition, the impact on the City's future operating costs, revenues, the impact of the investments of the pension and other employee benefit plan in which the City participates and any recovery from emergency funding, either federal or state, cannot be estimated.

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REQUIRED SUPPLEMENTARY INFORMATION



City of Reading, Ohio
 Required Supplementary Information
 Schedule of the City's Proportionate Share
 of the Net Pension Liability
 Ohio Public Employees Retirement System - Traditional Plan
 Last Five Fiscal Years (1)

| | 2018 | 2017 | 2016 | 2015 | 2014 |
|---|-------------|-------------|-------------|-------------|-------------|
| City's Proportion of the Net Pension Liability | 0.01216000% | 0.01322200% | 0.01256500% | 0.01384000% | 0.01384000% |
| City's Proportionate Share of the Net Pension Liability | \$1,907,668 | \$3,002,491 | \$2,176,416 | \$1,669,259 | \$1,631,556 |
| City's Covered-Employee Payroll | \$1,606,915 | \$1,594,575 | \$2,175,417 | \$1,702,408 | \$1,808,129 |
| City's Proportionate Share of the Net Pension Liability as a Percentage of its Covered-Employee Payroll | 118.72% | 188.29% | 100.05% | 98.05% | 90.23% |
| Plan Fiduciary Net Position as a Percentage of the Total Pension Liability | 84.66% | 77.25% | 81.08% | 86.45% | 86.36% |

(1) - The schedule is intended to show information for the past 10 years and the additional years' information will be displayed as it becomes available. Information prior to 2014 is not available.

Note- Amounts presented as of the City's measurement date which is the prior fiscal year end.

See accompanying notes to the required supplementary information.

City of Reading, Ohio
 Required Supplementary Information
 Schedule of the City's Proportionate Share
 of the Net Pension Liability
 Ohio Police and Fire Pension Fund
 Last Five Fiscal Years (1)

| | 2018 | 2017 | 2016 | 2015 | 2014 |
|---|-------------|-------------|-------------|-------------|-------------|
| City's Proportion of the Net Pension Liability | 0.13063000% | 0.13018200% | 0.13562100% | 0.13392230% | 0.13392230% |
| City's Proportionate Share of the Net Pension Liability | \$8,017,353 | \$8,245,597 | \$8,724,594 | \$6,937,734 | \$6,522,436 |
| City's Covered-Employee Payroll | \$3,192,947 | \$3,393,311 | \$2,960,378 | \$2,752,731 | \$2,383,724 |
| City's Proportionate Share of the Net Pension Liability as a Percentage of its Covered-Employee Payroll | 251.10% | 243.00% | 294.71% | 252.03% | 273.62% |
| Plan Fiduciary Net Position as a Percentage of the Total Pension Liability | 70.91% | 68.36% | 66.77% | 72.20% | 73.00% |

(1) - The schedule is intended to show information for the past 10 years and the additional years' information will be displayed as it becomes available. Information prior to 2014 is not available.

Note- Amounts presented as of the City's measurement date which is the prior fiscal year end.

See accompanying notes to the required supplementary information.

City of Reading, Ohio
 Required Supplementary Information
 Schedule of City Contributions
 for Net Pension Liability
 Ohio Public Employees Retirement System- Traditional Plan
 Last Five Fiscal Years (1)

| | 2018 | 2017 | 2016 | 2015 | 2014 |
|---|-------------|-------------|-------------|-------------|-------------|
| Contractually Required Contribution | \$232,439 | \$208,899 | \$191,349 | \$261,050 | \$204,289 |
| Contributions in Relation to the Contractually Required Contribution | (232,439) | (208,899) | (191,349) | (261,050) | (204,289) |
| Contribution Deficiency (Excess) | <u>\$0</u> | <u>\$0</u> | <u>\$0</u> | <u>\$0</u> | <u>\$0</u> |
| City Covered-Employee Payroll | \$1,660,279 | \$1,606,915 | \$1,594,575 | \$2,175,417 | \$1,702,408 |
| Contributions as a Percentage of Covered-Employee Payroll | 14.00% | 13.00% | 12.00% | 12.00% | 12.00% |

(1) - Information prior to 2014 is not available

See accompanying notes to the required supplementary information.

City of Reading, Ohio
 Required Supplementary Information
 Schedule of City Contributions
 for Net Pension Liability
 Ohio Police and Fire Pension Fund
 Last Five Fiscal Years (1)

| | 2018 | 2017 | 2016 | 2015 | 2014 |
|---|-------------|-------------|-------------|-------------|-------------|
| Contractually Required Contribution | \$597,830 | \$606,660 | \$644,729 | \$594,740 | \$560,456 |
| Contributions in Relation to the Contractually Required Contribution | (597,830) | (606,660) | (644,729) | (594,740) | (560,456) |
| Contribution Deficiency (Excess) | <u>\$0</u> | <u>\$0</u> | <u>\$0</u> | <u>\$0</u> | <u>\$0</u> |
| City Covered-Employee Payroll | \$3,146,474 | \$3,192,947 | \$3,393,311 | \$2,960,378 | \$2,752,731 |
| Contributions as a Percentage of Covered-Employee Payroll | 19.00% | 19.00% | 19.00% | 20.09% | 20.36% |

(1) - Information prior to 2014 is not available

See accompanying notes to the required supplementary information.

City of Reading, Ohio
 Required Supplementary Information
 Schedule of the City's Proportionate Share
 of the Net Postemployment Benefits Other Than Pension (OPEB) Liability
 Ohio Public Employees Retirement System - Traditional Plan
 Last Two Fiscal Years (1)

| | 2018 | 2017 |
|--|-------------|-------------|
| City's Proportion of the Net OPEB Liability | 0.01240000% | 0.01320732% |
| City's Proportionate Share of the Net OPEB Liability | \$1,346,549 | \$1,333,984 |
| City's Covered-Employee Payroll | \$1,606,915 | \$1,594,575 |
| City's Proportionate Share of the Net OPEB Liability as a Percentage of its Covered-Employee Payroll | 83.80% | 83.66% |
| Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability | 54.14% | 54.04% |

(1) - The schedule is intended to show information for the past 10 years and the additional years' information will be displayed as it becomes available. Information prior to 2017 is not available.

Note- Amounts presented as of the City's measurement date which is the prior fiscal year end.

See accompanying notes to the required supplementary information.

City of Reading, Ohio
 Required Supplementary Information
 Schedule of the City's Proportionate Share
 of the Net Postemployment Benefits Other Than Pension (OPEB) Liability
 Ohio Police and Fire Pension Fund
 Last Two Fiscal Years (1)

| | 2018 | 2017 |
|--|-------------|-------------|
| City's Proportion of the Net OPEB Liability | 0.13063000% | 0.13018200% |
| City's Proportionate Share of the Net OPEB Liability | \$7,401,313 | \$6,179,447 |
| City's Covered-Employee Payroll | \$3,192,947 | \$3,393,311 |
| City's Proportionate Share of the Net OPEB Liability as a Percentage of its Covered-Employee Payroll | 231.80% | 182.11% |
| Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability | 14.13% | 15.96% |

(1) - The schedule is intended to show information for the past 10 years and the additional years' information will be displayed as it becomes available. Information prior to 2017 is not available.

Note- Amounts presented as of the City's measurement date which is the prior fiscal year end.

See accompanying notes to the required supplementary information.

City of Reading, Ohio
 Required Supplementary Information
 Schedule of City Contributions to
 Postemployment Benefits Other Than Pension (OPEB)
 Ohio Public Employees Retirement System - Traditional Plan
 Last Three Fiscal Years (1)

| | 2018 | 2017 | 2016 |
|---|-------------|-------------|-------------|
| Contractually Required Contribution to OPEB | \$0 | \$0 | \$0 |
| Contributions to OPEB in Relation to the Contractually Required Contribution | <u>0</u> | <u>0</u> | <u>0</u> |
| Contribution Deficiency (Excess) | <u>\$0</u> | <u>\$0</u> | <u>\$0</u> |
| City Covered-Employee Payroll | \$1,660,279 | \$1,606,915 | \$1,594,575 |
| Contributions to OPEB as a Percentage of Covered-Employee Payroll | 0.00% | 0.00% | 0.00% |

(1) - The schedule is intended to show information for the past 10 years and the additional years' information will be displayed as it becomes available. Information prior to 2016 is not available.

See accompanying notes to the required supplementary information.

City of Reading, Ohio
 Required Supplementary Information
 Schedule of City Contributions to
 Postemployment Benefits Other Than Pension (OPEB)
 Ohio Police and Fire Pension Fund
 Last Three Fiscal Years (1)

| | <u>2018</u> | <u>2017</u> | <u>2016</u> |
|---|-----------------|-----------------|-----------------|
| Contractually Required Contribution to OPEB (2) | \$14,264 | \$14,495 | \$13,287 |
| Contributions to OPEB in Relation to the Contractually Required Contribution | <u>(14,264)</u> | <u>(14,495)</u> | <u>(13,287)</u> |
| Contribution Deficiency (Excess) | <u>\$0</u> | <u>\$0</u> | <u>\$0</u> |
| City Covered-Employee Payroll | \$3,146,474 | \$3,192,947 | \$3,393,311 |
| Contributions to OPEB as a Percentage of Covered-Employee Payroll | 0.45% | 0.45% | 0.39% |

(1) - The schedule is intended to show information for the past 10 years and the additional years' information will be displayed as it becomes available. Information prior to 2016 is not available.

(2) - Includes Surcharge.

See accompanying notes to the required supplementary information.

City of Reading, Ohio
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual (Non-GAAP Budgetary Basis)
For the Fiscal Year Ended December 31, 2018

| | General Fund | | | |
|--------------------------------------|------------------|------------------|------------------|----------------------------|
| | Original Budget | Final Budget | Actual | Variance from Final Budget |
| Revenues: | | | | |
| Taxes | \$289,074 | \$289,074 | \$283,979 | (\$5,095) |
| Fines, Licenses & Permits | 234,703 | 234,703 | 230,566 | (4,137) |
| Intergovernmental | 161,188 | 161,188 | 158,347 | (2,841) |
| Charges for Services | 798,027 | 798,027 | 783,962 | (14,065) |
| Other Revenues | 229,800 | 229,800 | 225,750 | (4,050) |
| Total Revenues | 1,712,792 | 1,712,792 | 1,682,604 | (30,188) |
| Expenditures: | | | | |
| Current: | | | | |
| <u>General Government</u> | | | | |
| Personal Services | 1,383,068 | 1,392,594 | 1,382,829 | 9,765 |
| Materials and Supplies | 521,643 | 525,236 | 521,553 | 3,683 |
| Total General Government | 1,904,711 | 1,917,830 | 1,904,382 | 13,448 |
| <u>Public Safety</u> | | | | |
| Personal Services | 5,084,895 | 5,119,918 | 5,084,018 | 35,900 |
| Materials and Supplies | 461,351 | 464,528 | 461,271 | 3,257 |
| Total Public Safety | 5,546,246 | 5,584,446 | 5,545,289 | 39,157 |
| <u>Leisure Time Activities</u> | | | | |
| Personal Services | 128,137 | 129,020 | 128,115 | 905 |
| Materials and Supplies | 157,212 | 158,295 | 157,185 | 1,110 |
| Total Leisure Time Activities | 285,349 | 287,315 | 285,300 | 2,015 |
| <u>Community Development</u> | | | | |
| Personal Services | 34,150 | 34,385 | 34,144 | 241 |
| Materials and Supplies | 150,017 | 151,050 | 149,991 | 1,059 |
| Total Community Development | 184,167 | 185,435 | 184,135 | 1,300 |
| <u>Basic Utility Service</u> | | | | |
| Contractual Services | 464,139 | 467,336 | 464,059 | 3,277 |
| Total Basic Utility Service | 464,139 | 467,336 | 464,059 | 3,277 |

Continued

City of Reading, Ohio
 Schedule of Revenues, Expenditures and Changes in Fund Balance
 Budget and Actual (Non-GAAP Budgetary Basis)
 For the Fiscal Year Ended December 31, 2018

| | General Fund | | | |
|---|------------------|------------------|------------------|----------------------------|
| | Original Budget | Final Budget | Actual | Variance from Final Budget |
| Total Expenditures | 8,384,612 | 8,442,362 | 8,383,165 | 59,197 |
| Excess of Revenues Over (Under) Expenditures | (6,671,820) | (6,729,570) | (6,700,561) | 29,009 |
| Other financing sources (uses): | | | | |
| Transfers In | 6,847,209 | 6,847,209 | 6,726,530 | (120,679) |
| Total Other Financing Sources (Uses) | 6,847,209 | 6,847,209 | 6,726,530 | (120,679) |
| Net Change in Fund Balance | 175,389 | 117,639 | 25,969 | (91,670) |
| Fund Balance Beginning of Year (includes prior year encumbrances appropriated) | 182,860 | 182,860 | 182,860 | 0 |
| Fund Balance End of Year | <u>\$358,249</u> | <u>\$300,499</u> | <u>\$208,829</u> | <u>(\$91,670)</u> |

See accompanying notes to the required supplementary information.

City of Reading, Ohio
 Schedule of Revenues, Expenditures and Changes in Fund Balance
 Budget and Actual (Non-GAAP Budgetary Basis)
 For the Fiscal Year Ended December 31, 2018

| | EPA Brownsfield Grant Fund | | | |
|---|-------------------------------------|-----------------|-----------|-------------------------------|
| | Original Budget | Final Budget | Actual | Variance from Final Budget |
| Revenues: | | | | |
| Intergovernmental | \$200,000 | \$200,000 | \$303,380 | \$103,380 |
| Total Revenues | 200,000 | 200,000 | 303,380 | 103,380 |
| Expenditures: | | | | |
| Current: | | | | |
| Transportation & Street Repair | 150,000 | 175,000 | 168,635 | 6,365 |
| Total Expenditures | 150,000 | 175,000 | 168,635 | 6,365 |
| Net Change in Fund Balance | 50,000 | 25,000 | 134,745 | 109,745 |
| Fund Balance Beginning of Year (includes prior year encumbrances appropriated) | 48,666 | 48,666 | 48,666 | 0 |
| Fund Balance End of Year | \$98,666 | \$73,666 | \$183,411 | \$109,745 |

See accompanying notes to the required supplementary information.

City of Reading, Ohio
 Schedule of Revenues, Expenditures and Changes in Fund Balance
 Budget and Actual (Non-GAAP Budgetary Basis)
 For the Fiscal Year Ended December 31, 2018

| | Streets and Curbs Fund | | | |
|---|------------------------------|-----------------|-----------|-------------------------------|
| | Original Budget | Final Budget | Actual | Variance from Final Budget |
| Revenues: | | | | |
| Intergovernmental | 75,001 | 75,001 | 108,000 | 32,999 |
| Total Revenues | 75,001 | 75,001 | 108,000 | 32,999 |
| Expenditures: | | | | |
| Current: | | | | |
| Transportation & Street Repair | 500,000 | 500,000 | 435,884 | 64,116 |
| Total Expenditures | 500,000 | 500,000 | 435,884 | 64,116 |
| Excess of Revenues Over (Under) Expenditures | (424,999) | (424,999) | (327,884) | 97,115 |
| Other Financing Sources (uses): | | | | |
| Transfers In | 174,999 | 174,999 | 251,995 | 76,996 |
| Total Other Financing Sources (Uses) | 174,999 | 174,999 | 251,995 | 76,996 |
| Net Change in Fund Balance | (250,000) | (250,000) | (75,889) | 174,111 |
| Fund Balance Beginning of Year (includes prior year encumbrances appropriated) | 954,817 | 954,817 | 954,817 | 0 |
| Fund Balance End of Year | \$704,817 | \$704,817 | \$878,928 | \$174,111 |

See accompanying notes to the required supplementary information.

City of Reading, Ohio
Notes to the Required Supplementary Information
For The Fiscal Year Ended December 31, 2018

Note 1 – Budgetary Process

All funds, except agency funds, are legally required to be budgeted and appropriated. The major documents prepared are the tax budget, the certificate of estimated resources, and the appropriations resolution, all of which are prepared on the budgetary basis of accounting. The tax budget demonstrates a need for existing or increased tax rates. The certificate of estimated resources establishes a limit on the amount Council may appropriate. The appropriations resolution is Council's authorization to spend resources and sets annual limits on expenditures plus encumbrances at the level of control selected by Council. The legal level of control has been established by Council at the object level for all funds.

The certificate of estimated resources may be amended during the year if projected increases or decreases in revenue are identified by the City. The amounts reported as the original budgeted amounts on the budgetary statements reflect the amounts on the certificate of estimated resources when the original appropriations were adopted. The amounts reported as the final budgeted amounts on the budgetary statements reflect the amounts on the final amended certificate of estimated resources issued during the year.

The appropriation resolution is subject to amendment throughout the year with the restriction that appropriations cannot exceed estimated resources. The amounts reported as the original budgeted amounts reflect the first appropriation resolution for that fund that covered the entire year, including amounts automatically carried forward from prior years. The amounts reported as the final budgeted amounts represent the final appropriation amounts passed by Council during the year.

While the City is reporting financial position, results of operations and changes in fund balance on the basis of generally accepted accounting principles (GAAP), the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances. The Schedule of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual (Non-GAAP Basis) presented for the general fund is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and GAAP basis are as follows:

1. Revenues are recorded when received in cash (budget) as opposed to when susceptible to accrual (GAAP).
2. Expenditures are recorded when paid in cash (budget) as opposed to when the liability is incurred (GAAP).
3. Encumbrances are treated as expenditures (budget) rather than as an assignment of fund balance (GAAP).
4. Unreported cash represents amounts received but not included as revenue on the budget basis operating statements. These amounts are included as revenue on the GAAP basis operating statement.
5. Some funds are reported as part of the general fund (GAAP basis) as opposed to the general fund being reported alone (budget basis).

City of Reading, Ohio
Notes to the Required Supplementary Information
For The Fiscal Year Ended December 31, 2018

The following table summarizes the adjustments necessary to reconcile the GAAP basis statements to the budgetary basis statements for the General, EPA Brownsfield Grant and Street and Curbs Fund.

Net Change in Fund Balance

| | General | EPA Brownsfield Grant | Streets and Curbs |
|----------------------|-----------------|--------------------------|----------------------|
| GAAP Basis | \$318,679 | \$131,639 | (\$75,889) |
| Revenue Accruals | (7,592,985) | 0 | (291,205) |
| Expenditure Accruals | 322,651 | 3,106 | 628,256 |
| Issuance of Debt | 0 | 0 | (337,051) |
| Transfers In | 6,726,530 | 0 | 0 |
| Transfers Out | 251,995 | 0 | 0 |
| Encumbrances | (901) | 0 | 0 |
| Budget Basis | <u>\$25,969</u> | <u>\$134,745</u> | <u>(\$75,889)</u> |

Note 2 – Pension Plans

Ohio Public Employees Retirement System (Traditional Plan) - Pension

Changes in benefit terms: There were no changes in benefit terms for the period 2014-2018.

Changes in assumptions:

2014-2016: There were no changes in methods and assumptions used in the calculation of actuarial determined contributions.

2017: The following were the most significant changes of assumptions that affected total pension liability since the prior measurement date

- Reduction in actuarial assumed rate of return from 8.00% to 7.50%
- Decrease in wage inflation from 3.75% to 3.25%
- Change in future salary increases from a range of 4.25%-10.02% to 3.25%-10.75%

2018: There were no changes in methods and assumptions used in the calculation of actuarial determined contributions.

Changes between Measurement Date and Report Date: In October 2018, the OPERS Board adopted a change in the investment return assumption, reducing it from 7.5 percent to 7.2 percent. This change will be effective for the 2018 valuation. The exact amount of the impact to the City's net pension liability is not known.

Ohio Police and Fire Pension Fund - Pension

Changes in benefit terms: There were no changes in benefit terms for the period 2014-2018.

City of Reading, Ohio
Notes to the Required Supplementary Information
For The Fiscal Year Ended December 31, 2018

Changes in assumptions:

2014-2017: There were no changes in methods and assumptions used in the calculation of actuarial determined contributions.

2018: The following were the most significant changes of assumptions that affected total pension liability since the prior measurement date.

- Reduction in actuarial assumed rate of return from 8.25% to 8.00%
- Decrease salary increases from 3.75% to 3.25%
- Change in payroll growth from 3.75% to 3.25%
- Reduce DROP interest rate from 4.5% to 4.0%
- Reduce CPI-based COLA from 2.6% to 2.2%
- Inflation component reduced from 3.25% to 2.75%

Note 3 – Net Other Post Employment Benefits (OPEB) Liability

Ohio Public Employees Retirement System

Changes in benefit terms: There were no changes in benefit terms for 2018.

Changes in assumptions: The single discount rate changed from 4.23% to 3.85% for 2018.

Ohio Police and Fire

Changes in benefit terms: There were no changes in benefit terms for 2018.

Changes in assumptions: The single discount rate changed from 3.79% to 3.24% for 2018.

CITY OF READING



Yellow Book Report

December 31, 2018

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

Honorable Mayor and City Council
City of Reading

We have audited, in accordance with the 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 City of Reading (the City), as of and for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated August 18, 2020, wherein we noted the City adopted GASB No. 75 as disclosed in Note 16.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City'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 City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City'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 was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings that we consider to be a material weakness. Finding 2018-001.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City'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*.

City's Response to Finding

The City's response to the finding identified in our audit is described in the accompanying schedule of findings. The responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

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.

Plattenburg & Associates, Inc.

Plattenburg & Associates, Inc.

Cincinnati, Ohio

August 18, 2020

**CITY OF READING
SCHEDULE OF FINDINGS
Year Ended December 31, 2018**

2018-001-Material Weakness-Controls Related to Financial Reporting

The presentation of financial statements and related footnotes that are free of material misstatement is the responsibility of the City's management. Independent auditors are not part of an entity's internal control structure and should not be relied upon by management to detect misstatements in the financial statements.

Thus, it is important that management develop control procedures related to preparing financial statements and footnotes that enable management to prevent and detect potential misstatements in the financial statements and footnotes in a timely manner prior to audit.

Our audit identified misstatements in the City's financial statements that required adjustment in order to present the financial statements in accordance with accounting principles generally accepted in the United States of America.

We provided adjustments to the City which corrected the misstatements prior to the issuance of the financial statements. The misstatements related to cash, interfund loans, fund balance, and net position. This was the result of posting errors related to transfers in the years 1999 to 2004.

Recommendation:

Develop a systematic, detailed financial statement preparation and review process.

Management's Response:

The City's management was able to find two sets of ordinances which relate to transfers noted in the accounting notes from prior audits. The Greenway Quiet Park ordinances reflect transfers from the general fund to the Greenway Fund -- a special fund created to complete the park under a grant as stated in the ordinance -- in anticipation of a grant that would reimburse the general fund. The transfer out of the general is less than the transfer returning which would be permitted under R.C. 5705.09(F) as the all obligations of the Greenway fund were paid.

The ordinances evidencing transfers from the water fund appear to be from Water to Water Note for payment of debt and interest. The amounts add up to 50,905 and were likely miscoded -- although transfer to the sinking fund of such obligations is generally permitted under 5705.14 (A).

After a meeting with the audit staff and City management \$4,805 was moved from the general fund to the Water Fund. The City's Management has fixed and updated all of these posting errors related to year 1999-2004. City's management is committed to reviewing finances routinely before and during the review process.

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OHIO AUDITOR OF STATE KEITH FABER



CITY OF READING

HAMILTON COUNTY

AUDITOR OF STATE OF OHIO CERTIFICATION

This is a true and correct copy of the report, which is required to be filed pursuant to Section 117.26, Revised Code, and which is filed in the Office of the Ohio Auditor of State in Columbus, Ohio.



Certified for Release 11/5/2020

88 East Broad Street, Columbus, Ohio 43215
Phone: 614-466-4514 or 800-282-0370

This report is a matter of public record and is available online at
www.ohioauditor.gov