

CITY OF READING, MICHIGAN

**FINANCIAL STATEMENTS
AND INDEPENDENT AUDITOR'S REPORT**
(with required supplementary information)

YEAR ENDED JUNE 30, 2019

CITY OF READING, MICHIGAN

TABLE OF CONTENTS

	PAGE
INDEPENDENT AUDITOR'S REPORT	i – ii
MANAGEMENT'S DISCUSSION AND ANALYSIS	iii – vii
BASIC FINANCIAL STATEMENTS	
GOVERNMENT-WIDE FINANCIAL STATEMENTS:	
Statement of Net Position	1
Statement of Activities	2 – 3
FUND FINANCIAL STATEMENTS:	
GOVERNMENTAL FUNDS:	
Balance Sheet	4
Reconciliation of Governmental Funds Balance Sheet to the Statement of Net Position	5
Statement of Revenues, Expenditures, and Changes in Fund Balances	6
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	7
PROPRIETARY FUNDS:	
Statement of Net Position	8
Reconciliation of Enterprise Funds Statement of Net Position to the Statement of Net Position of Business Activities	9
Statement of Revenues, Expenses, and Changes in Net Position	10
Reconciliation of the Statement of Revenues, Expenses, and Changes in Fund Net Position of Proprietary Funds to the Statement of Activities	11
Statement of Cash Flows	12
NOTES TO FINANCIAL STATEMENTS	13 – 25

REQUIRED SUPPLEMENTARY INFORMATION:

Budgetary Comparison Schedule – General Fund	26
Budgetary Comparison Schedule – Major Street Fund	27
Schedule of Changes in the Net Pension Liability and Related Ratios	28
Schedule of Pension Plan Employer Contributions	29

SUPPLEMENTARY INFORMATION:

DISCRETELY PRESENTED COMPONENT UNIT - TAX INCREMENT
FINANCE AUTHORITY:

Statement of Net Position and Governmental Fund Balance Sheet	30
Statement of Activities and Governmental Fund Revenues, Expenditures, and Changes in Fund Balance	31

OTHER REPORTS:

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 <i>Government Auditing Standards</i>	32 – 33
Schedule of Findings	34 – 35

INDEPENDENT AUDITOR'S REPORT

The Honorable Mayor and
Members of the City Council
City of Reading
Reading, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Reading, Michigan, as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express 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 above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Reading, Michigan, as of June 30, 2019, and the respective changes in financial position and where applicable, cash flows, thereof, for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages iii – vii, as well as the budgetary comparison information and retirement system information on pages 26 – 29, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Reading's basic financial statements. The additional information on pages 30 - 31 is presented for purposes of additional analysis and is not a required part of the basic financial statements.

This information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, this information is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 27, 2019, on our consideration of City of Reading'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 the 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 City of Reading's internal control over financial reporting and compliance.

CHBW & Co., P.C.

Certified Public Accountants

MANAGEMENT'S DISCUSSION AND ANALYSIS

Management's Discussion and Analysis
Year Ended June 30, 2019

The following discussion and analysis of the financial performance for the City of Reading (the "City") provides an overview of the City's financial activities for the fiscal year ended June 30, 2019. Please read it in conjunction with the City's financial statements.

Financial Highlights

The following represents the most significant financial highlights for the year ended June 30, 2019:

- Property taxes are the City's largest source of revenue. The City's property tax revenue for fiscal year 2018-2019 was \$162,959 which represents a decrease of \$48,640 from fiscal year 2017-2018.
- State shared revenue is the second largest general revenue source of the City. It was increased by the State of Michigan, by \$14,652 from the previous year.
- General Government represents the City's largest expense in a typical year at \$219,523 which was an increase of \$4,614 from the previous year's expenditures. Public Safety is typically the City's second largest expenditure and it increased by \$32,040 to \$147,010 from the previous year's expenditures.

Using the Annual Report

This annual report consists of a series of financial statements. The statement of net position and the 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. This longer-term view uses the accrual basis of accounting so that it can measure the cost of providing services during the current year, and whether the taxpayers have funded the full cost of providing government services.

The fund financial statements present a short-term view; they tell us how the taxpayers' resources were spent during the year, as well as how much is available for future spending. Fund financial statements also report the City's operations in more detail than the government-wide financial statements.

The City as a Whole

The City's combined net position increased by approximately 1.00 percent from a year ago – increasing from \$4,331,271 million to \$4,377,393 million.

Total assets changed due to:

- There was a net increase in governmental capital and infrastructure assets in the amount of \$43,976 due to acquisition of new property netted with depreciation expense. There was also an increase of \$57,000 on joint venture investment.
- There was a decrease in business type net capital assets in the amount of \$130,872 due to depreciation expense exceeding capital purchases.

Management's Discussion and Analysis
Year Ended June 30, 2019

	Governmental Activities		Business-type Activities	
	2019	2018	2019	2018
Capital assets	\$ 1,518,851	\$ 1,474,875	\$ 5,605,278	\$ 5,736,150
Other assets	1,112,487	1,050,905	587,829	569,075
Total Assets	\$ 2,631,338	\$ 2,525,780	\$ 6,193,107	\$ 6,305,225
Deferred outflows of resources	\$ 34,688	\$ 20,031	\$	\$
Current liabilities	\$ 157,607	\$ 19,167	\$ 132,815	\$ 47,056
Long-term liabilities	378,817	454,777	3,800,000	3,987,000
Total Liabilities	\$ 536,424	\$ 473,944	\$ 3,932,815	\$ 4,034,056
Deferred inflows of resources	\$ 12,501	\$ 11,765	\$	\$
Net Position:				
Invested in capital - net of related debt	\$ 1,173,851	\$ 1,074,875	\$ 1,717,278	\$ 1,749,150
Restricted	1,165	915	460,888	440,298
Unrestricted	942,085	984,312	82,126	81,721
Total Net Position	\$ 2,117,101	\$ 2,060,102	\$ 2,260,292	\$ 2,271,169

The following is the government-wide results of operations for the current fiscal year in comparison to prior year:

Total governmental activities expenses decreased \$3,245 due to fire department expenditures being capitalized netted with an increase in the general government function.

Total business type activities expenses decreased \$152,622 due primarily to not having any major projects for our Water and Sewer Departments within this Fiscal Year.

Management's Discussion and Analysis
Year Ended June 30, 2019

	Governmental Activities		Business-type Activities	
	2019	2018	2019	2018
Revenue				
Program Revenue:				
Charges for services	\$ 51,815	\$ 9,484	\$ 633,218	\$ 666,700
Operating grants and contributions	143,530	272,818		
Capital grants and contributions				
General Revenue:				
Property taxes	162,959	211,599		
Grants and contributions	137,730			
Interest and other	40,235	32,238	5,726	31,189
Total Revenue	\$ 536,269	\$ 526,139	\$ 638,944	\$ 697,889
Program Expenses				
General government	\$ 255,205	\$ 212,794	\$	\$
Public safety	89,308	129,440		
Public works	22,535	18,725		
Highways and street	113,513	120,941		
Recreation and culture	2,750			
Community development	2,500	6,406		
Interest	9,420	10,170		
Sewer			251,099	344,664
Water			317,744	383,425
Refuse			65,017	58,393
Total Expenses	\$ 495,231	\$ 498,476	\$ 633,860	\$ 786,482
Transfers	15,961	15,500	(15,961)	(15,500)
Change in Net Position	\$ 56,999	\$ 43,163	\$ (10,877)	\$ (104,093)

Governmental Activities

Governmental activities include police, fire, streets, public works, parks, recreation, cemeteries and general government (management, treasurer, clerk, assessing, planning & zoning, etc.). Anything not described as a business-type activity is described as governmental activity.

Business-type Activities

The City's business-type activities consist of the Water, Sewer and Solid Waste Funds. The City operates both Water and Sewer facilities. The Solid Waste Fund includes refuse collection. Refuse collection is provided by an outside commercial entity.

The City's Funds

The City's major fund reports follow the government-wide financial statements. The fund financial statements provide detailed information about the significant funds, not the City as a whole. The City Council creates funds to help manage money for specific purposes as well as to show accountability for certain activities. The City's major funds for 2019 consist of the General, Capital Improvement, and Major Street Funds.

General Fund Highlights

The General Fund accounts for all police, fire, public works, planning and zoning, and administrative functions of the City government. The General Fund decreased its fund balance for the year, with expenditures exceeding revenues in the amount of \$75,201. The City budgeted a larger decrease due to street improvements and additional money to the Fire Department for a truck purchase. The budget is essentially a "maintenance" budget, which means it increases modestly from year to year. The budget is monitored closely and amended periodically. The result is that actual revenues and expenses are usually within 5 percent of budgeted amounts. Significant budget variances are as follows:

State revenue, cemetery and contributions – over budgeted amounts by \$66,368
Expenses – under budget by \$138,194

These budget variances are due to the following conditions/occurrences: State Revenues were higher than anticipated as well as cemetery revenues were up due to an increase in burials and lots sold. Contributions were also higher than budgeted due to an agreement approved by both the City and Tax Increment Finance Authority to provide administrative and maintenance services. General Government Expenses were under budget due to budgeting for the proposed projects that came in under budget as well as projects that were budgeted but did not come to fruition. Transfers out was under budget due to less being transferred to the capital improvement fund and Local Street Fund

The General Fund pays for most of the City's governmental services. The most significant are general governmental activities, which incurred expenses of approximately \$219,523 in fiscal year end 2019. Expenses for general government are recorded in various departments within the General Fund.

Major Street Fund Highlights

The Major Street Fund receives funding from the State and these funds are used to maintain the Streets within the City. Maintenance includes, but is not limited to, winter maintenance, such as plowing and salting, and year-round maintenance of road shoulders, patching, signage, etc.

The Major Street Fund increased its fund balance by \$3,684 during the year due to an increase in revenues. Budget variances are as follows:

Intergovernmental revenues – over budget by \$53,650

This budget variance is due to anticipated state shared revenues being much higher than expected.

Capital Improvement Fund Highlights

The City spent \$64,420 on debt service. Revenues were zero for the current fiscal year, since the fund relies solely on transfers in to fund itself.

Capital Asset and Debt Administration

At the end of fiscal year 2019, the City had approximately \$7,124,129 (net of depreciation) invested in a broad range of capital assets, including buildings, police and fire equipment, public works equipment, and water and sewer facilities. Not all infrastructure is reported in the year end net capital investment. The City elected to follow the method of prospective reporting of infrastructure assets provided in the GASB 34 reporting pronouncement.

The City continues to pay down debt obligations related to capital investments. At June 30, 2019, debt related to capital assets totaled \$4,233,000. These debt obligations are scheduled to be paid off by the year 2047.

The City also funds equipment replacements by maintaining an Equipment Fund. The Equipment Fund charges City departments for the use of equipment. Monies collected accumulate towards the replacement of equipment. The City properly maintains existing equipment and carefully plans for equipment replacements to avoid burdening taxpayers with additional debt millage to replace existing equipment.

See Note 5 for additional information regarding the purchase, disposal, and depreciation activity related to capital assets during the year.

Economic Factors and Next Year's Budgets and Rates

The City of Reading's current economic outlook in the short term is stable; thus avoiding any necessity in raising millage rates. Long term economic outlook is too unpredictable. The city administration as always is determined to take necessary steps to maintain surplus cash reserves. Uncertainty in the overall regional economy lends for conservative and cautious budgeting. During the 2019-2020 Fiscal Year, certain expenditures are assumed to continue beyond the rate of inflation, such as health care insurance, liability insurance and funding of the City's MERS pension program. City staffing levels as always are continuously being reviewed to insure expenditures will meet revenues.

Concern for the current revenue streams will be maintained because of the uncertainty of State of Michigan shared contributions and property taxes and the elimination of the personal property tax.

Contacting the City's Management

This financial report is intended to provide our citizens, taxpayers, customers, and investors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report, or need additional information, we welcome you to contact the City's Administrative office located at 113 Main Street, Reading, Michigan 49274.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

City of Reading, Michigan
Statement of Net Position
June 30, 2019

	Primary Government			Component Unit
	Governmental Activities	Business-Type Activities	Total	
Assets				
Cash and equivalents	\$ 758,565	\$ 70,797	\$ 829,362	\$ 254,458
Restricted cash	-	460,888	460,888	-
Receivables	1,861	97,735	99,596	35,655
Internal balances	61,454	(61,454)	-	-
Due from other governments	62,559	-	62,559	-
Inventory	-	19,863	19,863	-
Investment in joint venture	190,202	-	190,202	-
Assets held for resale	37,846	-	37,846	426,243
Capital assets not being depreciated	55,674	20,550	76,224	-
Capital assets being depreciated, net	1,463,177	5,584,728	7,047,905	30,347
Total Assets	2,631,338	6,193,107	8,824,445	746,703
Deferred Outflows of Resources				
Pension related	34,688	-	34,688	-
Liabilities				
Accounts payable	87,256	5,143	92,399	3,895
Accrued liabilities	4,311	2,299	6,610	-
Accrued interest	-	27,625	27,625	-
Compensated absences	11,040	9,748	20,788	-
Net pension liability	88,817	-	88,817	-
Long-term liabilities:				
Due within 1 year	55,000	88,000	143,000	-
Due in more than 1 year	290,000	3,800,000	4,090,000	-
Total Liabilities	536,424	3,932,815	4,469,239	3,895
Deferred Inflows of Resources				
Pension related	12,501	-	12,501	-
Net Position				
Invested in capital assets, net of related debt	1,173,851	1,717,278	2,891,129	456,590
Restricted by state statute	1,165	-	1,165	-
Restricted for bond covenants	-	460,888	460,888	-
Unrestricted	942,085	82,126	1,024,211	286,218
Total Net Position	\$ 2,117,101	\$ 2,260,292	\$ 4,377,393	\$ 742,808

The accompanying notes are an integral part of these financial statements.

City of Reading, Michigan
Statement of Activities
Year Ended June 30, 2019

Functions/Programs	<u>Program Revenues</u>				Net (Expense) Revenue
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	
Primary Government					
Governmental Activities					
General government	\$ 255,205	\$ 51,815	\$ -	\$ -	\$ (203,390)
Public safety	89,308	-	-	-	(89,308)
Public works	22,535	-	-	-	(22,535)
Highways and streets	113,513	-	143,530	-	30,017
Recreation and culture	2,750	-	-	-	(2,750)
Community development	2,500	-	-	-	(2,500)
Debt service	9,420	-	-	-	(9,420)
Total Governmental Activities	<u>495,231</u>	<u>51,815</u>	<u>143,530</u>	<u>-</u>	<u>(299,886)</u>
Business-Type Activities					
Sewer	251,099	235,603	-	-	(15,496)
Water	317,744	338,507	-	-	20,763
Refuse	65,017	59,108	-	-	(5,909)
Total Business-Type Activities	<u>633,860</u>	<u>633,218</u>	<u>-</u>	<u>-</u>	<u>(642)</u>
Total Primary Government	<u>\$ 1,129,091</u>	<u>\$ 685,033</u>	<u>\$ 143,530</u>	<u>\$ -</u>	<u>\$ (300,528)</u>
Component Unit					
Tax Increment Finance Authority	<u>\$ 44,625</u>	<u>\$ 3,960</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (40,665)</u>

continued...

The accompanying notes are an integral part of these financial statements.

City of Reading, Michigan
Statement of Activities
Year Ended June 30, 2019

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>	<u>Component Unit</u>
Changes in Net Assets				
General Revenues and Transfers				
Net (expense) revenue	\$ (299,886)	\$ (642)	\$ (300,528)	\$ (40,665)
General revenues:				
Property taxes	162,959	-	162,959	128,424
State shared revenue	137,730	-	137,730	-
Interest and other	40,235	5,726	45,961	22,798
Transfers (net)	15,961	(15,961)	-	-
Total General Revenues and Transfers	<u>356,885</u>	<u>(10,235)</u>	<u>346,650</u>	<u>151,222</u>
Change in Net Position	56,999	(10,877)	46,122	110,557
Net Position, Beginning of Year	<u>2,060,102</u>	<u>2,271,169</u>	<u>4,331,271</u>	<u>632,251</u>
Net Position, End of Year	<u>\$ 2,117,101</u>	<u>\$ 2,260,292</u>	<u>\$ 4,377,393</u>	<u>\$ 742,808</u>

The accompanying notes are an integral part of these financial statements.

FUND FINANCIAL STATEMENTS

City of Reading, Michigan
Balance Sheet
Governmental Funds
June 30, 2019

	<u>General</u>	<u>Capital Improvement</u>	<u>Major Street</u>	<u>Nonmajor Fund Local Street</u>	<u>Total Governmental Funds</u>
Assets					
Cash and equivalents	\$ 524,400	\$ 89,666	\$ 89,448	\$ 8,521	\$ 712,035
Other receivables	1,861	-	-	-	1,861
Due from other governments	40,204	-	17,156	5,199	62,559
Total Assets	<u>\$ 566,465</u>	<u>\$ 89,666</u>	<u>\$ 106,604</u>	<u>\$ 13,720</u>	<u>\$ 776,455</u>
Liabilities and Fund Balances					
Liabilities					
Accounts payable	\$ 5,495	\$ 80,017	\$ -	\$ -	\$ 85,512
Accrued liabilities	3,372	-	762	58	4,192
Total Liabilities	<u>8,867</u>	<u>80,017</u>	<u>762</u>	<u>58</u>	<u>89,704</u>
Fund Balances					
Restricted	1,165	9,649	105,842	13,662	130,318
Unassigned	556,433	-	-	-	556,433
Total Fund Balances	<u>557,598</u>	<u>9,649</u>	<u>105,842</u>	<u>13,662</u>	<u>686,751</u>
Total Liabilities and Fund Balances	<u>\$ 566,465</u>	<u>\$ 89,666</u>	<u>\$ 106,604</u>	<u>\$ 13,720</u>	<u>\$ 776,455</u>

The accompanying notes are an integral part of these financial statements.

City of Reading, Michigan
 Reconciliation of Governmental Funds Balance Sheet
 to the Statement of Net Position
 June 30, 2019

Governmental Fund Balance \$ 686,751

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.

Add - assets held for resale	37,846
Add - capital assets not being depreciated	55,674
Add - capital assets being depreciated, net	1,463,177

Internal Service Funds are also included as governmental activities to the extent of activity occurring between governmental funds and the Internal Service Fund

Assets:

Cash	\$ 46,530	
Payables	(3,068)	
Internal balance	61,454	104,916

Certain assets that are not financial resources of funds are reported in governmental activities.

Add - investment in joint venture	190,202
-----------------------------------	---------

The net pension liability is not due and payable in the current period; therefore the liability and related deferred inflows/outflows are not reported in the funds:

Deferred outflows - pension related	34,688
Deferred inflows - pension related	(12,501)
Net pension liability	(88,817)

Certain liabilities are not due and payable in the current period and therefore are not reported in the funds.

Deduct - Long-term debt	(345,000)
Deduct - compensated absences and other benefits	(9,835)

Net Position of Governmental Activities \$ 2,117,101

The accompanying notes are an integral part of these financial statements.

City of Reading, Michigan
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
Year Ended June 30, 2019

	General	Capital Improvement	Major Street	Nonmajor Fund Local Street	Total Governmental Funds
Revenues					
Property taxes	\$ 162,959	\$ -	\$ -	\$ -	\$ 162,959
Intergovernmental	137,730	-	113,650	29,880	281,260
Charges for services	51,815	-	-	-	51,815
Fines and forfeitures	225	-	-	-	225
Investment earnings	1,910	-	-	-	1,910
Contributions	30,173	-	-	-	30,173
Other	7,714	-	121	93	7,928
Total Revenues	<u>392,526</u>	<u>-</u>	<u>113,771</u>	<u>29,973</u>	<u>536,270</u>
Expenditures					
General government	219,523	-	-	-	219,523
Public safety	147,010	-	-	-	147,010
Public works	22,535	-	-	-	22,535
Recreation and culture	2,750	-	-	-	2,750
Community development	2,500	-	-	-	2,500
Capital outlay	-	78,861	-	-	78,861
Highways and streets	-	-	45,812	39,065	84,877
Debt service					
Principal	-	55,000	-	-	55,000
Interest and fiscal charges	-	9,420	-	-	9,420
Total Expenditures	<u>394,318</u>	<u>143,281</u>	<u>45,812</u>	<u>39,065</u>	<u>622,476</u>
Revenues Over (Under) Expenditures	<u>(1,792)</u>	<u>(143,281)</u>	<u>67,959</u>	<u>(9,092)</u>	<u>(86,206)</u>
Other Financing Sources (Uses)					
Transfers in	-	152,929	-	76,000	228,929
Transfers out	(73,409)	-	(64,275)	(75,284)	(212,968)
Total Other Financing Sources (Uses)	<u>(73,409)</u>	<u>152,929</u>	<u>(64,275)</u>	<u>716</u>	<u>15,961</u>
Net Change in Fund Balances	<u>(75,201)</u>	<u>9,648</u>	<u>3,684</u>	<u>(8,376)</u>	<u>(70,245)</u>
Fund Balances, Beginning of Year	<u>632,799</u>	<u>1</u>	<u>102,158</u>	<u>22,038</u>	<u>756,996</u>
Fund Balances, End of Year	<u>\$ 557,598</u>	<u>\$ 9,649</u>	<u>\$ 105,842</u>	<u>\$ 13,662</u>	<u>\$ 686,751</u>

The accompanying notes are an integral part of these financial statements.

City of Reading, Michigan
 Reconciliation of the Statement of Revenues, Expenditures, and
 Changes in Fund Balances of Governmental Funds
 to the Statement of Activities
 Year Ended June 30, 2019

Net Change in Fund Balances - Total Governmental Funds **\$ (70,245)**

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

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Deduct - depreciation expense	(41,412)
Add - capital asset purchases	78,861

Internal Service Funds are also included as governmental activities to the extent of activity occurring between governmental funds and the Internal Service Fund	(874)
--	-------

Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position	
Add - principal payments on long-term liabilities	55,000

Pension expense related to the change in long-term net pension asset that is not recognized in the fund financial statements.	(20,119)
---	----------

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

Add - increase of investment in joint venture	57,702
Deduct - increase in the accrual for compensated absences	<u>(1,914)</u>

Change in Net Position of Governmental Activities **\$ 56,999**

The accompanying notes are an integral part of these financial statements.

City of Reading, Michigan
Statement of Net Position
Proprietary Funds
June 30, 2019

	Business-Type Activities: Enterprise Funds				Governmental Activities - Internal Service Fund
	Sewer	Water	Refuse	Total	
Assets					
Current Assets					
Cash and equivalents	\$ 18,335	\$ 19,553	\$ 32,909	\$ 70,797	\$ 46,530
Restricted cash	163,100	297,788	-	460,888	-
Accounts receivable	37,685	48,854	11,196	97,735	-
Inventories	-	19,863	-	19,863	-
Total Current Assets	219,120	386,058	44,105	649,283	46,530
Noncurrent Assets					
Capital assets not being depreciated	20,500	50	-	20,550	-
Capital assets being depreciated, net	2,112,747	3,471,981	-	5,584,728	102,106
Total Noncurrent Assets	2,133,247	3,472,031	-	5,605,278	102,106
Total Assets	2,352,367	3,858,089	44,105	6,254,561	148,636
Liabilities					
Current Liabilities					
Accounts payable	3,260	1,883	-	5,143	1,744
Accrued liabilities	969	912	418	2,299	119
Accrued interest	14,582	13,043	-	27,625	-
Bonds payable	40,000	48,000	-	88,000	-
Total Current Liabilities	58,811	63,838	418	123,067	1,863
Noncurrent Liabilities					
Compensated absences	3,746	4,398	1,604	9,748	1,205
Bonds and notes payable	2,081,000	1,719,000	-	3,800,000	-
Total Noncurrent Liabilities	2,084,746	1,723,398	1,604	3,809,748	1,205
Total Liabilities	2,143,557	1,787,236	2,022	3,932,815	3,068
Net Position					
Invested in capital assets, net of related debt	12,247	1,705,031	-	1,717,278	102,106
Restricted for bond covenants	163,100	297,788	-	460,888	-
Unrestricted	33,463	68,034	42,083	143,580	43,462
Total Net Position	\$ 208,810	\$ 2,070,853	\$ 42,083	\$ 2,321,746	\$ 145,568

The accompanying notes are an integral part of these financial statements.

City of Reading, Michigan
Reconciliation of Enterprise Funds Statement of Net Position
to the Statement of Net Position of Business Activities
June 30, 2019

Net Position - Enterprise Funds \$ 2,321,746

Amounts reported for business-type activities in the statement of net position are different because:

An internal service fund is used by management to charge the costs of certain equipment usage to individual enterprise funds. The portion of the net position of the internal service fund attributable to these charges is included in business-type activities in the statement of net position.

Deduct - net position of business-type activities accounted for in the internal service fund (61,454)

Net Position of Business-Type Activities \$ 2,260,292

The accompanying notes are an integral part of these financial statements.

City of Reading, Michigan
Statement of Revenues, Expenses, and
Changes in Net Position
Proprietary Funds
Year Ended June 30, 2019

	<u>Business-Type Activities: Enterprise Funds</u>				<u>Governmental Activities - Internal Service Fund</u>
	<u>Sewer</u>	<u>Water</u>	<u>Refuse</u>	<u>Total</u>	
Operating Revenues					
Charges for services	\$ 235,937	\$ 342,882	\$ 59,108	\$ 637,927	\$ 68,343
Total Operating Revenues	<u>235,937</u>	<u>342,882</u>	<u>59,108</u>	<u>637,927</u>	<u>68,343</u>
Operating Expenses					
Operations and maintenance	98,290	129,117	65,018	292,425	54,494
Depreciation	67,133	111,061	-	178,194	15,605
Total Operating Expenses	<u>165,423</u>	<u>240,178</u>	<u>65,018</u>	<u>470,619</u>	<u>70,099</u>
Operating Income (Loss)	<u>70,514</u>	<u>102,704</u>	<u>(5,910)</u>	<u>167,308</u>	<u>(1,756)</u>
Nonoperating Revenues (Expenses)					
Investment income	156	864	-	1,020	411
Interest expense	(85,479)	(77,294)	-	(162,773)	-
Other	-	-	-	-	-
Total Nonoperating Revenues (Expenses)	<u>(85,323)</u>	<u>(76,430)</u>	<u>-</u>	<u>(161,753)</u>	<u>411</u>
Income Before Operating Transfers	<u>(14,809)</u>	<u>26,274</u>	<u>(5,910)</u>	<u>5,555</u>	<u>(1,345)</u>
Operating Transfers	<u>-</u>	<u>(15,961)</u>	<u>-</u>	<u>(15,961)</u>	<u>-</u>
Change in Net Position	<u>(14,809)</u>	<u>10,313</u>	<u>(5,910)</u>	<u>(10,406)</u>	<u>(1,345)</u>
Net Position, Beginning of Year	<u>223,619</u>	<u>2,060,540</u>	<u>47,993</u>	<u>2,332,152</u>	<u>146,913</u>
Net Position, End of Year	<u>\$ 208,810</u>	<u>\$ 2,070,853</u>	<u>\$ 42,083</u>	<u>\$ 2,321,746</u>	<u>\$ 145,568</u>

The accompanying notes are an integral part of these financial statements.

City of Reading, Michigan
Reconciliation of the Statement of Revenues, Expenses, and
Changes in Fund Net Position of Proprietary Funds
to the Statement of Activities
Year Ended June 30, 2019

Net Change in Net Position - Total Enterprise Funds \$ (10,406)

Amounts reported for business-type activities in the statement of net position are different because:

An internal service fund is used by management to charge the costs of certain equipment usage to individual enterprise funds. The net revenue (expense) attributable to those funds is reported with business-type activities.

Deduct - net operating loss from business-type activities in the internal service fund (471)

Change in Net Position of Business-Type Activities \$ (10,877)

The accompanying notes are an integral part of these financial statements.

City of Reading, Michigan
Statement of Cash Flows
Proprietary Funds
Year Ended June 30, 2019

	<u>Business-Type Activities: Enterprise Funds</u>				<u>Governmental</u>
	<u>Sewer</u>	<u>Water</u>	<u>Refuse</u>	<u>Total</u>	<u>Activities - Internal Service Fund</u>
Cash Flows from Operating Activities					
Cash received from customers and others	\$ 239,500	\$ 348,744	\$ 59,857	\$ 648,101	\$ 68,343
Cash payments to suppliers for goods and services	(49,099)	(71,030)	(17,972)	(138,101)	(54,176)
Cash payments to employees	(46,148)	(60,787)	(46,707)	(153,642)	-
Net Cash Provided By (Used In) Operating Activities	<u>144,253</u>	<u>216,927</u>	<u>(4,822)</u>	<u>356,358</u>	<u>14,167</u>
Cash Flows from Investing Activities					
Investment income	156	864	-	1,020	411
Net Cash Provided By (Used In) Investing Activities	<u>156</u>	<u>864</u>	<u>-</u>	<u>1,020</u>	<u>411</u>
Cash Flows From Capital and Related Financing Activities					
Purchase of capital assets	(5,692)	(41,630)	-	(47,322)	(22,132)
Transfers	-	(15,961)	-	(15,961)	-
Bond principal payments	(39,000)	(60,000)	-	(99,000)	-
Bond interest payments	(88,295)	(79,980)	-	(168,275)	-
Net Cash Provided By (Used In) Capital And Related Financing Activities	<u>(132,987)</u>	<u>(197,571)</u>	<u>-</u>	<u>(330,558)</u>	<u>(22,132)</u>
Net Change in Cash	11,422	20,220	(4,822)	26,820	(7,554)
Cash and Equivalents, Beginning of Year	<u>170,013</u>	<u>297,121</u>	<u>37,731</u>	<u>504,865</u>	<u>54,084</u>
Cash and Equivalents, End of Year	<u>\$ 181,435</u>	<u>\$ 317,341</u>	<u>\$ 32,909</u>	<u>\$ 531,685</u>	<u>\$ 46,530</u>
Reconciliation of Operating Income (Loss) To Net Cash Provided By (Used In) Operating Activities					
Operating income (loss)	\$ 70,514	\$ 102,704	\$ (5,910)	\$ 167,308	\$ (1,756)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:					
Depreciation	67,133	111,061	-	178,194	15,605
Changes in assets and liabilities:					
Accounts receivable - customers	3,563	5,862	749	10,174	-
Accounts payable	2,536	96	-	2,632	341
Accrued and other liabilities	248	(503)	151	(104)	(54)
Inventory	-	(2,579)	-	(2,579)	-
Compensated absences payable	259	286	188	733	31
Net Cash Provided By (Used In) Operating Activities	<u>\$ 144,253</u>	<u>\$ 216,927</u>	<u>\$ (4,822)</u>	<u>\$ 356,358</u>	<u>\$ 14,167</u>

The accompanying notes are an integral part of these financial statements.

NOTES TO FINANCIAL STATEMENTS

City of Reading, Michigan
Notes to Financial Statements
Year Ended June 30, 2019

Note 1: Summary of Significant Accounting Policies

The accounting policies of the City of Reading, Michigan conform to generally accepted accounting principles as applicable to governments. The following is a summary of the more significant policies:

Reporting Entity

The City of Reading, Michigan (the "City") is a municipal corporation governed by a five-member council and by an appointed City Manager. The accompanying financial statements present the City and its component unit, an entity for which the City is considered to be financially accountable.

Discretely Presented Component Units

The City's Tax Increment Financing Authority (TIFA) (the "Authority") is organized and incorporated as authorized by the Tax Increment Authority Act, P.A. 450 of 1980. The Authority is a component unit of the City of Reading, Michigan governed by a separate board appointed by the City Council, created to promote economic growth in the City of Reading, Michigan.

Economic Dependency

The City is economically dependent on the State of Michigan for state shared revenues. Absent allocations from the State, the City's operating results would report expenditures exceeding revenues in its General, Major Street, and Local Street Funds.

Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component unit. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

City of Reading, Michigan
Notes to Financial Statements
Year Ended June 30, 2019

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements, proprietary fund statements, and fiduciary fund statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement* focus and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period or within one year for expenditure-driven grants. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. Intergovernmental revenues are accrued when earned. All other revenue items are considered to be measurable and available only when cash is received by the government.

The City reports the following major governmental funds:

The *General Fund* is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The *Capital Improvement fund* accounts for the receipt of bond proceeds and expenditures for the purpose of capital improvements of the City.

The *Major Streets Fund* accounts for the use of motor fuel taxes which are earmarked by State statute for major street and highway purposes.

The City reports the following nonmajor governmental funds:

The *Local Streets Fund* accounts for the use of motor fuel taxes which are earmarked by State statute for local street and highway purposes.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type and enterprise funds, subject to this same limitation. The City has elected not to follow subsequent private-sector guidance.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the City's water and sewer functions and various other functions of the City. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

City of Reading, Michigan
Notes to Financial Statements
Year Ended June 30, 2019

Proprietary funds distinguish *operating* revenues and expenses from *non-operating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise funds and of the government's internal service fund are charges to customers for sales and services. The enterprise funds also recognize as operating revenues the portion of tap fees intended to recover the cost of connecting new customers to the water and sewer system. Operating expenses for enterprise funds and internal service funds include the cost of sales and services, administrative expenses, and depreciation of capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses. The City maintains two proprietary fund types, enterprise and internal service funds.

Enterprise Funds are used to account for business-like activities provided to the general public. These activities are financed primarily by user charges and the measurement of financial activity focuses on net income measurement similar to the private sector. The City reports the following major enterprise funds:

The *Sewer Fund* accounts for the activities of the City of Reading's sewage collection system.

The *Water Fund* accounts for the activities of the City of Reading's water distribution and treatment system.

The *Refuse Fund* accounts for the operation and maintenance of the City of Reading's trash collection system.

This City's *Internal Service Equipment Fund* accounts for shared machinery and equipment purchases and maintenance provided to other departments of the City on a cost reimbursement basis. This fund accounted for 35% and 65% of its activity with business-type and governmental activities, respectively. As a result, the fund balance is reported in governmental activities and revenues over expenses are allocated on a pro rata basis, based on the aforementioned percentages, to each of the activities. Transfers relating to the respective activity type are not allocated but rather increase/decrease the pro rata share of revenues over expenses. Business-type and governmental activities reported net loss of (\$874) and (\$471) respectively, for a total net loss of (\$1,345). Therefore, the Internal Service Fund's fund balance in the total amount of \$145,568 is reported in the business-type and governmental activities in the amounts of (\$61,454) and \$207,022, respectively.

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

Assets, Liability, and Equity

Deposits and investments

The City's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

State statutes authorize the City to deposit in the accounts of federally insured banks, credit unions and savings and loan associations and to invest in obligations of the U.S. Treasury, certain commercial paper, repurchase agreements, bankers' acceptances, and mutual funds composed of otherwise legal investments. At June 30, 2019, cash consisted of balances in savings and checking accounts.

Interfund receivables and payables

Outstanding balances between funds are reported as "due to/from other funds." Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as "interfund loan payables/receivables." Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances." All trade and property tax receivables are reported at their net realizable values.

City of Reading, Michigan
Notes to Financial Statements
Year Ended June 30, 2019

Inventories

Inventories are comprised of water and sewer supplies that are valued at the lower of cost or market.

Capital assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items constructed or acquired after 1980), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

The City elected under Governmental Accounting Standards Board Statement No. 34 not to report infrastructure retrospectively in the year of implementation. Newly acquired or constructed infrastructure is capitalized and depreciated over their useful lives.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities, if any, is included as part of the capitalized value of the assets constructed. No such interest expense was incurred during the current fiscal year. Capital assets of the primary government are depreciated using the straight-line method over the following estimated useful lives:

	<u>Years</u>
Buildings and improvements	20-50
Furniture and equipment	5-15
System infrastructure	20-50
Vehicles	4-10

Compensated Absences

Eligible employees may earn ninety-six hours of sick time annually. However, only eighty hours can be accumulated and carried over to the next year. Employees are paid 1/3 of earned sick leave exceeding eighty hours at the end of the fiscal year. Upon death or retirement, accumulated sick days are paid at the employee's prevailing rate of pay. Due to the uncertainty of maturity of this liability, the City has accrued the estimated amount of accumulated sick pay in noncurrent liabilities in the statement of net position.

Long-term obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net position. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

City of Reading, Michigan
Notes to Financial Statements
Year Ended June 30, 2019

Fund equity

The City follows Governmental Accounting Standards Board (GASB) Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, in reporting fund balances.

Non-spendable fund balance includes amounts that are not in a spendable form; examples include inventory and prepaid expense.

Restricted fund balances are those amounts that can only be spent for specific purposes stipulated by external resource providers or enabling legislation.

Committed fund balance includes amounts that can be used only for specific purposes determined by formal action of the City's Board in the form of a resolution (the City's highest level of decision-making).

Assigned fund balance represents amounts intended to be used for specific purposes. The intent is expressed by the City's Board. Residual amounts in governmental funds other than the general fund are assigned.

Unassigned fund balance represents the remaining fund balance after non-spendable, restriction, commitments, and assignments. Only the general fund reports this classification.

The City's policy is to reduce unrestricted fund balances in the order of committed, assigned, and then unassigned to the extent expenditures are incurred with respect to those classifications.

Use of estimates

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

Subsequent events

In preparing these financial statements, we have evaluated, for potential recognition or disclosure, significant events or transactions that occurred during the period subsequent to June 30, 2019, the most recent balance sheet presented herein, through the auditors' report date, the date these financial statements were available to be issued. No such significant events or transactions were identified.

Stewardship, Compliance and Accountability

Budgetary information

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the general and special revenue funds. All annual appropriations lapse at fiscal year end.

The City Manager must present the proposed budget to the City Council for review. The Council holds public hearings and a final budget must be prepared and adopted no later than July 1.

The appropriated budget is prepared by fund and department. The City Manager may make transfers of appropriations within a department. Transfers of appropriations between departments require the approval of the City Council. The legal level of budgetary control is the functional level.

City of Reading, Michigan
Notes to Financial Statements
Year Ended June 30, 2019

Property Taxes

The City's property taxes are levied each July 1 on the taxable valuation of property located in the City as of the preceding December 31, the lien date. Property taxes are collected without penalty and interest through August 31; as of March 1 of the succeeding year, unpaid real property taxes are sold to and collected by Hillsdale County. The County remits all of the City's uncollected delinquent real property tax to the City by June 30. Uncollected personal property taxes are not accrued because the date of collection is uncertain. The 2018 taxable valuation of the City totaled \$16,467,722, on which ad valorem taxes levied consisted of 12.5302 mills for the City's operating purposes. These amounts are recognized in the General Fund financial statements as tax revenue.

The City entered into property tax abatement agreements with local businesses under the Plant Rehabilitation and Industrial Development Districts Act, (known as the Industrial Facilities Exemption) PA 198 of 1974, as amended. The IFT on a new plant and non-industrial property is computed at 50% of the property tax bill for new property. For rehabilitation purposes, the taxable values can be frozen. For the year ended June 30, 2019, the City's property tax revenue for general operations was reduced by \$7,542. There are no provisions to recapture taxes; however, the abatement may be eliminated if taxes are not paid timely.

Note 2:

Deposits and Investments

Deposit and Investment Risk

Interest Rate Risk

State law limits the allowable investments and the maturities of some of the allowable investments as identified in the summary of significant accounting policies. The City's investment policy does not have specific limits in excess of state law on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk

State law limits investments to specific government securities, certificates of deposits and bank accounts with qualified financial institutions, commercial paper with specific maximum maturities and ratings when purchased, bankers' acceptances of specific financial institutions, qualified mutual funds and qualified external investment pools. The City's investment policy does not have specific limits in excess of state law on investment credit risk.

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned. State law does not require and the City does not have a policy for deposit custodial credit risk. As of year-end, \$792,930 of the City's bank balance of \$1,546,885 was exposed to custodial credit risk because it was uninsured and uncollateralized. There are no foreign currency risks.

Fair value investments

The City categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

The City did not have any investments subject to fair value measurement as of June 30, 2019.

City of Reading, Michigan
Notes to Financial Statements
Year Ended June 30, 2019

Note 3: Interfund Transfers

Transfers are used to: (1) move revenues from the fund that is required to collect them to the fund that is required or allowed to expend them; (2) move receipts restricted to or allowed for debt service from the funds collecting the receipts to the debt service fund as debt service payments become due; and (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations. For the year ended June 30, 2019, interfund transfers consisted of the following:

	Transfers In	Transfers Out
Governmental funds:		
General	\$ -	\$ 73,409
Capital Improvement	152,929	-
Major Street	-	64,275
Local Street	76,000	75,284
Proprietary Funds:		
Water	-	15,961

Note 4: Capital Assets

Capital asset activity for the year ended June 30, 2019, was as follows:

	Beginning Balance	Additions	Disposals	Ending Balance
<u>Governmental Activities</u>				
Capital assets, not being depreciated				
Land	\$ 55,674	\$ -	\$ -	\$ 55,674
Total capital assets not being depreciated	55,674	-	-	55,674
Capital assets, being depreciated				
Buildings and improvements	185,419	-	-	185,419
Infrastructure	1,427,861	78,861	-	1,506,722
Machinery and equipment	200,593	-	-	200,593
Machinery and equipment – ISF	602,703	22,132	-	624,835
Total capital assets being depreciated	2,416,576	100,993	-	2,517,569
Less accumulated depreciation for:				
Buildings and improvements	(151,008)	(4,399)	-	(155,407)
Infrastructure	(195,166)	(29,380)	-	(224,546)
Machinery and equipment	(144,077)	(7,633)	-	(151,710)
Machinery and equipment – ISF	(507,124)	(15,605)	-	(522,729)
Total accumulated depreciation	(997,375)	(57,017)	-	(1,054,392)
Total capital assets being depreciated, net	1,419,201	43,976	-	1,463,177
Capital assets, net	\$ 1,474,875	\$ 43,976	\$ -	\$ 1,518,851

City of Reading, Michigan
Notes to Financial Statements
Year Ended June 30, 2019

	Beginning Balance	Additions	Disposals	Ending Balance
<u>Business-type Activities</u>				
Capital assets, not being depreciated				
Land	\$ 20,550	\$ -	\$ -	\$ 20,550
Capital assets, being depreciated				
Water and sewer distribution system	8,804,678	24,006		8,828,684
Equipment	85,851	23,316	-	109,167
Total capital assets being depreciated	8,890,529	47,322	-	8,937,851
Less accumulated depreciation for:				
Water and sewer distribution system	(3,092,191)	(176,395)	-	(3,268,586)
Equipment	(82,738)	(1,799)	-	(84,537)
Total accumulated depreciation	(3,174,929)	(178,194)	-	(3,353,123)
Total capital assets being depreciated, net	5,715,600	(130,872)	-	5,584,728
Capital assets, net	\$ 5,736,150	\$ (130,872)	\$ -	\$ 5,605,278
<u>Component Unit</u>				
Capital assets, being depreciated				
Equipment	\$ 35,015	\$ -	\$ -	\$ 35,015
Less accumulated depreciation for:				
Equipment	(2,334)	(2,334)	-	(4,668)
Capital assets, net	\$ 32,681	\$ (2,334)	\$ -	\$ 30,347

Depreciation expense charged to functions/programs of the primary government as follows:

Governmental activities:	
General government	\$ 12,009
Highways and streets	29,403
Capital assets held by the government's internal services funds (ISF) are charged to the various functions based on their usage of the assets	15,605
Total depreciation expense – governmental activities	\$ 57,017
Business-type activities:	
Water	\$ 111,061
Sewer	67,133
Total depreciation expense – business-type activities	\$ 178,194

City of Reading, Michigan
Notes to Financial Statements
Year Ended June 30, 2019

Note 5: Long-Term Debt

Long-term debt at June 30, 2019, is comprised of the following:

Governmental activities

The City issued 2015 General Obligation Capital Improvement Bonds in the amount of \$550,000 in June 2016. The bonds are due in annual installments ranging from \$50,000 to \$60,000. Interest is paid bi-annually on May 1 and November 1 of each year at a rate ranging from 0.75% to 2.80%. The final payment is due on May 1, 2025. The outstanding balance at June 30, 2019 was \$345,000.

The City also issues bonds where the government pledges income derived from the acquired or constructed assets to pay debt service.

Business-type activities

2008 water system revenue bonds, bearing interest at 4.375%. Principal payments due annually in amounts from \$12,000 to \$70,000, maturing in 2047:	\$	1,007,000
2006 sewer system revenue bonds, bearing interest at 4.375%. Principal payments due annually in amounts from \$6,000 to \$29,000, maturing in 2047:		478,000
2006 sewer system revenue bonds, bearing interest at 4.250%. Principal payments due annually in amounts from \$22,000 to \$98,000, maturing in 2047:		1,643,000
1995 water system revenue bonds, bearing interest at 4.50%. Principal payments due annually in amounts from \$20,000 to \$61,000, maturing in 2036:		<u>760,000</u>
	<u>\$</u>	<u>3,888,000</u>

Revenue bond debt service requirements to maturity are as follows:

Year Ending <u>June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2020	\$ 143,000	\$ 174,399	\$ 317,399
2021	149,000	160,339	309,339
2022	153,000	154,949	307,949
2023	162,000	158,320	320,320
2024	166,000	152,336	318,336
2025-2029	668,000	671,891	1,339,891
2030-2034	753,000	523,519	1,276,519
2035-2039	732,000	354,845	1,086,845
2040-2044	752,000	204,461	956,461
2045-2048	<u>555,000</u>	<u>39,098</u>	<u>594,098</u>
	<u>\$ 4,233,000</u>	<u>\$ 2,594,157</u>	<u>\$ 6,827,157</u>

City of Reading, Michigan
Notes to Financial Statements
Year Ended June 30, 2019

Changes in Long-term Liabilities

	<u>Beginning Balances</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balances</u>	<u>Due Within One Year</u>
Governmental activities:					
General obligation bonds	\$ 400,000	\$ -	\$ 55,000	\$ 345,000	\$ 55,000
Compensated absences	9,095	1,945	-	11,040	-
	<u>\$ 409,095</u>	<u>\$ 1,945</u>	<u>\$ 55,000</u>	<u>\$ 356,040</u>	<u>\$ 55,000</u>
Business-type activities:					
Revenue bonds	\$ 3,987,000	\$ -	\$ 99,000	\$ 3,888,000	\$ 88,000
Compensated absences	9,015	733	-	9,748	-
	<u>\$ 3,996,015</u>	<u>\$ 733</u>	<u>\$ 99,000</u>	<u>\$ 3,897,748</u>	<u>\$ 88,000</u>

For the governmental activities, compensated absences are generally liquidated by the general fund.

Note 6: Joint Venture

The City participates with Reading Township in the Reading Community Fire Department, a joint venture pursuant to an agreement entered into between the two parties. A joint venture is based on the related contractual agreement by the two parties. The Board of Directors is comprised of two members each of the respective municipalities.

The City's investment in the joint venture is \$190,202 as of June 30, 2019. Copies of the Department's financial statements may be obtained at the Reading Community Fire Department in Reading, Michigan.

Note 7: 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. During the year ended June 30, 2019, the City carried insurance through various commercial carriers, to cover all risks of losses. The City has had no settled claims resulting from these risks that exceeded its commercial coverage in any of the past three fiscal years.

Note 8: Defined Benefit Pension Plan

General Plan Information

Plan Description

The employer's defined benefit pension plan provides certain retirement, disability and death benefits to plan members and beneficiaries. The employer participates in the Municipal Employees Retirement System (MERS) of Michigan. MERS is an agent multiple employer, statewide public employee pension plan established by the Michigan Legislature under Public Act 135 of 1945 and administered by a nine-member Retirement Board. MERS issues a publicly available financial report that includes financial statements and required supplementary information. This report may be obtained accessing the MERS website at www.mersofmich.com.

City of Reading, Michigan
Notes to Financial Statements
Year Ended June 30, 2019

Benefits Provided

The Plan's provisions and benefits in effect at June 30, 2019, are summarized as follows:

	2018 Valuation
Benefit Multiplier:	1.30% Multiplier (no max)
Normal Retirement Age:	60
Vesting:	10 years
Early Retirement (Unreduced):	-
Early Retirement (Reduced):	50/25, 55/15
Final Average Compensation:	5 years
Employee Contributions:	0%
Act 88:	No

Employees Covered

Inactive employees or beneficiaries currently receiving benefits	4
Inactive employees entitled to but not yet receiving benefits	4
Active employees	4
	12

Contributions

The employer is required to contribute amounts at least equal to the actuarially determined rate, as established by the MERS Retirement Board. The actuarially determined rate is the estimated amount necessary to finance the cost of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The City is required to contribute the actuarially determined rate. For year ended June 30, 2019 the City's average contribution rate was 7.41% of annual payroll.

Net Pension Liability

The employer's Net Pension Liability was measured as of December 31, 2018, and the total pension liability used to calculate the Net Pension Liability was determined by an annual actuarial valuation as of that date.

Actuarial assumptions – The total pension liability in the December 31, 2018 annual actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation: 2.5%

Salary Increases: 3.75% in the long-term

Investment rate of return: 7.75%, net of investment expense including inflation

Although no specific price inflation assumptions are needed for the valuation, the 2.5% long-term wage inflation assumption would be consistent with a price inflation of 3% - 4%.

Mortality rates used were based on the RP-2014 Group Annuity Mortality Table of a 50% Male and 50% Female blend.

City of Reading, Michigan
Notes to Financial Statements
Year Ended June 30, 2019

The actuarial assumptions used in valuation were based on the results of the most recent actuarial experience study in 2009 – 2013.

The long-term expected rate of return on pension plan investments was determined using a model method in which the best-estimate ranges of expected future real rates of return (expected returns, net of investment and administrative expenses and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Gross Return
Global Equity	55.50%	4.80%
Global Fixed Income	18.50%	0.70%
Real Assets	13.50%	1.31%
Diversifying Strategies	12.50%	0.94%

Discount Rate –The discount rate used to measure the total pension liability is 8.0% for 2018. The projection of cash flows used to determine the discount rate assumes that employer and employee contributions will be made at the rates agreed upon for employees and the actuarially determined rates for employers. Based on these assumptions, the pension plan’s fiduciary net position was projected to be available to pay all projected future benefit payments of current active and inactive employees. 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.

Changes in Net Pension Liability - The following table provides the calculation of the change in net pension liability:

	Increase (Decrease)		
	Liability	Fiduciary Net	Liability (Asset)
	(a)	(b)	(a) - (b)
Balances at 12/31/17	\$ 448,840	\$ 394,063	\$ 54,777
Changes for the Year			
Service cost	7,942	-	7,942
Interest on total pension liability	35,557	-	35,557
Changes in benefits	-	-	-
Difference between expected and actual experience	(12,510)	-	(12,510)
Changes in assumptions	-	-	-
Employer contributions	-	13,297	(13,297)
Employee contributions	-	-	-
Net investment income	-	(15,580)	15,580
Benefit payments, including employee refunds	(16,693)	(16,693)	-
Administrative expense	-	(768)	768
Other changes	-	-	-
Net changes	14,296	(19,744)	34,040
Balances as of 12/31/18	<u>\$ 463,136</u>	<u>\$ 374,319</u>	<u>\$ 88,817</u>

City of Reading, Michigan
Notes to Financial Statements
Year Ended June 30, 2019

Sensitivity of the Net Pension Liability to Changes in the Discount Rate – The following presents the Net Pension Liability of the employer, calculated using the discount rate of 8.00%, as well as what the employer’s Net Pension Liability would be using a discount rate that is 1-percentage point lower (7.00%) or 1% higher (9.00%) than the current rate.

	1% Decrease 7.00%	Current Discount Rate 8.00%	1% Increase 9.00%
Net Pension Liability Change	\$ 56,842	\$ - 0 -	\$ (48,345)

Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions – For the year ended June 30, 2019 the City recognized pension expense of \$67,293. The City reported deferred outflows and inflows of resources related to the pension at June 30, 2019 from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences in experience	\$ 70	\$ 12,501
Differences in assumptions		-
Net difference between projected and actual investment returns	28,635	
Pension contributions subsequent to measurement date	5,983	-
	\$ 34,688	\$ 12,501

The amount reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2020. Other amounts reported as deferred inflows and outflows of resources will be recognized in pension expense as follows:

Year Ended June 30	
2020	\$ 5,421
2021	(1,123)
2022	2,520
2023	9,386
	\$ 16,204

REQUIRED SUPPLEMENTARY INFORMATION

City of Reading, Michigan
 Required Supplemental Information
 General Fund
 Budgetary Comparison Schedule
 Year Ended June 30, 2019

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Over (Under) Budget</u>
Revenues				
Property taxes	\$ 171,589	\$ 171,589	\$ 162,959	\$ (8,630)
Intergovernmental	110,850	110,850	137,730	26,880
Charges for services	32,700	32,700	51,815	19,115
Fines and forfeitures	350	350	225	(125)
Investment earnings	1,500	1,500	1,910	410
Contributions	9,800	9,800	30,173	20,373
Other	3,950	3,950	7,714	3,764
Total Revenues	<u>330,739</u>	<u>330,739</u>	<u>392,526</u>	<u>61,787</u>
Expenditures				
Current				
General government	251,510	278,272	219,523	(58,749)
Public safety	187,740	212,740	147,010	(65,730)
Public works	30,000	30,000	22,535	(7,465)
Recreation and culture	9,000	9,000	2,750	(6,250)
Community development	2,500	2,500	2,500	-
Total Expenditures	<u>480,750</u>	<u>532,512</u>	<u>394,318</u>	<u>(138,194)</u>
Revenues Over (Under) Expenditures	(150,011)	(201,773)	(1,792)	199,981
Other Financing Sources (Uses)				
Transfers out	(60,000)	(79,000)	(73,409)	(5,591)
Total Other Financing Sources (Uses)	<u>(60,000)</u>	<u>(79,000)</u>	<u>(73,409)</u>	<u>(5,591)</u>
Net Change in Fund Balance	(210,011)	(280,773)	(75,201)	-
Fund Balance, Beginning of Year	<u>632,799</u>	<u>632,799</u>	<u>632,799</u>	<u>-</u>
Fund Balance, End of Year	<u>\$ 422,788</u>	<u>\$ 352,026</u>	<u>\$ 557,598</u>	<u>\$ -</u>

City of Reading, Michigan
Required Supplemental Information
Major Street Fund
Budgetary Comparison Schedule
Year Ended June 30, 2019

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Over (Under) Budget</u>
Revenues				
Intergovernmental	\$ 60,000	\$ 60,000	\$ 113,650	\$ 53,650
Other	-	-	121	121
Total Revenues	<u>60,000</u>	<u>60,000</u>	<u>113,771</u>	<u>53,771</u>
Expenditures				
Highways and streets	62,458	62,458	45,812	(16,646)
Total Expenditures	<u>62,458</u>	<u>62,458</u>	<u>45,812</u>	<u>(16,646)</u>
Revenues Over (Under) Expenditures	<u>(2,458)</u>	<u>(2,458)</u>	<u>67,959</u>	<u>70,417</u>
Other Financing Sources (Uses)				
Transfers out	(49,000)	(64,500)	(64,275)	225
Total Other Financing Sources (Uses)	<u>(49,000)</u>	<u>(64,500)</u>	<u>(64,275)</u>	<u>225</u>
Net Change in Fund Balance	(51,458)	(66,958)	3,684	-
Fund Balance, Beginning of Year	<u>102,158</u>	<u>102,158</u>	<u>102,158</u>	<u>-</u>
Fund Balance, End of Year	<u>\$ 50,700</u>	<u>\$ 35,200</u>	<u>\$ 105,842</u>	<u>\$ -</u>

City of Reading, Michigan
Required Supplemental Information
Schedule of Changes in the Net Pension Liability and Related Ratios
Plan Year December 31

	2018	2017	2016	2015
Total Pension Liability				
Service cost	\$ 7,942	\$ 9,021	\$ 8,298	\$ 5,309
Interest	35,557	33,994	33,057	27,814
Changes of benefit terms	-	-	-	-
Difference between expected and actual experience	(12,510)	(6,239)	210	26,027
Changes of assumptions	-	-	-	13,845
Benefit payments including employee refunds	(16,693)	(16,693)	(16,693)	(5,175)
Other	-	-	(1,001)	-
Net Change in Total Pension Liability	<u>14,296</u>	<u>20,083</u>	<u>23,871</u>	<u>67,820</u>
Total Pension Liability - beginning	<u>448,840</u>	<u>428,757</u>	<u>404,887</u>	<u>337,067</u>
Total Pension Liability - ending (a)	<u><u>463,136</u></u>	<u><u>448,840</u></u>	<u><u>428,758</u></u>	<u><u>404,887</u></u>
Plan Fiduciary Net Position				
Contributions-employer	13,297	11,248	7,739	6,253
Contributions-employee	-	-	-	-
Net investment income	(15,580)	46,750	36,925	(5,069)
Benefit payments including employee refunds	(16,693)	(16,693)	(16,693)	(5,175)
Administrative expense	(768)	(740)	(728)	(732)
Net Change in Plan Fiduciary Net Position	<u>(19,744)</u>	<u>40,565</u>	<u>27,243</u>	<u>(4,723)</u>
Plan Fiduciary Net Position - beginning	<u>394,063</u>	<u>353,498</u>	<u>326,255</u>	<u>330,978</u>
Plan Fiduciary Net Position - ending (b)	<u><u>374,319</u></u>	<u><u>394,063</u></u>	<u><u>353,498</u></u>	<u><u>326,255</u></u>
Employer Net Pension (Asset) Liability - ending (a)-(b)	<u><u>\$ 88,817</u></u>	<u><u>\$ 54,777</u></u>	<u><u>\$ 75,260</u></u>	<u><u>\$ 78,632</u></u>
Plan Fiduciary Net Position as a percentage of the Total Pension (Asset) Liability	81%	88%	82%	81%
Covered Employee Payroll	172,652	196,533	189,455	121,496
Employer's Net Pension Liability as a percentage of covered employee payroll	51%	28%	40%	65%

City of Reading, Michigan
Required Supplementary Information
Pension Plan Schedule of Employer Contributions
Year Ended June 30, 2019

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>
Actuarial determined contributions	\$ 12,678	\$ 11,248	\$ 7,739	\$ 6,254
Contributions in relation to the actuarially determined contribution	<u>12,678</u>	<u>11,248</u>	<u>7,739</u>	<u>6,949</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (695)</u>
Covered employee payroll	172,652	196,533	189,455	121,496
Contributions as a percentage of covered employee payroll	7.3%	5.7%	4.1%	5.7%

Notes to Schedule

Actuarial cost method	Entry Age
Amortization method	Level percentage of payroll, open
Remaining amortization period	22 years
Asset valuation method	5 year smoothed
Inflation	2.5%
Salary increases	3.8%
Investment rate of return	7.8%
Retirement age	60 years
Mortality	50% Female/50% Male RP-2014

SUPPLEMENTARY INFORMATION

City of Reading, Michigan
Statement of Net Position and Governmental Fund Balance Sheet
Tax Increment Finance Authority Component Unit
June 30, 2019

	Governmental Fund	Adjustments	Statement of Net Position
Assets			
Cash and equivalents	\$ 254,458	\$ -	\$ 254,458
Due from others	35,655	-	35,655
Assets held for resale	-	426,243	426,243
Capital assets being depreciated, net	-	30,347	30,347
Total Assets	290,113	456,590	746,703
Liabilities and Fund Balance			
Liabilities			
Accounts payable	3,895	-	3,895
Total Liabilities	3,895	-	3,895
Fund Balance			
Unrestricted	286,218	(286,218)	-
Total Fund Balance	286,218	(286,218)	-
Total Liabilities and Fund Balance	\$ 290,113	(286,218)	3,895
Net Position			
Invested in capital assets		456,590	456,590
Unrestricted		286,218	286,218
Total Net Position		\$ 456,590	\$ 742,808

City of Reading, Michigan
Statement of Activities and Governmental Fund
Revenues, Expenditures, and Changes in Fund Balance
Tax Increment Finance Authority Component Unit
Year Ended June 30, 2019

	<u>Governmental Fund</u>	<u>Adjustments</u>	<u>Statement of Net Position</u>
Expenses			
Community development	\$ 129,843	\$ (85,218)	\$ 44,625
Total Expenses	<u>129,843</u>	<u>(85,218)</u>	<u>44,625</u>
Program Revenues			
Charges for services	3,960	-	3,960
Total Program Revenues			
Net Expenses	<u>(125,883)</u>	<u>85,218</u>	<u>(40,665)</u>
General Revenues			
Property taxes	128,424	-	128,424
Sale of investment property	35,655	(13,677)	21,978
Unrestricted investment earnings	820	-	820
Total General Revenues	<u>164,899</u>	<u>(13,677)</u>	<u>151,222</u>
Change in Net Position	39,016	71,541	110,557
Net Position, Beginning of Year	<u>247,202</u>	<u>385,049</u>	<u>632,251</u>
Net Position, End of Year	<u>\$ 286,218</u>	<u>\$ 456,590</u>	<u>\$ 742,808</u>

OTHER REPORTS

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

To the City Council
City of Reading
Reading, Michigan

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, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of City of Reading as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the City of Reading's basic financial statements and have issued our report thereon dated September 27, 2019.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered City of Reading'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 City of Reading's internal control. Accordingly, we do not express an opinion on the effectiveness of City of Reading's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph 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. However, as described in the accompanying schedule of findings, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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. We consider the deficiencies described in the accompanying schedule of findings to be material weaknesses. Refer to findings 2019-1 and 2019-3.

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. We consider the deficiency described in the accompanying schedule of findings to be a significant deficiency. Refer to findings 2019-2 and 2019-4.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether City of Reading's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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 of Reading's Response to Findings

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

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.

CHBW & Co., P.C.

Certified Public Accountants

CITY OF READING
Schedule of Findings
Year ended June 30, 2019

Finding 2019-1 Financial Statement Preparation (Repeat finding)

Internal Control Finding considered a material weakness

Requirement: The preparation of GAAP financial statements requires internal controls over (1) recording, processing, and summarizing accounting data, and (2) reporting the fund financial statements, including the related footnotes.

Condition: The City has historically relied on its independent external auditors to assist in the preparation of the financial statements and footnotes as part of its external financial reporting process. Accordingly, the City's ability to prepare financial statements is based, in part, on its reliance on its external auditors, who cannot by definition be considered part of the City's internal controls.

Cause: This condition is caused by the City's decision that it is more cost effective to outsource the preparation of its annual financial statements to the auditors than to incur the added time and expense of outsourcing to another accounting firm, or obtaining the necessary training for its Treasurer to perform this task.

Effect: The result of this condition is that the City lacks internal controls over the preparation of financial statements and notes, and instead relies, in part, on its external auditors for assistance with this task.

View of responsible officials: The City will continue to evaluate the cost vs. benefit of establishing internal controls over the preparation of financial statements in accordance with GAAP. In addition, the City will carefully review the draft financial statements and notes prior to approving them and accept responsibility for their content and presentation.

Finding 2019-2 Lack of Segregation of Duties

Internal Control Finding considered a significant deficiency

Requirement: The City's internal control system over accounting functions should include segregation of duties between the general ledger function, the accounts payable and payroll function, and the bank reconciliation function within the business office.

Condition: Currently one individual serves as City Manager, City Treasurer and City Clerk. As such, she is performing and/or has access to all of the accounting functions.

Cause: Procedures have not been designed to properly segregate duties. The City has limited staff.

Effect: The risk of error in financial reporting and/or misappropriation of assets are increased when lack of segregation of duties is present.

View of responsible officials: The City will continue to monitor the status of job functions and segregate to the extent possible.

Finding 2019-3 Balance Sheets Out of Balance

Internal Control Finding considered a material weakness

Requirement: The Fund Balance in each fund should represent the beginning balance plus any change of revenues over/under expenditures for the current year.

Condition: For the General Fund, Major Streets Fund, Local Streets Fund, Sewer Fund, Water Fund, and the Internal Service Fund, the beginning fund balance plus the change in revenues over/under expenditures for the current year do not equal the ending balance on the Balance Sheet, making each fund out of balance. This is the second year that it has been an issue.

Cause: The cause is unknown, although we suspect that one or more revenue and/or expense accounts is not properly set up in the accounting software.

Effect: The result is the funds listed above are out of balance.

View of responsible officials: The City will work to correct the issue with assistance from the software supplier.

Finding 2019-4 Bank Reconciliations – Common checking
Internal Control Finding considered a significant deficiency

Requirement: Michigan Department of Treasury Accounting Policy and Procedures Manual states that all bank accounts must be reconciled to the local unit accounting records monthly.

Condition: Monthly bank reconciliations for the common checking account are being performed, however, are not accurate and do not agree to the accounting system.

Cause: The common checking account has activity for all the funds, has numerous checks along with automatic debits and credits. Timing issues arise between the bank and recording into the accounting system.

Effect: Management cannot reconcile the common account bank statement to the accounting system.

View of responsible officials: The City will work towards correcting the issue.