

**CITY OF READING, MICHIGAN**  
**FINANCIAL STATEMENTS**  
**AND INDEPENDENT AUDITOR'S REPORT**  
**(with required supplementary information)**  
**YEAR ENDED JUNE 30, 2020**

**CITY OF READING, MICHIGAN**

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## 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, 2020, 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.

### **Basis for Qualified Opinion on Governmental Activities**

The City of Reading, Michigan, included in its basic financial statements its investment in the Reading Community Fire Department, a joint venture between the City and Reading Township, based on financial statements that have not been audited, and we were not engaged to audit the joint venture financial statements as part of our audit of the City's basic financial statements. The joint venture financial activities, as described in Note 3, are included in the City's basic financial statements as governmental activities and represent approximately 7.1%, 8.3%, .001% of the assets, net assets, and expenditures, respectively, of the City's aggregate governmental activities.

### **Basis for Qualified Opinion on the General Fund**

The General Fund accounts were not in balance, and a \$16,348 one-sided entry was necessary to correct the error. We were unable to obtain sufficient appropriate audit evidence surrounding the adjustment needed to make the Statement of Revenues and Expenditures and Changes in Fund Balance agree to ending fund balance in the Balance Sheet.

### **Qualified Opinion**

In our opinion, except for the possible effects of the matter described in the "Basis for Qualified Opinion on Governmental Activities", and "Basis for Qualified Opinion on the General Fund" paragraphs, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities and general fund of the City of Reading, Michigan, as of June 30, 2020, and the changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### **Unmodified Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities, the major street fund, the capital improvement fund and the aggregate remaining fund information of the City of Reading, Michigan, as of June 30, 2020, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### **Other Matters**

#### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages iii – vii, as well as the budgetary comparison information and retirement system information on pages 29 – 32, 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 33 - 34 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 November 24, 2020, 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

Hillsdale, Michigan  
November 24, 2020

## MANAGEMENT'S DISCUSSION AND ANALYSIS

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, 2020. 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, 2020:

- Property taxes are the City's largest source of revenue. The City's property tax revenue for fiscal year 2019-2020 was \$158,040 which represents a decrease of \$4,919 from fiscal year 2018-2019.
- State shared revenue is the second largest general revenue source of the City. It was increased by the State of Michigan, by \$10,352 from the previous year.
- General Government represents the City's largest expense in a typical year at \$268,897 which was an increase of \$13,692 from the previous year's expenditures. Public Safety is typically the City's second largest expenditure and it increased by \$66,545 to \$155,853 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 7.18 percent from a year ago – increasing from \$4,377,393 million to \$4,692,081 million.

Total assets changed due to:

- There was a net increase in governmental capital and infrastructure assets in the amount of \$129,753 due to acquisition of new property netted with depreciation expense.
- There was a decrease in business type net capital assets in the amount of \$179,894 due to depreciation expense exceeding capital purchases.

Management's Discussion and Analysis  
Year Ended June 30, 2020

	Governmental Activities		Business-type Activities	
	2020	2019	2020	2019
Capital assets	\$ 1,648,604	\$ 1,518,851	\$ 5,425,384	\$ 5,605,278
Other assets	<u>1,134,374</u>	<u>1,112,487</u>	<u>707,750</u>	<u>587,829</u>
Total Assets	<u>\$ 2,782,978</u>	<u>\$ 2,631,338</u>	<u>\$ 6,133,134</u>	<u>\$ 6,193,107</u>
Deferred outflows of resources	<u>\$ 18,168</u>	<u>\$ 34,688</u>	<u>\$</u>	<u>\$</u>
Current liabilities	\$ 63,939	\$ 157,607	\$ 31,122	\$ 132,815
Long-term liabilities	<u>328,711</u>	<u>378,817</u>	<u>3,810,614</u>	<u>3,800,000</u>
Total Liabilities	<u>\$ 392,650</u>	<u>\$ 536,424</u>	<u>\$ 3,841,736</u>	<u>\$ 3,932,815</u>
Deferred inflows of resources	<u>\$ 9,416</u>	<u>\$ 12,501</u>	<u>\$</u>	<u>\$</u>
Net Position:				
Invested in capital - net of related debt	\$ 1,358,604	\$ 1,173,851	\$ 1,640,307	\$ 1,717,278
Restricted	1,665	1,165	469,150	460,888
Unrestricted	<u>1,038,811</u>	<u>942,085</u>	<u>181,941</u>	<u>82,126</u>
Total Net Position	<u>\$ 2,400,683</u>	<u>\$ 2,117,101</u>	<u>\$ 2,291,398</u>	<u>\$ 2,260,292</u>

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

Total governmental activities expenses increased \$96,776 from the prior year. This was mainly an increase in the public safety function due to increased equipment rental paid to the internal service fund, and an increase in salaries for the year.

Total business type activities expenses decreased slightly due primarily to not having any major projects for our Water and Sewer Departments within the year.



Management's Discussion and Analysis  
Year Ended June 30, 2020

	Governmental Activities		Business-type Activities	
	2020	2019	2020	2019
Revenue				
Program Revenue:				
Charges for services	\$ 122,751	\$ 51,815	\$ 673,925	\$ 633,218
Operating grants and contributions	134,184	143,530		
Capital grants and contributions	151,005			
General Revenue:				
Property taxes	158,040	162,959		
Grants and contributions	148,582	137,730		
Interest and other	35,115	40,235	4,824	5,726
Total Revenue	<u>\$ 749,677</u>	<u>\$ 536,269</u>	<u>\$ 678,749</u>	<u>\$ 638,944</u>
Program Expenses				
General government	\$ 270,500	\$ 255,205	\$	\$
Public safety	155,853	89,308		
Public works	22,276	22,535		
Highways and street	104,212	113,513		
Recreation and culture	4,173	2,750		
Community development	7,916	2,500		
Capital outlay	20,222			
Interest	8,458	9,420		
Sewer			237,810	251,099
Water			323,647	317,744
Refuse			65,274	65,017
Total Expenses	<u>\$ 593,610</u>	<u>\$ 495,231</u>	<u>\$ 626,731</u>	<u>\$ 633,860</u>
Transfers	20,912	15,961	(20,912)	(15,961)
Change in Net Position	<u>\$ 179,979</u>	<u>\$ 56,999</u>	<u>\$ (31,106)</u>	<u>\$ (10,877)</u>

**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 2020 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 increased its fund balance for the year, with revenues exceeding expenditures in the amount of \$59,748. 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 charges for services– over budgeted amounts by \$111,724  
Expenses – under budget by \$96,124

These budget variances are due to the following conditions/occurrences: State Revenues were higher than anticipated as well as cemetery revenues and licensing and fees were up due to an increase in burials and lots sold in the cemetery and additional applications for licenses and license renewal fees were up. 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 due to restrictions put into place due to the COVID-19 Pandemic. Transfers out were under budget due to less being transferred to the capital improvement fund and Local Street Fund, also due to restrictions put in place due to COVID-19 Pandemic.

The General Fund pays for most of the City's governmental services. The most significant are general governmental activities, which incurred expenses of approximately \$312,801 in fiscal year end 2020, which were under budget by approximately \$52,402. 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 decreased its fund balance by \$140 during the year due to an increase in street material and maintenance cost.

Budget variances are as follows:

Intergovernmental revenues – over budget by \$42,978 and expenditures under budget by \$23,361  
This budget variance is due to anticipated state shared revenues being much higher than expected.

**Capital Improvement Fund Highlights**

The City spent \$63,458 on debt service. Revenues were \$23,750 from the first payment of the USDA Rural Business Development Grant towards the Michigan Street Pavilion/Greenspace Project. The largest portion, \$68,486 of the \$74,230, capital outlay expenses in the CIP were from the Michigan Street Pavilion project and the remainder were for office equipment/software upgrades.

Management's Discussion and Analysis  
Year Ended June 30, 2020

**Capital Asset and Debt Administration**

At the end of fiscal year 2020, the City had approximately \$7,073,988 (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, 2020, debt related to capital assets totaled \$4,090,000. 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 even more so at the end of this Fiscal Year, due to the COVID-19 Pandemic. 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 2020-2021 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 as well as continuing the many services offered.

Concern for the current revenue streams will be maintained because of the uncertainty of State of Michigan shared contributions due to the COVID-19 Pandemic.

**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, 2020

	<u>Primary Government</u>			<u>Component Unit</u>
	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>	
<b>Assets</b>				
Cash and equivalents	\$ 793,450	\$ 180,584	\$ 974,034	\$ 475,914
Restricted cash	-	469,150	469,150	-
Receivables	7,588	99,082	106,670	-
Internal balances	57,759	(57,759)	-	-
Due from other governments	75,577	-	75,577	-
Inventory	-	16,693	16,693	-
Investment in joint venture	200,000	-	200,000	-
Assets held for resale	-	-	-	428,216
Capital assets not being depreciated	124,325	20,550	144,875	-
Capital assets being depreciated, net	1,524,279	5,404,834	6,929,113	28,013
<b>Total Assets</b>	<u>2,782,978</u>	<u>6,133,134</u>	<u>8,916,112</u>	<u>932,143</u>
<b>Deferred Outflows of Resources</b>				
Pension related	18,168	-	18,168	-
<b>Liabilities</b>				
Accounts payable	2,427	1,198	3,625	4,590
Accrued liabilities	5,363	2,299	7,662	-
Accrued interest	-	27,625	27,625	-
Compensated absences	12,602	10,614	23,216	-
Net pension liability	82,258	-	82,258	-
Long-term liabilities:				
Due within 1 year	55,000	94,000	149,000	-
Due in more than 1 year	235,000	3,706,000	3,941,000	-
<b>Total Liabilities</b>	<u>392,650</u>	<u>3,841,736</u>	<u>4,234,386</u>	<u>4,590</u>
<b>Deferred Inflows of Resources</b>				
Pension related	9,416	-	9,416	-
<b>Net Position</b>				
Invested in capital assets, net of related debt	1,358,604	1,640,307	2,998,911	28,013
Restricted by state statute	1,665	-	1,665	-
Restricted for bond covenants	-	469,150	469,150	-
Unrestricted	1,038,811	181,941	1,220,752	899,540
<b>Total Net Position</b>	<u>\$ 2,399,080</u>	<u>\$ 2,291,398</u>	<u>\$ 4,690,478</u>	<u>\$ 927,553</u>

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

**City of Reading, Michigan**  
**Statement of Activities**  
**Year Ended June 30, 2020**

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>	
<b>Primary Government</b>					
<b>Governmental Activities</b>					
General government	\$ 270,500	\$ 122,751	\$ -	\$ 151,005	\$ 3,256
Public safety	155,853	-	-	-	(155,853)
Public works	22,276	-	-	-	(22,276)
Highways and streets	104,212	-	134,184	-	29,972
Recreation and culture	4,173	-	-	-	(4,173)
Community development	7,916	-	-	-	(7,916)
Capital outlay	20,222	-	-	-	(20,222)
Debt service	8,458	-	-	-	(8,458)
<b>Total Governmental Activities</b>	<u>593,610</u>	<u>122,751</u>	<u>134,184</u>	<u>151,005</u>	<u>(185,670)</u>
<b>Business-Type Activities</b>					
Sewer	237,810	281,583	-	-	43,773
Water	323,647	334,009	-	-	10,362
Refuse	65,274	58,333	-	-	(6,941)
<b>Total Business-Type Activities</b>	<u>626,731</u>	<u>673,925</u>	<u>-</u>	<u>-</u>	<u>47,194</u>
<b>Total Primary Government</b>	<u>\$ 1,220,341</u>	<u>\$ 796,676</u>	<u>\$ 134,184</u>	<u>\$ 151,005.00</u>	<u>\$ (138,476)</u>
<b>Component Unit</b>					
Tax Increment Finance Authority	<u>\$ 50,904</u>	<u>\$ 3,810</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (47,094)</u>

continued...

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

**City of Reading, Michigan**  
**Statement of Activities**  
**Year Ended June 30, 2020**

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>	<u>Component Unit</u>
<b>Changes in Net Assets</b>				
<b>General Revenues and Transfers</b>				
Net (expense) revenue	\$ (185,670)	\$ 47,194	\$ (138,476)	\$ (47,094)
General revenues:				
Property taxes	158,040	-	158,040	124,113
State revenue	148,582	-	148,582	-
Interest and other	35,115	4,824	39,939	107,726
Transfers (net)	20,912	(20,912)	-	-
<b>Total General Revenues and Transfers</b>	<u>362,649</u>	<u>(16,088)</u>	<u>346,561</u>	<u>231,839</u>
<b>Change in Net Position</b>	176,979	31,106	208,085	184,745
<b>Restated Net Position, Beginning of Year</b>	<u>2,222,101</u>	<u>2,260,292</u>	<u>4,482,393</u>	<u>742,808</u>
<b>Net Position, End of Year</b>	<u>\$ 2,399,080</u>	<u>\$ 2,291,398</u>	<u>\$ 4,690,478</u>	<u>\$ 927,553</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, 2020**

	<u>General</u>	<u>Capital Improvement</u>	<u>Major Street</u>	<u>Nonmajor Fund Local Street</u>	<u>Total Governmental Funds</u>
<b>Assets</b>					
Cash and equivalents	\$ 583,035	\$ 62,289	\$ 91,415	\$ 16,971	\$ 753,710
Other receivables	7,588	-	-	-	7,588
Due from other governments	<u>33,100</u>	<u>23,750</u>	<u>14,372</u>	<u>4,355</u>	<u>75,577</u>
<b>Total Assets</b>	<u>\$ 623,723</u>	<u>\$ 86,039</u>	<u>\$ 105,787</u>	<u>\$ 21,326</u>	<u>\$ 836,875</u>
 <b>Liabilities and Fund Balances</b>					
<b>Liabilities</b>					
Accounts payable	\$ 1,357	\$ 1,070	\$ -	\$ -	\$ 2,427
Accrued liabilities	<u>5,021</u>	<u>-</u>	<u>84</u>	<u>63</u>	<u>5,168</u>
<b>Total Liabilities</b>	<u>6,378</u>	<u>1,070</u>	<u>84</u>	<u>63</u>	<u>7,595</u>
 <b>Fund Balances</b>					
Restricted - streets	-	-	105,703	21,263	126,966
Reserved - capital projects	-	84,969	-	-	84,969
Unassigned	<u>617,345</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>617,345</u>
<b>Total Fund Balances</b>	<u>617,345</u>	<u>84,969</u>	<u>105,703</u>	<u>21,263</u>	<u>829,280</u>
 <b>Total Liabilities and Fund Balances</b>	<u>\$ 623,723</u>	<u>\$ 86,039</u>	<u>\$ 105,787</u>	<u>\$ 21,326</u>	<u>\$ 836,875</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, 2020

**Governmental Fund Balance** \$ 829,280

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 - capital assets not being depreciated	124,325
Add - capital assets being depreciated, net	1,524,279

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	\$ 39,740
Payables	(195)
Internal balance	<u>57,759</u>
	97,304

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

Add - investment in joint venture	200,000
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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	18,168
Deferred inflows - pension related	(9,416)
Net pension liability	(82,258)

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

Deduct - Long-term debt	(290,000)
Deduct - compensated absences and other benefits	<u>(12,602)</u>

**Net Position of Governmental Activities** \$ 2,399,080

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, 2020**

	General	Capital Improvement	Major Street	Nonmajor Fund Local Street	Total Governmental Funds
<b>Revenues</b>					
Property taxes	\$ 158,040	\$ -	\$ -	\$ -	\$ 158,040
Intergovernmental	172,837	23,750	102,978	31,206	330,771
Charges for services	89,584	-	-	-	89,584
Investment earnings	4,044	-	-	-	4,044
Contributions - TIFA	32,110	-	-	-	32,110
Contributions	103,000	-	-	-	103,000
Other	76,148	-	-	-	76,148
<b>Total Revenues</b>	<u>635,763</u>	<u>23,750</u>	<u>102,978</u>	<u>31,206</u>	<u>793,697</u>
<b>Expenditures</b>					
General government	260,399	-	-	-	260,399
Public safety	165,651	-	-	-	165,651
Public works	22,276	-	-	-	22,276
Recreation and culture	4,173	-	-	-	4,173
Community development	7,916	-	-	-	7,916
Capital outlay	-	74,230	-	-	74,230
Highways and streets	-	-	39,499	34,476	73,975
Debt service					
Principal	-	55,000	-	-	55,000
Interest and fiscal charges	-	8,458	-	-	8,458
<b>Total Expenditures</b>	<u>460,415</u>	<u>137,688</u>	<u>39,499</u>	<u>34,476</u>	<u>672,078</u>
<b>Revenues Over (Under) Expenditures</b>	<u>175,348</u>	<u>(113,938)</u>	<u>63,479</u>	<u>(3,270)</u>	<u>121,619</u>
<b>Other Financing Sources (Uses)</b>					
Transfers in	-	189,258	-	21,000	210,258
Transfers out	(115,600)	-	(63,619)	(10,128)	(189,347)
<b>Total Other Financing Sources (Uses)</b>	<u>(115,600)</u>	<u>189,258</u>	<u>(63,619)</u>	<u>10,872</u>	<u>20,911</u>
<b>Net Change in Fund Balances</b>	59,748	75,320	(140)	7,602	142,530
<b>Fund Balances, Beginning of Year</b>	<u>557,597</u>	<u>9,649</u>	<u>105,843</u>	<u>13,661</u>	<u>686,750</u>
<b>Fund Balances, End of Year</b>	<u>\$ 617,345</u>	<u>\$ 84,969</u>	<u>\$ 105,703</u>	<u>\$ 21,263</u>	<u>\$ 829,280</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, 2020

**Net Change in Fund Balances - Total Governmental Funds** \$ 142,530

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	(49,024)
Add - capital asset purchases, deletions, net	20,306

Internal Service Funds are also included as governmental activities to the extent of activity occurring between governmental funds and the Internal Service Fund	6,862
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Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position	55,000
Add - principal payments on long-term liabilities	(6,876)

Pension expense related to the change in long-term net pension asset that is not recognized in the fund financial statements.	(6,876)
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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	9,798
Deduct - increase in the accrual for compensated absences	<u>(1,617)</u>

**Change in Net Position of Governmental Activities** \$ 176,979

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

**City of Reading, Michigan**  
**Statement of Net Position**  
**Proprietary Funds**  
**June 30, 2020**

	<b>Business-Type Activities: Enterprise Funds</b>				<b>Governmental Activities -</b>
	<b>Sewer</b>	<b>Water</b>	<b>Refuse</b>	<b>Total</b>	<b>Internal Service Fund</b>
<b>Assets</b>					
<b>Current Assets</b>					
Cash and equivalents	\$ 55,348	\$ 98,683	\$ 26,553	\$ 180,584	\$ 39,740
Restricted cash	186,200	282,950	-	469,150	-
Accounts receivable	43,446	44,733	10,903	99,082	-
Inventories	-	16,693	-	16,693	-
<b>Total Current Assets</b>	<b>284,994</b>	<b>443,059</b>	<b>37,456</b>	<b>765,509</b>	<b>39,740</b>
<b>Noncurrent Assets</b>					
Capital assets not being depreciated	20,500	50	-	20,550	-
Capital assets being depreciated, net	2,045,577	3,359,257	-	5,404,834	117,734
<b>Total Noncurrent Assets</b>	<b>2,066,077</b>	<b>3,359,307</b>	<b>-</b>	<b>5,425,384</b>	<b>117,734</b>
<b>Total Assets</b>	<b>2,351,071</b>	<b>3,802,366</b>	<b>37,456</b>	<b>6,190,893</b>	<b>157,474</b>
<b>Liabilities</b>					
<b>Current Liabilities</b>					
Accounts payable	440	758	-	1,198	-
Accrued liabilities	866	1,119	314	2,299	200
Accrued interest	14,582	13,043	-	27,625	-
Bonds payable	42,000	52,000	-	94,000	-
<b>Total Current Liabilities</b>	<b>57,888</b>	<b>66,920</b>	<b>314</b>	<b>125,122</b>	<b>200</b>
<b>Noncurrent Liabilities</b>					
Compensated absences	4,022	4,592	2,000	10,614	1,149
Bonds and notes payable	2,039,000	1,667,000	-	3,706,000	-
<b>Total Noncurrent Liabilities</b>	<b>2,043,022</b>	<b>1,671,592</b>	<b>2,000</b>	<b>3,716,614</b>	<b>1,149</b>
<b>Total Liabilities</b>	<b>2,100,910</b>	<b>1,738,512</b>	<b>2,314</b>	<b>3,841,736</b>	<b>1,349</b>
<b>Net Position</b>					
Invested in capital assets, net of related debt		1,640,307	-	1,640,307	117,734
Restricted for bond covenants	186,200	282,950	-	469,150	-
Unrestricted	63,961	140,597	35,142	239,700	38,391
<b>Total Net Position</b>	<b>\$ 250,161</b>	<b>\$ 2,063,854</b>	<b>\$ 35,142</b>	<b>\$ 2,349,157</b>	<b>\$ 156,125</b>

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, 2020

**Net Position - Enterprise Funds** \$ 2,349,157

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 (57,759)

**Net Position of Business-Type Activities** \$ 2,291,398

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, 2020**

	<b>Business-Type Activities: Enterprise Funds</b>				<b>Governmental</b>
	<b>Sewer</b>	<b>Water</b>	<b>Refuse</b>	<b>Total</b>	<b>Activities - Internal Service Fund</b>
<b>Operating Revenues</b>					
Charges for services	\$ 281,583	\$ 334,009	\$ 58,333	\$ 673,925	\$ 90,816
<b>Total Operating Revenues</b>	<u>281,583</u>	<u>334,009</u>	<u>58,333</u>	<u>673,925</u>	<u>90,816</u>
<b>Operating Expenses</b>					
Operations and maintenance	83,974	133,736	65,274	282,984	59,124
Depreciation	67,170	112,724	-	179,894	21,395
<b>Total Operating Expenses</b>	<u>151,144</u>	<u>246,460</u>	<u>65,274</u>	<u>462,878</u>	<u>80,519</u>
<b>Operating Income (Loss)</b>	<u>130,439</u>	<u>87,549</u>	<u>(6,941)</u>	<u>211,047</u>	<u>10,297</u>
<b>Nonoperating Revenues (Expenses)</b>					
Investment income	179	951	-	1,130	260
Interest expense	(86,666)	(77,187)	-	(163,853)	-
Other	-	-	-	-	-
<b>Total Nonoperating Revenues (Expenses)</b>	<u>(86,487)</u>	<u>(76,236)</u>	<u>-</u>	<u>(162,723)</u>	<u>260</u>
<b>Income Before Operating Transfers</b>	43,952	11,313	(6,941)	48,324	10,557
<b>Operating Transfers</b>	<u>(2,600)</u>	<u>(18,312)</u>	<u>-</u>	<u>(20,912)</u>	<u>-</u>
<b>Change in Net Position</b>	41,352	(6,999)	(6,941)	27,412	10,557
<b>Net Position, Beginning of Year</b>	<u>208,809</u>	<u>2,070,853</u>	<u>42,083</u>	<u>2,321,745</u>	<u>145,568</u>
<b>Net Position, End of Year</b>	<u>\$ 250,161</u>	<u>\$ 2,063,854</u>	<u>\$ 35,142</u>	<u>\$ 2,349,157</u>	<u>\$ 156,125</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, 2020

**Net Change in Net Position - Total Enterprise Funds** \$ 27,412

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.

Add - net operating income from business-type activities in the internal service fund 3,694

**Change in Net Position of Business-Type Activities** \$ 31,106

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, 2020**

	<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>
<b>Cash Flows from Operating Activities</b>					
Cash received from customers and others	\$ 275,821	\$ 338,130	\$ 58,626	\$ 672,577	\$ 90,816
Cash payments to suppliers for goods and services	(42,417)	(72,628)	(42,338)	(157,383)	(43,465)
Cash payments to employees	(44,204)	(58,662)	(22,644)	(125,510)	(17,378)
<b>Net Cash Provided By (Used In) Operating Activities</b>	<u>189,200</u>	<u>206,840</u>	<u>(6,356)</u>	<u>389,684</u>	<u>29,973</u>
<b>Cash Flows from Investing Activities</b>					
Investment income	179	951	-	1,130	260
<b>Net Cash Provided By (Used In) Investing Activities</b>	<u>179</u>	<u>951</u>	<u>-</u>	<u>1,130</u>	<u>260</u>
<b>Cash Flows From Capital and Related Financing Activities</b>					
Transfers	(2,600)	(18,312)	-	(20,912)	(37,023)
Bond principal payments	(40,000)	(48,000)	-	(88,000)	-
Bond interest payments	(86,666)	(77,187)	-	(163,853)	-
<b>Net Cash Provided By (Used In) Capital And Related Financing Activities</b>	<u>(129,266)</u>	<u>(143,499)</u>	<u>-</u>	<u>(272,765)</u>	<u>(37,023)</u>
<b>Net Change in Cash</b>	60,113	64,292	(6,356)	118,049	(6,790)
<b>Cash and Equivalents, Beginning of Year</b>	<u>181,435</u>	<u>317,341</u>	<u>32,909</u>	<u>531,685</u>	<u>46,530</u>
<b>Cash and Equivalents, End of Year</b>	<u>\$ 241,548</u>	<u>\$ 381,633</u>	<u>\$ 26,553</u>	<u>\$ 649,734</u>	<u>\$ 39,740</u>
<b>Reconciliation of Operating Income (Loss) To Net Cash Provided By (Used In) Operating Activities</b>					
Operating income (loss)	\$ 130,439	\$ 87,549	\$ (6,941)	\$ 211,047	\$ 10,297
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:					
Depreciation	67,170	112,724	-	179,894	21,395
Changes in assets and liabilities:					
Accounts receivable - customers	(5,761)	4,121	293	(1,347)	-
Accounts payable	(2,820)	(1,125)	-	(3,945)	(1,744)
Accrued and other liabilities	(104)	207	(104)	(1)	81
Inventory	-	3,170	-	3,170	-
Compensated absences payable	276	194	396	866	(56)
<b>Net Cash Provided By (Used In) Operating Activities</b>	<u>\$ 189,200</u>	<u>\$ 206,840</u>	<u>\$ (6,356)</u>	<u>\$ 389,684</u>	<u>\$ 29,973</u>

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

**City of Reading, Michigan**  
**Statement of Net Position**  
**Fiduciary Funds**  
**June 30, 2020**

	<u>Custodial Funds</u>
<b>Assets</b>	
Cash	<u>\$ -</u>
<b>Liabilities</b>	
Undistributed tax collections	<u>-</u>
<b>Net Position</b>	
Restricted	<u>\$ -</u>

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

**City of Reading, Michigan**  
**Statement of Changes in Net Position**  
**Fiduciary Funds**  
**June 30, 2020**

	<u>Custodial Funds</u>
<b>Additions</b>	
Collection of taxes for other governments	<u>\$ 594,651</u>
<b>Deductions</b>	
Payment of taxes collected for other governments	<u>594,651</u>
<b>Net Change in Fiduciary Net Position</b>	
<b>Net Position - Beginning of Year</b>	<u>-</u>
<b>Net Position - End of Year</b>	<u><u>\$ -</u></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, 2020

**Note 1: Summary of Significant Accounting Policies**

The financial statements of the City of Reading, Michigan (the “City”) have been prepared in conformity with accounting principles accepted in the United States of America (GAAP) as applicable to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the City’s accounting policies are described below.

**Reporting Entity**

These financial statements present the financial activities of the City of Reading (primary government) and its component units, entities for which the government is considered to be financially accountable. Blended component units, although legally separate entities are, in substance, part of the government’s operations and so data from these units are combined with data of the primary government. Discretely presented component units, on the other hand, are reported in a separate column in the government-wide financial statements to emphasize that they are legally separate from the primary government.

**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.

**Basis of Presentation**

**Government-Wide 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*.

**Fund Financial Statements**

The fund financial statements present the City’s individual major funds and aggregated nonmajor funds. Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. The major individual governmental funds and the 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, 2020

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 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.

The City also reports as fiduciary funds the tax collection fund (custodial funds).

**Measurement Focus**

The government-wide, proprietary, and fiduciary fund statements are presented using the economic resources measurement focus, similar to that used by business enterprises or not-for-profit organizations. Because another measurement focus is used in the governmental fund financial statements, reconciliations to the government-wide financial statements are provided that explain the differences in detail.

All governmental funds are presented using the current financial resources measurement focus. With this measurement focus, only current assets, deferred outflows of resources, current liabilities, and deferred inflows of resources generally are included on the balance sheet. Operating statement of these funds present increases (i.e. revenues and other financing sources) and decreases (i.e. expenditures and other financing uses) in fund balance.

**Basis of Accounting**

Basis of accounting refers to the timing under which transactions are recognized for financial reporting purposes. Governmental fund financial statements use the *modified accrual basis* of accounting. The government-wide and fiduciary fund financial statements are prepared using the *accrual basis* of accounting.

Under the *accrual basis* of accounting, revenue is recorded in the period in which it is earned and expenses are recorded when incurred, regardless of the timing of related cash flows. Property tax revenue is recognized in the fiscal year for which it is levied. Revenues for grants, entitlements, and donations are recognized when all eligibility requirements imposed by the provider have been met. Deferred revenue is recorded when resources are received by the City before it has legal claim to them, such as when grant monies are received prior to the incurrence of qualified expenditures.

**City of Reading, Michigan**  
Notes to Financial Statements  
Year Ended June 30, 2020

Under the *modified accrual basis* of accounting, revenues are recognized when susceptible to accrual (i.e., when they become both measurable and available). “Measurable” means the amount of the transaction can be determined and “available” means collectible within the current period or soon enough thereafter to be used 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. Revenues susceptible to accrual include property taxes, state and federal aid, and interest revenue. Other revenues are not susceptible to accrual because generally they are not measurable until received in cash. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt which are recorded when due.

The proprietary and custodial funds are accounted for using the accrual basis of accounting. Their revenues are recognized when they are earned, and their expenses are recognized when they are incurred.

Proprietary funds distinguish operating revenue and expenses from non-operating items. Operating revenue and expenses generally result from providing services in connection with a proprietary fund’s principal ongoing operations. The principal operating revenue of the proprietary funds relates to charges to customers for services. Operating expenses for proprietary funds include the cost of services, administrative expenses, and depreciation of capital assets. All revenue and expenses not meeting this definition are reported as non-operating revenue and expenses.

If/when both restricted and unrestricted resources are available for use, it is the City’s policy to use restricted resources first, then unrestricted resources as they are needed.

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 income of \$3,695 and \$6,862, respectively, for a total net income of \$10,557. Therefore, the Internal Service Fund’s fund balance in the total amount of \$156,125 is reported in the business-type and governmental activities in the amounts of (\$57,759) and \$213,884, respectively.

**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.

**Cash and Cash Equivalents**

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.

**Receivables**

Receivables consist of amounts due from various individuals and businesses related to charges for services.

**City of Reading, Michigan**  
Notes to Financial Statements  
Year Ended June 30, 2020

**Interfund Transactions**

During the course of normal operations, the City has numerous transactions between funds, including expenditures and transfers of resources to provide services, construct assets, and service debt. The accompanying financial statements generally reflect such transactions as transfers. Transfers between governmental or proprietary funds are netted as part of the reconciliation to the government-wide financial statements.

**Inventories**

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

**Capital assets**

Capital assets are recorded (net of accumulated depreciation, if applicable) in the government-wide financial statements under the governmental activities and business-type activities columns. Capital assets are those with an initial individual cost of more than \$5,000 and an estimated useful life in excess of one year. Capital assets are not recorded in the governmental funds. Instead, capital acquisition and construction are reflected as expenditures in governmental funds, and the related assets are reported in the government-wide financial statements. All purchased capital assets are valued at cost where historical records are available and at an estimated historical cost where no historical records exist. recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are valued at their estimated acquisition cost on the date received.

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 asset lives are not capitalized. Depreciation is computed 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**

Long-term debt and other long-term obligations are recognized as a liability in the government-wide financial statements and proprietary fund types when incurred. The portion of those liabilities expected to be paid within the next year is a current liability with the remaining amounts shown as long-term.



**City of Reading, Michigan**  
Notes to Financial Statements  
Year Ended June 30, 2020

Long-term debt is recognized as a liability of a governmental fund when due or when resources have been accumulated for payment early in the following year. For other long-term obligations, only that portion expected to be financed from expendable available financial resources is reported as a fund liability of a governmental fund.

**Deferred Outflows/Inflows of Resources**

In addition to assets, the statement of net position and balance sheet will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position/fund balance that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until that time.

In addition to liabilities, the statement of net position and balance sheet will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position/fund balance that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time.

The City reports deferred outflows of resources in the statement of net position which correspond to the City's net pension liability. The deferred amounts consist of differences between expected and actual experience, changes in assumptions, differences between projected and actual pension plan investment earnings, and contributions made subsequent to the measurement date.

The City reports deferred inflows of resources in the statement of net position which correspond to the City's net pension liability and consists of differences between expected and actual experience.

**Net Pension Liability**

The net pension liability is deemed to be a noncurrent liability and is recognized on the City's government-wide financial statements.

**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.

**City of Reading, Michigan**  
Notes to Financial Statements  
Year Ended June 30, 2020

**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, 2020, 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.

**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 2019 taxable valuation of the City totaled approximately \$16,328,186 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 and TIFA 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, 2020, the City's property tax revenue for general operations was reduced by \$7,505. There are no provisions to recapture taxes; however, the abatement may be eliminated if taxes are not paid timely.

**Note 2: Deposits**

Michigan Compiled Laws, Section 129.91, authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations. The local unit is allowed to invest in certificates of deposit and savings accounts of a financial institution; bonds, securities, or other obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications established by at least two standard rating services and that matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions that at the time of purchase are rated as investment grade by not less than one standard rating service; mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan; and investment pools organized under Public Act 367 and 121.

The City has not formally adopted a deposit and investment policy that limits allowable deposits or investments or addresses specific types of risk to which the City may be exposed.

At year-end, the City's deposits were reported in the basic financial statements in the following categories:

	<u>Primary Government</u>	<u>Component Unit</u>
Cash	\$ 974,034	\$ 475,914

*Custodial credit risk* is the risk that in the event of bank failure, the City's deposits may not be recovered. The bank balance was \$1,991,305 and \$1,147,233 was exposed to custodial credit risk.

**City of Reading, Michigan**  
Notes to Financial Statements  
Year Ended June 30, 2020

*Interest rate risk* is the risk that changes in market interest rates will adversely affect the fair value of the instrument. State law limits the allowable investments and the maturities of some of the allowable investments as identified above. The City does not currently hold any investments affected by interest rate risk.

*Credit risk* is the risk that an issuer of an instrument will not fulfill its obligation to the holder of the instrument. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The City does not currently hold any such investments.

**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, 2020.

**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, 2020, interfund transfers consisted of the following:

	<u>Transfers In</u>	<u>Transfers Out</u>
Governmental funds:		
General	\$ -	\$ 115,600
Capital Improvement	189,258	-
Major Street	-	63,618
Local Street	21,000	10,128
Proprietary Funds:		
Water	-	18,312
Sewer	-	2,600

**City of Reading, Michigan**  
**Notes to Financial Statements**  
**Year Ended June 30, 2020**

**Note 4: Capital Assets**

Capital asset activity for the year ended June 30, 2020, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Disposals</u>	<u>Ending Balance</u>
<u>Governmental Activities</u>				
Capital assets, not being depreciated				
Land	\$ 66,174	\$ 58,151	\$ -	\$ 124,325
Total capital assets not being depreciated	<u>66,174</u>	<u>58,151</u>	<u>-</u>	<u>124,325</u>
Capital assets, being depreciated				
Buildings and improvements	279,919	-	-	279,919
Infrastructure	1,506,722	-	-	1,506,722
Machinery and equipment	200,593	-	-	200,593
Machinery and equipment – ISF	<u>624,835</u>	<u>37,023</u>	<u>-</u>	<u>661,858</u>
Total capital assets being depreciated	2,612,069	37,023	-	2,649,092
Less accumulated depreciation for:				
Buildings and improvements	(155,407)	(8,066)	-	(163,473)
Infrastructure	(224,546)	(33,325)	-	(257,871)
Machinery and equipment	(151,710)	(7,635)	-	(159,345)
Machinery and equipment – ISF	<u>(522,729)</u>	<u>(21,395)</u>	<u>-</u>	<u>(544,124)</u>
Total accumulated depreciation	<u>(1,054,392)</u>	<u>(70,421)</u>	<u>-</u>	<u>(1,124,813)</u>
Total capital assets being depreciated, net	<u>1,557,677</u>	<u>(33,398)</u>	<u>-</u>	<u>1,524,279</u>
Capital assets, net	<u>\$ 1,623,851</u>	<u>\$ 24,753</u>	<u>\$ -</u>	<u>\$ 1,648,604</u>

**City of Reading, Michigan**  
**Notes to Financial Statements**  
**Year Ended June 30, 2020**

	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	8,828,684	-	-	8,828,684
Equipment	109,167	-	-	109,167
Total capital assets being depreciated	8,937,851	-	-	8,937,851
Less accumulated depreciation for:				
Water and sewer distribution system	(3,268,586)	(176,525)	-	(3,445,111)
Equipment	(84,537)	(3,369)	-	(87,906)
Total accumulated depreciation	(3,353,123)	(179,894)	-	(3,533,017)
Total capital assets being depreciated, net	5,584,728	(179,894)	-	5,404,834
Capital assets, net	\$ 5,605,278	\$ (179,894)	\$ -	\$ 5,425,384
<u>Component Unit</u>				
Capital assets, being depreciated				
Equipment	\$ 35,015	\$ -	\$ -	\$ 35,015
Less accumulated depreciation for:				
Equipment	(4,668)	(2,334)	-	(7,002)
Capital assets, net	\$ 30,347	\$ -	\$ -	\$ 28,013

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

Governmental activities:	
General government	\$ 15,699
Highways and streets	33,327
Capital assets held by the government's internal services funds (ISF) are charged to the various functions based on their usage of the assets	21,395
Total depreciation expense – governmental activities	\$ 70,421
Business-type activities:	
Water	\$ 112,724
Sewer	67,170
Total depreciation expense – business-type activities	\$ 179,894

**City of Reading, Michigan**  
Notes to Financial Statements  
Year Ended June 30, 2020

**Note 5: Long-Term Debt**

Long-term debt at June 30, 2020, 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, 2020 was \$290,000.

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:	\$	989,000
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:		469,000
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:		1,612,000
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:		730,000
	<b>\$</b>	<b>3,800,000</b>

Debt service requirements to maturity are as follows:

Year Ending <u>June 30,</u>	<u>Principal</u>	<u>Interest</u>
2021	\$ 149,000	\$ 160,339
2022	153,000	154,949
2023	162,000	158,320
2024	166,000	152,336
2025	171,000	145,993
2026-2030	636,000	653,352
2031-2035	785,000	490,212
2036-2040	699,000	324,168
2041-2045	785,000	171,607
2046-2049	384,000	18,482
	<b>\$ 4,090,000</b>	<b>\$ 2,429,758</b>

**City of Reading, Michigan**  
Notes to Financial Statements  
Year Ended June 30, 2020

**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	\$ 345,000	\$ -	\$ 55,000	\$ 290,000	\$ 55,000
Compensated absences	11,040	1,562	-	12,602	-
	<u>\$ 356,040</u>	<u>\$ 1,562</u>	<u>\$ 55,000</u>	<u>\$ 302,602</u>	<u>\$ 55,000</u>
Business-type activities:					
Revenue bonds	\$ 3,888,000	\$ -	\$ 88,000	\$ 3,800,000	\$ 94,000
Compensated absences	9,748	866	-	10,614	-
	<u>\$ 3,897,748</u>	<u>\$ 866</u>	<u>\$ 88,000</u>	<u>\$ 3,810,614</u>	<u>\$ 94,000</u>

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

**Note 6: Joint Venture**

The City participates with Reading City 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 \$200,000 as of June 30, 2020. 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, 2020, 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](http://www.mersofmich.com).

**City of Reading, Michigan**  
Notes to Financial Statements  
Year Ended June 30, 2020

Benefits Provided

The Plan's provisions and benefits in effect at June 30, 2020, are summarized as follows:

	2019 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	5
Inactive employees entitled to but not yet receiving benefits	3
Active employees	5
	13

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, 2020 the City's average contribution rate was 6.68% of annual payroll.

Net Pension Liability

The employer's Net Pension Liability was measured as of December 31, 2019, 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, 2019 annual actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation: 2.5%

Salary Increases: 3.00% in the long-term

Investment rate of return: 7.35%, 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, 2020

The actuarial assumptions used in valuation were based on the results of the most recent actuarial experience study in 2013 – 2018.

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 7.60% for 2019. 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)		
	Pension Liability	Fiduciary Net Assets	Net Liability
	(a)	(b)	(a) - (b)
<b>Balances at 12/31/18</b>	\$ 463,136	\$ 374,319	\$ 88,817
<b>Changes for the Year</b>			
Service Cost	9,701	-	9,701
Interest on total pension liability	36,759	-	36,759
Changes in benefits	-	-	-
Difference between expected and actual experience	(2,138)	-	(2,138)
Changes in assumptions	12,667	-	12,667
Employer Contributions	-	13,388	(13,388)
Employee Contributions	-	-	-
Net investment income	-	51,040	(51,040)
Benefit payments, including employee refunds	(17,006)	(17,006)	-
Administrative expense	-	(880)	880
Other changes	-	-	-
<b>Net changes</b>	39,983	46,542	(6,559)
<b>Balances as of 12/31/19</b>	<u>\$ 503,119</u>	<u>\$ 420,861</u>	<u>\$ 82,258</u>

**City of Reading, Michigan**  
Notes to Financial Statements  
Year Ended June 30, 2020

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 6.60%	Current Discount Rate 7.60%	1% Increase 8.60%
Net Pension Liability Change	\$ 62,808	\$ - 0 -	\$ (53,294)

Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions – For the year ended June 30, 2020 the City recognized pension expense of \$22,563. The City reported deferred outflows and inflows of resources related to the pension at June 30, 2020 from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences in experience	\$ -	\$ 9,416
Differences in assumptions	9,500	-
Net difference between projected and actual investment returns	386	-
Pension contributions subsequent to measurement date	8,282	-
	\$ 18,168	\$ 9,416

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	
2021	\$ (3,044)
2022	599
2023	7,466
2024	(4,551)
	\$ 470

**Note 9: Prior Period Adjustment / Restatement of Net Position**

Beginning net position for governmental activities was increased by \$105,000 due to a capital asset purchase that did not get added to the government-wide asset schedule in the previous year.

REQUIRED SUPPLEMENTARY INFORMATION

**City of Reading, Michigan**  
**Required Supplemental Information**  
**General Fund**  
**Budgetary Comparison Schedule**  
**Year Ended June 30, 2020**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Over (Under) Budget</u>
<b>Revenues</b>				
Property taxes	\$ 171,589	\$ 171,589	\$ 158,040	\$ (13,549)
Intergovernmental	110,250	134,250	172,837	38,587
Charges for services	33,050	33,050	89,584	56,534
Investment earnings	1,500	1,500	4,044	2,544
Contributions - TIFA	26,000	26,000	32,110	6,110
Contributions	2,000	149,500	103,000	(46,500)
Other	8,150	8,150	76,148	67,998
<b>Total Revenues</b>	<u>352,539</u>	<u>524,039</u>	<u>635,763</u>	<u>111,724</u>
<b>Expenditures</b>				
Current				
General government	312,801	312,801	260,399	(52,402)
Public safety	168,726	186,930	165,651	(21,279)
Public works	30,000	30,000	22,276	(7,724)
Recreation and culture	9,000	9,000	4,173	(4,827)
Community development	17,808	17,808	7,916	(9,892)
<b>Total Expenditures</b>	<u>538,335</u>	<u>556,539</u>	<u>460,415</u>	<u>(96,124)</u>
<b>Revenues Over (Under) Expenditures</b>	(185,796)	(32,500)	175,348	207,848
<b>Other Financing Sources (Uses)</b>				
Transfers out	<u>(110,000)</u>	<u>(197,500)</u>	<u>(115,600)</u>	<u>(81,900)</u>
<b>Total Other Financing Sources (Uses)</b>	<u>(110,000)</u>	<u>(197,500)</u>	<u>(115,600)</u>	<u>(81,900)</u>
<b>Net Change in Fund Balance</b>	(295,796)	(230,000)	59,748	-
<b>Fund Balance, Beginning of Year</b>	<u>557,597</u>	<u>557,597</u>	<u>557,597</u>	<u>-</u>
<b>Fund Balance, End of Year</b>	<u>\$ 261,801</u>	<u>\$ 327,597</u>	<u>\$ 617,345</u>	<u>\$ -</u>

**City of Reading, Michigan**  
**Required Supplemental Information**  
**Major Street Fund**  
**Budgetary Comparison Schedule**  
**Year Ended June 30, 2020**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Over (Under) Budget</u>
<b>Revenues</b>				
Intergovernmental	\$ 60,000	\$ 60,000	\$ 102,978	\$ 42,978
Other	-	-	-	-
<b>Total Revenues</b>	<u>60,000</u>	<u>60,000</u>	<u>102,978</u>	<u>42,978</u>
<b>Expenditures</b>				
Highways and streets	61,446	62,860	39,499	(23,361)
<b>Total Expenditures</b>	<u>61,446</u>	<u>62,860</u>	<u>39,499</u>	<u>(23,361)</u>
<b>Revenues Over (Under) Expenditures</b>	<u>(1,446)</u>	<u>(2,860)</u>	<u>63,479</u>	<u>66,339</u>
<b>Other Financing Sources (Uses)</b>				
Transfers out	(49,000)	(64,000)	(63,619)	381
<b>Total Other Financing Sources (Uses)</b>	<u>(49,000)</u>	<u>(64,000)</u>	<u>(63,619)</u>	<u>381</u>
<b>Net Change in Fund Balance</b>	(50,446)	(66,860)	(140)	-
<b>Fund Balance, Beginning of Year</b>	<u>105,843</u>	<u>105,843</u>	<u>105,843</u>	<u>-</u>
<b>Fund Balance, End of Year</b>	<u>\$ 55,397</u>	<u>\$ 38,983</u>	<u>\$ 105,703</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

	2019	2018	2017	2016	2015
Total Pension Liability					
Service cost	\$ 9,701	\$ 7,942	\$ 9,021	\$ 8,298	\$ 5,309
Interest	36,759	35,557	33,994	33,057	27,814
Changes of benefit terms	-	-	-	-	-
Difference between expected and actual experience	(2,138)	(12,510)	(6,239)	210	26,027
Changes of assumptions	12,667	-	-	-	13,845
Benefit payments including employee refunds	(17,006)	(16,693)	(16,693)	(16,693)	(5,175)
Other	-	-	-	(1,001)	-
Net Change in Total Pension Liability	<u>39,983</u>	<u>14,296</u>	<u>20,083</u>	<u>23,871</u>	<u>67,820</u>
Total Pension Liability - beginning	<u>463,136</u>	<u>448,840</u>	<u>428,757</u>	<u>404,887</u>	<u>337,067</u>
Total Pension Liability - ending (a)	<u><u>503,119</u></u>	<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	13,388	13,297	11,248	7,739	6,253
Contributions-employee	-	-	-	-	-
Net investment income	51,040	(15,580)	46,750	36,925	(5,069)
Benefit payments including employee refunds	(17,006)	(16,693)	(16,693)	(16,693)	(5,175)
Administrative expense	(880)	(768)	(740)	(728)	(732)
Net Change in Plan Fiduciary Net Position	<u>46,542</u>	<u>(19,744)</u>	<u>40,565</u>	<u>27,243</u>	<u>(4,723)</u>
Plan Fiduciary Net Position - beginning	<u>374,319</u>	<u>394,063</u>	<u>353,498</u>	<u>326,255</u>	<u>330,978</u>
Plan Fiduciary Net Position - ending (b)	<u><u>420,861</u></u>	<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>\$ 82,258</u></u>	<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	84%	81%	88%	82%	81%
Covered Employee Payroll	214,154	172,652	196,533	189,455	121,496
Employer's Net Pension Liability as a percentage of covered employee payroll	38%	51%	28%	40%	65%

**City of Reading, Michigan**  
**Required Supplementary Information**  
**Pension Plan Schedule of Employer Contributions**  
**Year Ended June 30, 2020**

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>
Actuarial determined contributions	\$ 13,399	\$ 12,678	\$ 11,248	\$ 7,739	\$ 6,254
Contributions in relation to the actuarially determined contribution	<u>13,399</u>	<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>\$ -</u>	<u>\$ (695)</u>
 Covered employee payroll	 214,154	 172,652	 196,533	 189,455	 121,496
 Contributions as a percentage of covered employee payroll	 6.3%	 7.3%	 5.7%	 4.1%	 5.7%

SUPPLEMENTARY INFORMATION



**City of Reading, Michigan**  
**Statement of Net Position and Governmental Fund Balance Sheet**  
**Tax Increment Finance Authority Component Unit**  
**June 30, 2020**

	<b>Governmental Fund</b>	<b>Adjustments</b>	<b>Statement of Net Position</b>
<b>Assets</b>			
Cash and equivalents	\$ 475,914	\$ -	\$ 475,914
Assets held for resale	-	428,216	428,216
Capital assets being depreciated, net	-	28,013	28,013
<b>Total Assets</b>	<b>475,914</b>	<b>456,229</b>	<b>932,143</b>
<b>Liabilities and Fund Balance</b>			
<b>Liabilities</b>			
Accounts payable	4,590	-	4,590
<b>Total Liabilities</b>	<b>4,590</b>	<b>-</b>	<b>4,590</b>
<b>Fund Balance</b>			
Unrestricted	471,324	(471,324)	-
<b>Total Fund Balance</b>	<b>471,324</b>	<b>(471,324)</b>	<b>-</b>
<b>Total Liabilities and Fund Balance</b>	<b>\$ 475,914</b>	<b>(471,324)</b>	<b>4,590</b>
<b>Net Position</b>			
Invested in capital assets		28,013	28,013
Unrestricted		899,540	899,540
<b>Total Net Position</b>		<b>\$ 456,229</b>	<b>\$ 927,553</b>

**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, 2020**

	<u>Governmental Fund</u>	<u>Adjustments</u>	<u>Statement of Net Position</u>
<b>Expenses</b>			
Community development	\$ 109,774	\$ (58,870)	\$ 50,904
<b>Total Expenses</b>	<u>109,774</u>	<u>(58,870)</u>	<u>50,904</u>
<b>Program Revenues</b>			
Charges for services	3,810	-	3,810
<b>Total Program Revenues</b>			
<b>Net Expenses</b>	<u>(105,964)</u>	<u>58,870</u>	<u>(47,094)</u>
<b>General Revenues</b>			
Property taxes	124,113	-	124,113
Sale of investment property	165,675	(59,231)	106,444
Unrestricted investment earnings	1,282	-	1,282
<b>Total General Revenues</b>	<u>291,070</u>	<u>(59,231)</u>	<u>231,839</u>
<b>Change in Net Position</b>	185,106	(361)	184,745
<b>Net Position, Beginning of Year</b>	<u>286,218</u>	<u>456,590</u>	<u>742,808</u>
<b>Net Position, End of Year</b>	<u>\$ 471,324</u>	<u>\$ 456,229</u>	<u>\$ 927,553</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, 2020, 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 November 24, 2020.

**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 2020-1, 2020-2 and 2020-3.

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 finding 2020-4.

**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, 2020

**Finding 2020-1 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 2020-2 Lack of Segregation of Duties (Repeat finding)**

Internal Control Finding considered a material weakness

*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 2020-3 Balance Sheets Out of Balance (Repeat finding)**

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, 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 third 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 2020-4 Bank Reconciliations – Common checking (Repeat finding)**

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.