



**CITY OF READING  
HILLSDALE COUNTY, MICHIGAN**

**ANNUAL FINANCIAL REPORT**

**YEAR ENDED JUNE 30, 2021**

# TABLE OF CONTENTS

	<u>Page</u>
<b>Independent Auditor's Report</b>	1
<b>Management's Discussion and Analysis</b>	5
<b>BASIC FINANCIAL STATEMENTS</b>	
<b>Government-wide Financial Statements</b>	
Statement of Net Position	15
Statement of Activities	16
<b>Fund Financial Statements</b>	
<b>Governmental Funds</b>	
Balance Sheet	17
Reconciliation of Governmental Funds Balance Sheet to the Statement of Net Position	18
Statement of Revenues, Expenditures, and Changes in Fund Balances	19
Reconciliation of Statement of Revenues, Expenditures, and Changes in Fund Balances with the Statement of Activities	20
<b>Proprietary Funds</b>	
Statement of Net Position	21
Statement of Revenues, Expenses, and Changes in Net Position	22
Statement of Cash Flows	23
<b>Fiduciary Funds</b>	
Statement of Fiduciary Net Position	25
Statement of Change in Fiduciary Net Position	26
<b>Notes to the Financial Statements</b>	28
<b>REQUIRED SUPPLEMENTARY INFORMATION</b>	
Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual - General Fund	51
Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual - Major Streets	52
MERS Agent Multiple-Employer Defined Benefit Pension Plan:	
Schedule of Changes in Net Pension Liability and Related Ratios	53
Schedule of Contributions	54
Notes to the Required Supplementary Information	55

## INDEPENDENT AUDITOR'S REPORT

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

***Report on the Financial Statements***

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Reading, Michigan (the "City"), as of and for the year ended June 30, 2021, 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 did not audit the financial statements of the investment in joint venture (the Reading Fire Department), whose balance comprises approximately 5.9% and 6.9% of the total assets and deferred outflows and net position, respectively, of the governmental activities. Their financial statements were audited by other auditors whose report has been furnished to us and, in our opinion, insofar as it relates to the amounts included for these investments, is based solely on the report of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used

and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

### ***Opinions***

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City, as of June 30, 2021, 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, the pension schedules, and budgetary comparison information, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated January 3, 2022, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely 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 effectiveness of the City's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

A handwritten signature in cursive script that reads "Gabridge & Company".

Gabridge & Company, PLC  
Grand Rapids, Michigan  
January 3, 2022

## **Management's Discussion and Analysis**

**City of Reading**  
**Management's Discussion and Analysis**  
**June 30, 2021**

As management of the City of Reading, Michigan (The "City" or "government") we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2021. We encourage readers to consider the information presented here in conjunction with the financial statements.

**Financial Highlights**

- The assets and deferred outflows of resources of the City exceeded its liabilities and deferred inflows of resources at the close of the most recent fiscal year by \$4,748,385 (net position). Of this amount, \$1,056,014 represents unrestricted net position, which may be used to meet the government's ongoing obligations to citizens and creditors.
- At the close of the current fiscal year, the City's governmental funds reported combined fund balances of \$781,785, decrease of \$47,495 in comparison with the prior year. Approximately 75.3%, or \$588,593, of this amount is available for spending at the City's discretion (*unassigned fund balance*).
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$588,593, or approximately 93.3% of total general fund expenditures and transfers out.

**Overview of the Financial Statements**

The discussion and analysis provided here is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements consist of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also includes supplementary information intended to furnish additional detail to support the basic financial statements themselves.

**Government-wide Financial Statements.** The government-wide financial statements are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business.

The *statement of net position* presents financial information on all of the City's assets, deferred outflows of resources, liabilities, and deferred inflows of resources, with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The *statement of activities* presents information showing how the City's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported for some items that will only result in cash flows in future fiscal periods (e.g., changes in the net pension liability and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City include general government, police and fire protection, streets, health and welfare, community and economic development, and recreation and culture. The business-type activities of the City include water, sewer, and refuse services.

The government-wide financial statements include not only the City itself (known as the primary government), but also a legally separate Tax Increment Finance Authority (the “TIFA”) for which the City is financially accountable. Financial information for the TIFA is reported separately from the financial information presented for the primary government itself.

**Fund Financial Statements.** A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

**Governmental Funds.** *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in assessing a government’s near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government’s near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The City maintains four individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general, major and local streets, and capital improvement funds, all but the local streets fund are considered to be major funds.

The City adopts an annual appropriated budget for the general fund and each special revenue fund. A budgetary comparison schedule for the general fund and each major special revenue fund has been provided to demonstrate compliance with these budgets.

**Proprietary Funds.** The City maintains two types of proprietary funds, enterprise funds and internal service funds. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The City uses enterprise funds to



account for its water, sewer, and refuse operations. *Internal service funds* are an accounting device used to accumulate and allocate costs internally among the City's various functions.

The City uses an internal service fund to account for equipment costs by allocating the cost to the funds that are using the resources. Because these services predominantly benefit governmental rather than business-type functions, they have been included within the governmental activities in the government-wide financial statements.

### **Fiduciary Funds**

Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statement because the resources of those funds are not available to support the City's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

**Notes to the Financial Statements.** The notes provide additional information that is necessary to acquire a full understanding of the data provided in the government-wide and fund financial statements.

**Other Information.** In addition to the basic financial statements and accompanying notes, this report also presents *required supplementary information* concerning the City's budgetary comparison schedules and the City's pension plan schedules.

### **Government-wide Overall Financial Analysis**

As noted earlier, net position over time may serve as a useful indicator of a government's financial position. In the case of the City, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$4,748,385 at the close of the most recent fiscal year.

**City of Reading's Net Position**

	Governmental Activities		Business-type Activities		Total Primary Government	
	2021	2020	2021	2020	2021	2020
<b>ASSETS</b>						
<i>Current Assets</i>						
Cash and Investments	\$ 818,588	\$ 851,209	\$ 230,701	\$ 122,825	\$ 1,049,289	\$ 974,034
Accounts Receivable, net	9,801	7,588	99,762	99,082	109,563	106,670
Due from Other Governmental Units	72,879	75,577	-	-	72,879	75,577
Inventory	-	-	19,763	16,693	19,763	16,693
<b>Total Current Assets</b>	<b>901,268</b>	<b>934,374</b>	<b>350,226</b>	<b>238,600</b>	<b>1,251,494</b>	<b>1,172,974</b>
<i>Noncurrent Assets</i>						
Capital Assets, net	1,707,622	1,648,604	5,245,493	5,425,384	6,953,115	7,073,988
Investment in Joint Venture	166,056	200,000	-	-	166,056	200,000
Restricted Cash	-	-	513,550	469,150	513,550	469,150
<b>Total Assets</b>	<b>2,774,946</b>	<b>2,782,978</b>	<b>6,109,269</b>	<b>6,133,134</b>	<b>8,884,215</b>	<b>8,916,112</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>						
Pension Related	22,145	18,168	12,876	-	35,021	18,168
<b>Total Deferred Outflows of Resources</b>	<b>22,145</b>	<b>18,168</b>	<b>12,876</b>	<b>-</b>	<b>35,021</b>	<b>18,168</b>
<b>LIABILITIES</b>						
<i>Current Liabilities</i>						
Accounts Payable	45,777	2,427	3,946	1,198	49,723	3,625
Accrued Liabilities	19,827	5,363	3,341	2,299	23,168	7,662
Accrued Interest	-	-	26,333	27,625	26,333	27,625
Current Portion of Long-term Debt	55,000	55,000	98,000	94,000	153,000	149,000
<b>Total Current Liabilities</b>	<b>120,604</b>	<b>62,790</b>	<b>131,620</b>	<b>125,122</b>	<b>252,224</b>	<b>187,912</b>
<i>Noncurrent Liabilities</i>						
Long-term Debt	180,000	235,000	3,610,000	3,706,000	3,790,000	3,941,000
Compensated Absences	16,238	12,602	5,209	10,614	21,447	23,216
Net Pension Liability	54,495	82,258	31,684	-	86,179	82,258
<b>Total Liabilities</b>	<b>371,337</b>	<b>392,650</b>	<b>3,778,513</b>	<b>3,841,736</b>	<b>4,149,850</b>	<b>4,234,386</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>						
Pension Related	13,280	9,416	7,721	-	21,001	9,416
<b>Total Deferred Inflows of Resources</b>	<b>13,280</b>	<b>9,416</b>	<b>7,721</b>	<b>-</b>	<b>21,001</b>	<b>9,416</b>
<b>NET POSITION</b>						
Net Investment in Capital Assets	1,472,622	1,358,604	1,537,493	1,640,307	3,010,115	2,998,911
Restricted	168,706	126,966	513,550	469,150	682,256	596,116
Unrestricted	771,146	913,510	284,868	181,941	1,056,014	1,095,451
<b>Total Net Position</b>	<b>\$ 2,412,474</b>	<b>\$ 2,399,080</b>	<b>\$ 2,335,911</b>	<b>\$ 2,291,398</b>	<b>\$ 4,748,385</b>	<b>\$ 4,690,478</b>

A significant portion of the City's net position (\$3,010,115, or 63.4%) reflects its investment in capital assets (e.g., land, buildings and improvements, machinery, equipment, vehicles, and infrastructure), less any related outstanding debt that was used to acquire those assets. The City uses these capital assets to provide a variety of services to its citizens. Accordingly, these assets are not available for future spending. Although the City's investment in capital assets is reported net of related debt, it should be noted that the resources used to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the City's net position (\$682,256, or 14.4%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$1,056,014, or 22.2%, is unrestricted and may be used to meet the government's ongoing obligations to its citizens and creditors.

At the end of the current fiscal year, the City is able to report positive balances in all reported categories of net position, both for the government as a whole, as well as for its separate governmental and business-type activities. The same situation held true for the prior fiscal year.

Cash and investments increased by \$75,255 compared to the prior year, primarily a result of the increase in net position of \$51,910. Net capital assets had an overall decrease of \$120,873 as

depreciation exceeded additions during the year. Net pension liability increased by \$3,921 during the year, despite a 13.59% rate of return on the City's pension assets. The increase in the net pension liability is largely attributable to new actuarial assumptions and actuarial experience which led to an increase of the pension liability of \$50,851 and \$11,540, respectively.

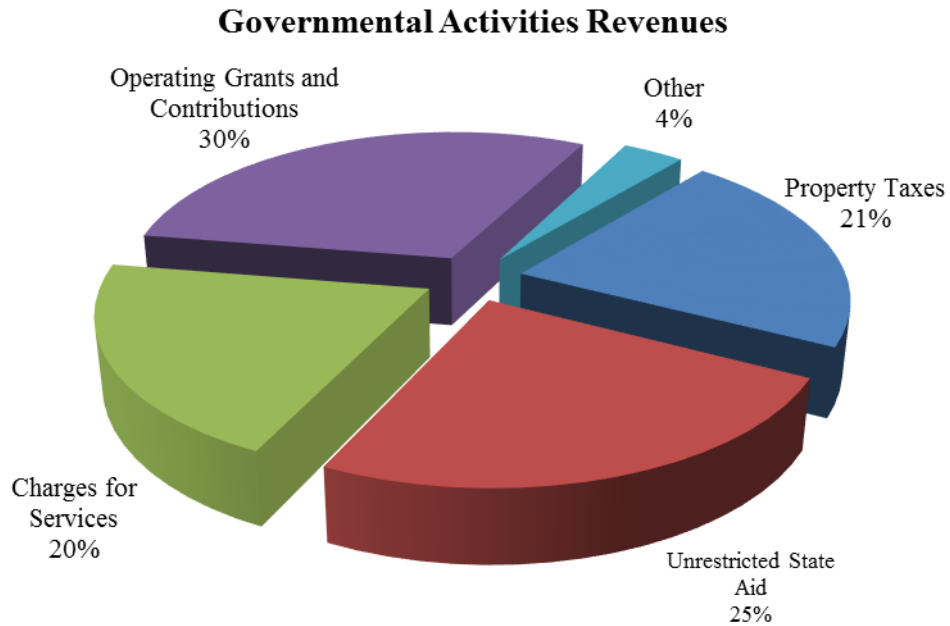
The City's overall net position increased \$57,907 from the prior fiscal year. The reasons for this overall increase are discussed in the following sections for governmental activities and business-type activities.

**City of Reading's Changes in Net Position**

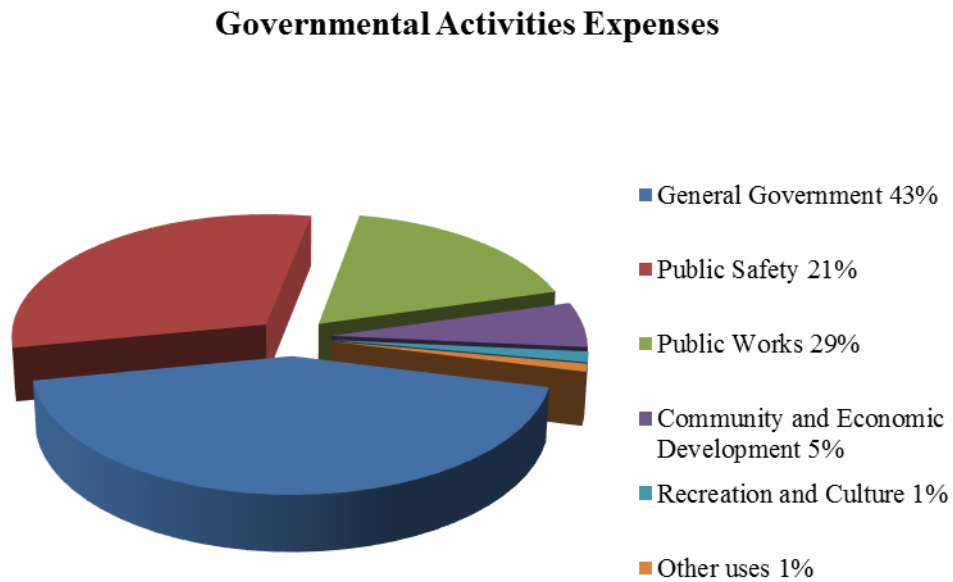
	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total Primary Government</u>	
	<u>2021</u>	<u>2020</u>	<u>2021</u>	<u>2020</u>	<u>2021</u>	<u>2020</u>
<b>Revenue</b>						
<b>Program Revenues</b>						
Charges for Services	\$ 155,490	\$ 153,822	\$ 693,910	\$ 673,925	\$ 849,400	\$ 827,747
Operating Grants and Contributions	228,039	134,184	-	-	228,039	134,184
Capital Grants and Contributions	23,750	151,005	-	-	23,750	151,005
<b>Total Program Revenues</b>	<u>407,279</u>	<u>439,011</u>	<u>693,910</u>	<u>673,925</u>	<u>1,101,189</u>	<u>1,112,936</u>
<b>General Revenues and Transfers</b>						
Property Taxes	162,965	158,040	-	-	162,965	158,040
Unrestricted State Aid	186,651	148,582	-	-	186,651	148,582
Interest and Investment Earnings	3,207	4,044	1,073	4,824	4,280	8,868
Transfers	(32,259)	20,912	32,259	(20,912)	-	-
<b>Total General Revenues and Transfers</b>	<u>320,564</u>	<u>331,578</u>	<u>33,332</u>	<u>(16,088)</u>	<u>353,896</u>	<u>315,490</u>
<b>Total Revenues</b>	<u>727,843</u>	<u>770,589</u>	<u>727,242</u>	<u>657,837</u>	<u>1,455,085</u>	<u>1,428,426</u>
<b>Expenses</b>						
General Government	310,229	290,722	-	-	310,229	290,722
Public Safety	217,431	155,853	-	-	217,431	155,853
Public Works	126,773	126,488	-	-	126,773	126,488
Community and Economic Development	42,647	7,916	-	-	42,647	7,916
Recreation and Culture	10,011	4,173	-	-	10,011	4,173
Interest on Long-term Debt	7,358	8,458	-	-	7,358	8,458
Sewer Operations	-	-	254,772	237,810	254,772	237,810
Water Operations	-	-	349,059	323,647	349,059	323,647
Refuse Operations	-	-	78,898	65,274	78,898	65,274
<b>Total Expenses</b>	<u>714,449</u>	<u>593,610</u>	<u>682,729</u>	<u>626,731</u>	<u>1,397,178</u>	<u>1,220,341</u>
<b>Change in Net Position</b>	<u>13,394</u>	<u>176,979</u>	<u>44,513</u>	<u>31,106</u>	<u>57,907</u>	<u>208,085</u>
<i>Net Position at the Beginning of Period</i>	<u>2,399,080</u>	<u>2,222,101</u>	<u>2,291,398</u>	<u>2,260,292</u>	<u>4,690,478</u>	<u>4,482,393</u>
<b>Net Position at the End of Period</b>	<u>\$ 2,412,474</u>	<u>\$ 2,399,080</u>	<u>\$ 2,335,911</u>	<u>\$ 2,291,398</u>	<u>\$ 4,748,385</u>	<u>\$ 4,690,478</u>

Overall, revenues increased by \$26,659 compared to fiscal 2020. The most significant changes in revenues were within state aid (more revenues were available for distribution according to the State's formulas in fiscal 2021) and an increase in tax revenues (the taxable values within the City increased by 3.5%). Expenses were up by \$120,839 primarily due to a decrease in the City's share of the joint venture (the Reading Fire Department) of \$33,944 (compared to an increase of \$9,798 in fiscal 2020). Also, planning, zoning, and economic development expenses were up by roughly \$34,000 compared to the prior year.

The following chart summarizes the revenue sources for the governmental activities of the City for the most recent fiscal year-end.



The following chart summarizes the expenses for the governmental activities of the City for the most recent fiscal year-end.



## **Financial Analysis of Governmental Funds**

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

**Governmental Funds.** The focus of the City's *governmental funds* is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unassigned fund balance may serve as a useful measure of a government's net resources available for discretionary use as they represent the portion of fund balance which has not yet been limited to use for a particular purpose by either an external party, the City itself, or a group or individual that has been delegated authority to assign resources for use for particular purposes by the City's Council.

At June 30, 2021, the City's governmental funds reported combined fund balances of \$781,785, a decrease of \$47,495 in comparison with the prior year. Approximately 76.6% of this amount, or \$599,108, constitutes *unassigned fund balance*, which is available for spending at the government's discretion. The remainder of the fund balance is either *assigned* or *restricted* to indicate that it is 1) restricted for particular purposes (\$158,191, or 20.2%) or 2) assigned (\$24,486, or 3.1%).

The general fund is the chief operating fund of the City. At the end of the current fiscal year, unassigned and total fund balance of the general fund was \$588,593. As a measure of the general fund's liquidity, it may be useful to compare unassigned fund balance to total general fund expenditures and transfers out. Unassigned fund balance represents approximately 93.3% of total general fund expenditures and transfers out.

The major streets fund, a major fund, had a \$13,348 increase in fund balance during the current fiscal year which put the overall fund balance at \$119,051.

The local streets fund, a nonmajor fund, had a \$17,877 increase in fund balance during the current fiscal year which put the overall fund balance at \$39,140. The increase in fund balance was largely aided by net transfers in of \$10,160.

The capital projects fund, a major fund, had a \$60,483 decrease in fund balance during the year which put overall fund balance at \$24,486. The most significant reason for the decrease in fund balance was the \$125,142 of capital outlay expenditures for various projects during the year.

## **General Fund Budgetary Highlights**

*Original budget compared to final budget.* The City had one significant amendment to the original estimated revenues: intergovernmental revenues were estimated from \$230,750 to \$149,250 to as actual amounts became better known as the year progressed. There were no significant amendments to the original budgeted appropriations; however, there were minor adjustments approved by the City Council throughout the year to better allocate expenditures.

*Final budget compared to actual results.* The City had the following expenditures in excess of the amount appropriated during the year ended June 30, 2021:

<b>Fund / Department</b>	<b>Final Budget</b>	<b>Actual Amount</b>	<b>Negative Variance</b>
<b>General Fund</b>			
General Government	\$ 32,504	\$ 49,384	\$ (16,880)
Assessor / Tax Bills	11,920	13,767	(1,847)
Building and Grounds	82,322	82,420	(98)
Police	158,198	158,789	(591)
Transfers Out	72,000	73,250	(1,250)

### **Capital Assets and Debt Administration**

#### ***Capital Assets***

The City's investment in capital assets for its governmental and business-type activities as of June 30, 2021 amounted to \$6,953,115 (net of accumulated depreciation). This investment in capital assets includes land, buildings, machinery, equipment, vehicles, and water infrastructure. More detailed information about the City's capital assets can be found in note 4.

#### ***Long-term Debt***

As described in note 6 to the financial statements, the City had \$3,943,000 of bonds payable at the end of the fiscal year. The City paid down \$147,000 of its outstanding bonds payable during the current fiscal year and is scheduled to pay down another \$153,000 in the upcoming fiscal year.

### **Economic Condition and Outlook**

Management estimates a similar level of revenues will be available for appropriation in the general fund in the upcoming budget. Expenditures are expected to be comparable to the actual and budgeted expenditures of the current year. The City continues to review all budget line items for opportunities to reduce expenditures when possible. The budget will be monitored during the year to identify any necessary amendments. In 2022, the City plans again to use current revenues to provide essential services and to maintain the City's financial reserves at similar levels. The ongoing costs of providing essential services for the citizens of the City will again need to be monitored in order to maintain the financial condition of the City. Additionally, the City is currently working to determine the significance that the COVID-19 Pandemic will have on the City's upcoming revenues and expenditures.

## **Contacting the City**

This financial report is designed to provide a general overview of the City's finances to its citizens, customers, investors, and creditors and to demonstrate the City's accountability for the resources it receives. Questions regarding any information provided in this report or requests for additional financial information should be addressed to:

The City of Reading  
113 S. Main Street  
Reading, MI 49274

## **Basic Financial Statements**



**City of Reading**  
**Statement of Net Position**  
**June 30, 2021**

	Primary Government			Component Unit - TIFA
	Governmental Activities	Business-type Activities	Total	
<b>ASSETS</b>				
<i>Current Assets</i>				
Cash and Investments	\$ 818,588	\$ 230,701	\$ 1,049,289	\$ 542,916
Accounts Receivable, net	9,801	99,762	109,563	--
Due from Other Governmental Units	72,879	--	72,879	6,650
Inventory	--	19,763	19,763	--
<b>Total Current Assets</b>	<b>901,268</b>	<b>350,226</b>	<b>1,251,494</b>	<b>549,566</b>
<i>Noncurrent Assets</i>				
Capital Assets not being Depreciated	205,564	20,550	226,114	--
Capital Assets being Depreciated, Net	1,502,058	5,224,943	6,727,001	25,679
Investment in Joint Venture	166,056	--	166,056	--
Assets Held For Resale	--	--	--	428,216
Restricted Cash, Bond Reserve	--	257,650	257,650	--
Restricted Cash, RRI	--	255,900	255,900	--
<b>Total Assets</b>	<b>2,774,946</b>	<b>6,109,269</b>	<b>8,884,215</b>	<b>1,003,461</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>				
Pension Related Deferred Outflows	22,145	12,876	35,021	--
<b>Total Deferred Outflows of Resources</b>	<b>22,145</b>	<b>12,876</b>	<b>35,021</b>	<b>--</b>
<b>LIABILITIES</b>				
<i>Current Liabilities</i>				
Accounts Payable	45,777	3,946	49,723	8,851
Accrued Liabilities	19,827	3,341	23,168	--
Accrued Interest	--	26,333	26,333	--
Current Portion of Long-term Debt	55,000	98,000	153,000	--
<b>Total Current Liabilities</b>	<b>120,604</b>	<b>131,620</b>	<b>252,224</b>	<b>8,851</b>
<i>Noncurrent Liabilities</i>				
Long-term Debt	180,000	3,610,000	3,790,000	--
Compensated Absences	16,238	5,209	21,447	--
Net Pension Liability	54,495	31,684	86,179	--
<b>Total Liabilities</b>	<b>371,337</b>	<b>3,778,513</b>	<b>4,149,850</b>	<b>8,851</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Pension Related Deferred Inflows	13,280	7,721	21,001	--
<b>Total Deferred Inflows of Resources</b>	<b>13,280</b>	<b>7,721</b>	<b>21,001</b>	<b>--</b>
<b>NET POSITION</b>				
Net Investment in Capital Assets	1,472,622	1,537,493	3,010,115	25,679
<i>Restricted for:</i>				
Streets	158,191	--	158,191	--
Bond Reserve	--	257,650	257,650	--
RRI	--	255,900	255,900	--
Cemetery	8,045	--	8,045	--
Police	2,470	--	2,470	--
<i>Unrestricted</i>	771,146	284,868	1,056,014	968,931
<b>Total Net Position</b>	<b>\$ 2,412,474</b>	<b>\$ 2,335,911</b>	<b>\$ 4,748,385</b>	<b>\$ 994,610</b>

The Notes to the Financial Statements are an integral part of these Financial Statements

**City of Reading**  
**Statement of Activities**  
**For the year Ended June 30, 2021**

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue			Component Unit - TIFA
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total	
<b>Primary Government</b>								
<b>Governmental Activities:</b>								
General Government	\$ 310,229	\$ 151,571	\$ 63,977	\$ --	\$ (94,681)	\$ --	\$ (94,681)	\$ --
Public Safety	217,431	2,773	10,445	--	(204,213)	--	(210,210)	--
Public Works	126,773	75	147,617	--	20,919	--	20,919	--
Community and Economic Development	42,647	1,071	--	--	(41,576)	--	(41,576)	--
Recreation and Culture	10,011	--	6,000	23,750	19,739	--	19,739	--
Interest on Long-term Debt	7,358	--	--	--	(7,358)	--	(7,358)	--
<b>Total Governmental Activities</b>	<b>714,449</b>	<b>155,490</b>	<b>228,039</b>	<b>23,750</b>	<b>(307,170)</b>	<b>--</b>	<b>(313,167)</b>	<b>--</b>
<b>Business-type Activities:</b>								
Sewer	254,772	293,811	--	--	--	39,039	39,039	--
Water	349,059	338,660	--	--	--	(10,399)	(10,399)	--
Refuse (Nonmajor)	78,898	61,439	--	--	--	(17,459)	(17,459)	--
<b>Total Business-type Activities</b>	<b>682,729</b>	<b>693,910</b>	<b>--</b>	<b>--</b>	<b>--</b>	<b>11,181</b>	<b>11,181</b>	<b>--</b>
<b>Total Primary Government</b>	<b>\$ 1,397,178</b>	<b>\$ 849,400</b>	<b>\$ 228,039</b>	<b>\$ 23,750</b>	<b>(307,170)</b>	<b>11,181</b>	<b>(295,989)</b>	<b>--</b>
<b>Component Units</b>								
Tax Increment Finance Authority	\$ 62,408	\$ 2,250	\$ --	\$ --	--	--	--	(60,158)
<b>Total Component Units</b>	<b>\$ 62,408</b>	<b>\$ 2,250</b>	<b>\$ --</b>	<b>\$ --</b>	<b>--</b>	<b>--</b>	<b>--</b>	<b>(60,158)</b>
<b>General Purpose Revenues and Transfers:</b>								
<b>Revenues</b>								
Property Taxes					162,965	--	162,965	125,639
Interest and Investment Earnings					3,207	1,073	4,280	1,576
Unrestricted State Aid					186,651	--	186,651	--
<b>Transfers - Internal Service Fund Equity Elimination</b>					<b>(57,759)</b>	<b>57,759</b>	<b>--</b>	<b>--</b>
<b>Transfers</b>					<b>25,500</b>	<b>(25,500)</b>	<b>--</b>	<b>--</b>
<b>Total General Revenues and Transfers</b>					<b>320,564</b>	<b>33,332</b>	<b>353,896</b>	<b>127,215</b>
<b>Change in Net Position</b>					<b>13,394</b>	<b>44,513</b>	<b>57,907</b>	<b>67,057</b>
<i>Net Position at Beginning of Period</i>					2,399,080	2,291,398	4,690,478	927,553
<b>Net Position at End of Period</b>					<b>\$ 2,412,474</b>	<b>\$ 2,335,911</b>	<b>\$ 4,748,385</b>	<b>\$ 994,610</b>

The Notes to the Financial Statements are an integral part of these Financial Statements

**City of Reading  
Balance Sheet  
Governmental Funds  
June 30, 2021**

	<u>Special Revenue</u>			<u>Capital Projects</u>	<u>Total Governmental Funds</u>
	<u>General</u>	<u>Major Streets</u>	<u>Local Streets (Nonmajor)</u>	<u>Capital Improvement</u>	
<b>ASSETS</b>					
Cash and Investments	\$ 570,675	\$ 100,929	\$ 33,661	\$ 57,094	\$ 762,359
Accounts Receivable, net	9,801	--	--	--	9,801
Due from Other Governmental Units	48,709	18,549	5,621	--	72,879
<b>Total Assets</b>	<b><u>\$ 629,185</u></b>	<b><u>\$ 119,478</u></b>	<b><u>\$ 39,282</u></b>	<b><u>\$ 57,094</u></b>	<b><u>\$ 845,039</u></b>
<b>LIABILITIES</b>					
Accounts Payable	\$ 11,789	\$ 139	\$ --	\$ 32,608	\$ 44,536
Accrued Liabilities	18,288	288	142	--	18,718
<b>Total Liabilities</b>	<b><u>30,077</u></b>	<b><u>427</u></b>	<b><u>142</u></b>	<b><u>32,608</u></b>	<b><u>63,254</u></b>
<b>FUND BALANCE</b>					
Restricted for:					
Streets	--	119,051	39,140	--	158,191
Cemetery	8,045	--	--	--	8,045
Police	2,470	--	--	--	2,470
Assigned for Capital Projects	--	--	--	24,486	24,486
Unassigned	588,593	--	--	--	588,593
<b>Total Fund Balance</b>	<b><u>599,108</u></b>	<b><u>119,051</u></b>	<b><u>39,140</u></b>	<b><u>24,486</u></b>	<b><u>781,785</u></b>
<b>Total Liabilities and Fund Balance</b>	<b><u>\$ 629,185</u></b>	<b><u>\$ 119,478</u></b>	<b><u>\$ 39,282</u></b>	<b><u>\$ 57,094</u></b>	<b><u>\$ 845,039</u></b>

The Notes to the Financial Statements are an integral part of these Financial Statements

**City of Reading**  
**Reconciliation of Governmental Funds Balance Sheet to the Statement of Net Position**  
**June 30, 2021**

Total Fund Balance - Governmental Funds	\$	781,785
Net position of internal service funds that are treated as proprietary in the fund level statements are treated as governmental in the entity-wide statements.		156,182
General government capital assets of \$2,236,701, net of accumulated depreciations of \$631,382, are not financial resources and, accordingly, are not reported in the funds.		1,605,319
Investments in joint ventures are not financial resources and, accordingly, are not reported in the funds.		166,056
Net pension liability and related deferred amounts are not due and payable in the current period and do not represent current financial resources and, therefore, are not reported in the funds.		(45,630)
Compensated absences are not due and payable in the current period and, therefore, are not reported in the funds.		(16,238)
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds.		(235,000)
<b>Total Net Position - Governmental Activities</b>	<b>\$</b>	<b><u>2,412,474</u></b>

The Notes to the Financial Statements are an integral part of these Financial Statements

**City of Reading**  
**Statement of Revenues, Expenditures, and Changes in Fund Balance**  
**Governmental Funds**  
**For the year Ended June 30, 2021**

	<u>Special Revenue</u>			<u>Capital Projects</u>	<b>Total Governmental Funds</b>
	<u>General</u>	<u>Major Streets</u>	<u>Local Streets (Nonmajor)</u>	<u>Capital Improvement</u>	
<b>Revenues</b>					
Property Taxes	\$ 162,965	\$ --	\$ --	\$ --	\$ 162,965
Intergovernmental	253,746	113,288	34,329	--	401,363
Licenses and Permits	125,227	--	--	--	125,227
Charges for Services	25,028	--	--	--	25,028
Fines and Forfeits	77	--	--	--	77
Interest and Rents	5,863	--	--	--	5,863
Other Revenues	39,460	75	--	--	39,535
<b>Total Revenues</b>	<u>612,366</u>	<u>113,363</u>	<u>34,329</u>	<u>--</u>	<u>760,058</u>
<b>Expenditures</b>					
General Government	305,006	--	--	27,266	332,272
Public Safety	183,789	--	--	--	183,789
Public Works	22,458	45,515	26,612	32,710	127,295
Community and Economic Development	42,647	--	--	--	42,647
Recreation and Culture	3,453	--	--	81,239	84,692
Debt Service, Principal	--	--	--	55,000	55,000
Debt Service, Interest	--	--	--	7,358	7,358
<b>Total Expenditures</b>	<u>557,353</u>	<u>45,515</u>	<u>26,612</u>	<u>203,573</u>	<u>833,053</u>
<b>Excess of Revenues Over (Under) Expenditures</b>	<u>55,013</u>	<u>67,848</u>	<u>7,717</u>	<u>(203,573)</u>	<u>(72,995)</u>
<b>Other Financing Sources (Uses)</b>					
Transfers In	--	--	37,500	143,090	180,590
Transfers Out	(73,250)	(54,500)	(27,340)	--	(155,090)
<b>Net Other Financing Sources (Uses)</b>	<u>(73,250)</u>	<u>(54,500)</u>	<u>10,160</u>	<u>143,090</u>	<u>25,500</u>
<b>Net Change in Fund Balance</b>	<b>(18,237)</b>	<b>13,348</b>	<b>17,877</b>	<b>(60,483)</b>	<b>(47,495)</b>
<i>Fund Balance at Beginning of Period</i>	617,345	105,703	21,263	84,969	829,280
<b>Fund Balance at End of Period</b>	<u>\$ 599,108</u>	<u>\$ 119,051</u>	<u>\$ 39,140</u>	<u>\$ 24,486</u>	<u>\$ 781,785</u>

The Notes to the Financial Statements are an integral part of these Financial Statements

**City of Reading**  
**Reconciliation of Governmental Funds Statement of Revenues, Expenditures, and**  
**Changes in Fund Balance with Statement of Activities**  
**For the year Ended June 30, 2021**

Total Net Change in Fund Balances - Governmental Funds	\$	(47,495)
Changes in net position of internal service funds that are treated as enterprise fund changes in net position in the fund level statements are treated as governmental fund changes in net position in the entity-wide statements.		57
Compensated absences are not due and payable in the current period and, therefore, are not reported in the funds.		(3,636)
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 as depreciation expense. This is the amount by which capital outlay of \$125,142 exceeds depreciation expense of \$50,693.		74,449
Changes in certain assets and liabilities on the government-wide statements, such as the equity interest in joint ventures, do not require or provide resources and, accordingly, are excluded from the fund statements. This represents the decrease in the equity interest in joint ventures.		(33,944)
The statement of activities reports changes to net pension liability and pension-related deferrals as pension expense; however, the expenditures recorded on the governmental funds equals actual pension contributions.		26,722
Prior allocations of the equity of the internal service fund have been reported within governmental activities as the internal service fund predominately benefits governmental activities.		(57,759)
Current year long-term debt principal payments on bonds payable are expenditures in the fund financial statements but are reductions in long-term debt in the government-wide financial statements.		55,000
<b>Changes in Net Position - Governmental Activities</b>	<b>\$</b>	<b><u>13,394</u></b>

The Notes to the Financial Statements are an integral part of these Financial Statements

**City of Reading  
Statement of Net Position  
Proprietary Funds  
June 30, 2021**

	<b>Business-type Activities - Enterprise Funds</b>				<b>Governmental Activities Internal Service Funds</b>
	<b>Sewer</b>	<b>Water</b>	<b>Refuse (Nonmajor)</b>	<b>Total Enterprise Funds</b>	
<b>ASSETS</b>					
<i>Current Assets</i>					
Cash and Investments	\$ 100,022	\$ 119,357	\$ 11,322	\$ 230,701	\$ 56,229
Accounts Receivable, net	43,739	44,541	11,482	99,762	--
Inventory	--	19,763	--	19,763	--
<b>Total Current Assets</b>	<b>143,761</b>	<b>183,661</b>	<b>22,804</b>	<b>350,226</b>	<b>56,229</b>
<i>Noncurrent Assets</i>					
Capital Assets not being Depreciated	20,500	50	--	20,550	--
Capital Assets being Depreciated, Net	1,978,410	3,246,533	--	5,224,943	102,303
Restricted Cash, Bond Reserve	131,000	126,650	--	257,650	--
Restricted Cash, RRI	78,300	177,600	--	255,900	--
<b>Total Assets</b>	<b>2,351,971</b>	<b>3,734,494</b>	<b>22,804</b>	<b>6,109,269</b>	<b>158,532</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>					
Aggregated deferred outflows	5,272	5,862	1,742	12,876	--
<b>Total Deferred Outflows of Resources</b>	<b>5,272</b>	<b>5,862</b>	<b>1,742</b>	<b>12,876</b>	<b>--</b>
<b>LIABILITIES</b>					
<i>Current Liabilities</i>					
Accounts Payable	672	3,188	86	3,946	1,241
Accrued Liabilities	1,221	1,509	611	3,341	1,109
Accrued Interest	14,018	12,315	--	26,333	--
Current Portion of Long-term Debt	44,000	54,000	--	98,000	--
<b>Total Current Liabilities</b>	<b>59,911</b>	<b>71,012</b>	<b>697</b>	<b>131,620</b>	<b>2,350</b>
<i>Noncurrent Liabilities</i>					
Long-term Debt	1,995,000	1,615,000	--	3,610,000	--
Compensated Absences	1,922	2,451	836	5,209	--
Net Pension Liability	12,973	14,425	4,286	31,684	--
<b>Total Liabilities</b>	<b>2,069,806</b>	<b>1,702,888</b>	<b>5,819</b>	<b>3,778,513</b>	<b>2,350</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>					
Aggregated deferred inflows	3,162	3,515	1,044	7,721	--
<b>Total Deferred Inflows of Resources</b>	<b>3,162</b>	<b>3,515</b>	<b>1,044</b>	<b>7,721</b>	<b>--</b>
<b>NET POSITION</b>					
Net Investment in Capital Assets	--	1,537,493	--	1,537,493	102,303
<i>Restricted for:</i>					
Bond Reserve	131,000	126,650	--	257,650	--
RRI	78,300	177,600	--	255,900	--
<i>Unrestricted</i>	74,975	192,210	17,683	284,868	53,879
<b>Total Net Position</b>	<b>\$ 284,275</b>	<b>\$ 2,033,953</b>	<b>\$ 17,683</b>	<b>\$ 2,335,911</b>	<b>\$ 156,182</b>

The Notes to the Financial Statements are an integral part of these Financial Statements

**City of Reading**  
**Statement of Revenues, Expenses, and Changes in Net Position**  
**Proprietary Funds**  
**For the year Ended June 30, 2021**

	Business-type Activities - Enterprise Funds				Governmental Activities
	Sewer	Water	Refuse (Nonmajor)	Total Enterprise Funds	Internal Service Funds
<b>Operating Revenues</b>					
Charges for Services	\$ 293,811	\$ 338,660	\$ 61,439	\$ 693,910	\$ 71,175
Other Revenues	--	--	--	--	3,331
<b>Total Operating Revenues</b>	<u>293,811</u>	<u>338,660</u>	<u>61,439</u>	<u>693,910</u>	<u>74,506</u>
<b>Operating Expenses</b>					
Salaries and Benefits	53,443	81,335	26,414	161,192	17,239
General Operations and Maintenance	49,751	80,723	52,484	182,958	32,823
Depreciation	67,167	112,724	--	179,891	24,431
<b>Total Operating Expenses</b>	<u>170,361</u>	<u>274,782</u>	<u>78,898</u>	<u>524,041</u>	<u>74,493</u>
<b>Operating Income (Loss)</b>	<u>123,450</u>	<u>63,878</u>	<u>(17,459)</u>	<u>169,869</u>	<u>13</u>
<b>Non-Operating Revenues (Expenses)</b>					
Interest and Investment Earnings	75	998	--	1,073	44
Interest Expense	(84,411)	(74,277)	--	(158,688)	--
<b>Net Non-Operating Revenues (Expenses)</b>	<u>(84,336)</u>	<u>(73,279)</u>	<u>--</u>	<u>(157,615)</u>	<u>44</u>
<b>Income Before Contributions and Transfers</b>	39,114	(9,401)	(17,459)	12,254	57
Transfers In	--	--	--	--	--
Transfers Out	(5,000)	(20,500)	--	(25,500)	--
<b>Change In Net Position</b>	<u>34,114</u>	<u>(29,901)</u>	<u>(17,459)</u>	<u>(13,246)</u>	<u>57</u>
<i>Net Position at Beginning of Period</i>	250,161	2,063,854	35,142	2,349,157	156,125
<b>Net Position at End of Period</b>	<u>\$ 284,275</u>	<u>\$ 2,033,953</u>	<u>\$ 17,683</u>	<u>\$ 2,335,911</u>	<u>\$ 156,182</u>

The Notes to the Financial Statements are an integral part of these Financial Statements



**City of Reading**  
**Statement of Cash Flows**  
**Proprietary Funds**  
**For the Year Ended June 30, 2021**

	<u>Business-type Activities - Enterprise Funds</u>			<u>Total Enterprise Funds</u>	<u>Governmental Activities</u>
	<u>Sewer</u>	<u>Water</u>	<u>Refuse (Nonmajor)</u>		<u>Internal Service Fund</u>
<b>Cash Flows from Operating Activities</b>					
Cash Received from Charges for Services	\$ 293,518	\$ 338,852	\$ 60,860	\$ 693,230	\$ -
Cash Received from Interfund Services Provided	-	-	-	-	74,506
Cash Paid to Employees for Services and Fringe Benefits	(44,325)	(71,008)	(23,693)	(139,026)	(17,479)
Cash Paid to Suppliers for Good and Services	(49,519)	(81,363)	(52,398)	(183,280)	(31,582)
<b>Net Cash Provided (Used) by Operating Activities</b>	<u>199,674</u>	<u>186,481</u>	<u>(15,231)</u>	<u>370,924</u>	<u>25,445</u>
<b>Cash Flows from Non-capital Financing Activities</b>					
Transfers Out	(5,000)	(20,500)	-	(25,500)	-
<b>Net Cash Used by Non-capital Financing Activities</b>	<u>(5,000)</u>	<u>(20,500)</u>	<u>-</u>	<u>(25,500)</u>	<u>-</u>
<b>Cash Flows from Capital and Related Financing Activities</b>					
Capital Asset Purchases	-	-	-	-	(9,000)
Principal Payments on Long-term Debt	(42,000)	(50,000)	-	(92,000)	-
Interest Payments on Long-term Debt	(84,975)	(75,005)	-	(159,980)	-
<b>Net Cash Used by Capital and Related Financing Activities</b>	<u>(126,975)</u>	<u>(125,005)</u>	<u>-</u>	<u>(251,980)</u>	<u>(9,000)</u>
<b>Cash Flows from Investing Activities</b>					
Interest and Investment Earnings	75	998	-	1,073	44
<b>Net Cash Provided by Investing Activities</b>	<u>75</u>	<u>998</u>	<u>-</u>	<u>1,073</u>	<u>44</u>
<b>Net Increase (Decrease) in Cash and Investments</b>	67,774	41,974	(15,231)	94,517	16,489
<i>Cash and Investments - Beginning of Year</i>	241,548	381,633	26,553	649,734	39,740
<b>Cash and Investments - End of Year</b>	<u>\$ 309,322</u>	<u>\$ 423,607</u>	<u>\$ 11,322</u>	<u>\$ 744,251</u>	<u>\$ 56,229</u>
<b>Summary of Cash from Statement of Net Position</b>					
Cash and Investments	\$ 100,022	\$ 119,357	\$ 11,322	\$ 230,701	\$ 56,229
Restricted Cash, Bond Reserve	131,000	126,650	-	257,650	-
Restricted Cash, RRI	78,300	177,600	-	255,900	-
<b>Total Cash and Investments</b>	<u>\$ 309,322</u>	<u>\$ 423,607</u>	<u>\$ 11,322</u>	<u>\$ 744,251</u>	<u>\$ 56,229</u>

The Notes to the Financial Statements are an integral part of these Financial Statements

**City of Reading**  
**Statement of Cash Flows**  
**Proprietary Funds**  
**For the Year Ended June 30, 2021**

	<u>Business-type Activities - Enterprise Funds</u>				<b>Governmental</b>
	<u>Sewer</u>	<u>Water</u>	<u>Refuse (Nonmajor)</u>	<u>Total Enterprise Funds</u>	<b>Internal Service Fund</b>
<b>Reconciliation of Operating Income (Loss) to</b>					
<b>Net Cash Provided by Operating Activities</b>					
Operating Income (Loss)	\$ 123,450	\$ 63,878	\$ (17,459)	\$ 169,869	\$ 13
<b>Adjustments to Reconcile Operating Income (Loss) to</b>					
<b>Net Cash Provided by Operating Activities</b>					
Depreciation Expense	67,167	112,724	-	179,891	24,431
<b>Changes in Assets, Deferred Outflows/Inflows, and Liabilities</b>					
Accounts Receivable, net	(293)	192	(579)	(680)	-
Inventories	-	(3,070)	-	(3,070)	-
Accounts Payable	232	2,430	86	2,748	1,241
Accrued Liabilities	355	390	297	1,042	909
Compensated Absences	(2,100)	(2,141)	(1,164)	(5,405)	(1,149)
Net Pension Liability and Related Deferred Items	10,863	12,078	3,588	26,529	-
<b>Net Cash Provided (Used) by Operating Activities</b>	<u>\$ 199,674</u>	<u>\$ 186,481</u>	<u>\$ (15,231)</u>	<u>\$ 370,924</u>	<u>\$ 25,445</u>

The Notes to the Financial Statements are an integral part of these Financial Statements

**City of Reading**  
**Statement of Fiduciary Net Position**  
**Fiduciary Fund**  
**June 30, 2021**

	<b>Custodial Fund</b>
<b>ASSETS</b>	
Cash and Cash Equivalents	\$ -
<i>Total Assets</i>	-
<b>LIABILITIES</b>	
Undistributed Collections	-
<i>Total Liabilities</i>	-
<b>NET POSITION</b>	
Restricted for Individuals, Organizations, and Agencies	\$ -

The Notes to the Financial Statements are an integral part of these Financial Statements

**City of Reading**  
**Statement of Changes in Fiduciary Net Position**  
**Fiduciary Fund**  
**For the Year Ended June 30, 2021**

	<b>Custodial Fund</b>
<b>Additions</b>	
Taxes Collected for Other Governments	\$ 509,904
<i><b>Total Additions</b></i>	<i>509,904</i>
<b>Deductions</b>	
Payments of Property Taxes to Other Governments	509,904
<i><b>Total Deductions</b></i>	<i>509,904</i>
<i><b>Change in Net Position</b></i>	<i>-</i>
Net Position at Beginning of Period	-
<i><b>Net Position at End of Period</b></i>	<i>\$ -</i>

The Notes to the Financial Statements are an integral part of these Financial Statements

## **Notes to the Financial Statements**

## City of Reading

### Notes to the Financial Statements

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#### **Note 1 - Summary of Significant Accounting Policies**

The accounting policies of the City of Reading, Michigan (the "City" or "government") conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the City:

#### **Reporting Entity**

The accompanying financial statements present the City and its component units, entities for which the City is considered to be financially accountable. Each discretely presented component unit is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the City (see discussion below for description).

#### ***Discretely Presented Component Units***

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

#### ***Joint Venture***

The City is a participant in a joint venture agreement with the Township of Reading for the operation of the ***Reading Community Fire Department*** (the "Department"). In accordance with the provisions of Governmental Accounting Standards Board No. 14, the joint venture results from the ongoing financial responsibility of the Department's operations agreed to by the municipalities pursuant to a joint resolution adopted in February, 2008. The Township and City each appoint two members of the five-member Fire Board which oversees the operations. The fifth member is appointed by the other four members. The Township and City each have a 50% ownership in the venture. Separate financial statements for the Department may be obtained by contacting the City offices.

The City has reported \$33,944 (50%) of the decrease in net position of the Department in its statement of activities. The City's investment in the joint venture is reported in the statement of net position was \$166,056.

#### **Government-wide and Fund Financial Statements**

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the non-fiduciary activities of the primary government and its component units. For the most part, the effect of inter-fund activity has been removed from these financial statements. *Governmental activities*, normally supported by taxes and intergovernmental revenue, are reported separately from *business-type activities*, which rely to a

## City of Reading

### Notes to the Financial Statements

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significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

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

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

#### **Measurement Focus, Basis of Accounting, and Financial Statement Presentation**

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund and fiduciary fund financial statements, except for custodial funds which do not have a measurement focus. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

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

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

## City of Reading

### Notes to the Financial Statements

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The City reports the following major governmental funds:

The **general fund** is the government'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 **major streets fund** accounts for the maintenance and improvement activities for streets designated as "major" within the City. Funding is primary through state sources.

The **capital improvement fund** accounts for the City's financial resources accumulated and payments made for principal and interest payment on long-term debt of governmental funds.

The City reports the following major proprietary funds:

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

The **sewer fund** accounts for the activities of the City's sewage collection system.

The **refuse fund** accounts for the activities of the City's operation and maintenance of the City's trash collection system.

Additionally, the government reports the following fund types:

**Special revenue funds** are used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specific purposes other than debt service or capital projects.

**Internal service funds** account for the financing of goods or services provided by the City to other departments or funds on a cost reimbursement basis.

**Custodial funds** are custodial in nature and do not present results of operations or have a measurement focus. Custodial funds are accounted for using the accrual basis of accounting. These funds are used to account for asset that the government holds for others in a custodial capacity (such as taxes collected for other governments).

Proprietary funds distinguish *operating* revenues and expenses from *non-operating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise funds are charges for services. Operating expenses for the enterprise funds include depreciation on capital assets, labor, supplies and contracted services. All revenues and expenses are not meeting this definition are reported as nonoperating revenues and expenses.



## City of Reading

### Notes to the Financial Statements

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#### **Assets, Deferred Outflows/Inflows of Resources, Liabilities, and Equity**

##### ***Deposits and Investments***

The City's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition. Investments are stated at fair value at the balance sheet date. Investments are exposed to various risks, such as significant external events, interest rate, credit, and overall market volatility risks. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the fair value of investments will occur in the near term and that such changes could materially affect the amounts reported in the statement of net position.

State statutes and City policy authorize the City to invest in:

- Bonds, securities, other obligations, and repurchase agreements of the United States, or an agency or instrumentality of the United States.
- Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a qualified financial institution.
- Commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and that matures not more than 270 days after the date of purchase.
- In United States government or federal agency obligation repurchase agreements.
- Bankers' acceptances of United States banks.
- Obligations of this State or any of its political subdivisions that at the time of purchase are rated at least investment grade by no less than one standard rating service.
- Mutual funds registered under the Investment Company Act of 1940 with the authority to purchase only investment vehicles that are legal for direct investment by the City.
- Investment pools through an interlocal agreement under the Urban Cooperation Act of 1967, as amended.
- Investment pools organized under the Surplus Fund Investment Pool Act, 1982, as amended or under the Local Government Investment Pool Act, 1985, as amended.

## City of Reading

### Notes to the Financial Statements

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#### ***Restricted Cash***

Certain resources of the water and sewer funds are classified as restricted cash on the statement of net position because they are restricted for the funding of certain reserves by applicable bond covenants. The bond reserve account is used to report resources set aside for debt service. The replacement (or “RRI”) account is used to report resources set aside to fund asset renewals and replacements. There was \$257,650 and \$255,900 classified as restricted cash for bond reserves and RRI, respectively, as of year-end.

#### ***Receivables and Payables***

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year and all other outstanding balances between funds are referred to as “due to/from other funds” (i.e., the current portion of interfund loans). Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as “internal balances.”

All trade receivables are shown net of an allowance for uncollectibles, as applicable. All amounts deemed to be uncollectible are charged against the allowance for doubtful accounts in the period that determination is made.

#### ***Due from Other Governmental Units***

Due from other governmental units consists of amounts due from the State of Michigan or other governments for various payments and grants.

#### ***Inventories***

Inventories are valued at cost. Cost is determined using the first-in, first-out method. Inventories consist of water system supplies.

#### ***Investment in Land and Infrastructure Development***

Investment in land represents land developed by the Tax Increment Finance Authority for residential housing and industrial expansion. The Authority anticipates selling the land to developers.

#### ***Capital Assets***

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., streets and sidewalks and similar items), are reported in the applicable governmental or business-type columns in the government-wide financial statements. Capital assets are defined by the city as assets with an estimated useful life in excess of one year and an initial individual cost of more than \$5,000.

## City of Reading

### Notes to the Financial Statements

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Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at acquisition cost.

Capital assets are depreciated using the straight-line method over the following useful lives:

	<u>Years</u>
Buildings and Improvements	20-50
Furniture and Equipment	5-15
System Infrastructure	20-50
Vehicles	4-10

#### ***Long-term Obligations***

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

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

#### ***Compensated Absences***

It is the City's policy to permit employees to accumulate earned unused vacation and sick pay benefits. All vacation and personal leave pay is accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental funds only for employee terminations as of year-end.

#### ***Pension***

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

## City of Reading

### Notes to the Financial Statements

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#### ***Deferred Outflows/Inflows of Resources***

In addition to assets and liabilities, the statement of net position and balance sheet will, when applicable, report separate sections for deferred outflows of resources and deferred inflows of resources. *Deferred outflows of resources*, a separate financial statement element, represents a consumption of net position or fund balance, respectively, that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) until that time. *Deferred inflows of resources*, a separate financial statement element, represents an acquisition of net position or fund balance, respectively, that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time.

The City has several items that qualify for reporting in these categories and are reported in the statement of net position. These items correspond to the City's net pension liability and are related to the net difference between projected and actual earnings on pension plan investments, differences between expected and actual experience, changes of assumptions, and contributions subsequent to the measurement date.

#### ***Net Position Flow Assumption***

Sometimes the government will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted – net position and unrestricted – net position in the government-wide and proprietary fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied.

It is the government's policy to consider restricted – net position to have been depleted before unrestricted – net position is applied.

#### ***Fund Balance Flow Assumptions***

Sometimes the government will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements a flow assumption must be made about the order in which the resources are considered to be applied. It is the government's policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

#### ***Fund Balance Policies***

Fund balance of governmental funds is reported in various categories based on the nature of any limitations requiring the use of resources for specific purposes. Governmental funds report

## City of Reading

### Notes to the Financial Statements

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*nonspendable fund balance* for amounts that cannot be spent because they are either: a) not in spendable form or b) legally or contractually required to be maintained intact. *Restricted fund balance* is reported when externally imposed constraints are placed on the use of resources by grantors, contributors, or laws or regulations of other governments. The government itself can establish limitations on the use of resources through either a commitment (committed fund balance) or an assignment (assigned fund balance).

The *committed fund balance* classification includes amounts that can be used only for the specific purposes determined by a formal action of the government's highest level of decision-making authority. The City Council is the highest level of decision-making authority for the government that can, by adoption of a resolution prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by the resolution remains in place until a similar action is taken (the adoption of another resolution) to remove or revise the limitation.

Amounts in the *assigned fund balance* classification are intended to be used by the government for specific purposes but do not meet the criteria to be classified as committed. The City Council, or its designee, is authorized to assign fund balance. The City Council may also assign fund balance as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year's appropriated budget. Unlike commitments, assignments generally only exist temporarily. In other words, an additional action does not normally have to be taken for the removal of an assignment. Conversely, as discussed above, an additional action is essential to either remove or revise a commitment.

*Unassigned fund balance* is the residual classification for the City's general fund and includes all spendable amounts not contained in the other classifications and is therefore available to be spent as determined by the City Council. The general fund is the only fund that reports a positive unassigned fund balance amount. In other governmental funds, the unassigned classification is used only to report a deficit.

#### ***Property Tax Revenue Recognition***

The City property tax is levied on July 1 on the taxable valuation of property located in the City as of the preceding December 31. The billings are due on or before August 31; as of March 2 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.

It is the City's policy to recognize revenues in the current year when they are levied and made available for the financing of City operations. The City considers property taxes levied on July 1 to be revenues of the current period. The 2020 taxable valuation of the City totaled \$16,699,065 on which ad valorem taxes levied consisted of 12.5302 mills for the City for operating purposes. These amounts are recognized in the general fund and TIFA as tax revenue.

## City of Reading

### Notes to the Financial Statements

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#### *Use of Estimates*

The process of preparing financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenses. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

#### **Note 2 - Stewardship, Compliance, and Accountability**

##### *Budgetary Information*

Budgets presented in the financial statements were prepared on the same basis as the accounting basis used to reflect actual results. The general fund and special revenue funds are subject to legal budgetary accounting controls and all are budgeted annually. The City follows these procedures in establishing the budgetary data reflected in the financial statements:

- The City Manager submits to the City Council a proposed operating budget for the fiscal year commencing the following July 1.
- Public hearings are conducted to obtain taxpayer comments.
- The budget is legally enacted through passage of a resolution.
- Formal budgetary integration is employed as a management control device during the year for all funds.
- Adoption and amendments of all budgets used by the City are governed by Public Act 621, which was followed for the year ended June 30, 2021. Expenditures may not exceed appropriations. The appropriations resolutions are based on the projected expenditures budget of the department heads of the City. Any amendments to the original budget must meet the requirements of Public Act 621. Any revisions that alter the total expenditures of any fund must be approved by the City Council.
- Budgets for expenditures are adopted at the department level for the general fund and the functional level for all special revenue funds.

##### *Excess of Expenditures over Budget*

P.A. 621 of 1978, as amended, provides that a local unit shall not incur expenditures in excess of the amount budgeted. Budgetary control is exercised at the activity level in the general fund and the function level in other funds.

**City of Reading**

Notes to the Financial Statements

The City had the following expenditures in excess of the amount appropriated during the year ended June 30, 2021:

<u>Fund / Department</u>	<u>Final Budget</u>	<u>Actual Amount</u>	<u>Negative Variance</u>
<b>General Fund</b>			
General Government	\$ 32,504	\$ 49,384	\$ (16,880)
Assessor / Tax Bills	11,920	13,767	(1,847)
Building and Grounds	82,322	82,420	(98)
Police	158,198	158,789	(591)
Transfers Out	72,000	73,250	(1,250)

**Note 3 - Cash and Investments**

Following is a reconciliation of deposit balances as of June 30, 2021:

	<u>Primary Government</u>	<u>Component Unit - TIFA</u>	<u>Totals</u>
<b>Statement of Net Position</b>			
Cash and Investments	\$ 1,049,289	\$ 542,916	\$ 1,592,205
Restricted Cash, Bond Reserve	257,650	-	257,650
Restricted Cash, RRI	255,900	-	255,900
<b><i>Total Cash and Investments</i></b>	<b><u>\$ 1,562,839</u></b>	<b><u>\$ 542,916</u></b>	<b><u>\$ 2,105,755</u></b>

**Deposits and Investments**

Checking and Savings Accounts	\$ 2,101,680
Certificates of Deposit (matures within one year)	4,075
<b><i>Total Deposits and Investments</i></b>	<b><u>\$ 2,105,755</u></b>

***Custodial Credit Risk - Deposits.*** Custodial credit risk is the risk that, in the event of a bank failure, the City's deposits might not be returned. State law does not require, and the City does not have a policy for deposit custodial credit risk. As of year-end, \$1,083,852 of the City's bank balance of \$2,137,847 was exposed to custodial credit risk because it was uninsured and uncollateralized. Due to the dollar amounts of cash deposits and the limits of FDIC insurance, the City believes it is impractical to insure all bank deposits. As a result, the City evaluates each financial institution with which it deposits City funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

## City of Reading

### Notes to the Financial Statements

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#### *Fair Value Measurement*

The City is required to disclose amounts within a framework established for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described as follows:

Level 1: Quoted prices in active markets for identical securities.

Level 2: Prices determined using other significant observable inputs. Observable inputs are inputs that other market participants may use in pricing a security. These may include prices for similar securities, interest rates, prepayment speeds, credit risk and others.

Level 3: Prices determined using significant unobservable inputs. In situations where quoted prices or observable inputs are unavailable or deemed less relevant, unobservable inputs may be used. Unobservable inputs reflect the City's own assumptions about the factors market participants would use in pricing an investment and would be based on the best information available.

As of June 30, 2021, the Tax Increment Finance Authority (discretely presented component unit) had investment in land and infrastructure development (not reported above) in the amount of \$428,216 with a Level 3 fair value measurement.



## City of Reading

### Notes to the Financial Statements

#### Note 4 - Capital Assets

Capital asset activity for governmental activities during the year was as follows:

<b>Governmental Activities</b>	<b>Beginning Balance</b>	<b>Additions</b>	<b>Reductions</b>	<b>Ending Balance</b>
Capital Assets not being Depreciated				
Land	\$ 66,174	\$ -	\$ -	\$ 66,174
Construction in Progress	58,151	81,239	-	139,390
<i>Subtotal</i>	<u>124,325</u>	<u>81,239</u>	<u>-</u>	<u>205,564</u>
Capital Assets being Depreciated				
Buildings and Improvements	279,919	-	-	279,919
Infrastructure	1,506,722	32,710	-	1,539,432
Machinery and Equipment	862,451	20,193	(95,951)	786,693
<i>Subtotal</i>	<u>2,649,092</u>	<u>52,903</u>	<u>(95,951)</u>	<u>2,606,044</u>
Less Accumulated Depreciation				
Buildings and Improvements	163,473	8,065	-	171,538
Infrastructure	257,871	34,415	-	292,286
Machinery and Equipment	703,469	32,644	(95,951)	640,162
<i>Subtotal</i>	<u>1,124,813</u>	<u>75,124</u>	<u>(95,951)</u>	<u>1,103,986</u>
Capital Assets being Depreciated, Net	<u>1,524,279</u>	<u>(22,221)</u>	<u>-</u>	<u>1,502,058</u>
<b>Capital Assets, Net</b>	<u>\$ 1,648,604</u>	<u>\$ 59,018</u>	<u>\$ -</u>	<u>\$ 1,707,622</u>

Depreciation expense was charged to governmental functions of the City as follows:

<b>Governmental Activities</b>	
General Government	\$ 6,302
Public Safety	5,518
Public Works	32,315
Recreation and Culture	6,558
Depreciation Charged to Internal Service Funds	24,431
<b>Total Governmental Activities</b>	<u>\$ 75,124</u>

**City of Reading**

Notes to the Financial Statements

Capital asset activity for business-type activities during the year was as follows:

<b>Business-type Activities</b>	<b>Beginning Balance</b>	<b>Additions</b>	<b>Reductions</b>	<b>Ending Balance</b>
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
Machinery and Equipment	109,167	-	-	109,167
<i>Subtotal</i>	<u>8,937,851</u>	<u>-</u>	<u>-</u>	<u>8,937,851</u>
Less Accumulated Depreciation				
Water and Sewer Distribution System	3,445,111	176,524	-	3,621,635
Machinery and Equipment	87,906	3,367	-	91,273
<i>Subtotal</i>	<u>3,533,017</u>	<u>179,891</u>	<u>-</u>	<u>3,712,908</u>
Capital Assets being Depreciated, Net	<u>5,404,834</u>	<u>179,891</u>	<u>-</u>	<u>5,224,943</u>
<b><i>Capital Assets, Net</i></b>	<b><u>\$ 5,425,384</u></b>	<b><u>\$ 179,891</u></b>	<b><u>\$ -</u></b>	<b><u>\$ 5,245,493</u></b>

Depreciation expense of was charged to business-type functions as follows:

<b>Business-type Activities</b>	
Sewer	\$ 67,167
Water	112,724
<b><i>Total Business-type Activities</i></b>	<b><u>\$ 179,891</u></b>

Capital asset activity for component unit activities during the year was as follows:

<b>Tax Increment Finance Authority</b>	<b>Beginning Balance</b>	<b>Additions</b>	<b>Reductions</b>	<b>Ending Balance</b>
Capital Assets being Depreciated				
Equipment	\$ 35,015	\$ -	\$ -	\$ 35,015
Less Accumulated Depreciation				
Equipment	7,002	2,334	-	9,336
<b><i>Capital Assets, Net</i></b>	<b><u>\$ 28,013</u></b>	<b><u>\$ 2,334</u></b>	<b><u>\$ -</u></b>	<b><u>\$ 25,679</u></b>

Depreciation expense of \$2,334 was charged to community and economic development.

## City of Reading

### Notes to the Financial Statements

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#### Note 5 - Interfund Transfers

The following transfers occurred between funds of the City for the year ended June 30, 2021:

<u>Transfer In</u>	<u>Transfer Out</u>	<u>Amount</u>
Local Streets	General	\$ 26,500
Local Streets	Major Streets	11,000
Capital Improvement	General	46,750
Capital Improvement	Major Streets	43,500
Capital Improvement	Local Streets	27,340
Capital Improvement	Water	20,500
Capital Improvement	Sewer	5,000

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 to finance various programs accounted for in other funds in accordance with budgetary authorizations.

#### Note 6 - Long-term Obligations

The City had the following long-term debt outstanding as of year-end:

##### **Governmental activities**

*General obligation capital improvement bonds* – From June 2016 of \$550,000. 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 .75% to 2.8%. The final payment is due May 1, 2025. The outstanding balance at June 30, 2021 was \$235,000.

## City of Reading

### Notes to the Financial Statements

#### **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:	971,000
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:	460,000
2006 sewer system revenue bonds, bearing interest at 4.25%. Principal payments due annually in amounts from \$22,000 to \$98,000, maturing in 2047:	1,579,000
1995 sewer system revenue bonds, bearing interest at 4.50%. Principal payments due annually in amounts from \$20,000 to \$61,000, maturing in 2036:	698,000

The following is a summary of the long-term debt activity for the year:

<u>Business-type Activities</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
2008 Water Revenue Bonds (91-08)	\$ 989,000	\$ -	\$ (18,000)	\$ 971,000	\$ 20,000
1995 Water Revenue Bonds (91-05)	730,000	-	(32,000)	698,000	34,000
2006 Sewer Revenue Bonds (92-07)	1,612,000	-	(33,000)	1,579,000	34,000
2006 Sewer Revenue Bonds (92-10)	469,000	-	(9,000)	460,000	10,000
Compensated Absences	10,614	-	(5,405)	5,209	-
<b>Total Business-type Activities</b>	<u>\$ 3,810,614</u>	<u>\$ -</u>	<u>\$ (97,405)</u>	<u>\$ 3,713,209</u>	<u>\$ 98,000</u>

Compensated absences in governmental activities are generally liquidated by the general fund whereas in business-type activities, they are liquidated by the water, sewer, and refuse funds.

## City of Reading

### Notes to the Financial Statements

Annual debt service requirements to maturity are as follows:

<b>Principal</b>	<b>Governmental activities</b>			<b>Business-type activities</b>		
	<b>Principal</b>	<b>Interest</b>	<b>Total</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2022	\$ 55,000	\$ 6,120	\$ 61,120	\$ 98,000	\$ 148,829	\$ 246,829
2023	60,000	4,800	64,800	102,000	153,520	255,520
2024	60,000	3,300	63,300	106,000	149,036	255,036
2025	60,000	1,680	61,680	111,000	144,313	255,313
2026	-	-	-	116,000	139,392	255,392
2027-2031	-	-	-	664,000	625,315	1,289,315
2032-2036	-	-	-	821,000	455,434	1,276,434
2037-2041	-	-	-	663,000	295,026	958,026
2042-2046	-	-	-	819,000	137,312	956,312
2047-2051	-	-	-	208,000	5,342	213,342
<b>Totals:</b>	<b>\$ 235,000</b>	<b>\$ 15,900</b>	<b>\$ 250,900</b>	<b>\$ 3,708,000</b>	<b>\$ 2,253,519</b>	<b>\$ 5,961,519</b>

#### Note 7 - Defined Benefit Pension Plan

##### *General Information about the Pension Plan*

##### *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).

##### *Benefits Provided*

<b>Division</b>	<b>Benefit Multiplier</b>	<b>Final Average Compensation (Years)</b>	<b>Normal Retirement Age</b>	<b>Unreduced Benefit (Age/Years of Service)</b>	<b>Reduced Benefit (Age/Years of Service)</b>	<b>Vesting (Years)</b>
General	1.30%	5	60	-	50/25 or 55/15	10

## City of Reading

### Notes to the Financial Statements

#### ***Employees covered by benefit terms.***

At the December 31, 2020 valuation date, the following employees were covered by the benefit terms:

Inactive Plan Members or Beneficiaries Currently Receiving Benefits	5
Inactive Plan Members Entitled To But Not Yet Receiving Benefits	3
Active Plan Members	6
<b><i>Total Employees Covered By MERS</i></b>	<b>14</b>

#### ***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 employer may establish contribution rates to be paid by its covered employees. The following were the City's contribution rates as of June 30, 2021:

<b>Division</b>	<b>Employee Contributions</b>	<b>Employer Contributions</b>
General	0.00%	7.29%

#### ***Net Pension Liability***

The employer's Net Pension Liability was measured as of December 31, 2020, 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, 2020 annual actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.50%
Salary Increases	3.00%, in the long-term
Investment Rate of Return	7.35%, net of investment and administrative expense including inflation

Although no specific price inflation assumptions are needed for the valuation, the 3.75% long-term wage inflation assumption would be consistent with a price inflation of 3%-4%. Mortality rates used were based on the RP-2019 Group Annuity Mortality Table of a 50% Male and 50% Female blend. The actuarial assumptions used in valuation were based on the results of the most recent actuarial experience study of 2013-2018.

## City of Reading

### Notes to the Financial Statements

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:

<b>Asset Class</b>	<b>Target Allocation</b>	<b>Target Allocation Gross Rate of Return</b>	<b>Long-term Expected Gross Rate of Return</b>	<b>Inflation Assumption</b>	<b>Long-term Expected Real Rate of Return</b>
Global Equity	60.00%	7.45%	4.47%	2.50%	2.97%
Global Fixed Income	20.00%	4.90%	0.98%	2.50%	0.48%
Private Investments	20.00%	9.50%	1.90%	2.50%	1.40%
	<u>100.00%</u>		<u>7.35%</u>		<u>4.85%</u>

#### ***Discount Rate***

The discount rate used to measure the total pension liability was 7.60% for the past two years. 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.

## City of Reading

### Notes to the Financial Statements

#### *Changes in the Net Pension Liability*

The components of the change in the net pension liability are summarized as follows:

	Increase (Decrease)		
	Total Pension Liability	Plan Net Position	Net Pension Liability
<b>Balance at December 31, 2019</b>	\$ 503,119	\$ 420,861	\$ 82,258
<i>Changes for the Year:</i>			
Service Cost	12,764	-	12,764
Interest on Total Pension Liability	37,945	-	37,945
Differences Between Expected and Actual Experience	2,672	-	2,672
Changes of Assumptions	22,728	-	22,728
Employer Contributions	-	18,435	(18,435)
Net Investment Income	-	54,604	(54,604)
Benefit Payments, Including Refunds	(20,449)	(20,449)	-
Administrative Expenses	-	(851)	851
<i>Net Changes</i>	55,660	51,739	3,921
<b>Balance at December 31, 2020</b>	\$ 558,779	\$ 472,600	\$ 86,179
	<b>Allocated to:</b>		
		Governmental Activities	\$ 54,495
		Business-type Activities	31,684
		<b>Total</b>	\$ 86,179

#### *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 7.60%, as well as what the employer's net pension liability would be using a discount rate that is 1 percentage point lower (6.60%) or 1% higher (8.60%) than the current rate.

	1% Decrease	Current	1% Increase
	(6.60%)	Discount Rate (7.60%)	(8.60%)
Net Pension Liability of the City	\$ 160,279	\$ 86,179	\$ 24,073

Note: The current discount rate shown for GASB 68 purposes is higher than the MERS assumed rate of return. This is because for GASB purposes, the discount rate must be gross of administrative expenses, whereas for funding purposes, it is net of administrative expenses.



## City of Reading

### Notes to the Financial Statements

#### ***Pension Expense and Deferred Outflows/Inflows of Resources Related to Pensions***

For the year ended December 31, 2020, the employer recognized pension expense of \$18,445. The employer reported deferred outflows/inflows of resources related to pensions from the following sources:

<b>Source</b>	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Net Differences Between Projected and Actual Earnings on Pension Plan Investments	\$ -	\$ 16,807
Differences Between Expected and Actual Experience	2,004	4,194
Changes of Assumptions	23,379	-
Employer Contributions to the Plan Subsequent to the Measurement Date*	9,638	-
<b>Total</b>	<b>\$ 35,021</b>	<b>\$ 21,001</b>
<b>Allocated to:</b>		
Governmental Activities	\$ 22,145	\$ 13,280
Business-type Activities	12,876	7,721
<b>Total</b>	<b>\$ 35,021</b>	<b>\$ 21,001</b>

\* The amount reported as deferred outflows of resources resulting from contributions subsequent to the measurement date will be recognized as a reduction in the net pension liability for the year ending June 30, 2022.

Amounts reported as deferred outflows/inflows of resources related to pensions will be recognized in pension expense as follows:

<b>Years Ending June 30,</b>	<b>Amount</b>
2022	\$ 2,404
2023	9,271
2024	(2,746)
2025	(4,547)

#### ***Significant Changes to the Pension Valuation***

At the February 27, 2020, board meeting, the MERS Retirement Board adopted demographic assumptions effective with the December 31, 2020, annual actuarial valuation, which will impact contributions beginning in 2022. A 5-year experience study analyzing historical experience from 2013 through 2018 was completed in February 2020. In addition to changes to the economic assumptions which took effect with the fiscal year 2021 contribution rates, the experience study recommended updated demographic assumptions, including adjustments to the following actuarial assumptions: mortality, retirement, disability, and termination rates. Changes to the demographic assumptions resulting from the experience study have been approved by the MERS Retirement Board and are effective beginning with the December 31, 2020, actuarial valuation, first impacting 2022 contributions.

## City of Reading

### Notes to the Financial Statements

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#### **Note 8 - Risk Management**

The City is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation). The risks of loss arising from general liability, property and casualty, and workers' compensation are managed through purchased commercial insurance.

The City continues to carry commercial insurance for all other risk of loss, including employee health and accident insurance. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years. There was no reduction in coverage obtained through commercial insurance during the past year.

#### **Note 9 - COVID-19**

On March 11, 2020, the World Health Organization declared the outbreak of a respiratory disease caused by a new coronavirus a pandemic. First identified in late 2019 and now known as COVID-19, the outbreak has impacted millions of individuals in the United States and worldwide. In response, the United States federal government and individual state and local governments have implemented measures to combat the outbreak that have impacted business operations. During the 2020-2021 fiscal year, the City's operations were significantly impacted, as shelter-in-place orders and government mandates impacted census volumes. The City has moved to mitigate the impact by managing the workforce, actively managing cash balances, and implementing other cost reduction measures.

#### **Note 10 - Tax Abatement Disclosure**

##### *Industrial Facilities Exemption (IFT)*

The City has 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, such as some high-tech personal property, is computed at 50% of the property tax bill for new property. For rehabilitation properties, the taxable values can be frozen. There are no provisions to recapture taxes; however, the abatement may be eliminated if taxes are not paid timely.

For the year ended June 30, 2021, the City's property tax revenue for general operations was reduced by \$12,776.

#### **Note 11 - Contingencies**

The City participates in a number of state and federally assisted programs. These programs are subject to program compliance audits. Accordingly, the City's compliance with applicable grant requirements will be established at some future date. The amount, if any, of expenditures which

## **City of Reading**

### Notes to the Financial Statements

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may be disallowed by granting agencies cannot be determined at this time although the City expects such amounts, if any, to be immaterial.

As the case with other entities, the City faces exposure from potential claims and legal proceedings involving environmental matters. No such claims or proceeds have been asserted as of year-end.

## **Required Supplementary Information**

**City of Reading**  
**Schedule of Revenues, Expenditures, and Changes in Fund Balance-Budget and Actual**  
**General Fund**  
**For the year Ended June 30, 2021**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<b>Variance</b>
	<u>Original</u>	<u>Final</u>		<b>Favorable (Unfavorable) Final to Actual</b>
<b>Revenues</b>				
Property Taxes	\$ 164,023	\$ 164,023	\$ 162,965	\$ (1,058)
Intergovernmental	230,750	149,250	253,746	104,496
Licenses and Permits	60,800	60,800	125,227	64,427
Charges for Services	15,800	15,800	25,028	9,228
Fines and Forfeits	300	300	77	(223)
Interest and Rents	4,200	4,200	5,863	1,663
Other Income	3,300	25,700	39,460	13,760
<b>Total Revenues</b>	<u>479,173</u>	<u>420,073</u>	<u>612,366</u>	<u>192,293</u>
<b>Expenditures</b>				
<b>General Government</b>				
General Government	30,504	32,504	49,384	(16,880)
City Manager	48,740	48,740	48,196	544
Elections	4,500	7,000	6,670	330
Audit Fees	8,500	10,715	10,715	--
Legal Fees	13,500	13,500	5,565	7,935
Clerk / Treasurer	45,937	45,937	45,860	77
Assessor / Tax Bills	12,695	12,695	14,542	(1,847)
Building and Grounds	80,322	82,322	82,420	(98)
Cemeteries	42,047	42,047	41,654	393
<b>Total General Government</b>	<u>286,745</u>	<u>295,460</u>	<u>305,006</u>	<u>( 9,546 )</u>
<b>Public Safety</b>				
Police	159,359	158,198	158,789	(591)
Fire Protection	29,000	29,000	25,000	4,000
<b>Total Public Safety</b>	<u>188,359</u>	<u>187,198</u>	<u>183,789</u>	<u>3,409</u>
Public Utilities	30,000	30,000	22,458	7,542
<b>Community and Economic Development</b>				
Planning / Zoning	20,608	20,608	17,747	2,861
Economic Development	24,900	24,900	24,900	--
<b>Total Community and Economic Development</b>	<u>45,508</u>	<u>45,508</u>	<u>42,647</u>	<u>2,861</u>
Parks and Recreation	9,000	9,000	3,453	5,547
<b>Total Expenditures</b>	<u>559,612</u>	<u>567,166</u>	<u>557,353</u>	<u>9,813</u>
<b>Other Financing Uses</b>				
Transfers Out	72,000	72,000	73,250	(1,250)
<b>Total Expenditures and Other Financing Uses</b>	<u>631,612</u>	<u>639,166</u>	<u>630,603</u>	<u>8,563</u>
<b>Excess (Deficiency) of Revenues Over Expenditures and Other Uses</b>	<u>(152,439)</u>	<u>(219,093)</u>	<u>(18,237)</u>	<u>200,856</u>
<b>Net Change in Fund Balance</b>	<u>(152,439)</u>	<u>(219,093)</u>	<u>(18,237)</u>	<u>200,856</u>
<i>Fund Balance at Beginning of Period</i>	617,345	617,345	617,345	--
<b>Fund Balance at End of Period</b>	<u>\$ 464,906</u>	<u>\$ 398,252</u>	<u>\$ 599,108</u>	<u>\$ 200,856</u>

**City of Reading**  
**Schedule of Revenues, Expenditures, and Changes in Fund Balance-Budget and Actual**  
**Major Streets**  
**For the year Ended June 30, 2021**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<b>Variance</b>
	<u>Original</u>	<u>Final</u>		<b>Favorable (Unfavorable) Final to Actual</b>
<b>Revenues</b>				
Intergovernmental	\$ 80,000	\$ 80,000	\$ 113,288	\$ 33,288
Other Income	--	--	75	75
<b>Total Revenues</b>	<u>80,000</u>	<u>80,000</u>	<u>113,363</u>	<u>33,363</u>
<b>Expenditures</b>				
Public Works	60,892	60,892	45,515	15,377
<b>Total Expenditures</b>	<u>60,892</u>	<u>60,892</u>	<u>45,515</u>	<u>15,377</u>
<b>Other Financing Uses</b>				
Transfers Out	49,000	65,500	54,500	11,000
<b>Total Expenditures and Other Financing Uses</b>	<u>109,892</u>	<u>126,392</u>	<u>100,015</u>	<u>26,377</u>
<b>Excess (Deficiency) of Revenues Over Expenditures and Other Uses</b>	<u>(29,892)</u>	<u>(46,392)</u>	<u>13,348</u>	<u>59,740</u>
<b>Net Change in Fund Balance</b>	<u>(29,892)</u>	<u>(46,392)</u>	<u>13,348</u>	<u>59,740</u>
<i>Fund Balance at Beginning of Period</i>	105,703	105,703	105,703	--
<b>Fund Balance at End of Period</b>	<u>\$ 75,811</u>	<u>\$ 59,311</u>	<u>\$ 119,051</u>	<u>\$ 59,740</u>

**City of Reading**  
**Required Supplementary Information**  
**Schedule of Changes in Net Pension Liability and Related Ratios**  
**Last Seven Calendar Years (Built Prospectively Upon Implementation of GASB68)**

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
<b>Total Pension Liability</b>							
Service Cost	\$ 12,764	\$ 9,701	\$ 7,942	\$ 9,021	\$ 8,298	\$ 5,309	\$ 6,414
Interest on Total Pension Liability	37,945	36,759	35,557	33,994	33,057	27,814	25,635
Differences Between Expected and Actual Experience	2,672	(2,138)	(12,510)	(6,239)	210	26,027	-
Changes of Assumptions	22,728	12,667	-	-	-	13,845	-
Benefit Payments, Including Refunds	(20,449)	(17,006)	(16,693)	(16,693)	(16,693)	(5,175)	(5,005)
Other Changes	-	-	-	-	(1,001)	-	-
<b>Net Change in Pension Liability</b>	<u>55,660</u>	<u>39,983</u>	<u>14,296</u>	<u>20,083</u>	<u>23,871</u>	<u>67,820</u>	<u>27,044</u>
<i>Total Pension Liability - Beginning</i>	503,119	463,136	448,840	428,757	404,887	337,067	310,023
<b>Total Pension Liability - Ending (a)</b>	<u>\$ 558,779</u>	<u>\$ 503,119</u>	<u>\$ 463,136</u>	<u>\$ 448,840</u>	<u>\$ 428,758</u>	<u>\$ 404,887</u>	<u>\$ 337,067</u>
<b>Plan Fiduciary Net Position</b>							
Contributions - Employer	\$ 18,435	\$ 13,388	\$ 13,297	\$ 11,248	\$ 7,739	\$ 6,253	\$ 6,182
Net Investment Income (Loss)	54,604	51,040	(15,580)	46,750	36,925	(5,069)	19,773
Benefit Payments, Including Refunds	(20,449)	(17,006)	(16,693)	(16,693)	(16,693)	(5,175)	(5,005)
Administrative Expenses	(851)	(880)	(768)	(740)	(728)	(732)	(728)
<b>Net Change in Plan Fiduciary Net Position</b>	<u>51,739</u>	<u>46,542</u>	<u>(19,744)</u>	<u>40,565</u>	<u>27,243</u>	<u>(4,723)</u>	<u>20,222</u>
<i>Plan Fiduciary Net Position - Beginning</i>	420,861	374,319	394,063	353,498	326,255	330,978	310,756
<b>Plan Fiduciary Net Position - Ending (b)</b>	<u>\$ 472,600</u>	<u>\$ 420,861</u>	<u>\$ 374,319</u>	<u>\$ 394,063</u>	<u>\$ 353,498</u>	<u>\$ 326,255</u>	<u>\$ 330,978</u>
<b>Net Pension Liability - Ending (a) - (b)</b>	\$ 86,179	\$ 82,258	\$ 88,817	\$ 54,777	\$ 75,260	\$ 78,632	\$ 6,089
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	84.58%	83.65%	80.82%	87.80%	82.45%	80.58%	98.19%
Covered Payroll	\$ 268,718	\$ 214,154	\$ 172,652	\$ 196,533	\$ 189,455	\$ 121,496	\$ 146,770
Net Pension Liability as a Percentage of Covered Payroll	32.07%	38.41%	51.44%	27.87%	39.72%	64.72%	4.15%

**City of Reading**  
**Required Supplementary Information**  
**Schedule of Contributions**  
**Last Seven Fiscal Years (Built Prospectively Upon Implementation of GASB68)**

	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Actuarially Determined Contribution	\$ 19,791	\$ 13,399	\$ 12,678	\$ 11,248	\$ 7,739	\$ 6,254	\$ 5,996
Contributions in Relation to the Actuarially Determined Contribution	19,791	13,399	12,678	11,248	7,739	6,949	6,182
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (695)</u>	<u>\$ (186)</u>
Covered Payroll	\$ 271,475	\$ 214,154	\$ 172,652	\$ 196,533	\$ 189,455	\$ 121,496	\$ -
Contributions as a Percentage of Covered Payroll	7.29%	6.26%	7.34%	5.72%	4.08%	5.72%	#DIV/0!

*Notes*

**Valuation Date**

Actuarially determined contribution amounts are calculated as of December 31 each year, which is 18 months prior to the beginning of the fiscal year in which the contributions are required.

**Methods and Assumptions Used to Determine Contribution Rates**

Actuarial Cost Method	Entry-age Normal
Amortization Method	Level Percentage of Payroll, Open
Remaining Amortization Period	18 Years
Asset Valuation Method	5 Years; Smoothed
Inflation	2.50%
Salary Increases	3.00% in the Long-Term
Investment Rate of Return	7.35%, Net of Investment Expense, including Inflation
Retirement Age	Experience-Based Tables of Rates that are Specific to the Type of Eligibility Condition
Mortality	Rates Used were Based on the RP-2019 Group Annuity Mortality Table of a 50% Male and 50% Female Blend



**City of Reading**  
**Notes to the Required Supplementary Information**

*Notes to the Schedule of Changes in Net Pension Liability and Related Ratios*

**2020, summary of most significant changes impacting the total pension liability include:**

A) Mortality rates were changed to the recently issued Pub-2010 mortality general rates as published by the Society of Actuaries along with a change to sex-distinct assumptions.

**2019, summary of most significant changes impacting the total pension liability include:**

A) The investment rate of return assumption was reduced from 8.00% to 7.60%, the wage inflation assumption was reduced from 3.75% to 3.00%.

**2015, summary of most significant changes impacting the total pension liability include:**

A) The investment rate of return assumption was reduced from 8.25% to 8.0%, the wage inflation assumption was reduced from 4.50% to 3.75%, inflation rates changed from 3.0-4.0% to 3.25%, and the mortality assumption was updated to be based on the RP-2014 tables.

**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***

January 3, 2022

To the Honorable Mayor and  
Members of the City Council  
City of 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 discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Reading, Michigan (the “City”), as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the City’s basic financial statements, and have issued our report thereon dated January 3, 2022.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the City’s internal control over financial reporting (internal control) as basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City’s internal control. Accordingly, we do not express an opinion on the effectiveness of the City’s internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses, as items 2021-001 through 2021-003 that we consider to be material weaknesses.

## **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the City's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. 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*.

## **The City's Responses to Findings**

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

## **Purpose of this Report**

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

Best regards,

A handwritten signature in cursive script that reads "Gabridge & Company".

Gabridge & Company, PLC  
Grand Rapids, MI

## City of Reading

### Schedule of Findings and Responses

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#### **2021-001 - Preparation of Governmental Financial Statements (repeat finding)**

Finding Type:	Material weakness in internal controls over financial reporting.
Criteria:	All governmental units in Michigan are required to prepare financial statements in accordance with generally accepted accounting principles (GAAP). This is the responsibility of the management. The preparation of financial statements in accordance with GAAP requires internal controls over both: 1) recording, processing, and summarizing accounting data (i.e. maintaining internal accounting records), and 2) reporting government-wide and fund financial statements, including the related notes to the financial statements (i.e. external financial reporting).
Condition:	The City has historically relied on the 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.
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 to perform this task.
Effect:	The result of this condition is that the City lacks internal controls over preparation of the 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.

#### **2021-002 – Lack of Segregation of Duties (repeat finding)**

Finding Type:	Material weakness in internal controls over financial reporting.
Criteria:	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.

## City of Reading

### Schedule of Findings and Responses

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

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

Effect: The risk of error in the financial statements and/or misappropriation of assets are increased due to lack of segregation of duties.

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

January 3, 2022

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

We have audited the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Reading for the year ended June 30, 2021. Our report includes a reference to other auditors. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and, *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated September 22, 2021. Professional standards also require that we communicate to you the following information related to our audit.

### **Significant Audit Findings**

#### *Qualitative Aspects of Accounting Practices*

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the City are described in Note 1 to the financial statements. There were no new accounting policies adopted and, except as stated in Note 14 to the financial statements, the application of existing policies was not changed during the fiscal year ended June 30, 2021. We noted no transactions entered into by the City during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the City's financial statements were:

- Management's estimate of the useful lives of depreciable capital assets is based on the length of time it is believed that those assets will provide some economic benefit in the future.
- Management's estimate of the accrued compensated absences is based on current hourly rates and policies regarding payment of sick and vacation banks.
- The assumptions used in the actuarial valuations of the pension are based on historical trends and industry standards.

We evaluated the key factors and assumptions used to develop these estimates in determining that it is reasonable in relation to the financial statements taken as a whole.

The financial statement disclosures are neutral, consistent, and clear.

#### *Difficulties Encountered in Performing the Audit*

We encountered no significant difficulties in dealing with management in performing and completing our audit.

#### *Corrected and Uncorrected Misstatements*

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, some of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to each opinion unit's financial statements taken as a whole.

#### *Disagreements with Management*

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

#### *Management Representations*

We have requested certain representations from management that are included in the management representation letter dated January 3, 2022.

#### *Management Consultations with Other Independent Accountants*

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the City's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

#### *Other Audit Findings or Issues*

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the City's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

## **Other Matters**

We applied certain limited procedures to management's discussion and analysis, the pension schedules, and budgetary comparison schedules, which is required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding 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 did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

## **Restriction on Use**

This information is intended solely for the information and use of the City Council and management of the City and is not intended to be, and should not be, used by anyone other than these specified parties.

Very truly yours,

A handwritten signature in cursive script that reads "Gabridge & Company".

Gabridge & Company, PLC  
Grand Rapids, MI