



**CITY OF READING
HILLSDALE COUNTY, MICHIGAN**

ANNUAL FINANCIAL REPORT

YEAR ENDED JUNE 30, 2022

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Audit of the Financial Statements***Opinions***

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, 2022, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

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, 2022, 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.

We did not audit the financial statements of the investment in joint venture (the Reading Fire Department), which represents 5.3% and 6.1% of the total assets and deferred outflows and net position, respectively, as of June 30, 2022 of the governmental activities. Those statements were audited by other auditors whose report has been furnished to us, and our opinions, insofar as it relates to the amounts included for the investment in joint venture, is based solely on the report of the other auditors.

Basis for Opinions

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. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the City and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the City's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 City's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the City’s ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management’s discussion and analysis, budgetary comparison information, and the pension schedules, as listed in the table of contents, be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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, 2023, 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 City’s internal control over financial reporting and compliance.



Gabridge & Company, PLC
Grand Rapids, Michigan
January 3, 2023

Management's Discussion and Analysis

City of Reading
Management's Discussion and Analysis
June 30, 2022

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, 2022. We encourage readers to consider the information presented here in conjunction with the financial statements.

Financial Highlights

- The assets and deferred outflows of the City exceeded its liabilities and deferred inflows at the close of the most recent fiscal year by \$4,810,727 (*net position*). The City had an *unrestricted net position* of \$955,873.
- Revenues of \$1,588,378 exceeded expenses of \$1,526,036 leading to an increase in net position of \$62,342 during the year.
- At the close of the current fiscal year, the City's governmental funds reported combined fund balances of \$981,679, an increase of \$199,894 in comparison with the prior year. Approximately 75.3% of this amount, or \$739,478, is available for spending at the government's discretion (*unassigned fund balance*).
- During the year, the City's general fund balance increased by \$151,159 for an ending fund balance of \$750,267.
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$739,478, or approximately 128.5% 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 \$4,810,727 at the close of the most recent fiscal year.

City of Reading's Net Position

	Governmental Activities		Business-type Activities		Total Primary Government	
	2022	2021	2022	2021	2022	2021
ASSETS						
<i>Current Assets</i>						
Cash and Investments	\$ 1,087,696	\$ 818,588	\$ 64,579	\$ 230,701	\$ 1,152,275	\$ 1,049,289
Accounts Receivable, net	955	9,801	108,764	99,762	109,719	109,563
Due from Other Governmental Units	50,265	72,879	-	-	50,265	72,879
Inventory	-	-	33,973	19,763	33,973	19,763
Total Current Assets	1,138,916	901,268	207,316	350,226	1,346,232	1,251,494
<i>Noncurrent Assets</i>						
Capital Assets, net	1,741,987	1,707,622	5,066,636	5,245,493	6,808,623	6,953,115
Investment in Joint Venture	162,731	166,056	-	-	162,731	166,056
Restricted Cash	-	-	557,952	513,550	557,952	513,550
Total Assets	3,043,634	2,774,946	5,831,904	6,109,269	8,875,538	8,884,215
DEFERRED OUTFLOWS OF RESOURCES						
Pension Related	45,558	22,145	21,614	12,876	67,172	35,021
Total Deferred Outflows of Resources	45,558	22,145	21,614	12,876	67,172	35,021
LIABILITIES						
<i>Current Liabilities</i>						
Accounts Payable	19,452	45,777	16,267	3,946	35,719	49,723
Accrued Liabilities	2,700	19,827	2,353	3,341	5,053	23,168
Unearned Revenue	109,713	-	-	-	109,713	-
Accrued Interest	-	-	25,645	26,333	25,645	26,333
Current Portion of Long-term Debt	60,000	55,000	102,000	98,000	162,000	153,000
Total Current Liabilities	191,865	120,604	146,265	131,620	338,130	252,224
<i>Noncurrent Liabilities</i>						
Long-term Debt	120,000	180,000	3,510,000	3,610,000	3,630,000	3,790,000
Compensated Absences	13,261	16,238	3,266	5,209	16,527	21,447
Net Pension Liability	73,580	54,495	34,908	31,684	108,488	86,179
Total Liabilities	398,706	371,337	3,694,439	3,778,513	4,093,145	4,149,850
DEFERRED INFLOWS OF RESOURCES						
Pension Related	26,341	13,280	12,497	7,721	38,838	21,001
Total Deferred Inflows of Resources	26,341	13,280	12,497	7,721	38,838	21,001
NET POSITION						
Net Investment in Capital Assets	1,561,987	1,472,622	1,516,859	1,537,493	3,078,846	3,010,115
Restricted	218,056	168,706	557,952	513,550	776,008	682,256
Unrestricted	884,102	771,146	71,771	284,868	955,873	1,056,014
Total Net Position	\$ 2,664,145	\$ 2,412,474	\$ 2,146,582	\$ 2,335,911	\$ 4,810,727	\$ 4,748,385

A significant portion of the City's net position (\$3,078,846, or 64.0%) 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 (\$776,008, or 16.1%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$955,873, or 19.9%, 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 \$102,986 compared to the prior year, primarily a result of ARPA funds of \$109,713 received by the City that were not expended as of June 30, 2022. This

too is the reason that unearned revenues increased by \$109,713. Net capital assets had an overall decrease of \$144,492 as depreciation exceeded additions during the year. Net pension liability increased by \$22,309 during the year, despite a 14.0% 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 \$55,728.

The City's overall net position increased \$62,342 from the prior fiscal year. The reasons for this overall increase are discussed in the following sections for governmental activities and business-type activities.

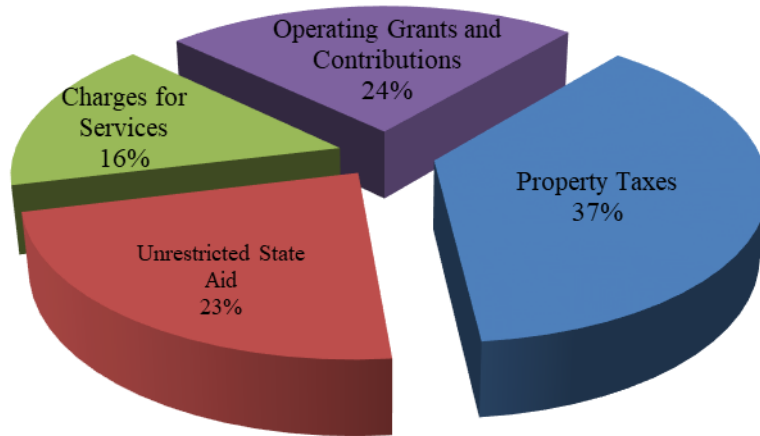
City of Reading's Changes in Net Position

	Governmental Activities		Business-type Activities		Total Primary Government	
	2022	2021	2022	2021	2022	2021
Revenue						
Program Revenues						
Charges for Services	\$ 141,457	\$ 155,490	\$ 703,243	\$ 693,910	\$ 844,700	\$ 849,400
Operating Grants and Contributions	211,214	228,039	-	-	211,214	228,039
Capital Grants and Contributions	-	23,750	-	-	-	23,750
Total Program Revenues	352,671	407,279	703,243	693,910	1,055,914	1,101,189
General Revenues and Transfers						
Property Taxes	329,117	162,965	-	-	329,117	162,965
Unrestricted State Aid	200,653	186,651	-	-	200,653	186,651
Interest and Investment Earnings	1,696	3,207	998	1,073	2,694	4,280
Transfers	135,210	(32,259)	(135,210)	32,259	-	-
Total General Revenues and Transfers	666,676	320,564	(134,212)	33,332	532,464	353,896
Total Revenues	1,019,347	727,843	569,031	727,242	1,588,378	1,455,085
Expenses						
General Government	292,082	310,229	-	-	292,082	310,229
Public Safety	205,087	217,431	-	-	205,087	217,431
Public Works	189,670	126,773	-	-	189,670	126,773
Community and Economic Development	49,390	42,647	-	-	49,390	42,647
Recreation and Culture	25,327	10,011	-	-	25,327	10,011
Interest on Long-term Debt	6,120	7,358	-	-	6,120	7,358
Sewer Operations	-	-	284,861	254,772	284,861	254,772
Water Operations	-	-	404,098	349,059	404,098	349,059
Refuse Operations	-	-	69,401	78,898	69,401	78,898
Total Expenses	767,676	714,449	758,360	682,729	1,526,036	1,397,178
Change in Net Position	251,671	13,394	(189,329)	44,513	62,342	57,907
<i>Net Position at the Beginning of Period</i>	<i>2,412,474</i>	<i>2,399,080</i>	<i>2,335,911</i>	<i>2,291,398</i>	<i>4,748,385</i>	<i>4,690,478</i>
Net Position at the End of Period	\$ 2,664,145	\$ 2,412,474	\$ 2,146,582	\$ 2,335,911	\$ 4,810,727	\$ 4,748,385

Overall, revenues increased by \$133,293 compared to fiscal 2021. The most significant changes in revenues were within state aid (more revenues were available for distribution according to the State's formulas in fiscal 2022) and an increase in tax revenues (aided by \$169,360 of adult use marijuana taxes collected). Expenses were up by \$128,858 primarily due to increased operating expenses within the City's equipment fund (\$52,064) and increased contractual services of \$25,730 and \$69,452 in the sewer and water funds, respectively, during 2022.

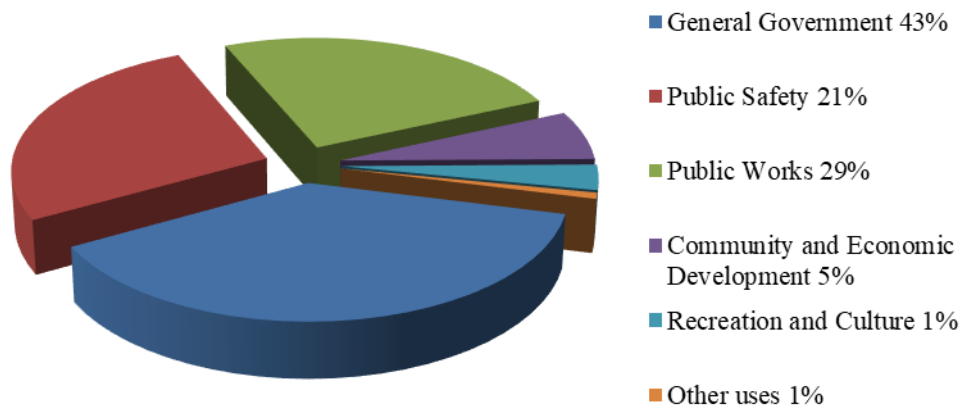
The following chart summarizes the revenue sources for the governmental activities of the City for the most recent fiscal year-end:

Governmental Activities Revenues



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

Governmental Activities Expenses



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, 2022, the City's governmental funds reported combined fund balances of \$981,679, an increase of \$199,894 in comparison with the prior year. Approximately 75.3% of this amount, or \$739,478, 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 (\$218,056, or 22.2%) or 2) assigned (\$24,145, or 2.5%).

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 \$739,478. 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 128.5% of total general fund expenditures and transfers out.

The major streets fund, a major fund, had a \$31,974 increase in fund balance during the current fiscal year which put the overall fund balance at \$151,025.

The local streets fund, a nonmajor fund, had a \$17,102 increase in fund balance during the current fiscal year which put the overall fund balance at \$56,242. The increase in fund balance was largely aided by net transfers in of \$10,080.

The capital projects fund, a major fund, had a \$341 decrease in fund balance during the year which put overall fund balance at \$24,145. The most significant reason for the decrease in fund balance was the \$129,126 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: other revenues were estimated from \$105,083 to \$145,083 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's actual general fund expenditures were all under the budgeted amounts during 2022.

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, 2022 amounted to \$6,808,623 (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 \$3,792,000 of bonds payable at the end of the fiscal year. The City paid down \$151,000 of its outstanding bonds payable during the current fiscal year and is scheduled to pay down another \$162,000 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 2023, 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.

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, 2022

	Primary Government			Component Unit - TIFA
	Governmental Activities	Business-type Activities	Total	
ASSETS				
<i>Current Assets</i>				
Cash and Investments	\$ 1,087,696	\$ 64,579	\$ 1,152,275	\$ 589,068
Accounts Receivable, net	955	108,764	109,719	1,244
Due from Other Governmental Units	50,265	--	50,265	--
Inventory	--	33,973	33,973	--
Total Current Assets	1,138,916	207,316	1,346,232	590,312
<i>Noncurrent Assets</i>				
Capital Assets not being Depreciated	66,174	20,550	86,724	--
Capital Assets being Depreciated, Net	1,675,813	5,046,086	6,721,899	23,345
Investment in Joint Venture	162,731	--	162,731	--
Assets Held For Resale	--	--	--	428,216
Restricted Cash, Bond Reserve	--	257,652	257,652	--
Restricted Cash, RRI	--	300,300	300,300	--
Total Assets	3,043,634	5,831,904	8,875,538	1,041,873
DEFERRED OUTFLOWS OF RESOURCES				
Pension Related Deferred Outflows	45,558	21,614	67,172	--
Total Deferred Outflows of Resources	45,558	21,614	67,172	--
LIABILITIES				
<i>Current Liabilities</i>				
Accounts Payable	19,452	16,267	35,719	3,200
Accrued Liabilities	2,700	2,353	5,053	--
Unearned Revenue	109,713	--	109,713	--
Accrued Interest	--	25,645	25,645	--
Current Portion of Long-term Debt	60,000	102,000	162,000	--
Total Current Liabilities	191,865	146,265	338,130	3,200
<i>Noncurrent Liabilities</i>				
Long-term Debt	120,000	3,510,000	3,630,000	--
Compensated Absences	13,261	3,266	16,527	--
Net Pension Liability	73,580	34,908	108,488	--
Total Liabilities	398,706	3,694,439	4,093,145	3,200
DEFERRED INFLOWS OF RESOURCES				
Pension Related Deferred Inflows	26,341	12,497	38,838	--
Total Deferred Inflows of Resources	26,341	12,497	38,838	--
NET POSITION				
Net Investment in Capital Assets	1,561,987	1,516,859	3,078,846	23,345
<i>Restricted for:</i>				
Streets	207,267	--	207,267	--
Bond Reserve	--	257,652	257,652	--
RRI	--	300,300	300,300	--
Cemetery	8,069	--	8,069	--
Police	2,720	--	2,720	--
<i>Unrestricted</i>	884,102	71,771	955,873	1,015,328
Total Net Position	\$ 2,664,145	\$ 2,146,582	\$ 4,810,727	\$ 1,038,673

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, 2022**

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue			Component Unit - TIFA
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government			
					Governmental Activities	Business-type Activities	Total	
Primary Government								
Governmental Activities:								
General Government	\$ 292,082	\$ 100,020	\$ 53,490	\$ --	\$ (138,572)	\$ --	\$ (138,572)	\$ --
Public Safety	205,087	1,217	500	--	(203,370)	--	(203,370)	--
Public Works	189,670	--	157,224	--	(32,446)	--	(32,446)	--
Community and Economic Development	49,390	40,220	--	--	(9,170)	--	(9,170)	--
Recreation and Culture	25,327	--	--	--	(25,327)	--	(25,327)	--
Interest on Long-term Debt	6,120	--	--	--	(6,120)	--	(6,120)	--
Total Governmental Activities	767,676	141,457	211,214	--	(415,005)	--	(415,005)	--
Business-type Activities:								
Sewer	284,861	289,691	--	--	--	4,830	4,830	--
Water	404,098	351,222	--	--	--	(52,876)	(52,876)	--
Refuse (Nonmajor)	69,401	62,330	--	--	--	(7,071)	(7,071)	--
Total Business-type Activities	758,360	703,243	--	--	--	(55,117)	(55,117)	--
Total Primary Government	\$ 1,526,036	\$ 844,700	\$ 211,214	\$ --	(415,005)	(55,117)	(470,122)	--
Component Units								
Tax Increment Finance Authority	\$ 73,270	\$ 2,625	\$ --	\$ --	--	--	--	(70,645)
Total Component Units	\$ 73,270	\$ 2,625	\$ --	\$ --	--	--	--	(70,645)
General Purpose Revenues and Transfers:								
Revenues								
Property Taxes					329,117	--	329,117	113,412
Interest and Investment Earnings					1,696	998	2,694	1,296
Intergovernmental					200,653	--	200,653	--
Transfers					135,210	(135,210)	--	--
Total General Revenues and Transfers					666,676	(134,212)	532,464	114,708
Change in Net Position					251,671	(189,329)	62,342	44,063
<i>Net Position at Beginning of Period</i>					2,412,474	2,335,911	4,748,385	994,610
Net Position at End of Period					\$ 2,664,145	\$ 2,146,582	\$ 4,810,727	\$ 1,038,673

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

**City of Reading
Balance Sheet
Governmental Funds
June 30, 2022**

	<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>	
ASSETS					
Cash and Investments	\$ 838,535	\$ 132,587	\$ 50,660	\$ 38,257	\$ 1,060,039
Accounts Receivable, net	955	--	--	--	955
Due from Other Governmental Units	25,940	18,671	5,654	--	50,265
<i>Total Assets</i>	<u>\$ 865,430</u>	<u>\$ 151,258</u>	<u>\$ 56,314</u>	<u>\$ 38,257</u>	<u>\$ 1,111,259</u>
LIABILITIES					
Accounts Payable	\$ 3,031	\$ 151	\$ 4	\$ 14,112	\$ 17,298
Accrued Liabilities	2,419	82	68	--	2,569
Unearned Revenue	109,713	--	--	--	109,713
<i>Total Liabilities</i>	<u>115,163</u>	<u>233</u>	<u>72</u>	<u>14,112</u>	<u>129,580</u>
FUND BALANCE					
Restricted	10,789	151,025	56,242	--	218,056
Assigned	--	--	--	24,145	24,145
Unassigned	739,478	--	--	--	739,478
<i>Total Fund Balance</i>	<u>750,267</u>	<u>151,025</u>	<u>56,242</u>	<u>24,145</u>	<u>981,679</u>
<i>Total Liabilities and Fund Balance</i>	<u>\$ 865,430</u>	<u>\$ 151,258</u>	<u>\$ 56,314</u>	<u>\$ 38,257</u>	<u>\$ 1,111,259</u>

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, 2022

Total Fund Balance - Governmental Funds	\$	981,679
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.		104,191
Compensated absences are not due and payable in the current period and, therefore, are not reported in the funds.		(12,788)
General government capital assets of \$2,365,827, net of accumulated depreciations of \$703,132, are not financial resources and, accordingly, are not reported in the funds.		1,662,695
Investments in joint ventures are not financial resources and, accordingly, are not reported in the funds.		162,731
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.		(54,363)
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds.		(180,000)
Total Net Position - Governmental Activities	\$	<u>2,664,145</u>

City of Reading
Statement of Revenues, Expenditures, and Changes in Fund Balance
Governmental Funds
For the Year Ended June 30, 2022

	<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>	
Revenues					
Property Taxes	\$ 329,117	\$ --	\$ --	\$ --	\$ 329,117
Intergovernmental	260,099	120,672	36,552	--	417,323
Licenses and Permits	46,240	--	--	--	46,240
Charges for Services	22,702	--	--	--	22,702
Interest and Rents	4,764	16	5	1	4,786
Other Revenues	63,909	--	--	--	63,909
Total Revenues	<u>726,831</u>	<u>120,688</u>	<u>36,557</u>	<u>1</u>	<u>884,077</u>
Expenditures					
General Government	255,309	--	--	31,220	286,529
Public Safety	190,730	--	--	--	190,730
Public Works	21,975	39,714	29,535	7,130	98,354
Community and Economic Development	49,390	--	--	--	49,390
Recreation and Culture	4,144	--	--	--	4,144
Capital Outlay	--	--	--	129,126	129,126
Debt Service, Principal	--	--	--	55,000	55,000
Debt Service, Interest	--	--	--	6,120	6,120
Total Expenditures	<u>521,548</u>	<u>39,714</u>	<u>29,535</u>	<u>228,596</u>	<u>819,393</u>
Excess of Revenues Over (Under) Expenditures	<u>205,283</u>	<u>80,974</u>	<u>7,022</u>	<u>(228,595)</u>	<u>64,684</u>
Other Financing Sources (Uses)					
Transfers In	--	--	21,000	228,254	249,254
Transfers Out	(54,124)	(49,000)	(10,920)	--	(114,044)
Net Other Financing Sources (Uses)	<u>(54,124)</u>	<u>(49,000)</u>	<u>10,080</u>	<u>228,254</u>	<u>135,210</u>
Net Change in Fund Balance	151,159	31,974	17,102	(341)	199,894
<i>Fund Balance at Beginning of Period</i>	599,108	119,051	39,140	24,486	781,785
Fund Balance at End of Period	<u>\$ 750,267</u>	<u>\$ 151,025</u>	<u>\$ 56,242</u>	<u>\$ 24,145</u>	<u>\$ 981,679</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, 2022

Total Net Change in Fund Balances - Governmental Funds	\$	199,894
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.		(51,991)
Changes to compensated absences do not require the use of current financial resources and, therefore, are not reported as expenditures in the funds.		3,450
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 \$129,126 exceeds depreciation expense of \$71,750.		57,376
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.		(3,325)
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.		(8,733)
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
Changes in Net Position - Governmental Activities	\$	<u>251,671</u>

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, 2022**

	Business-type Activities - Enterprise Funds				Governmental Activities Internal Service Funds
	Sewer	Water	Refuse (Nonmajor)	Total Enterprise Funds	
ASSETS					
<i>Current Assets</i>					
Cash and Investments	\$ 30,230	\$ 30,708	\$ 3,641	\$ 64,579	\$ 27,657
Accounts Receivable, net	46,430	50,460	11,874	108,764	--
Inventory	--	33,973	--	33,973	--
Total Current Assets	76,660	115,141	15,515	207,316	27,657
<i>Noncurrent Assets</i>					
Capital Assets not being Depreciated	20,500	50	--	20,550	--
Capital Assets being Depreciated, Net	1,912,277	3,133,809	--	5,046,086	79,292
Restricted Cash, Bond Reserve	131,002	126,650	--	257,652	--
Restricted Cash, RRI	101,400	198,900	--	300,300	--
Total Assets	2,241,839	3,574,550	15,515	5,831,904	106,949
DEFERRED OUTFLOWS OF RESOURCES					
Pension Related Deferred Outflows	8,905	9,516	3,193	21,614	--
Total Deferred Outflows of Resources	8,905	9,516	3,193	21,614	--
LIABILITIES					
<i>Current Liabilities</i>					
Accounts Payable	4,413	11,854	--	16,267	2,154
Accrued Liabilities	1,184	934	235	2,353	131
Accrued Interest	13,716	11,929	--	25,645	--
Current Portion of Long-term Debt	45,000	57,000	--	102,000	--
Total Current Liabilities	64,313	81,717	235	146,265	2,285
<i>Noncurrent Liabilities</i>					
Long-term Debt	1,950,000	1,560,000	--	3,510,000	--
Compensated Absences	1,206	1,206	854	3,266	473
Net Pension Liability	14,383	15,369	5,156	34,908	--
Total Liabilities	2,029,902	1,658,292	6,245	3,694,439	2,758
DEFERRED INFLOWS OF RESOURCES					
Pension Related Deferred Inflows	5,149	5,502	1,846	12,497	--
Total Deferred Inflows of Resources	5,149	5,502	1,846	12,497	--
NET POSITION					
Net Investment in Capital Assets	--	1,516,859	--	1,516,859	79,292
<i>Restricted for:</i>					
Bond Reserve	131,002	126,650	--	257,652	--
RRI	101,400	198,900	--	300,300	--
<i>Unrestricted</i>	(16,709)	77,863	10,617	71,771	24,899
Total Net Position	\$ 215,693	\$ 1,920,272	\$ 10,617	\$ 2,146,582	\$ 104,191

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, 2022

	Business-type Activities - Enterprise Funds				Governmental Activities Internal Service Funds
	Sewer	Water	Refuse (Nonmajor)	Total Enterprise Funds	
Operating Revenues					
Charges for Services	\$ 289,691	\$ 337,458	\$ 62,330	\$ 689,479	\$ 46,977
Other Revenues	--	13,764	--	13,764	2,480
Total Operating Revenues	289,691	351,222	62,330	703,243	49,457
Operating Expenses					
Salaries and Benefits	53,654	74,347	20,673	148,674	16,683
General Operations and Maintenance	82,175	144,679	48,728	275,582	61,814
Depreciation	66,133	112,724	--	178,857	23,011
Total Operating Expenses	201,962	331,750	69,401	603,113	101,508
Operating Income (Loss)	87,729	19,472	(7,071)	100,130	(52,051)
Non-Operating Revenues (Expenses)					
Interest and Investment Earnings	23	970	5	998	60
Interest Expense	(82,899)	(72,348)	--	(155,247)	--
Net Non-Operating Revenues (Expenses)	(82,876)	(71,378)	5	(154,249)	60
Income Before Contributions and Transfers	4,853	(51,906)	(7,066)	(54,119)	(51,991)
Transfers In	--	--	--	--	--
Transfers Out	(73,435)	(61,775)	--	(135,210)	--
Change In Net Position	(68,582)	(113,681)	(7,066)	(189,329)	(51,991)
<i>Net Position at Beginning of Period</i>	284,275	2,033,953	17,683	2,335,911	156,182
Net Position at End of Period	\$ 215,693	\$ 1,920,272	\$ 10,617	\$ 2,146,582	\$ 104,191

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, 2022

	<u>Business-type Activities - Enterprise Funds</u>			<u>Total Enterprise Funds</u>	<u>Governmental</u>
	<u>Sewer</u>	<u>Water</u>	<u>Refuse (Nonmajor)</u>		<u>Internal Service Fund</u>
Cash Flows from Operating Activities					
Cash Received from Charges for Services	\$ 287,000	\$ 345,303	\$ 61,938	\$ 694,241	\$ 49,457
Cash Received from Interfund Services Provided	-	-	-	-	-
Cash Paid to Employees for Services and Fringe Benefits	(54,643)	(76,890)	(20,810)	(152,343)	(17,188)
Cash Paid to Suppliers for Good and Services	(78,434)	(150,223)	(48,814)	(277,471)	(60,901)
Net Cash Provided (Used) by Operating Activities	<u>153,923</u>	<u>118,190</u>	<u>(7,686)</u>	<u>264,427</u>	<u>(28,632)</u>
Cash Flows from Non-capital Financing Activities					
Transfers Out	(73,435)	(61,775)	-	(135,210)	-
Net Cash Used by Non-capital Financing Activities	<u>(73,435)</u>	<u>(61,775)</u>	<u>-</u>	<u>(135,210)</u>	<u>-</u>
Cash Flows from Capital and Related Financing Activities					
Principal Payments on Long-term Debt	(44,000)	(52,000)	-	(96,000)	-
Interest Payments on Long-term Debt	(83,201)	(72,734)	-	(155,935)	-
Net Cash Used by Capital and Related Financing Activities	<u>(127,201)</u>	<u>(124,734)</u>	<u>-</u>	<u>(251,935)</u>	<u>-</u>
Cash Flows from Investing Activities					
Interest and Investment Earnings	23	970	5	998	60
Net Cash Provided by Investing Activities	<u>23</u>	<u>970</u>	<u>5</u>	<u>998</u>	<u>60</u>
Net Increase (Decrease) in Cash and Investments	(46,690)	(67,349)	(7,681)	(121,720)	(28,572)
<i>Cash and Investments - Beginning of Year</i>	309,322	423,607	11,322	744,251	56,229
Cash and Investments - End of Year	<u>\$ 262,632</u>	<u>\$ 356,258</u>	<u>\$ 3,641</u>	<u>\$ 622,531</u>	<u>\$ 27,657</u>
Summary of Cash from Statement of Net Position					
Cash and Investments	\$ 30,230	\$ 30,708	\$ 3,641	\$ 64,579	\$ 27,657
Restricted Cash, Bond Reserve	131,002	126,650	-	257,652	-
Restricted Cash, RRI	101,400	198,900	-	300,300	-
Total Cash and Investments	<u>\$ 262,632</u>	<u>\$ 356,258</u>	<u>\$ 3,641</u>	<u>\$ 622,531</u>	<u>\$ 27,657</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, 2022

	<u>Business-type Activities - Enterprise Funds</u>				Governmental
	<u>Sewer</u>	<u>Water</u>	<u>Refuse (Nonmajor)</u>	<u>Total Enterprise Funds</u>	Internal Service Fund
Reconciliation of Operating Income (Loss) to					
Net Cash Provided by Operating Activities					
Operating Income (Loss)	\$ 87,729	\$ 19,472	\$ (7,071)	\$ 100,130	\$ (52,051)
Adjustments to Reconcile Operating Income (Loss) to					
Net Cash Provided by Operating Activities					
Depreciation Expense	66,133	112,724	-	178,857	23,011
Changes in Assets, Deferred Outflows/Inflows, and Liabilities					
Accounts Receivable, net	(2,691)	(5,919)	(392)	(9,002)	-
Inventories	-	(14,210)	-	(14,210)	-
Accounts Payable	3,741	8,666	(86)	12,321	913
Accrued Liabilities	(37)	(575)	(376)	(988)	(978)
Compensated Absences	(716)	(1,245)	18	(1,943)	473
Net Pension Liability and Related Deferred Items	(236)	(723)	221	(738)	-
Net Cash Provided (Used) by Operating Activities	<u>\$ 153,923</u>	<u>\$ 118,190</u>	<u>\$ (7,686)</u>	<u>\$ 264,427</u>	<u>\$ (28,632)</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, 2022

	Custodial Fund
ASSETS	
Cash and Cash Equivalents	\$ 1,160
<i>Total Assets</i>	1,160
LIABILITIES	
Undistributed Collections	1,160
<i>Total Liabilities</i>	1,160
NET POSITION	
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, 2022

	Custodial Fund
Additions	
Taxes Collected for Other Governments	\$ 557,623
<i>Total Additions</i>	557,623
Deductions	
Payments of Property Taxes to Other Governments	557,623
<i>Total Deductions</i>	557,623
<i>Change in Net Position</i>	-
Net Position at Beginning of Period	-
<i>Net Position at End of Period</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

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 \$3,325 (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 \$162,731.

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

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

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

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

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.

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

City of Reading

Notes to the Financial Statements

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.

Unearned Revenues

Unearned revenues are those where asset recognition criteria have been met but for which revenue recognition criteria have not been met.

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

City of Reading

Notes to the Financial Statements

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.

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.

City of Reading

Notes to the Financial Statements

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 *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 2021 taxable valuation of the City totaled \$17,007,442

City of Reading

Notes to the Financial Statements

on which ad valorem taxes levied consisted of 12.4951 mills for the City for operating purposes. These amounts are recognized in the general fund and TIFA as tax revenue.

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.

Restricted Net Position

Restrictions of net position shown in the government-wide financial statements indicate that restrictions imposed by the funding source or some other outside source which preclude their use for unrestricted purposes.

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, 2022. 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.

City of Reading

Notes to the Financial Statements

- Budgets for expenditures are adopted at the department level for the general fund and the functional level for all special revenue funds.

Budgetary Compliance

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.

The City had no expenditures in excess of the amount appropriated during the year ended June 30, 2022.

Note 3 - Cash and Investments

Following is a reconciliation of deposit balances as of June 30, 2022:

	Primary Government	Component Unit - TIFA	Totals
Statement of Net Position			
Cash and Investments	\$ 1,152,275	\$ 589,068	\$ 1,741,343
Restricted Cash, Bond Reserve	257,652	-	257,652
Restricted Cash, RRI	300,300	-	300,300
Statement of Fiduciary Net Position			
Cash and Investments	1,160	-	1,160
<i>Total Cash and Investments</i>	\$ 1,711,387	\$ 589,068	\$ 2,300,455
Deposits and Investments			
Checking and Savings Accounts			\$ 2,296,359
Certificates of Deposit (matures within one year)			4,096
<i>Total Deposits and Investments</i>			\$ 2,300,455

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, \$1,220,232 of the City's bank balance of \$2,323,859 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

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, 2022, 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.

A summary of restricted cash follows:

	<u>June 30, 2022</u>		<u>June 30, 2021</u>
	<u>Required Balance</u>	<u>Actual Balance</u>	<u>Actual Balance</u>
Sewer Fund			
<i>Bond Reserve Accounts</i>	\$ 131,002	\$ 131,000	\$ 131,000
<i>Repair and Replacement Accounts</i>	101,400	101,400	55,200
Water Fund			
<i>Bond Reserve Accounts</i>	126,650	126,650	126,650
<i>Repair and Replacement Accounts</i>	198,900	198,900	156,300
Totals	<u>\$ 557,952</u>	<u>\$ 557,950</u>	<u>\$ 469,150</u>

City of Reading

Notes to the Financial Statements

Note 4 - Capital Assets

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

Governmental Activities	Beginning Balance	Additions	Transfers	Ending Balance
Capital Assets not being Depreciated				
Land	\$ 66,174	\$ -	\$ -	\$ 66,174
Construction in Progress	139,390	-	(139,390)	-
<i>Subtotal</i>	<u>205,564</u>	<u>-</u>	<u>(139,390)</u>	<u>66,174</u>
Capital Assets being Depreciated				
Buildings and Improvements	279,919	8,866	139,390	428,175
Infrastructure	1,539,432	93,510	-	1,632,942
Machinery and Equipment	786,693	26,750	-	813,443
<i>Subtotal</i>	<u>2,606,044</u>	<u>129,126</u>	<u>139,390</u>	<u>2,874,560</u>
Less Accumulated Depreciation				
Buildings and Improvements	171,538	22,743	-	194,281
Infrastructure	292,286	40,415	-	332,701
Machinery and Equipment	640,162	31,603	-	671,765
<i>Subtotal</i>	<u>1,103,986</u>	<u>94,761</u>	<u>-</u>	<u>1,198,747</u>
Capital Assets being Depreciated, Net	<u>1,502,058</u>	<u>34,365</u>	<u>-</u>	<u>1,675,813</u>
Capital Assets, Net	<u>\$ 1,707,622</u>	<u>\$ 34,365</u>	<u>\$ (139,390)</u>	<u>\$ 1,741,987</u>

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

Governmental Activities	
General Government	\$ 6,243
Public Safety	6,009
Public Works	38,315
Recreation and Culture	21,183
Depreciation Charged to Internal Service Funds	23,011
Total Governmental Activities	<u>\$ 94,761</u>

City of Reading

Notes to the Financial Statements

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

Business-type Activities	Beginning Balance	Additions	Reductions	Ending Balance
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	3,621,635	176,525	-	3,798,160
Machinery and Equipment	91,273	2,332	-	93,605
<i>Subtotal</i>	<u>3,712,908</u>	<u>178,857</u>	<u>-</u>	<u>3,891,765</u>
Capital Assets being Depreciated, Net	<u>5,224,943</u>	<u>178,857</u>	<u>-</u>	<u>5,046,086</u>
Capital Assets, Net	<u>\$ 5,245,493</u>	<u>\$ 178,857</u>	<u>\$ -</u>	<u>\$ 5,066,636</u>

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

Business-type Activities		
Sewer		\$ 66,133
Water		<u>112,724</u>
Total Business-type Activities		<u>\$ 178,857</u>

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

Tax Increment Finance Authority	Beginning Balance	Additions	Reductions	Ending Balance
Capital Assets being Depreciated				
Equipment	\$ 35,015	\$ -	\$ -	\$ 35,015
Less Accumulated Depreciation				
Equipment	9,336	2,334	-	11,670
Capital Assets, Net	<u>\$ 25,679</u>	<u>\$ 2,334</u>	<u>\$ -</u>	<u>\$ 23,345</u>

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

City of Reading

Notes to the Financial Statements

Note 5 - Interfund Transfers

The following transfers occurred between funds of the City for the year ended June 30, 2022:

<u>Transfer In</u>	<u>Transfer Out</u>	<u>Amount</u>
Capital Improvement	Local Streets	\$ 10,920
Capital Improvement	Major Streets	38,000
Local Streets	Major Streets	11,000
Capital Improvement	Sewer	73,435
Capital Improvement	Water	61,775
Capital Improvement	General	44,124
Local Streets	General	10,000

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, 2022 was \$180,000.

<u>Governmental Activities</u>	<u>Beginning Balance</u>	<u>Deletions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
2015 General Obligation Capital Improvement Bonds	\$ 235,000	\$ (55,000)	\$ 180,000	\$ 60,000
Compensated Absences	16,238	(2,977)	13,261	-
Total Governmental Activities	<u>\$ 235,000</u>	<u>\$ (55,000)</u>	<u>\$ 180,000</u>	<u>\$ 60,000</u>

City of Reading

Notes to the Financial Statements

Business-type activities

The City had the following debt issuances within its business-type activities at year-end:

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:	\$ 952,000
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:	450,000
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:	1,545,000
1995 water system revenue bonds, bearing interest at 4.50%. Principal payments due annually in amounts from \$20,000 to \$61,000, maturing in 2036:	665,000

Total	\$ 3,612,000
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The following is a summary of the long-term debt activity for the year:

Business-type Activities	Beginning Balance	Deletions	Ending Balance	Due Within One Year
2008 Water Revenue Bonds (91-08)	\$ 971,000	\$ (19,000)	952,000	\$ 21,000
1995 Water Revenue Bonds (91-05)	698,000	(33,000)	665,000	36,000
2006 Sewer Revenue Bonds (92-07)	1,579,000	(34,000)	1,545,000	35,000
2006 Sewer Revenue Bonds (92-10)	460,000	(10,000)	450,000	10,000
Compensated Absences	5,209	(1,943)	3,266	-
Total Business-type Activities	\$ 3,713,209	\$ (97,943)	\$ 3,615,266	\$ 102,000

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.

Annual debt service requirements to maturity are as follows:

Principal	Governmental activities			Business-type activities		
	Principal	Interest	Total	Principal	Interest	Total
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	-	-	-	121,000	134,273	255,273
2028-2032	-	-	-	693,000	596,032	1,289,032
2033-2037	-	-	-	793,000	420,544	1,213,544
2038-2042	-	-	-	691,000	266,095	957,095
2043-2047	-	-	-	879,000	101,485	980,485
Totals:	\$ 180,000	\$ 9,780	\$ 189,780	\$3,612,000	\$2,104,690	\$5,716,690

City of Reading

Notes to the Financial Statements

Note 7 - Defined Benefit 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.

Retirement benefits for employees are calculated as follows:

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

Employees Covered by Benefit Terms

At the December 31, 2021 valuation date, the following employees were covered by the benefit terms:

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

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.

For the year ended June 30, 2022, the City had the following contribution amounts:

<u>Division</u>	<u>Employee Contributions</u>	<u>Employer Contributions</u>
General	0.00%	8.18%

City of Reading

Notes to the Financial Statements

Net Pension Liability

The net pension liability reported at June 30, 2022 was determined using a measure of the total pension liability and the pension net position as of December 31, 2021. The December 31, 2021 total pension liability was determined by an actuarial valuation performed as of December 31, 2021.

Actuarial Assumptions

The total pension liability in the December 31, 2021 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.50%
Salary Increases	3.00% plus merit and longevity: 3.00% in the long-term
Investment Rate of Return	7.00%, net of investment and administrative expense including inflation

Although no specific price inflation assumptions are needed for the valuation, the 2.50% long-term wage inflation assumption would be consistent with a price inflation of 3%-4%.

Mortality rates used were based on a version of Pub-2010 and fully generational MP-2019.

The actuarial assumptions used in valuation were based on the results of the most recent actuarial experience study of 2014-2018.

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

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Target Allocation Gross Rate of Return</u>	<u>Long-term Expected Gross Rate of Return</u>	<u>Inflation Assumption</u>	<u>Long-term Expected Real Rate of Return</u>
Global Equity	60.00%	7.00%	4.20%	2.50%	2.70%
Global Fixed Income	20.00%	4.50%	0.90%	2.50%	0.40%
Private Investments	20.00%	9.50%	1.90%	2.50%	1.40%
<i>Totals</i>	<u>100.00%</u>		<u>7.00%</u>		<u>4.50%</u>

City of Reading

Notes to the Financial Statements

Discount Rate

The discount rate used to measure the total pension liability in the current year and prior year was 7.25%. The projection of cash flows used to determine the discount rate assumes that employer and employee contributions will be made at the rates agreed upon for employees and the actuarially determined rates for employers. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to pay all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Changes in the net pension liability during the measurement year were as follows:

	Increase (Decrease)		
	Total Pension Liability	Plan Net Position	Net Pension Liability
Balance at December 31, 2020	\$ 558,779	\$ 472,600	\$ 86,179
<i>Changes for the Year:</i>			
Service Cost	11,778	-	11,778
Interest on Total Pension Liability	42,090	-	42,090
Differences Between Expected and Actual Experience	29,894	-	29,894
Changes of Assumptions	25,834	-	25,834
Employer Contributions	-	21,007	(21,007)
Net Investment Income	-	67,050	(67,050)
Benefit Payments, Including Refunds	(21,703)	(21,703)	-
Administrative Expenses	-	(771)	771
Other Changes	(1)	-	(1)
<i>Net Changes</i>	87,892	65,583	22,309
Balance at December 31, 2021	\$ 646,671	\$ 538,183	\$ 108,488
		Allocated to:	
		Governmental Activities	\$ 73,580
		Business-type Activities	34,908
		Total	\$ 108,488

City of Reading

Notes to the Financial Statements

Sensitivity of the Net Pension Liability to Changes in the Discount Rate

The following presents the net pension liability of the City, calculated using the discount rate of 7.25%, as well as what the City's net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.25%) or one percentage point higher (8.25%) than the current rate.

	1% Decrease (6.25%)	Current Discount Rate (7.25%)	1% Increase (8.25%)
Net Pension Liability of the City	\$ 191,984	\$ 108,488	\$ 38,719

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.

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

For the year ended June 30, 2022 the City recognized pension expense of \$28,874.

The City reported deferred outflows/inflows of resources related to pensions from the following sources:

Source	Deferred Outflows of Resources	Deferred Inflows of Resources
Net Differences Between Projected and Actual Earnings on Pension Plan Investments	\$ -	\$ 38,305
Differences Between Expected and Actual Experience	23,757	533
Changes of Assumptions	33,906	-
Employer Contributions to the Plan Subsequent to the Measurement Date*	9,509	-
Total	\$ 67,172	\$ 38,838
	Allocated to:	
Governmental Activities	\$ 45,558	\$ 26,341
Business-type Activities	21,614	12,497
Total	\$ 67,172	\$ 38,838

*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, 2023.

City of Reading

Notes to the Financial Statements

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

Years Ending	
June 30,	Amount
2023	\$ 16,965
2024	4,948
2025	3,149
2026	(6,237)

Assumption and Method Change in 2022

Effective February 17, 2022, the MERS Retirement Board adopted a dedicated gains policy that automatically adjusts the assumed rate of investment return by using excess asset gains to mitigate large increases in required contributions to the Plan. Full details of this dedicated gains policy are available in the Actuarial Policy found on the MERS website. Some goals of the dedicated gains policy are to:

- Provide a systematic approach to lower the assumed rate of investment return between experience studies, and
- Use excess gains to cover both the increase in normal cost and any increase in UAL payment the first year after implementation (i.e., minimize the first-year impact (i.e., increase) in employer contributions).

The dedicated gains policy has been implemented with the December 31, 2021 annual actuarial valuation. After initial application of the smoothing method, remaining market gains were used to lower the assumed rate of investment return from 7.35% to 7.00%. The December 31, 2021 valuation liabilities were developed using this new, lower assumption. Additionally, as a result of recognizing excess market gains, the valuation assets used to fund these liabilities are 7.2% higher than if there were no dedicated gain policy. The combined impact of these changes will minimize the first-year impact on employer contributions and may result in an increase or a decrease in employer contributions.

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

City of Reading

Notes to the Financial Statements

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 - 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, 2022, the City's property tax revenue for general operations was reduced by \$11,308.

Note 10 - 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 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.

Note 11 - Subsequent Events

Subsequent events have been evaluated through January 3, 2023, the date the financial statements were available to be issued. The City submitted a Water-Related Infrastructure grant application to the Michigan Strategic Fund. As of the date of this report, the City has been authorized to incur up to \$255,250 of project costs while the grant application remains under review.

Note 12 - Leases

The City implemented GASB Statement Number 87 - *Leases* in the current year, but there were no leases that were deemed material.

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, 2022

	<u>Budgeted Amounts</u>			Variance
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	<u>Final to Actual</u>
Revenues				Favorable (Unfavorable)
Property Taxes	\$ 164,032	\$ 164,032	\$ 329,117	\$ 165,085
Intergovernmental	160,850	160,850	260,099	99,249
Licenses and Permits	106,800	106,800	46,240	(60,560)
Charges for Services	16,150	16,150	22,702	6,552
Interest and Rents	4,200	4,200	4,764	564
Other Income	105,083	145,083	63,909	(81,174)
Total Revenues	<u>557,115</u>	<u>597,115</u>	<u>726,831</u>	<u>129,716</u>
Expenditures				
General Government				
General Government	32,504	32,004	27,165	4,839
City Manager	49,609	49,609	48,734	875
Elections	3,500	3,500	2,495	1,005
Audit Fees	8,000	8,000	7,965	35
Legal Fees	13,500	7,500	3,165	4,335
Clerk / Treasurer	45,271	46,361	43,353	3,008
Assessor / Tax Bills	12,696	15,326	14,392	934
Building and Grounds	71,009	76,130	66,639	9,491
Cemeteries	44,512	47,558	41,401	6,157
Total General Government	<u>280,601</u>	<u>285,988</u>	<u>255,309</u>	<u>30,679</u>
Public Safety				
Police	170,457	170,292	155,730	14,562
Fire Protection	29,000	35,000	35,000	--
Total Public Safety	<u>199,457</u>	<u>205,292</u>	<u>190,730</u>	<u>14,562</u>
Public Utilities - Public Works	30,000	25,000	21,975	3,025
Community and Economic Development				
Planning / Zoning	20,608	11,108	6,890	4,218
Economic Development	2,500	42,500	42,500	--
Total Community and Economic Development	<u>23,108</u>	<u>53,608</u>	<u>49,390</u>	<u>4,218</u>
Parks and Recreation	9,000	4,500	4,144	356
Total Expenditures	<u>542,166</u>	<u>574,388</u>	<u>521,548</u>	<u>52,840</u>
Other Financing Uses				
Transfers Out	171,000	100,000	54,124	45,876
Total Expenditures and Other Financing Uses	<u>713,166</u>	<u>674,388</u>	<u>575,672</u>	<u>98,716</u>
Excess (Deficiency) of Revenues Over Expenditures and Other Uses	<u>(156,051)</u>	<u>(77,273)</u>	<u>151,159</u>	<u>228,432</u>
Net Change in Fund Balance	<u>(156,051)</u>	<u>(77,273)</u>	<u>151,159</u>	<u>228,432</u>
<i>Fund Balance at Beginning of Period</i>	599,108	599,108	599,108	--
Fund Balance at End of Period	<u>\$ 443,057</u>	<u>\$ 521,835</u>	<u>\$ 750,267</u>	<u>\$ 228,432</u>

City of Reading
Schedule of Revenues, Expenditures, and Changes in Fund Balance-Budget and Actual
Major Streets
For the Year Ended June 30, 2022

	<u>Budgeted Amounts</u>			Variance
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	<u>Final to Actual</u>
Revenues				
Intergovernmental	\$ 100,000	\$ 100,000	\$ 120,672	\$ 20,672
Interest and Rents	--	--	16	16
Total Revenues	<u>100,000</u>	<u>100,000</u>	<u>120,688</u>	<u>20,688</u>
Expenditures				
Public Works	50,044	47,773	39,716	8,057
Total Expenditures	<u>50,044</u>	<u>47,773</u>	<u>39,716</u>	<u>8,057</u>
Other Financing Uses				
Transfers Out	49,000	49,000	49,000	--
Total Expenditures and Other Financing Uses	<u>99,044</u>	<u>96,773</u>	<u>88,716</u>	<u>8,057</u>
Excess (Deficiency) of Revenues Over Expenditures and Other Uses	<u>956</u>	<u>3,227</u>	<u>31,972</u>	<u>28,745</u>
Net Change in Fund Balance	<u>956</u>	<u>3,227</u>	<u>31,972</u>	<u>28,745</u>
<i>Fund Balance at Beginning of Period</i>	119,051	119,051	119,051	--
Fund Balance at End of Period	<u>\$ 120,007</u>	<u>\$ 122,278</u>	<u>\$ 151,023</u>	<u>\$ 28,745</u>

City of Reading
Required Supplementary Information
Schedule of Changes in Net Pension Liability and Related Ratios
Last Eight Calendar Years *

	2021	2020	2019	2018	2017	2016	2015	2014
Total Pension Liability								
Service Cost	\$ 11,778	\$ 12,764	\$ 9,701	\$ 7,942	\$ 9,021	\$ 8,298	\$ 5,309	\$ 6,414
Interest on Total Pension Liability	42,090	37,945	36,759	35,557	33,994	33,057	27,814	25,635
Differences Between Expected and Actual Experience	29,894	2,672	(2,138)	(12,510)	(6,239)	210	26,027	-
Changes of Assumptions **	25,834	22,728	12,667	-	-	-	13,845	-
Benefit Payments, Including Refunds	(21,703)	(20,449)	(17,006)	(16,693)	(16,693)	(16,693)	(5,175)	(5,005)
Other Changes	(1)	-	-	-	-	(1,001)	-	-
Net Change in Pension Liability	87,892	55,660	39,983	14,296	20,083	23,871	67,820	27,044
<i>Total Pension Liability - Beginning</i>	558,779	503,119	463,136	448,840	428,757	404,887	337,067	310,023
Total Pension Liability - Ending (a)	\$ 646,671	\$ 558,779	\$ 503,119	\$ 463,136	\$ 448,840	\$ 428,758	\$ 404,887	\$ 337,067
Plan Fiduciary Net Position								
Contributions - Employer	\$ 21,007	\$ 18,435	\$ 13,388	\$ 13,297	\$ 11,248	\$ 7,739	\$ 6,253	\$ 6,182
Net Investment Income (Loss)	67,050	54,604	51,040	(15,580)	46,750	36,925	(5,069)	19,773
Benefit Payments, Including Refunds	(21,703)	(20,449)	(17,006)	(16,693)	(16,693)	(16,693)	(5,175)	(5,005)
Administrative Expenses	(771)	(851)	(880)	(768)	(740)	(728)	(732)	(728)
Net Change in Plan Fiduciary Net Position	65,583	51,739	46,542	(19,744)	40,565	27,243	(4,723)	20,222
<i>Plan Fiduciary Net Position - Beginning</i>	472,600	420,861	374,319	394,063	353,498	326,255	330,978	310,756
Plan Fiduciary Net Position - Ending (b)	\$ 538,183	\$ 472,600	\$ 420,861	\$ 374,319	\$ 394,063	\$ 353,498	\$ 326,255	\$ 330,978
Net Pension Liability - Ending (a) - (b)	\$ 108,488	\$ 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	83.22%	84.58%	83.65%	80.82%	87.80%	82.45%	80.58%	98.19%
Covered Payroll	\$ 232,772	\$ 268,718	\$ 214,154	\$ 172,652	\$ 196,533	\$ 189,455	\$ 121,496	\$ 146,770
Net Pension Liability as a Percentage of Covered Payroll	46.61%	32.07%	38.41%	51.44%	27.87%	39.72%	64.72%	4.15%

Notes to Schedule:

* Built prospectively upon implementation on GASB Statement No.68. An additional year will be added each year until ten years are presented.

**The following were significant changes to economic and demographic assumptions:

2015 valuation - 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.

2019 valuation - 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%.

2020 valuation - 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.

2021 valuation - The investment rate of return assumption was reduced from 7.60% to 7.25%.

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

	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Actuarially Determined Contribution	\$ 20,880	\$ 19,791	\$ 13,399	\$ 12,678	\$ 11,248	\$ 7,739	\$ 6,254	\$ 5,996
Contributions in Relation to the Actuarially Determined Contribution	20,880	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>\$ -</u>	<u>\$ (695)</u>	<u>\$ (186)</u>
Covered Payroll	\$ 255,252	\$ 271,475	\$ 214,154	\$ 172,652	\$ 196,533	\$ 189,455	\$ 121,496	\$ 105,193
Contributions as a Percentage of Covered Payroll	8.18%	7.29%	6.26%	7.34%	5.72%	4.08%	5.72%	5.88%

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	17 Years
Asset Valuation Method	5 Years; Smoothed
Inflation	2.50%
Salary Increases	3.00% in the Long-term
Investment Rate of Return	7.00%, Net of Investment Expense, including Inflation
Retirement Age	Experience-based tables of rates that are specific to the type of eligibility condition
Mortality	Pub-2010 and fully generational MP-2019

**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, 2023

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, 2022, 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, 2023.

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 2022-001 through 2022-002 that we consider to be material weaknesses.

Report on 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

Government Auditing Standards requires the auditor to perform limited procedures on the City's responses to the findings identified in our audit and described in the accompanying schedule of findings and responses. The City's responses were not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the responses.

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

2022-001 - 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.

2022-002 - 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

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, 2023

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, 2022. 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 November 10, 2022. 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 the application of existing policies was not changed during the fiscal year ended June 30, 2022. 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, 2023.

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". The signature is written in dark ink and is positioned above the printed name of the company.

Gabridge & Company, PLC
Grand Rapids, MI