

**CITY OF READING
HILLSDALE COUNTY, MICHIGAN**

ANNUAL FINANCIAL REPORT

YEAR ENDED JUNE 30, 2024

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INDEPENDENT AUDITOR'S REPORT

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

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, 2024, 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, 2024, 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 3.7% and 4.1% of the total assets and deferred outflows and net position, respectively, as of June 30, 2024 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 pension schedules 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 December 30, 2024, 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
December 30, 2024

Management's Discussion and Analysis

City of Reading
Management’s Discussion and Analysis
June 30, 2024

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, 2024. We encourage readers to consider the information presented here in conjunction with the financial statements.

Financial Highlights

- The assets and deferred outflows of resources of the City exceeded its liabilities and deferred inflows of resources at the close of the most recent fiscal year by \$5,571,172 (*net position*). The City had an *unrestricted net position* of \$1,048,911.
- Revenues of \$1,946,289 exceeded expenses of \$1,865,076 leading to an increase in net position of \$81,213 during the year.
- At the close of the current fiscal year, the City’s governmental funds reported combined fund balances of \$1,083,741, a decrease of \$155,981 in comparison with the prior year. Approximately 65.3% of this amount, or \$707,178, is available for spending at the government’s discretion (*unassigned fund balance*).
- During the year, the City’s general fund balance decreased by \$114,382 for an ending fund balance of \$716,996.
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$707,178, or approximately 81.5% 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 and capital improvement funds. Information for the major and local street funds are aggregated and reported in the other governmental funds column as they are considered nonmajor funds of the City.

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. Combining statements for the City's nonmajor governmental funds are included after the pension schedules and are presented as *other supplementary information*.

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 \$5,471,172 at the close of the most recent fiscal year.

City of Reading's Net Position

	Governmental Activities		Business-type Activities		Total Primary Government	
	2024	2023	2024	2023	2024	2023
ASSETS						
<i>Current Assets</i>						
Cash and Investments	\$ 1,065,520	\$ 1,226,145	\$ 88,892	\$ 130,302	\$ 1,154,412	\$ 1,356,447
Accounts Receivable, net	830	1,652	110,843	106,698	111,673	108,350
Due from Other Governmental Units	172,160	53,020	-	-	172,160	53,020
Inventory	-	-	40,878	41,987	40,878	41,987
Total Current Assets	1,238,510	1,280,817	240,613	278,987	1,479,123	1,559,804
<i>Noncurrent Assets</i>						
Capital Assets, net	2,291,253	2,014,560	4,708,923	4,887,779	7,000,176	6,902,339
Investment in Joint Venture	137,166	147,954	-	-	137,166	147,954
Restricted Cash	-	-	647,660	602,509	647,660	602,509
Total Assets	3,666,929	3,443,331	5,597,196	5,769,275	9,264,125	9,212,606
DEFERRED OUTFLOWS OF RESOURCES						
Pension Related	54,035	59,518	17,024	28,237	71,059	87,755
Total Deferred Outflows of Resources	54,035	59,518	17,024	28,237	71,059	87,755
LIABILITIES						
<i>Current Liabilities</i>						
Accounts Payable	122,603	20,485	9,756	2,615	132,359	23,100
Accrued Liabilities	5,893	4,341	2,043	2,110	7,936	6,451
Accrued Interest	-	-	24,181	24,934	24,181	24,934
Current Portion of Long-term Debt	60,000	60,000	111,000	106,000	171,000	166,000
Total Current Liabilities	188,496	84,826	146,980	135,659	335,476	220,485
<i>Noncurrent Liabilities</i>						
Long-term Debt	-	60,000	3,297,000	3,407,000	3,297,000	3,467,000
Compensated Absences	18,784	12,183	5,867	6,382	24,651	18,565
Net Pension Liability	156,600	137,634	49,337	65,297	205,937	202,931
Total Liabilities	363,880	294,643	3,499,184	3,614,338	3,863,064	3,908,981
DEFERRED INFLOWS OF RESOURCES						
Pension Related	721	964	227	457	948	1,421
Total Deferred Inflows of Resources	721	964	227	457	948	1,421
NET POSITION						
Net Investment in Capital Assets	2,231,253	1,894,560	1,402,409	1,458,134	3,633,662	3,352,694
Restricted	140,939	258,112	647,660	602,509	788,599	860,621
Unrestricted	984,171	1,054,570	64,740	122,074	1,048,911	1,176,644
Total Net Position	\$ 3,356,363	\$ 3,207,242	\$ 2,114,809	\$ 2,182,717	\$ 5,471,172	\$ 5,389,959

A significant portion of the City's net position (\$3,633,662, or 66.4%) reflects its investment in capital assets (e.g., land, buildings and improvements, machinery, equipment, vehicles, and infrastructure), less any related outstanding debt that was used to acquire those assets. The City uses these capital assets to provide a variety of services to its citizens. Accordingly, these assets are not available for future spending. Although the City's investment in capital assets is reported net of related debt, it should be noted that the resources used to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the City's net position (\$788,599, or 14.4%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$1,048,911, or 19.2%, is unrestricted and may be used to meet the government's ongoing obligations to its citizens and creditors.

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

Analysis of Significant Changes in Assets

Total assets of the City increased by \$51,519 from the prior year, primarily due to a \$97,837 net increase in capital assets. This growth resulted from \$404,770 in additions exceeding \$306,933 in depreciation. Additionally, accounts receivable rose by \$119,140, reflecting a grant receivable from the EGLE program, which supported the inventory and identification of lead service lines. Conversely, cash and investments decreased by \$202,035, largely because \$45,151 was moved to restricted cash to meet USDA bond requirements and a portion of cash was utilized to fund the increase in capital assets.

Analysis of Significant Changes in Liabilities

Total liabilities decreased by \$45,917 compared to the prior year. Current liabilities grew by \$115,091, driven by a \$109,259 increase in accounts payable related to contractor payments for the lead service line replacement program. Noncurrent liabilities, however, decreased by \$160,908, primarily due to scheduled long-term debt principal repayments. Other changes, such as a \$6,086 increase in compensated absences and stable net pension liabilities, had a lesser impact on the overall reduction in liabilities.

The City's overall net position increased \$81,213 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	
	2024	2023	2024	2023	2024	2023
Revenue						
Program Revenues						
Charges for Services	\$ 81,806	\$ 128,931	\$ 805,570	\$ 784,378	\$ 887,376	\$ 913,309
Operating Grants and Contributions	377,982	320,442	-	-	377,982	320,442
Capital Grants and Contributions	62,800	335,831	-	-	62,800	335,831
Total Program Revenues	522,588	785,204	805,570	784,378	1,328,158	1,569,582
General Revenues and Transfers						
Property Taxes	362,478	327,500	-	-	362,478	327,500
Unrestricted State Sources	220,654	220,832	-	-	220,654	220,832
Interest and Investment Earnings	4,753	4,349	2,143	1,660	6,896	6,009
Transfers	122,915	61,227	(122,915)	(61,227)	-	-
Total General Revenues and Transfers	710,800	613,908	(120,772)	(59,567)	590,028	554,341
Total Revenues	1,233,388	1,399,112	684,798	724,811	1,918,186	2,123,923
Expenses						
General Government	330,692	358,636	-	-	330,692	358,636
Public Safety	252,762	252,416	-	-	252,762	252,416
Public Works	370,717	188,364	-	-	370,717	188,364
Community and Economic Development	58,620	28,338	-	-	58,620	28,338
Recreation and Culture	68,176	23,461	-	-	68,176	23,461
Interest on Long-term Debt	3,300	4,800	-	-	3,300	4,800
Sewer Operations	-	-	309,944	265,601	309,944	265,601
Water Operations	-	-	374,972	341,899	374,972	341,899
Refuse Operations	-	-	67,790	81,176	67,790	81,176
Total Expenses	1,084,267	856,015	752,706	688,676	1,836,973	1,544,691
Change in Net Position	149,121	543,097	(67,908)	36,135	81,213	579,232
<i>Net Position at the Beginning of Period</i>	3,207,242	2,664,145	2,182,717	2,146,582	5,389,959	4,810,727
Net Position at the End of Period	\$ 3,356,363	\$ 3,207,242	\$ 2,114,809	\$ 2,182,717	\$ 5,471,172	\$ 5,389,959

Analysis of Significant Changes in Revenues

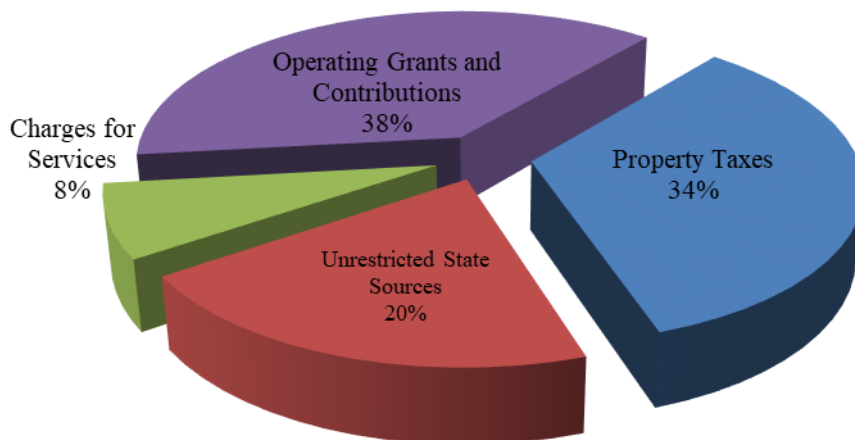
Total revenues for the City decreased by \$205,737 compared to the prior year. Program revenues saw a decline of \$241,424, primarily driven by a \$273,031 reduction in capital grants and contributions. This decrease reflects the one-time nature of grants received in 2023 for projects such as Michigan street improvements, sidewalks, and pavilion construction. Operating grants and contributions increased by \$57,540 due to the recognition of a \$107,900 EGLE grant for lead service line replacement. Meanwhile, general revenues rose by \$35,687, largely because of a \$20,086 increase in property taxes stemming from adjusted use marijuana taxes and a 2.5% increase in taxable values.

Analysis of Significant Changes in Expenses

Total expenses increased by \$292,282 compared to the prior year. Public works expenses grew by \$182,353 due to increased activity in major street projects, local street projects, and other infrastructure maintenance within capital project funds. Sewer operations expenses rose by \$44,343, attributed to a \$54,000 increase in contracted services compared to the prior year.

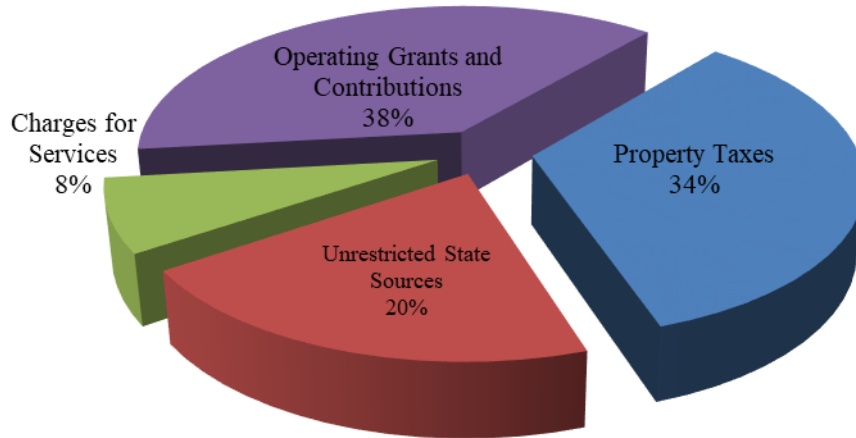
The following chart summarizes the revenue sources for the governmental activities of the City for the most recent fiscal year-end:

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 Revenues



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, 2024, the City’s governmental funds reported combined fund balances of \$1,083,741, a decrease of \$155,981 in comparison with the prior year. Approximately 65.3% of this amount, or \$70,178, 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 (\$140,939, or 13.0%) or 2) assigned (\$235,624, or 21.7%).

The general fund is the chief operating fund of the City. At the end of the current fiscal year, unassigned fund balance of the general fund was \$707,178, while total fund balance decreased to \$716,996. As a measure of the general fund’s liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total general fund expenditures and transfers

out. Unassigned fund balance represents approximately 81.5% of total general fund expenditures and transfers out, while total fund balance also represents approximately 82.6% of that same amount.

The fund balance of the City's general fund decreased by \$114,382 during the current fiscal year. The most significant reason for the decrease was the \$304,800 transfer out, which exceeded the net revenue surplus of \$190,418. The City monitors the expenditures of the general fund closely to ensure that spending does not exceed its available resources.

The major streets fund, a major special revenue fund, decreased by \$90,694 during the current fiscal year, ending with a fund balance of \$91,835. The decrease was primarily due to \$208,356 in public works expenditures (including multiple street projects), which exceeded revenues of \$128,662. There was also an \$11,000 transfer out, further contributing to the reduction in fund balance.

The local streets fund, a major special revenue fund, decreased by \$24,906 during the current fiscal year, ending with a fund balance of \$39,286. The fund's expenditures of \$85,106 exceeded revenues of \$39,200, despite a \$21,000 transfer in, which helped mitigate the overall decrease.

The capital improvement fund, a major capital projects fund, increased by \$74,001 during the current fiscal year, ending with a fund balance of \$235,624. This increase was largely driven by revenues of \$415,399, including \$188,290 in intergovernmental revenues and \$227,023 in other revenues, along with transfers in from other funds of \$417,715, which exceeded total expenditures of \$759,113 for the year.

General Fund Budgetary Highlights

Original budget compared to final budget. In reviewing the general fund's budgetary comparison schedule, there were notable changes between the original and final amended budgets. The final budget for taxes increased by \$46,704, reflecting updated property tax revenue projections during the fiscal year. Similarly, intergovernmental revenue projections rose by \$57,435 in the final budget, likely due to updated grant or state revenue sharing estimates. Additionally, transfers out were increased significantly, from \$168,000 in the original budget to \$306,000, indicating a reallocation of funds for other purposes.

Final budget compared to actual results. When comparing the final budget to actual results, the City's actual revenues exceeded the final budget by \$2,501. Taxes were slightly higher than anticipated, with actual collections exceeding the final budget by \$2,774. Expenditures were below the final budget by \$72,014, primarily due to lower-than-expected costs in police services (\$26,224 under budget), clerk/treasurer expenditures (\$7,773 under budget), and cemeteries (\$13,437 under budget). Overall, the City's general fund ended the year with a favorable variance of \$75,715 in net change in fund balance compared to the final budget. This positive outcome reflects effective fiscal management and cost containment efforts during the year.

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, 2024 amounted to \$7,000,176 (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 the notes to the financial statements.

Long-term Debt

As described in the notes to the financial statements, the City had \$3,468,000 of bonds payable at the end of the fiscal year. The City paid down \$165,000 of its outstanding bonds payable during the current fiscal year and is scheduled to pay down another \$171,000 in the upcoming fiscal year.

Economic Condition and Outlook

Management anticipates that general fund revenues for the upcoming fiscal year will remain consistent with current levels. Expenditures are projected to align closely with both actual and budgeted figures from the current year. The City is committed to ongoing scrutiny of all budget line items to identify potential cost-saving measures. Throughout the year, the budget will be carefully monitored to determine if amendments are necessary. In 2025, the City plans to utilize current revenues to deliver essential services while maintaining financial reserves at levels comparable to previous years. The continuous costs associated with providing these essential services to residents will be diligently monitored to preserve the City's financial health.

The City recognizes the critical importance of its water and sewer services and is dedicated to setting rates that adequately cover current operating expenses, debt service obligations, and future maintenance and repair needs. This approach ensures the sustainability and reliability of these essential services for the community.

The City is acutely aware of the impact of inflation on operational costs, including wages and benefits for municipal employees. To address these challenges, management is exploring strategies to manage expenses effectively while striving to offer competitive compensation to attract and retain qualified personnel. This includes regular reviews of wage scales and benefit packages to ensure they remain fair and sustainable within the City's financial framework.

Property taxes continue to be a vital revenue source for the City. Management anticipates a modest increase in taxable property values, which is expected to help offset rising operational costs. According to recent analyses, Michigan homeowners are projected to see an increase in their property tax bills, with taxable values estimated to rise by 3.3% in 2025. This anticipated growth will assist the City in maintaining essential services without imposing significant additional burdens on taxpayers.

The Michigan/East/Lynn/Strong Street Watermain and Street Renovation/Reconstruction Project (MELS Project) is a significant initiative undertaken by the City to enhance infrastructure and

comply with state mandates. This project is supported by a combination of funding sources, including \$950,000 in capital improvement bonds, \$1,611,000 in USDA revenue bonds, a \$250,000 grant from the Michigan Department of Transportation, a \$1,750,000 grant from Michigan Economic Development Corporation, and a \$257,200 match from the City, resulting in a total project cost of \$4,765,700. The largest component of the project involves a contract with Mead Brothers Construction for the replacement of watermains, service lines, and curb stops, as well as compliance with Michigan's new Lead and Copper Rules. Additional improvements include curb and gutter installations, street milling, paving, edge drains, and new sidewalks throughout the project area.

These trends underscore the importance of prudent financial management and strategic planning to navigate the evolving economic landscape effectively. By closely monitoring these factors and implementing thoughtful financial strategies, the City aims to continue providing essential services to its residents while maintaining fiscal responsibility and resilience in the face of economic challenges.

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:

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

Basic Financial Statements

City of Reading
Statement of Net Position
June 30, 2024

	Primary Government			Component Unit - TIFA
	Governmental Activities	Business-type Activities	Total	
ASSETS				
<i>Current Assets</i>				
Cash and Investments	\$ 1,065,520	\$ 88,892	\$ 1,154,412	\$ 319,986
Accounts Receivable, net	830	110,843	111,673	2,105
Due from Other Governmental Units	172,160	--	172,160	--
Inventory	--	40,878	40,878	--
Total Current Assets	1,238,510	240,613	1,479,123	322,091
<i>Noncurrent Assets</i>				
Capital Assets not being Depreciated	148,758	20,550	169,308	--
Capital Assets being Depreciated, net	2,142,495	4,688,373	6,830,868	18,675
Investment in Joint Venture	137,166	--	137,166	--
Assets Held For Resale	--	--	--	428,216
Restricted Cash, Bond Reserve	--	258,560	258,560	--
Restricted Cash, RRI	--	389,100	389,100	--
Total Assets	3,666,929	5,597,196	9,264,125	768,982
DEFERRED OUTFLOWS OF RESOURCES				
Pension Related Deferred Outflow	54,035	17,024	71,059	--
Total Deferred Outflows of Resources	54,035	17,024	71,059	--
LIABILITIES				
<i>Current Liabilities</i>				
Accounts Payable	122,603	9,756	132,359	233
Accrued Liabilities	5,893	2,043	7,936	--
Accrued Interest	--	24,181	24,181	--
Current Portion of Long-term Debt	60,000	111,000	171,000	--
Total Current Liabilities	188,496	146,980	335,476	233
<i>Noncurrent Liabilities</i>				
Long-term Debt	--	3,297,000	3,297,000	--
Compensated Absences	18,784	5,867	24,651	--
Net Pension Liability	156,600	49,337	205,937	--
Total Liabilities	363,880	3,499,184	3,863,064	233
DEFERRED INFLOWS OF RESOURCES				
Pension Related Deferred Inflow	721	227	948	--
Total Deferred Inflows of Resources	721	227	948	--
NET POSITION				
Net Investment in Capital Assets	2,231,253	1,402,409	3,633,662	18,675
<i>Restricted for:</i>				
Streets	131,121	--	131,121	--
Bond Reserve	--	258,560	258,560	--
RRI	--	389,100	389,100	--
Cemetery	8,117	--	8,117	--
Police	1,701	--	1,701	--
<i>Unrestricted</i>	984,171	64,740	1,048,911	750,074
Total Net Position	\$ 3,356,363	\$ 2,114,809	\$ 5,471,172	\$ 768,749

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, 2024

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue			Component Unit - TIFA
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total	
Primary Government								
Governmental Activities:								
General Government	\$ 330,692	\$ 79,554	\$ 84,097	\$ --	\$ (167,041)	\$ --	\$ (167,041)	\$ --
Public Safety	252,762	1,932	1,000	--	(249,830)	--	(249,830)	--
Public Works	370,717	--	292,885	62,800	(15,032)	--	(15,032)	--
Community and Economic Development	58,620	320	--	--	(58,300)	--	(58,300)	--
Recreation and Culture	68,176	--	--	--	(68,176)	--	(68,176)	--
Interest on Long-term Debt	3,300	--	--	--	(3,300)	--	(3,300)	--
Total Governmental Activities	1,084,267	81,806	377,982	62,800	(561,679)	--	(561,679)	--
Business-type Activities:								
Sewer	309,944	335,435	--	--	--	25,491	25,491	--
Water	374,972	389,248	--	--	--	14,276	14,276	--
Refuse (Nonmajor)	67,790	80,887	--	--	--	13,097	13,097	--
Total Business-type Activities	752,706	805,570	--	--	--	52,864	52,864	--
Total Primary Government	\$ 1,836,973	\$ 887,376	\$ 377,982	\$ 62,800	(561,679)	52,864	(508,815)	--
Component Unit								
Tax Increment Finance Authority	\$ 158,077	\$ 2,280	\$ 215	\$ --	--	--	--	(155,582)
Total Component Unit	\$ 158,077	\$ 2,280	\$ 215	\$ --	--	--	--	(155,582)
General Purpose Revenues and Transfers:								
Revenues								
					362,478	--	362,478	130,714
					4,753	2,143	6,896	1,039
					220,654	--	220,654	--
Transfers								
					122,915	(122,915)	--	--
Total General Revenues and Transfers					710,800	(120,772)	590,028	131,753
Change in Net Position					149,121	(67,908)	81,213	(23,829)
Net Position at Beginning of Period					3,207,242	2,182,717	5,389,959	792,578
Net Position at End of Period					\$ 3,356,363	\$ 2,114,809	\$ 5,471,172	\$ 768,749

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

**City of Reading
Balance Sheet
Governmental Funds
June 30, 2024**

	General	Special Revenue		Capital Projects	Total Governmental Funds
		Formerly Nonmajor Fund - Major Streets	Formerly Nonmajor Fund - Local Streets	Capital Improvement	
ASSETS					
Cash and Investments	\$ 686,016	\$ 71,489	\$ 33,165	\$ 247,454	\$ 1,038,124
Accounts Receivable, net	830	--	--	--	830
Due from Other Governmental Units	37,422	20,572	6,266	107,900	172,160
Total Assets	\$ 724,268	\$ 92,061	\$ 39,431	\$ 355,354	\$ 1,211,114
LIABILITIES					
Accounts Payable	\$ 1,884	\$ --	\$ --	\$ 119,730	\$ 121,614
Accrued Liabilities	5,388	226	145	--	5,759
Total Liabilities	7,272	226	145	119,730	127,373
FUND BALANCE					
Restricted	9,818	91,835	39,286	--	140,939
Assigned	--	--	--	235,624	235,624
Unassigned	707,178	--	--	--	707,178
Total Fund Balance	716,996	91,835	39,286	235,624	1,083,741
Total Liabilities and Fund Balance	\$ 724,268	\$ 92,061	\$ 39,431	\$ 355,354	\$ 1,211,114

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, 2024

Total Fund Balance - Governmental Funds	\$	1,083,741
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.		66,397
Compensated absences are not due and payable in the current period and, therefore, are not reported in the funds.		(18,345)
General government capital assets of \$3,115,179, net of accumulated depreciations of \$864,489, are not financial resources and, accordingly, are not reported in the funds.		2,250,690
Investments in joint ventures are not financial resources and, accordingly, are not reported in the funds.		137,166
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.		(103,286)
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds.		(60,000)
Total Net Position - Governmental Activities	\$	<u>3,356,363</u>

City of Reading
Statement of Revenues, Expenditures, and Changes in Fund Balance
Governmental Funds
For the Year Ended June 30, 2024

	General	Special Revenue		Capital Projects	Other Governmental Funds	Total Governmental Funds
		Formerly Nonmajor Fund - Major Streets	Formerly Nonmajor Fund - Local Streets	Capital Improvement		
Revenues						
Taxes	\$ 362,478	\$ --	\$ --	\$ --	\$ --	\$ 362,478
Intergovernmental	305,751	128,315	39,080	188,290	--	661,436
Licenses and Permits	59,291	--	--	--	--	59,291
Charges for Services	12,738	--	--	--	--	12,738
Fines and Forfeits	452	--	--	--	--	452
Interest and Rents	9,812	347	120	86	--	10,365
Other Revenues	3,325	--	--	227,023	--	230,348
Total Revenues	753,847	128,662	39,200	415,399	--	1,337,108
Expenditures						
General Government	269,935	--	--	25,404	--	295,339
Public Safety	217,449	--	--	--	--	217,449
Public Works	--	208,356	85,106	235,347	--	528,809
Community and Economic Development	58,620	--	--	--	--	58,620
Recreation and Culture	17,425	--	--	30,293	--	47,718
Capital Outlay	--	--	--	404,769	--	404,769
Debt Service, Principal	--	--	--	60,000	--	60,000
Debt Service, Interest	--	--	--	3,300	--	3,300
Total Expenditures	563,429	208,356	85,106	759,113	--	1,616,004
Excess of Revenues Over (Under) Expenditures	190,418	(79,694)	(45,906)	(343,714)	--	(278,896)
Other Financing Sources (Uses)						
Transfers In	--	--	21,000	417,715	--	438,715
Transfers Out	(304,800)	(11,000)	--	--	--	(315,800)
Net Other Financing Sources (Uses)	(304,800)	(11,000)	21,000	417,715	--	122,915
Net Change in Fund Balance	(114,382)	(90,694)	(24,906)	74,001	--	(155,981)
<i>Fund Balance at Beginning of Period (as previously presented)</i>	831,378	--	--	161,623	246,721	1,239,722
<i>Change within financial reporting entity (nonmajor to major fund)</i>	--	182,529	64,192	--	(246,721)	--
<i>Fund Balance at Beginning of Period (as adjusted)</i>	831,378	182,529	64,192	161,623	--	1,239,722
Fund Balance at End of Period	\$ 716,996	\$ 91,835	\$ 39,286	\$ 235,624	\$ --	\$ 1,083,741

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, 2024

Total Net Change in Fund Balances - Governmental Funds	\$	(155,981)
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.		(6,076)
Changes to compensated absences do not require the use of current financial resources and, therefore, are not reported as expenditures in the funds.		(6,957)
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 \$404,769 exceeds depreciation expense of \$111,640.		293,129
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.		(10,788)
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.		(24,206)
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.		60,000
Changes in Net Position - Governmental Activities	\$	<u>149,121</u>

**City of Reading
Statement of Net Position
Proprietary Funds
June 30, 2024**

	<u>Business-type Activities - Enterprise Funds</u>				Governmental Activities Internal Service Fund
	Sewer	Water	Refuse (Nonmajor)	Total Enterprise Funds	
ASSETS					
<i>Current Assets</i>					
Cash and Investments	\$ 65,421	\$ 2,235	\$ 21,236	\$ 88,892	\$ 27,396
Accounts Receivable, net	46,069	52,785	11,989	110,843	--
Inventory	--	40,878	--	40,878	--
Total Current Assets	111,490	95,898	33,225	240,613	27,396
<i>Noncurrent Assets</i>					
Capital Assets not being Depreciated	20,500	50	--	20,550	--
Capital Assets being Depreciated, net	1,780,014	2,908,359	--	4,688,373	40,563
Restricted Cash, Bond Reserve	131,910	126,650	--	258,560	--
Restricted Cash, RRI	147,600	241,500	--	389,100	--
Total Assets	2,191,514	3,372,457	33,225	5,597,196	67,959
DEFERRED OUTFLOWS OF RESOURCES					
Pension Related Deferred Outflow	7,604	7,652	1,768	17,024	--
Total Deferred Outflows of Resources	7,604	7,652	1,768	17,024	--
LIABILITIES					
<i>Current Liabilities</i>					
Accounts Payable	69	535	9,152	9,756	989
Accrued Liabilities	940	922	181	2,043	134
Accrued Interest	13,076	11,105	--	24,181	--
Current Portion of Long-term Debt	50,000	61,000	--	111,000	--
Total Current Liabilities	64,085	73,562	9,333	146,980	1,123
<i>Noncurrent Liabilities</i>					
Long-term Debt	1,852,000	1,445,000	--	3,297,000	--
Compensated Absences	2,746	2,746	375	5,867	439
Net Pension Liability	22,038	22,175	5,124	49,337	--
Total Liabilities	1,940,869	1,543,483	14,832	3,499,184	1,562
DEFERRED INFLOWS OF RESOURCES					
Pension Related Deferred Inflow	101	102	24	227	--
Total Deferred Inflows of Resources	101	102	24	227	--
NET POSITION					
Net Investment in Capital Assets	--	1,402,409	--	1,402,409	40,563
<i>Restricted for:</i>					
Bond Reserve	131,910	126,650	--	258,560	--
RRI	147,600	241,500	--	389,100	--
<i>Unrestricted</i>	(21,362)	65,965	20,137	64,740	25,834
Total Net Position	\$ 258,148	\$ 1,836,524	\$ 20,137	\$ 2,114,809	\$ 66,397

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, 2024

	Business-type Activities - Enterprise Funds				Governmental Activities Internal Service Fund
	Sewer	Water	Refuse (Nonmajor)	Total Enterprise Funds	
Operating Revenues					
Charges for Services	\$ 335,435	\$ 388,856	\$ 80,707	\$ 804,998	\$ 56,908
Other Revenues	--	392	180	572	373
Total Operating Revenues	335,435	389,248	80,887	805,570	57,281
Operating Expenses					
Salaries and Benefits	66,513	78,628	10,858	155,999	9,712
General Operations and Maintenance	98,183	116,141	56,932	271,256	37,596
Depreciation	66,131	112,725	--	178,856	16,437
Total Operating Expenses	230,827	307,494	67,790	606,111	63,745
Operating Income (Loss)	104,608	81,754	13,097	199,459	(6,464)
Non-Operating Revenues (Expenses)					
Interest and Investment Earnings	959	1,155	29	2,143	388
Interest Expense	(79,117)	(67,478)	--	(146,595)	--
Net Non-Operating Revenues (Expenses)	(78,158)	(66,323)	29	(144,452)	388
Income Before Contributions and Transfers	26,450	15,431	13,126	55,007	(6,076)
Transfers Out	(25,668)	(97,247)	--	(122,915)	--
Change In Net Position	782	(81,816)	13,126	(67,908)	(6,076)
<i>Net Position at Beginning of Period</i>	257,366	1,918,340	7,011	2,182,717	72,473
Net Position at End of Period	\$ 258,148	\$ 1,836,524	\$ 20,137	\$ 2,114,809	\$ 66,397

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, 2024

	<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</u>
Cash Flows from Operating Activities					
Cash Received from Charges for Services	\$ 331,638	\$ 389,233	\$ 80,554	\$ 801,425	\$ 57,281
Cash Received from Interfund Services Provided	-	-	-	-	-
Cash Paid to Employees for Services and Fringe Benefits	(67,369)	(80,975)	(13,214)	(161,558)	(10,123)
Cash Paid to Suppliers for Good and Services	(99,877)	(115,349)	(47,780)	(263,006)	(37,956)
Net Cash Provided by Operating Activities	<u>164,392</u>	<u>192,909</u>	<u>19,560</u>	<u>376,861</u>	<u>9,202</u>
Cash Flows from Non-capital Financing Activities					
Transfers Out	(25,668)	(97,247)	-	(122,915)	-
Net Cash Used by Non-capital Financing Activities	<u>(25,668)</u>	<u>(97,247)</u>	<u>-</u>	<u>(122,915)</u>	<u>-</u>
Cash Flows from Capital and Related Financing Activities					
Principal Payments on Long-term Debt	(48,000)	(57,000)	-	(105,000)	-
Interest Payments on Long-term Debt	(79,447)	(67,901)	-	(147,348)	-
Net Cash Used by Capital and Related Financing Activities	<u>(127,447)</u>	<u>(124,901)</u>	<u>-</u>	<u>(252,348)</u>	<u>-</u>
Cash Flows from Investing Activities					
Interest and Investment Earnings	959	1,155	29	2,143	388
Net Cash Provided by Investing Activities	<u>959</u>	<u>1,155</u>	<u>29</u>	<u>2,143</u>	<u>388</u>
Net Increase (Decrease) in Cash and Investments	12,236	(28,084)	19,589	3,741	9,590
<i>Cash and Investments - Beginning of Year</i>	332,695	398,469	1,647	732,811	17,806
Cash and Investments - End of Year	<u>\$ 344,931</u>	<u>\$ 370,385</u>	<u>\$ 21,236</u>	<u>\$ 736,552</u>	<u>\$ 27,396</u>
Summary of Cash from Statement of Net Position					
Cash and Investments	\$ 65,421	\$ 2,235	\$ 21,236	\$ 88,892	\$ 27,396
Restricted Cash, Bond Reserve	131,910	126,650	-	258,560	-
Restricted Cash, RRI	147,600	241,500	-	389,100	-
Total Cash and Investments	<u>\$ 344,931</u>	<u>\$ 370,385</u>	<u>\$ 21,236</u>	<u>\$ 736,552</u>	<u>\$ 27,396</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, 2024

	<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)	\$ 104,608	\$ 81,754	\$ 13,097	\$ 199,459	\$ (6,464)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by Operating Activities					
Depreciation Expense	66,131	112,725	-	178,856	16,437
Changes in Assets, Deferred Outflows/Inflows, and Liabilities					
Accounts Receivable, net	(3,797)	(15)	(333)	(4,145)	-
Inventories	-	1,109	-	1,109	-
Accounts Payable	(1,694)	(317)	9,152	7,141	(360)
Accrued Liabilities	20	(19)	(68)	(67)	(54)
Compensated Absences	48	(436)	(127)	(515)	(357)
Net Pension Liability and Related Deferred Items	(924)	(1,892)	(2,161)	(4,977)	-
<i>Net Cash Provided by Operating Activities</i>	<u>\$ 164,392</u>	<u>\$ 192,909</u>	<u>\$ 19,560</u>	<u>\$ 376,861</u>	<u>\$ 9,202</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, 2024

	Custodial Fund
ASSETS	
Cash and Cash Equivalents	\$ -
<i>Total Assets</i>	-
LIABILITIES	
Undistributed Collections	-
<i>Total Liabilities</i>	-
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, 2024

	Custodial Fund
Additions	
Taxes Collected for Other Governments	\$ 626,922
<i>Total Additions</i>	626,922
Deductions	
Payments of Property Taxes to Other Governments	626,922
<i>Total Deductions</i>	626,922
<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 \$10,788 (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 \$137,165.

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

The **major streets fund** accounts for the receipt and expenditure of revenues from the State of Michigan under Public Act 51 of 1951, as amended, which are restricted for the maintenance and improvement of major streets within the City. Revenues are primarily derived from state-shared fuel taxes and other allocations from the Michigan Transportation Fund. Eligible expenditures include snow removal, repairs, and improvements to the City's designated major streets.

The **local streets fund** accounts for the receipt and expenditure of revenues from the State of Michigan under Public Act 51 of 1951, as amended, which are restricted for the maintenance and improvement of local streets within the City. Revenues are primarily derived from state-shared fuel taxes and other allocations from the Michigan Transportation Fund. Eligible expenditures include maintenance, repairs, and improvements to the City's designated local streets.

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.

City of Reading

Notes to the Financial Statements

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.

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.

City of Reading

Notes to the Financial Statements

- 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.

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.

City of Reading

Notes to the Financial Statements

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.

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

City of Reading

Notes to the Financial Statements

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 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

City of Reading

Notes to the Financial Statements

the governmental fund financial statements a flow assumption must be made about the order in which the resources are considered to be applied. It is the government's policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

Fund Balance Policies

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

City of Reading

Notes to the Financial Statements

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 2023 taxable valuation of the City totaled \$19,040,162 on which ad valorem taxes levied consisted of 12.4063 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.

City of Reading

Notes to the Financial Statements

- 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, 2024. Expenditures may not exceed appropriations. The appropriations resolutions are based on the projected expenditures budget of the department heads of the City. Any amendments to the original budget must meet the requirements of Public Act 621. Any revisions that alter the total expenditures of any fund must be approved by the City Council.
- Budgets for expenditures are adopted at the department level for the general fund and the functional level for all special revenue funds.

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, 2024.

Note 3 - Cash and Investments

Following is a reconciliation of deposit balances as of June 30, 2024:

	Primary Government	Component Unit - TIFA	Totals
Statement of Net Position			
Cash and Investments	\$ 1,154,412	\$ 319,986	\$ 1,474,398
Restricted Cash, Bond Reserve	258,560	-	258,560
Restricted Cash, RRI	389,100	-	389,100
Statement of Fiduciary Net Position			
Cash and Investments	-	-	-
<i>Total Cash and Investments</i>	\$ 1,802,072	\$ 319,986	\$ 2,122,058

Deposits and Investments

Checking and Savings Accounts	\$ 2,117,937
Certificates of Deposit (mature within one to five years)	4,121
<i>Total Deposits and Investments</i>	\$ 2,122,058

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, \$1,105,685 of the City's bank balance of \$2,223,486 was exposed to custodial credit risk because it was uninsured and uncollateralized.

City of Reading

Notes to the Financial Statements

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.

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, 2024, 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:

	June 30, 2024		June 30, 2023
	Required Balance	Actual Balance	Actual Balance
Sewer Fund			
<i>Bond Reserve Accounts</i>	\$ 131,000	\$ 131,910	\$ 131,159
<i>Repair and Replacement Accounts</i>	147,600	147,600	124,500
Water Fund			
<i>Bond Reserve Accounts</i>	126,650	126,650	126,650
<i>Repair and Replacement Accounts</i>	241,500	241,500	220,200
Totals	\$ 646,750	\$ 647,660	\$ 602,509

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	\$ 55,684	\$ -	\$ 121,858
Construction in Progress	319,820	26,900	(319,820)	26,900
<i>Subtotal</i>	<u>385,994</u>	<u>82,584</u>	<u>(319,820)</u>	<u>148,758</u>
Capital Assets being Depreciated				
Buildings and Improvements	445,584	136,968	-	582,552
Infrastructure	1,632,942	138,070	319,820	2,090,832
Machinery and Equipment	820,796	47,148	-	867,944
<i>Subtotal</i>	<u>2,899,322</u>	<u>322,186</u>	<u>319,820</u>	<u>3,541,328</u>
Less Accumulated Depreciation				
Buildings and Improvements	217,086	20,629	-	237,715
Infrastructure	377,011	61,814	-	438,825
Machinery and Equipment	676,659	45,634	-	722,293
<i>Subtotal</i>	<u>1,270,756</u>	<u>128,077</u>	<u>-</u>	<u>1,398,833</u>
Capital Assets being Depreciated, Net	<u>1,628,566</u>	<u>194,109</u>	<u>-</u>	<u>2,142,495</u>
Capital Assets, Net	<u>\$ 2,014,560</u>	<u>\$ 276,693</u>	<u>\$ (319,820)</u>	<u>\$ 2,291,253</u>

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

Governmental Activities	
General Government	\$ 24,325
Public Safety	6,795
Public Works	60,062
Recreation and Culture	20,458
Depreciation Charged to Internal Service Funds	16,437
Total Governmental Activities	<u>\$ 128,077</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	3,974,685	176,524	-	4,151,209
Machinery and Equipment	95,937	2,332	-	98,269
<i>Subtotal</i>	<u>3,891,765</u>	<u>178,856</u>	<u>-</u>	<u>4,249,478</u>
Capital Assets being Depreciated, Net	<u>5,046,086</u>	<u>178,856</u>	<u>-</u>	<u>4,688,373</u>
Capital Assets, Net	<u>\$ 5,066,636</u>	<u>\$ 178,856</u>	<u>\$ -</u>	<u>\$ 4,708,923</u>

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

Business-type Activities		
Sewer		\$ 66,131
Water		112,725
Total Business-type Activities		<u>\$ 178,856</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	14,005	2,335	-	16,340
Capital Assets, Net	<u>\$ 21,010</u>	<u>\$ 2,335</u>	<u>\$ -</u>	<u>\$ 18,675</u>

Depreciation expense of \$2,335 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, 2024:

Transfer In	Transfer Out	Amount
Capital Improvement	Sewer	\$ 25,668
Capital Improvement	Water	97,247
Capital Improvement	General	294,800
Local Streets	General	10,000
Local Streets	Major Streets	11,000

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, 2024 was \$60,000.

Governmental Activities	Beginning Balance	Additions	Deletions	Ending Balance	Due Within One Year
2015 General Obligation Capital Improvement Bonds	\$ 120,000	\$ -	\$ (60,000)	\$ 60,000	\$ 60,000
Compensated Absences	12,183	6,601	-	18,784	-
Total Governmental Activities	\$ 132,183	\$ 6,601	\$ (60,000)	\$ 78,784	\$ 60,000

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:	\$ 911,000
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:	429,000
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:	1,473,000
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:	595,000
Total	\$ 3,408,000

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

Business-type Activities	Beginning Balance	Additions	Deletions	Ending Balance	Due Within One Year
Direct Placement Debt					
2008 Water Revenue Bonds (91-08)	\$ 932,000	\$ -	\$ (21,000)	\$ 911,000	\$ 23,000
1995 Water Revenue Bonds (91-05)	631,000	-	(36,000)	595,000	38,000
2006 Sewer Revenue Bonds (92-07)	1,510,000	-	(37,000)	1,473,000	39,000
2006 Sewer Revenue Bonds (92-10)	440,000	-	(11,000)	429,000	11,000
Total Direct Placement Debt	3,513,000	-	(105,000)	3,408,000	111,000
Compensated Absences	6,382	-	(515)	5,867	-
Total Business-type Activities	\$ 3,519,382	\$ -	\$ (105,515)	\$ 3,413,867	\$ 111,000

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
2025	\$ 60,000	\$ 1,680	\$ 63,300	\$ 111,000	\$ 144,313	\$ 255,313
2026	-	-	-	116,000	139,392	255,392
2027	-	-	-	121,000	134,273	255,273
2028	-	-	-	127,000	128,916	255,916
2029	-	-	-	133,000	123,317	256,317
2030-2034	-	-	-	753,000	533,519	1,286,519
2035-2039	-	-	-	732,000	354,845	1,086,845
2040-2044	-	-	-	752,000	204,461	956,461
2045-2048	-	-	-	563,000	39,098	602,098
Totals:	\$ 60,000	\$ 1,680	\$ 63,300	\$ 3,408,000	\$ 1,802,134	\$ 5,210,134

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, 2023 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	2
Active Plan Members	5
<i>Total Employees Covered By MERS</i>	13

Contributions

The employer is required to contribute amounts at least equal to the actuarially determined rate, as established by the MERS Retirement Board. The actuarially determined rate is the estimated amount necessary to finance the cost of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The employer may establish contribution rates to be paid by its covered employees.

For the year ended June 30, 2024, the City had the following contribution amounts:

<u>Division</u>	<u>Employee Contributions</u>	<u>Employer Contributions</u>
General	0.00%	10.21%

City of Reading

Notes to the Financial Statements

Net Pension Liability

The net pension liability reported at June 30, 2024 was determined using a measure of the total pension liability and the pension net position as of December 31, 2023. The December 31, 2023 total pension liability was determined by an actuarial valuation performed as of December 31, 2023.

Actuarial Assumptions

The total pension liability in the December 31, 2023 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.50%
Salary Increases	3.00% in the long-term
Investment Rate of Return	6.93%, 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:

Asset Class	Target Allocation	Target Gross Rate of Return	Long-term Expected Gross Rate of Return
Global equity	60.00%	6.93%	4.15%
Global fixed income	20.00%	4.44%	0.89%
Private investments	20.00%	9.44%	1.89%
Totals	100.00%		6.93%

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 7.18%. 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, 2022	\$ 668,920	\$ 465,989	\$ 202,931
<i>Changes for the Year:</i>			
Service Cost	14,555	-	14,555
Interest on Total Pension Liability	47,734	-	47,734
Differences Between Expected and Actual Experience	18,992	-	18,992
Changes of Assumptions	5,888	-	5,888
Employer Contributions	-	33,799	(33,799)
Net Investment Income	-	51,455	(51,455)
Benefit Payments, Including Refunds	(35,582)	(35,582)	-
Administrative Expenses	-	(1,091)	1,091
<i>Net Changes</i>	51,587	48,581	3,006
Balance at December 31, 2023	\$ 720,507	\$ 514,570	\$ 205,937
		Allocated to:	
		Governmental Activities	\$ 156,600
		Business-type Activities	49,337
		Total	\$ 205,937

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 7.18%, 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 (6.18%) or one percentage point higher (8.18%) than the current rate.

	1% Decrease	Current	1% Increase
	(6.18%)	Discount Rate (7.18%)	(8.18%)
Net Pension Liability of the City	\$ 298,587	\$ 205,937	\$ 128,281

City of Reading

Notes to the Financial Statements

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, 2024 the City recognized pension expense of \$55,666.

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	\$ 25,234	\$ -
Differences Between Expected and Actual Experience	21,718	948
Changes of Assumptions	10,875	-
Employer Contributions to the Plan Subsequent to the Measurement Date*	13,232	-
<i>Totals</i>	\$ 71,059	\$ 948
Allocated to:		
Governmental Activities	\$ 54,035	\$ 721
Business-type Activities	17,024	227
<i>Total</i>	\$ 71,059	\$ 948

*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, 2025.

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

Years Ending June 30,	Amount
2025	\$ 24,165
2026	14,779
2027	21,490
2028	(3,555)

Assumption and Method Changes in 2023

Effective February 17, 2022, the MERS Retirement Board adopted a dedicated gains policy that automatically lowers 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

City of Reading

Notes to the Financial Statements

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 contribution year after application (i.e., minimize the first-year impact (i.e., increase) in employer contributions).

The dedicated gains policy was implemented with the December 31, 2021 annual actuarial valuation and was reflected in the computed employer contribution amounts beginning in fiscal year 2023.

Investment performance measured for the one-year period ending December 31, 2023 resulted in current year excess gains for use in lowering the assumed rate of investment return. As a result, the assumed rate of investment return was lowered from 7.00% to 6.93%. The December 31, 2023 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 1.4% higher than if there were no dedicated gains 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.

There were no other assumption or method changes in 2023.

Note 8 - Risk Management

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

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

Note 9 - 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,

City of Reading

Notes to the Financial Statements

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, 2024, the City's property tax revenue for general operations was reduced by \$8,520.

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

The City has evaluated subsequent events through December 30, 2024, the date the financial statements were available to be issued, and notes the following:

On May 14, 2024, the City approved the issuance of general obligation bonds of up to \$950,000 to support the MELS (Michigan / East / Lynn / Strong Street Watermain and Street Renovation / Reconstruction) Project. This project aims to improve water infrastructure and comply with the State of Michigan's updated Lead and Copper Rules.

On June 11, 2024, the City awarded a construction contract for the MELS Project to Mead Brothers Excavating. The contract, totaling \$4,097,533, includes the replacement of water mains and service lines, extending from the main to the curb stop and, where necessary, into residences. Additional improvements include new curb and gutter installations, street milling and paving, edge drains, and sidewalks throughout the project area.

On August 13, 2024, the City adopted Ordinance 2024-03 authorizing the issuance of United States Department of Agriculture (USDA) revenue bonds totaling \$1,611,000. These bonds, which have a 40-year repayment period at an interest rate not exceeding 2.375%, will finance water system improvements as part of the MELS Project. Repayments will be funded through monthly water utility revenues.

The total project cost of \$4,765,700 is supported by multiple funding sources, including \$950,000 in general obligation bonds, \$1,611,000 in USDA revenue bonds, a \$1,750,000 Michigan Economic Development Corporation (MEDC) grant, a \$250,000 Michigan Department of

City of Reading

Notes to the Financial Statements

Transportation (MDOT) grant, and a \$257,200 match from the City. The project reflects the City’s commitment to modernizing its infrastructure and ensuring compliance with state regulations.

Note 12 - Change Within the Financial Reporting Entity

The financial statements classify individual governmental and enterprise funds as major funds when they meet the following criteria, in accordance with GASB 34:

1. Total assets, liabilities, revenues, or expenditures/expenses are at least 10% of the corresponding total for all governmental or enterprise funds, as applicable; and
2. The same element is at least 5% of the total for all governmental and enterprise funds combined.

Additionally, the City may designate funds as major if management believes the fund is of significant importance to financial statement users.

For the fiscal year ended June 30, 2024, the major and local streets funds now meet these criteria and are presented as major funds in the financial statements. The major and local street funds were the only nonmajor funds reported in the June 30, 2023 financial statements. Accordingly, combining statements and schedules aren’t reported as of or for the year ended June 30, 2024. The reclassification had no impact on the total fund balance or net position of the City's governmental activities or the overall financial statements. The following schedule summarizes the change:

Description	Governmental Funds		
	Major Streets	Local Streets	Nonmajor Governmental
6/30/23, as previously reported	\$ -	\$ -	\$ 246,721
Change from nonmajor to major fund	182,529	64,192	(246,721)
<i>6/30/23, as adjusted</i>	\$ 182,529	\$ 64,192	\$ -

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, 2024

	<u>Budgeted Amounts</u>			Variance
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	Favorable (Unfavorable)
				Final to Actual
Revenues				
Taxes	\$ 313,000	\$ 359,704	\$ 362,478	\$ 2,774
Intergovernmental	248,618	306,053	305,751	(302)
Licenses and Permits	60,800	59,291	59,291	--
Charges for Services	16,150	11,838	12,738	900
Fines and Forfeits	--	452	452	--
Interest and Rents	6,300	8,668	9,812	1,144
Other Income	7,000	5,340	3,325	(2,015)
Total Revenues	<u>651,868</u>	<u>751,346</u>	<u>753,847</u>	<u>2,501</u>
Expenditures				
General Government				
General Government	32,504	34,868	32,888	1,980
City Manager	56,486	57,037	54,571	2,466
Elections	11,000	8,691	5,011	3,680
Audit Fees	8,200	8,650	8,650	--
Legal Fees	13,500	9,050	8,485	565
Clerk / Treasurer	61,073	46,331	38,558	7,773
Assessor / Tax Bills	13,591	16,717	16,046	671
Building and Grounds	70,484	77,912	72,200	5,712
Cemeteries	36,447	46,863	33,526	13,337
Total General Government	<u>303,285</u>	<u>306,119</u>	<u>269,935</u>	<u>36,184</u>
Public Safety				
Police	206,048	208,673	182,449	26,224
Fire Protection	35,000	35,000	35,000	--
Total Public Safety	<u>241,048</u>	<u>243,673</u>	<u>217,449</u>	<u>26,224</u>
Community and Economic Development				
Planning / Zoning	50,606	33,005	29,331	3,674
Economic Development	31,146	31,646	29,289	2,357
Total Community and Economic Development	<u>81,752</u>	<u>64,651</u>	<u>58,620</u>	<u>6,031</u>
Parks and Recreation	9,000	21,000	17,425	3,575
Total Expenditures	<u>635,085</u>	<u>635,443</u>	<u>563,429</u>	<u>72,014</u>
Other Financing Uses				
Transfers Out	168,000	306,000	304,800	1,200
Total Expenditures and Other Financing Uses	<u>803,085</u>	<u>941,443</u>	<u>868,229</u>	<u>73,214</u>
Excess (Deficiency) of Revenues Over Expenditures and Other Uses	<u>(151,217)</u>	<u>(190,097)</u>	<u>(114,382)</u>	<u>75,715</u>
Net Change in Fund Balance	<u>(151,217)</u>	<u>(190,097)</u>	<u>(114,382)</u>	<u>75,715</u>
<i>Fund Balance at Beginning of Period</i>	831,378	831,378	831,378	--
Fund Balance at End of Period	<u>\$ 680,161</u>	<u>\$ 641,281</u>	<u>\$ 716,996</u>	<u>\$ 75,715</u>

City of Reading
Schedule of Revenues, Expenditures, and Changes in Fund Balance-Budget and Actual
Formerly Nonmajor Fund - Major Streets
For the Year Ended June 30, 2024

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance
	<u>Original</u>	<u>Final</u>		Favorable (Unfavorable)
				<u>Final to Actual</u>
Revenues				
Intergovernmental	\$ 122,043	\$ 122,043	\$ 128,315	\$ 6,272
Interest and Rents	--	400	347	(53)
Total Revenues	<u>122,043</u>	<u>122,443</u>	<u>128,662</u>	<u>6,219</u>
Expenditures				
Public Works	90,118	216,585	208,356	8,229
Total Expenditures	<u>90,118</u>	<u>216,585</u>	<u>208,356</u>	<u>8,229</u>
Other Financing Uses				
Transfers Out	11,000	11,000	11,000	--
Total Expenditures and Other Financing Uses	<u>101,118</u>	<u>227,585</u>	<u>219,356</u>	<u>8,229</u>
Excess (Deficiency) of Revenues Over Expenditures and Other Uses	<u>20,925</u>	<u>(105,142)</u>	<u>(90,694)</u>	<u>14,448</u>
Net Change in Fund Balance	<u>20,925</u>	<u>(105,142)</u>	<u>(90,694)</u>	<u>14,448</u>
<i>Fund Balance at Beginning of Period</i>	182,529	182,529	182,529	--
Fund Balance at End of Period	<u>\$ 203,454</u>	<u>\$ 77,387</u>	<u>\$ 91,835</u>	<u>\$ 14,448</u>

City of Reading
Schedule of Revenues, Expenditures, and Changes in Fund Balance-Budget and Actual
Formerly Nonmajor Fund - Local Streets
For the Year Ended June 30, 2024

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance
	<u>Original</u>	<u>Final</u>		Favorable (Unfavorable)
				<u>Final to Actual</u>
Revenues				
Intergovernmental	\$ 36,971	\$ 36,971	\$ 39,080	\$ 2,109
Interest and Rents	--	140	120	(20)
Total Revenues	<u>36,971</u>	<u>37,111</u>	<u>39,200</u>	<u>2,089</u>
Other Financing Sources				
Transfers In	<u>21,000</u>	<u>21,000</u>	<u>21,000</u>	<u>--</u>
Total Revenues and Other Financing Sources	<u>57,971</u>	<u>58,111</u>	<u>60,200</u>	<u>2,089</u>
Expenditures				
Public Works	<u>50,047</u>	<u>89,268</u>	<u>85,106</u>	<u>4,162</u>
Total Expenditures	<u>50,047</u>	<u>89,268</u>	<u>85,106</u>	<u>4,162</u>
Excess (Deficiency) of Revenues and Other Sources Over Expenditures	<u>7,924</u>	<u>(31,157)</u>	<u>(24,906)</u>	<u>6,251</u>
Net Change in Fund Balance	<u>7,924</u>	<u>(31,157)</u>	<u>(24,906)</u>	<u>6,251</u>
<i>Fund Balance at Beginning of Period</i>	64,192	64,192	64,192	--
Fund Balance at End of Period	<u>\$ 72,116</u>	<u>\$ 33,035</u>	<u>\$ 39,286</u>	<u>\$ 6,251</u>

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

	2023	2022	2021	2020	2019	2018	2017	2016	2015	2014
Total Pension Liability										
Service Cost	\$ 14,555	\$ 13,644	\$ 11,778	\$ 12,764	\$ 9,701	\$ 7,942	\$ 9,021	\$ 8,298	\$ 5,309	\$ 6,414
Interest on Total Pension Liability	47,734	46,088	42,090	37,945	36,759	35,557	33,994	33,057	27,814	25,635
Differences Between Expected and Actual Experience	18,992	(1,895)	29,894	2,672	(2,138)	(12,510)	(6,239)	210	26,027	-
Changes of Assumptions **	5,888	-	25,834	22,728	12,667	-	-	-	13,845	-
Benefit Payments, Including Refunds	(35,582)	(35,590)	(21,703)	(20,449)	(17,006)	(16,693)	(16,693)	(16,693)	(5,175)	(5,005)
Other Changes	-	2	(1)	-	-	-	-	(1,001)	-	-
Net Change in Pension Liability	<u>51,587</u>	<u>22,249</u>	<u>87,892</u>	<u>55,660</u>	<u>39,983</u>	<u>14,296</u>	<u>20,083</u>	<u>23,871</u>	<u>67,820</u>	<u>27,044</u>
<i>Total Pension Liability - Beginning</i>	<u>668,920</u>	<u>646,671</u>	<u>558,779</u>	<u>503,119</u>	<u>463,136</u>	<u>448,840</u>	<u>428,757</u>	<u>404,887</u>	<u>337,067</u>	<u>310,023</u>
Total Pension Liability - Ending (a)	<u>\$ 720,507</u>	<u>\$ 668,920</u>	<u>\$ 646,671</u>	<u>\$ 558,779</u>	<u>\$ 503,119</u>	<u>\$ 463,136</u>	<u>\$ 448,840</u>	<u>\$ 428,758</u>	<u>\$ 404,887</u>	<u>\$ 337,067</u>
Plan Fiduciary Net Position										
Contributions - Employer	\$ 33,799	\$ 20,085	\$ 21,007	\$ 18,435	\$ 13,388	\$ 13,297	\$ 11,248	\$ 7,739	\$ 6,253	\$ 6,182
Net Investment Income (Loss)	51,455	(55,707)	67,050	54,604	51,040	(15,580)	46,750	36,925	(5,069)	19,773
Benefit Payments, Including Refunds	(35,582)	(35,590)	(21,703)	(20,449)	(17,006)	(16,693)	(16,693)	(16,693)	(5,175)	(5,005)
Administrative Expenses	(1,091)	(982)	(771)	(851)	(880)	(768)	(740)	(728)	(732)	(728)
Net Change in Plan Fiduciary Net Position	<u>48,581</u>	<u>(72,194)</u>	<u>65,583</u>	<u>51,739</u>	<u>46,542</u>	<u>(19,744)</u>	<u>40,565</u>	<u>27,243</u>	<u>(4,723)</u>	<u>20,222</u>
<i>Plan Fiduciary Net Position - Beginning</i>	<u>465,989</u>	<u>538,183</u>	<u>472,600</u>	<u>420,861</u>	<u>374,319</u>	<u>394,063</u>	<u>353,498</u>	<u>326,255</u>	<u>330,978</u>	<u>310,756</u>
Plan Fiduciary Net Position - Ending (b)	<u>\$ 514,570</u>	<u>\$ 465,989</u>	<u>\$ 538,183</u>	<u>\$ 472,600</u>	<u>\$ 420,861</u>	<u>\$ 374,319</u>	<u>\$ 394,063</u>	<u>\$ 353,498</u>	<u>\$ 326,255</u>	<u>\$ 330,978</u>
Net Pension Liability - Ending (a) - (b)	\$ 205,937	\$ 202,931	\$ 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	71.42%	69.66%	83.22%	84.58%	83.65%	80.82%	87.80%	82.45%	80.58%	98.19%
Covered Payroll	\$ 251,811	\$ 238,523	\$ 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	81.78%	85.08%	46.61%	32.07%	38.41%	51.44%	27.87%	39.72%	64.72%	4.15%

Notes to Schedule:

**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%.

2023 valuation - The investment rate of return assumption was reduced from 7.25% to 7.18%.

City of Reading
Required Supplementary Information
Schedule of Contributions
Last Ten Fiscal Years

	<u>2024</u>	<u>2023</u>	<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	\$ 26,436	\$ 21,170	\$ 20,880	\$ 19,791	\$ 13,399	\$ 12,678	\$ 11,248	\$ 7,739	\$ 6,254	\$ 5,996
Contributions in Relation to the Actuarially Determined Contribution	<u>36,436</u>	<u>21,170</u>	<u>20,880</u>	<u>19,791</u>	<u>13,399</u>	<u>12,678</u>	<u>11,248</u>	<u>7,739</u>	<u>6,949</u>	<u>6,182</u>
Contribution Deficiency (Excess)	<u>\$ (10,000)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (695)</u>	<u>\$ (186)</u>
Covered Payroll	\$ 258,927	\$ 244,745	\$ 255,252	\$ 271,475	\$ 214,154	\$ 172,652	\$ 196,533	\$ 189,455	\$ 121,496	\$ 105,193
Contributions as a Percentage of Covered Payroll	14.07%	8.65%	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	15 Years
Asset Valuation Method	5 Years; Smoothed
Inflation	2.50%
Salary Increases	3.00% in the Long-term
Investment Rate of Return	6.93%, 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***

December 30, 2024

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, 2024, and the related notes to the financial statements, which collectively comprise the City’s basic financial statements, and have issued our report thereon dated December 30, 2024.

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 2024-001 through 2024-002 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

2024-001 - 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.

2024-002 - 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.

December 30, 2024

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 City of Reading (the “City”) for the year ended June 30, 2024. 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 January 30, 2024. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Matters

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. No new accounting policies were adopted and the application of existing policies was not changed during 2024. 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 the 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, none 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 December 30, 2024.

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, budgetary comparison information, and the pension schedules, which are required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

Restriction on Use

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

Very truly yours,

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

Gabridge & Company, PLC
Grand Rapids, MI