



**CITY OF READING
HILLSDALE COUNTY, MICHIGAN**

**ANNUAL FINANCIAL REPORT
YEAR ENDED JUNE 30, 2025**

TABLE OF CONTENTS

	<u>Page</u>
Independent Auditor's Report	1
Management's Discussion and Analysis	5
<u>BASIC FINANCIAL STATEMENTS</u>	
Government-wide Financial Statements	
Statement of Net Position	16
Statement of Activities	17
Fund Financial Statements	
Governmental Funds	
Balance Sheet	18
Reconciliation of Governmental Funds Balance Sheet to the Statement of Net Position	19
Statement of Revenues, Expenditures, and Changes in Fund Balances	20
Reconciliation of Statement of Revenues, Expenditures, and Changes in Fund Balances with the Statement of Activities	21
Proprietary Funds	
Statement of Net Position	22
Statement of Revenues, Expenses, and Changes in Net Position	23
Statement of Cash Flows	24
Fiduciary Funds	
Statement of Fiduciary Net Position	26
Statement of Changes in Fiduciary Net Position	27
Notes to the Financial Statements	29
<u>REQUIRED SUPPLEMENTARY INFORMATION</u>	
Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual - General Fund	54
Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual - Major Streets	55
Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual - Local Streets	56
MERS Agent Multiple-Employer Defined Benefit Pension Plan:	
Schedule of Changes in Net Pension Liability and Related Ratios	57
Schedule of Contributions	58

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, 2025, 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, 2025, 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 2.18% and 3.25% of the total assets and deferred outflows of resources and net position, respectively, as of June 30, 2025 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.

Emphasis of Matter – Implementation of New Accounting Standard

As discussed in Note 11 to the financial statements, the City implemented Governmental Accounting Standards Board (GASB) Statement No. 101, *Compensated Absences*, during the year

ended June 30, 2025. This change was made to conform with the requirements of the new standard. Our opinion is not modified with respect to this matter.

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, 2025, 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, 2025

Management's Discussion and Analysis

City of Reading
Management's Discussion and Analysis
June 30, 2025

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, 2025. 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 \$6,486,004 (*net position*). The City had an *unrestricted net position* of \$1,716,488.
- Revenues of \$2,848,070 exceeded expenses of \$1,833,238 leading to an increase in net position of \$1,014,832 during the year.
- At the close of the current fiscal year, the City's governmental funds reported combined fund balances of \$1,827,824, an increase of \$744,083 in comparison with the prior year. Approximately 48.9% of this amount, or \$892,995, is available for spending at the government's discretion (*unassigned fund balance*).
- During the year, the City's general fund balance increased by \$178,100 for an ending fund balance of \$895,096.
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$892,995, or approximately 129.6% 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 \$6,486,004 at the close of the most recent fiscal year.

City of Reading's Net Position

ASSETS	Governmental Activities		Business-type Activities		Total Primary Government	
	2025	2024	2025	2024	2025	2024
<i>Current Assets</i>						
Cash and Investments	\$ 2,604,450	\$ 1,065,520	\$ 112,683	\$ 88,892	\$ 2,717,133	\$ 1,154,412
Accounts Receivable, net	1,709	830	114,943	110,843	116,652	111,673
Due from Other Governmental Units	259,485	172,160	-	-	259,485	172,160
Inventory	-	-	62,864	40,878	62,864	40,878
Total Current Assets	2,865,644	1,238,510	290,490	240,613	3,156,134	1,479,123
<i>Noncurrent Assets</i>						
Capital Assets, net	3,363,420	2,291,253	4,578,951	4,708,923	7,942,371	7,000,176
Investment in Joint Venture	139,929	137,166	-	-	139,929	137,166
Restricted Cash	-	-	693,909	647,660	693,909	647,660
Total Assets	6,368,993	3,666,929	5,563,350	5,597,196	11,932,343	9,264,125
DEFERRED OUTFLOWS OF RESOURCES						
Pension Related	54,222	54,035	21,260	17,024	75,482	71,059
Total Deferred Outflows of Resources	54,222	54,035	21,260	17,024	75,482	71,059
LIABILITIES						
<i>Current Liabilities</i>						
Accounts Payable	982,607	122,603	10,958	9,756	993,565	132,359
Accrued Liabilities	27,887	5,893	4,442	2,043	32,329	7,936
Accrued Interest	7,174	-	23,460	24,181	30,634	24,181
Current Portion of Long-term Debt	42,000	60,000	116,000	111,000	158,000	171,000
Current Portion of Compensated Absences	8,746	-	3,412	-	12,158	-
Total Current Liabilities	1,068,414	188,496	158,272	146,980	1,226,686	335,476
<i>Noncurrent Liabilities</i>						
Long-term Debt	868,000	-	3,182,000	3,297,000	4,050,000	3,297,000
Compensated Absences	16,244	18,784	6,337	5,867	22,581	24,651
Net Pension Liability	158,276	156,600	62,062	49,337	220,338	205,937
Total Liabilities	2,110,934	363,880	3,408,671	3,499,184	5,519,605	3,863,064
DEFERRED INFLOWS OF RESOURCES						
Pension Related	1,591	721	625	227	2,216	948
Total Deferred Inflows of Resources	1,591	721	625	227	2,216	948
NET POSITION						
Net Investment in Capital Assets	2,453,420	2,231,253	1,384,889	1,402,409	3,838,309	3,633,662
Restricted	237,298	140,939	693,909	647,660	931,207	788,599
Unrestricted	1,619,972	984,171	96,516	64,740	1,716,488	1,048,911
Total Net Position	\$ 4,310,690	\$ 3,356,363	\$ 2,175,314	\$ 2,114,809	\$ 6,486,004	\$ 5,471,172

A significant portion of the City's net position (\$3,838,309, or 59.2%) 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 (\$931,207, or 14.4%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$1,716,488, or 26.5%, 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 \$2,668,218 from the prior year, primarily due to a \$942,195 net increase in capital assets. This growth resulted from \$1,255,948 in additions exceeding \$313,753 in depreciation. Additionally, cash and investments (including restricted cash) increased

by \$1,608,970, primarily due to an increase in accounts payable of \$861,206 resulting in lower cash expenditures, as well as the issuance of \$950,000 of bonds during the year.

Analysis of Significant Changes in Liabilities

Total liabilities increased by \$1,656,541 compared to the prior year. Current liabilities increased by \$891,210, driven primarily by an \$861,206 increase in accounts payable related to the timing of year-end payments. Noncurrent liabilities increased by \$765,331, primarily due to the issuance of bonds during the year.

The City's overall net position increased \$1,014,832 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	
	2025	2024	2025	2024	2025	2024
Revenue						
Program Revenues						
Charges for Services	\$ 95,458	\$ 81,806	\$ 851,330	\$ 805,570	\$ 946,788	\$ 887,376
Operating Grants and Contributions	265,734	377,982	-	-	265,734	377,982
Capital Grants and Contributions	1,009,590	62,800	-	-	1,009,590	62,800
Total Program Revenues	<u>1,370,782</u>	<u>522,588</u>	<u>851,330</u>	<u>805,570</u>	<u>2,222,112</u>	<u>1,328,158</u>
General Revenues and Transfers						
Taxes	396,960	362,478	-	-	396,960	362,478
Unrestricted State Sources	223,515	220,654	-	-	223,515	220,654
Interest and Investment Earnings	3,511	4,753	1,972	2,143	5,483	6,896
Transfers	93,164	122,915	(93,164)	(122,915)	-	-
Total General Revenues and Transfers	<u>717,150</u>	<u>710,800</u>	<u>(91,192)</u>	<u>(120,772)</u>	<u>625,958</u>	<u>590,028</u>
Total Revenues	<u>2,087,932</u>	<u>1,233,388</u>	<u>760,138</u>	<u>684,798</u>	<u>2,848,070</u>	<u>1,918,186</u>
Expenses						
General Government	391,082	330,692	-	-	391,082	330,692
Public Safety	281,047	252,762	-	-	281,047	252,762
Public Works	291,026	370,717	-	-	291,026	370,717
Community and Economic Development	82,309	58,620	-	-	82,309	58,620
Recreation and Culture	43,089	68,176	-	-	43,089	68,176
Interest on Long-term Debt	45,052	3,300	-	-	45,052	3,300
Sewer Operations	-	-	276,424	309,944	276,424	309,944
Water Operations	-	-	351,172	374,972	351,172	374,972
Refuse Operations	-	-	72,037	67,790	72,037	67,790
Total Expenses	<u>1,133,605</u>	<u>1,084,267</u>	<u>699,633</u>	<u>752,706</u>	<u>1,833,238</u>	<u>1,836,973</u>
Change in Net Position	<u>954,327</u>	<u>149,121</u>	<u>60,505</u>	<u>(67,908)</u>	<u>1,014,832</u>	<u>81,213</u>
<i>Net Position at the Beginning of Period</i>	<u>3,356,363</u>	<u>3,207,242</u>	<u>2,114,809</u>	<u>2,182,717</u>	<u>5,471,172</u>	<u>5,389,959</u>
Net Position at the End of Period	<u>\$ 4,310,690</u>	<u>\$ 3,356,363</u>	<u>\$ 2,175,314</u>	<u>\$ 2,114,809</u>	<u>\$ 6,486,004</u>	<u>\$ 5,471,172</u>

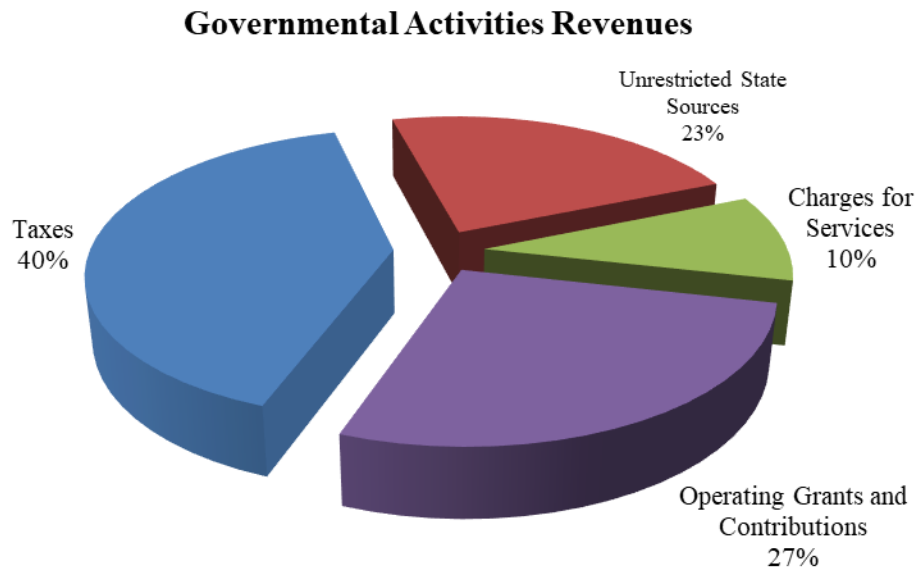
Analysis of Significant Changes in Revenues

Total revenues for the City increased by \$929,884 compared to the prior year. Program revenues increased significantly, driven primarily by a \$946,790 increase in capital grants and contributions related to capital projects, including street improvements, sidewalks, and other infrastructure projects, as well as a \$59,412 increase in charges for services. Operating grants and contributions decreased by \$112,248 due to differences in the types of grants received during the year. General revenues increased by \$34,482 due to higher property tax revenues resulting from increased taxable valuations.

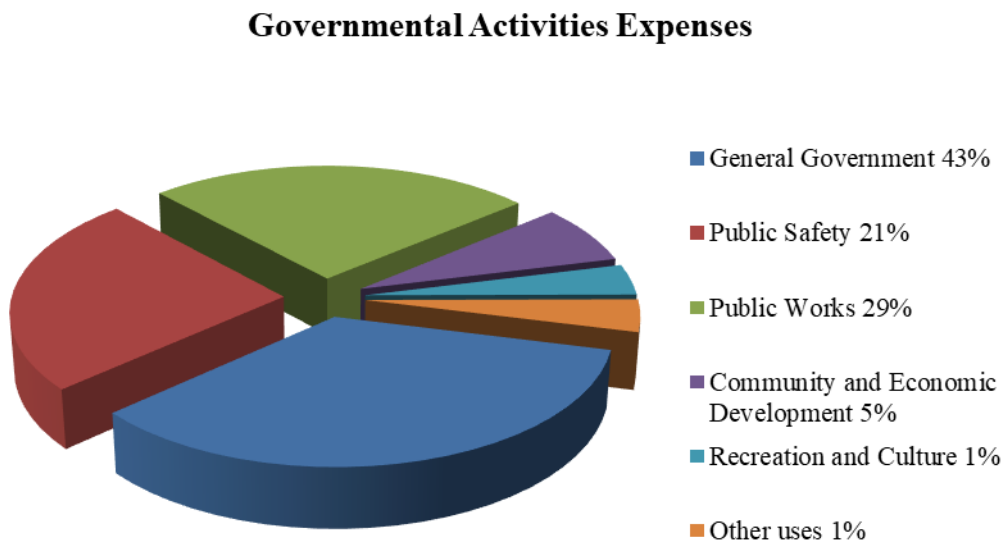
Analysis of Significant Changes in Expenses

Total expenses decreased by \$3,735 compared to the prior year. This change reflects various increases and decreases across several functions, with no single function experiencing a significant or unusual variance from the prior year.

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



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



Financial Analysis of Governmental Funds

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

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

At June 30, 2025, the City's governmental funds reported combined fund balances of \$1,827,824, an increase of \$744,083 in comparison with the prior year. Approximately 48.9% of this amount, or \$892,995, 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 (\$237,298, or 13.0%) or 2) assigned (\$697,531, or 38.2%).

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 \$892,995, while total fund balance increased by \$178,100 to \$895,096. 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 129.6% of total general fund expenditures and transfers out, while total fund balance also represents approximately 129.9% of that same amount.

The fund balance of the City's general fund increased by \$178,100 as revenues of \$806,424 exceeded expenditures of \$658,227, with net positive transfers of \$29,903 further contributing to the increase. 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, increased by \$44,760 during the current fiscal year, ending with a fund balance of \$136,595 as revenues of \$134,563 and net positive transfers of \$49,000 exceeded expenditures of \$138,803, primarily due to lower public works expenditures during the current year.

The local streets fund, a major special revenue fund, increased by \$59,316 during the current fiscal year, ending with a fund balance of \$98,602 as revenues of \$41,023 and transfers in of \$71,000 exceeded expenditures of \$52,707, primarily due to lower public works expenditures during the current year.

The capital improvement fund, a major capital projects fund, increased by \$461,907 during the current fiscal year, ending with a fund balance of \$697,531. This increase was largely driven by total revenues of \$1,135,241, consisting primarily of \$1,135,210 in intergovernmental revenues

related to increased capital grants, along with bond proceeds of \$950,000 and net transfers in of \$36,747, which together exceeded total expenditures of \$1,586,587 for the year.

General Fund Budgetary Highlights

Original budget compared to final budget. In reviewing the General Fund’s budgetary comparison schedule, the final amended budget reflected increases in property tax revenues based on updated projections during the fiscal year, while intergovernmental revenue estimates were revised downward due to changes in expected grant and state revenue sources. On the expenditure side, overall appropriations were reduced from the original budget, primarily within public safety and general government functions. Transfers out remained unchanged between the original and final budgets.

Final budget compared to actual results. When comparing the final budget to actual results, the City’s actual revenues exceeded the final budget by \$7,740, with taxes coming in \$1,716 above budget. Expenditures were below the final budget by \$50,856, primarily due to lower-than-anticipated costs across several functions, including police, clerk/treasurer, and cemeteries. As a result, the General Fund reported a favorable variance of \$173,500 in the net change in fund balance compared to the final budget.

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, 2025 amounted to \$7,942,371 (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 \$4,208,000 of bonds payable at the end of the fiscal year. During the current fiscal year, the City issued \$950,000 of bonds and paid down \$210,000 of its outstanding bonds payable. The City is scheduled to pay down an additional \$158,000 in the upcoming fiscal year. More detailed information about the City’s long-term debt can be found in the notes to the financial statements.

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 2026, 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% in 2026. 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, 2025

	Primary Government			Component Unit - TIFA
	Governmental Activities	Business-type Activities	Total	
ASSETS				
<i>Current Assets</i>				
Cash and Investments	\$ 2,604,450	\$ 112,683	\$ 2,717,133	\$ 281,329
Accounts Receivable, net	1,709	114,943	116,652	--
Due from Other Units of Government	259,485	--	259,485	7,840
Inventory	--	62,864	62,864	--
Total Current Assets	2,865,644	290,490	3,156,134	289,169
<i>Noncurrent Assets</i>				
Capital Assets not being Depreciated	1,291,892	20,550	1,312,442	--
Capital Assets being Depreciated, net	2,071,528	4,558,401	6,629,929	16,341
Investment in Joint Venture	139,929	--	139,929	--
Assets Held For Resale	--	--	--	428,216
Restricted Cash, Bond Reserve	--	265,376	265,376	--
Restricted Cash, RRI	--	428,533	428,533	--
Total Assets	6,368,993	5,563,350	11,932,343	733,726
DEFERRED OUTFLOWS OF RESOURCES				
Pension Related	54,222	21,260	75,482	--
Total Deferred Outflows of Resources	54,222	21,260	75,482	--
LIABILITIES				
<i>Current Liabilities</i>				
Accounts Payable	982,607	10,958	993,565	1,058
Accrued Liabilities	27,887	4,442	32,329	--
Accrued Interest	7,174	23,460	30,634	--
Current Portion of Compensated Absences	8,746	3,412	12,158	--
Current Portion of Long-term Debt	42,000	116,000	158,000	--
Total Current Liabilities	1,068,414	158,272	1,226,686	1,058
<i>Noncurrent Liabilities</i>				
Long-term Debt	868,000	3,182,000	4,050,000	--
Compensated Absences	16,244	6,337	22,581	--
Net Pension Liability	158,276	62,062	220,338	--
Total Liabilities	2,110,934	3,408,671	5,519,605	1,058
DEFERRED INFLOWS OF RESOURCES				
Pension Related	1,591	625	2,216	--
Total Deferred Inflows of Resources	1,591	625	2,216	--
NET POSITION				
Net Investment in Capital Assets	2,453,420	1,384,889	3,838,309	16,341
<i>Restricted for:</i>				
Streets	235,197	--	235,197	--
Bond Reserve	--	265,376	265,376	--
RRI	--	428,533	428,533	--
Police	2,101	--	2,101	--
<i>Unrestricted</i>	1,619,972	96,516	1,716,488	716,327
Total Net Position	\$ 4,310,690	\$ 2,175,314	\$ 6,486,004	\$ 732,668

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, 2025

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue			Component Unit
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total	
Primary Government								
Governmental Activities:								
General Government	\$ 391,082	\$ 76,284	\$ 87,353	\$ --	\$ (227,445)	\$ --	\$ (227,445)	\$ --
Public Safety	281,047	674	2,348	--	(278,025)	--	(278,025)	--
Public Works	291,026	17,265	175,233	1,009,590	911,062	--	911,062	--
Community and Economic Development	82,309	1,235	--	--	(81,074)	--	(81,074)	--
Recreation and Culture	43,089	--	800	--	(42,289)	--	(42,289)	--
Interest on Long-term Debt	45,052	--	--	--	(45,052)	--	(45,052)	--
Total Governmental Activities	1,133,605	95,458	265,734	1,009,590	237,177	--	237,177	--
Business-type Activities:								
Sewer	276,424	350,325	--	--	--	73,901	73,901	--
Water	351,172	417,732	--	--	--	66,560	66,560	--
Refuse	72,037	83,273	--	--	--	11,236	11,236	--
Total Business-type Activities	699,633	851,330	--	--	--	151,697	151,697	--
Total Primary Government	\$ 1,833,238	\$ 946,788	\$ 265,734	\$ 1,009,590	\$ 237,177	\$ 151,697	\$ 388,874	--
Component Unit								
Tax Increment Finance Authority	\$ 147,854	\$ --	\$ --	\$ --	--	--	--	(147,854)
Total Component Unit	\$ 147,854	\$ --	\$ --	\$ --	--	--	--	(147,854)
General Purpose Revenues and Transfers:								
Revenues								
Taxes					396,960	--	396,960	110,793
Unrestricted State Sources					223,515	--	223,515	--
Interest and Investment Earnings					3,511	1,972	5,483	980
Transfers					93,164	(93,164)	--	--
Total General Revenues and Transfers					717,150	(91,192)	625,958	111,773
Change in Net Position					954,327	60,505	1,014,832	(36,081)
<i>Net Position at Beginning of Period</i>					3,356,363	2,114,809	5,471,172	768,749
Net Position at End of Period					\$ 4,310,690	\$ 2,175,314	\$ 6,486,004	\$ 732,668

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

**City of Reading
Balance Sheet
Governmental Funds
June 30, 2025**

	<u>Special Revenue</u>			<u>Capital Projects</u>	<u>Total Governmental Funds</u>
	<u>General</u>	<u>Major Streets</u>	<u>Local Streets</u>	<u>Capital Improvement</u>	
ASSETS					
Cash and Investments	\$ 912,980	\$ 115,570	\$ 92,309	\$ 1,455,109	\$ 2,575,968
Accounts Receivable, net	1,709	--	--	--	1,709
Due from Other Units of Government	25,816	21,407	6,524	205,738	259,485
Total Assets	\$ 940,505	\$ 136,977	\$ 98,833	\$ 1,660,847	\$ 2,837,162
LIABILITIES					
Accounts Payable	\$ 18,173	\$ 150	\$ --	\$ 963,316	\$ 981,639
Accrued Liabilities	27,236	232	231	--	27,699
Total Liabilities	45,409	382	231	963,316	1,009,338
FUND BALANCE					
Restricted for:					
Police	2,101	--	--	--	2,101
Streets	--	136,595	98,602	--	235,197
Assigned for:					
Capital Improvements	--	--	--	697,531	697,531
Unassigned	892,995	--	--	--	892,995
Total Fund Balance	895,096	136,595	98,602	697,531	1,827,824
Total Liabilities and Fund Balance	\$ 940,505	\$ 136,977	\$ 98,833	\$ 1,660,847	\$ 2,837,162

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, 2025

Total Fund Balance - Governmental Funds	\$	1,827,824
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		65,967
Compensated absences are not reported in the fund financial statements because they are not due and payable in the current period.		(24,538)
General government capital assets of \$4,326,774, net of accumulated depreciation of \$1,002,447, are not current financial resources and, therefore, are not reported in the fund financial statements.		3,324,327
The City's investment in a joint venture is not a current financial resource and, therefore, is not reported in the fund financial statements.		139,929
Net pension liability and related deferred outflows and inflows of resources are not due and payable in the current period and do not represent current financial resources. Accordingly, they are not reported in the fund financial statements.		(105,645)
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the fund financial statements.		(910,000)
Accrued interest is not due and payable in the current period and, therefore, is not reported in the fund financial statements.		(7,174)
Total Net Position - Governmental Activities	\$	<u>4,310,690</u>

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

City of Reading
Statement of Revenues, Expenditures, and Changes in Fund Balance
Governmental Funds
For the Year Ended June 30, 2025

	Special Revenue			Capital Projects	Total Governmental Funds
	General	Major Streets	Local Streets	Capital Improvement	
Revenues					
Taxes	\$ 396,960	\$ --	\$ --	\$ --	\$ 396,960
Intergovernmental	313,216	134,302	40,931	1,135,210	1,623,659
Licenses and Permits	54,669	--	--	--	54,669
Charges for Services	15,767	--	--	--	15,767
Fines and Forfeits	789	--	--	--	789
Interest and Rents	14,234	261	92	31	14,618
Other Revenues	10,789	--	--	--	10,789
Total Revenues	806,424	134,563	41,023	1,135,241	2,117,251
Expenditures					
General Government	265,919	--	--	97,919	363,838
Public Safety	266,290	--	--	--	266,290
Public Works	39,166	138,803	52,707	139,195	369,871
Community and Economic Development	82,309	--	--	--	82,309
Recreation and Culture	4,543	--	--	--	4,543
Capital Outlay	--	--	--	1,211,595	1,211,595
Debt Service, Principal	--	--	--	100,000	100,000
Debt Service, Interest	--	--	--	37,878	37,878
Total Expenditures	658,227	138,803	52,707	1,586,587	2,436,324
Excess of Revenues Over (Under) Expenditures	148,197	(4,240)	(11,684)	(451,346)	(319,073)
Other Financing Sources (Uses)					
Capital Improvement Bonds Issued	--	--	--	950,000	950,000
Transfers In	60,556	60,000	71,000	208,809	400,365
Transfers Out	(30,653)	(11,000)	--	(245,556)	(287,209)
Net Other Financing Sources (Uses)	29,903	49,000	71,000	913,253	1,063,156
Net Change in Fund Balance	178,100	44,760	59,316	461,907	744,083
<i>Fund Balance at Beginning of Period</i>	716,996	91,835	39,286	235,624	1,083,741
Fund Balance at End of Period	\$ 895,096	\$ 136,595	\$ 98,602	\$ 697,531	\$ 1,827,824

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, 2025

Total Net Change in Fund Balances - Governmental Funds	\$	744,083
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		(430)
Changes in compensated absences are not reported in the fund financial statements because they do not require the use of current financial resources.		(6,193)
Governmental funds report capital outlays as expenditures; however, in the statement of activities, the cost of those assets is capitalized and allocated over their estimated useful lives as depreciation expense. Capital outlay of \$1,211,595 exceeded current year depreciation expense of \$137,958, resulting in a net increase to net position.		1,073,637
Changes in the City's equity interest in the joint venture do not involve current financial resources and, therefore, are not reported in the fund financial statements. This adjustment reflects the current year increase in the equity interest recognized on the government-wide statements.		2,763
The statement of activities reports changes in the net pension liability and related deferred outflows and inflows as pension expense. However, the expenditures reported in the governmental funds are limited to actual pension contributions made during the year.		(2,359)
Current year principal payments on bonds payable are reported as expenditures in the fund financial statements but are recorded as reductions of long-term liabilities in the government-wide financial statements.		100,000
Issuance of long-term debt is recorded as an other financing source in the fund financial statements but is reported as an increase in long-term liabilities in the government-wide financial statements.		(950,000)
Changes in accrued interest do not require the use of current financial resources and, therefore, are not reported as expenditures in the fund financial statements.		(7,174)
Changes in Net Position - Governmental Activities	\$	<u>954,327</u>

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

City of Reading
Statement of Net Position
Proprietary Funds
June 30, 2025

	Business-type Activities - Enterprise Funds				Governmental Activities Internal Service Fund
	Sewer	Water	Refuse (Nonmajor)	Total Enterprise Funds	
ASSETS					
<i>Current Assets</i>					
Cash and Investments	\$ 103,087	\$ --	\$ 33,889	\$ 136,976	\$ 28,482
Accounts Receivable, net	49,344	54,672	10,927	114,943	--
Inventory	--	62,864	--	62,864	--
Total Current Assets	152,431	117,536	44,816	314,783	28,482
<i>Noncurrent Assets</i>					
Capital Assets not being Depreciated	20,500	50	--	20,550	--
Capital Assets being Depreciated, net	1,727,562	2,830,839	--	4,558,401	39,093
Restricted Cash, Bond Reserve	132,462	132,914	--	265,376	--
Restricted Cash, RRI	170,700	257,833	--	428,533	--
Total Assets	2,203,655	3,339,172	44,816	5,587,643	67,575
DEFERRED OUTFLOWS OF RESOURCES					
Pension Related	9,211	9,675	2,374	21,260	--
Total Deferred Outflows of Resources	9,211	9,675	2,374	21,260	--
LIABILITIES					
<i>Current Liabilities</i>					
Accounts Payable	880	839	9,239	10,958	968
Negative Equity in Pooled Cash	--	24,293	--	24,293	--
Accrued Liabilities	2,065	2,065	312	4,442	188
Accrued Interest	13,020	10,440	--	23,460	--
Current Portion of Compensated Absences	1,582	1,582	248	3,412	158
Current Portion of Long-term Debt	52,000	64,000	--	116,000	--
Total Current Liabilities	69,547	103,219	9,799	182,565	1,314
<i>Noncurrent Liabilities</i>					
Long-term Debt	1,800,000	1,382,000	--	3,182,000	--
Compensated Absences	2,939	2,939	459	6,337	294
Net Pension Liability	26,889	28,244	6,929	62,062	--
Total Liabilities	1,899,375	1,516,402	17,187	3,432,964	1,608
DEFERRED INFLOWS OF RESOURCES					
Pension Related	271	284	70	625	--
Total Deferred Inflows of Resources	271	284	70	625	--
NET POSITION					
Net Investment in Capital Assets	--	1,384,889	--	1,384,889	39,093
<i>Restricted for:</i>					
Bond Reserve	132,462	132,914	--	265,376	--
RRI	170,700	257,833	--	428,533	--
<i>Unrestricted</i>	10,058	56,525	29,933	96,516	26,874
Total Net Position	\$ 313,220	\$ 1,832,161	\$ 29,933	\$ 2,175,314	\$ 65,967

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, 2025

	Business-type Activities - Enterprise Funds				Governmental Activities Internal Service Fund
	Sewer	Water	Refuse (Nonmajor)	Total Enterprise Funds	
Operating Revenues					
Charges for Services	\$ 350,325	\$ 417,732	\$ 83,273	\$ 851,330	\$ 73,646
Total Operating Revenues	350,325	417,732	83,273	851,330	73,646
Operating Expenses					
Salaries and Benefits	82,856	90,406	15,766	189,028	11,185
General Operations and Maintenance	63,745	79,966	56,271	199,982	32,803
Depreciation	52,453	112,872	--	165,325	10,470
Total Operating Expenses	199,054	283,244	72,037	554,335	54,458
Operating Income (Loss)	151,271	134,488	11,236	296,995	19,188
Non-Operating Revenues (Expenses)					
Interest and Investment Earnings	1,001	906	65	1,972	374
Interest Expense	(77,370)	(67,928)	--	(145,298)	--
Net Non-Operating Revenues (Expenses)	(76,369)	(67,022)	65	(143,326)	374
Income Before Contributions and Transfers	74,902	67,466	11,301	153,669	19,562
Transfers In	--	75,000	--	75,000	--
Transfers Out	(19,830)	(146,829)	(1,505)	(168,164)	(19,992)
Change In Net Position	55,072	(4,363)	9,796	60,505	(430)
<i>Net Position at Beginning of Period</i>	258,148	1,836,524	20,137	2,114,809	66,397
Net Position at End of Period	\$ 313,220	\$ 1,832,161	\$ 29,933	\$ 2,175,314	\$ 65,967

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, 2025

	Business-type Activities - Enterprise Funds				Governmental Activities Internal Service Fund
	Sewer	Water	Refuse (Nonmajor)	Total Enterprise Funds	
Cash Flows from Operating Activities					
Cash Received from Charges for Services	\$ 347,050	\$ 415,845	\$ 84,335	\$ 847,230	\$ 73,646
Cash Received from Interfund Services Provided	-	-	-	-	-
Cash Paid to Employees for Services and Fringe Benefits	(76,542)	(83,260)	(14,058)	(173,860)	(11,118)
Cash Paid to Suppliers for Good and Services	(62,934)	(101,648)	(56,184)	(220,766)	(32,824)
Net Cash Provided by Operating Activities	207,574	230,937	14,093	452,604	29,704
Cash Flows from Non-capital Financing Activities					
Transfers In	-	75,000	-	75,000	-
Transfers Out	(19,830)	(146,829)	(1,505)	(168,164)	(19,992)
Net Cash Used by Non-capital Financing Activities	(19,830)	(71,829)	(1,505)	(93,164)	(19,992)
Cash Flows from Capital and Related Financing Activities					
Capital Asset Purchases	-	(35,353)	-	(35,353)	(9,000)
Principal Payments on Long-term Debt	(50,000)	(60,000)	-	(110,000)	-
Interest Payments on Long-term Debt	(77,427)	(68,592)	-	(146,019)	-
Net Cash Used by Capital and Related Financing Activities	(127,427)	(163,945)	-	(291,372)	(9,000)
Cash Flows from Investing Activities					
Interest and Investment Earnings	1,001	906	65	1,972	374
Net Cash Provided by Investing Activities	1,001	906	65	1,972	374
Net Increase (Decrease) in Cash and Investments	61,318	(3,931)	12,653	70,040	1,086
<i>Cash and Investments - Beginning of Year</i>	344,931	370,385	21,236	736,552	27,396
Cash and Investments - End of Year	\$ 406,249	\$ 366,454	\$ 33,889	\$ 806,592	\$ 28,482
Statement of Net Position					
Cash and Investments (Negative Equity in Pooled Cash)	\$ 103,087	\$ (24,293)	\$ 33,889	\$ 112,683	\$ 28,482
Restricted Cash, Bond Reserve	132,462	132,914	-	265,376	-
Restricted Cash, RRI	170,700	257,833	-	428,533	-
Total Cash and Investments	\$ 406,249	\$ 366,454	\$ 33,889	\$ 806,592	\$ 28,482

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, 2025

	<u>Business-type Activities - Enterprise Funds</u>				<u>Governmental Activities Internal Service Fund</u>
	<u>Sewer</u>	<u>Water</u>	<u>Refuse (Nonmajor)</u>	<u>Total Enterprise Funds</u>	
Reconciliation of Operating Income to					
Net Cash Provided by Operating Activities					
Operating Income	\$ 151,271	\$ 134,488	\$ 11,236	\$ 296,995	\$ 19,188
Adjustments to Reconcile Operating Income to					
Net Cash Provided by Operating Activities					
Depreciation Expense	52,453	112,872	-	165,325	10,470
Changes in Assets, Deferred Outflows/Inflows, and Liabilities					
Accounts Receivable, net	(3,275)	(1,887)	1,062	(4,100)	-
Inventories	-	(21,986)	-	(21,986)	-
Accounts Payable	811	304	87	1,202	(21)
Accrued Liabilities	1,125	1,143	131	2,399	53
Compensated Absences	1,775	1,775	332	3,882	14
Net Pension Liability and Related Deferred Items	3,414	4,228	1,245	8,887	-
Net Cash Provided by Operating Activities	<u>\$ 207,574</u>	<u>\$ 230,937</u>	<u>\$ 14,093</u>	<u>\$ 452,604</u>	<u>\$ 29,704</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, 2025

	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, 2025

	Custodial Fund
Additions	
Taxes Collected for Other Governments	\$ 759,570
<i>Total Additions</i>	<i>759,570</i>
Deductions	
Payments of Property Taxes to Other Governments	759,570
<i>Total Deductions</i>	<i>759,570</i>
<i>Change in Net Position</i>	<i>-</i>
Net Position at Beginning of Period	-
<i>Net Position at End of Period</i>	<i>\$ -</i>

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

Notes to the Financial Statements

City of Reading

Notes to the Financial Statements

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 \$2,765 (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 at \$139,929.

Government-wide and Fund Financial Statements

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

City of Reading

Notes to the Financial Statements

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

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

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

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

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

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

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

City of Reading

Notes to the Financial Statements

The City reports the following major governmental funds:

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

The **major streets fund** accounts for the 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 **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 City reports the following major proprietary funds:

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

The **water fund** accounts for the activities of the City's water distribution and treatment 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 repair, replacement, and improvement (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 2024 taxable valuation of the City totaled \$20,793,350 on which ad valorem taxes levied consisted of 12.3206 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, 2025. 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, 2025.

Note 3 - Cash and Investments

Following is a reconciliation of deposit balances as of June 30, 2025:

	Primary Government	Component Unit - TIFA	Totals
Statement of Net Position			
Cash and Investments	\$ 2,717,133	\$ 281,329	\$ 2,998,462
Restricted Cash, Bond Reserve	265,376	-	265,376
Restricted Cash, RRI	428,533	-	428,533
Statement of Fiduciary Net Position			
Cash and Investments	-	-	-
Total Cash and Investments	\$ 3,411,042	\$ 281,329	\$ 3,692,371
Deposits and Investments			
Checking and Savings Accounts			\$ 3,688,214
Certificates of Deposit (mature within one to five years)			4,157
Total Deposits and Investments			\$ 3,692,371

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, \$2,655,952 of the City's bank balance of \$3,670,563 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. To help mitigate risk, 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.

Credit Risk - Investments. State law limits investments to specific government securities, certificates of deposits and bank accounts with qualified financial institutions, commercial paper with specific maximum maturities and ratings when purchased, bankers' acceptances of specific financial institutions, qualified mutual funds and qualified external investment pools as identified in the list of authorized investments in the summary of significant accounting policies. The City's investment policy does not have specific limits in excess of state law on investment credit risk. The City's certificates of deposit of \$4,157 were not applicable to a credit rating.

Interest Rate Risk. Interest rate risk is the risk that the market rate of securities in the portfolio will fall due to changes in market interest rates. State law limits the allowable investments and the maturities of some of the allowable investments as identified in the summary of significant accounting policies. The City's investment policy does not have specific limits in excess of state law on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The City's certificates of deposit of \$4,157 have a maturity date that is due within five years.

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.

The City's certificates of deposit totaling \$4,157 are not subject to fair value measurement and are reported at cost. As of June 30, 2025, the Tax Increment Finance Authority (discretely presented

City of Reading

Notes to the Financial Statements

component unit) had an investment in land and infrastructure development (not reported above) in the amount of \$428,216, which is measured using Level 3 fair value inputs.

Restricted Cash

Pursuant to the provisions of the ordinances and loan agreements authorizing the issuance of the City's water and sewer system revenue bonds, the City is required to establish and maintain a Bond Reserve Account and a Repair, Replacement and Improvement Account (the "RRI Account"). Amounts deposited in these accounts are legally restricted and may be used only in accordance with the bond requirements.

The following schedule presents restricted cash balances maintained in accordance with the requirements of the City's outstanding water and sewer system revenue bonds:

	June 30, 2025		June 30, 2024
	Required Balance	Actual Balance	Actual Balance
Sewer Fund			
Bond Reserve Account	\$ 131,000	\$ 132,462	\$ 131,910
Repair, Replacement, and Improvement Account	170,700	170,700	147,600
Water Fund			
Bond Reserve Account	132,914	132,914	126,650
Repair, Replacement, and Improvement Account	257,833	257,833	241,500
Totals	\$ 692,447	\$ 693,909	\$ 647,660

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	Reductions	Ending Balance
Capital Assets not being Depreciated				
Land	\$ 121,858	\$ -	\$ -	\$ 121,858
Construction in Progress	26,900	1,170,034	(26,900)	1,170,034
<i>Subtotal</i>	<u>148,758</u>	<u>1,170,034</u>	<u>(26,900)</u>	<u>1,291,892</u>
Capital Assets being Depreciated				
Buildings and Improvements	582,552	41,561	26,900	651,013
Infrastructure	2,090,832	-	-	2,090,832
Machinery and Equipment	867,944	9,000	-	876,944
<i>Subtotal</i>	<u>3,541,328</u>	<u>50,561</u>	<u>26,900</u>	<u>3,618,789</u>
Less Accumulated Depreciation				
Buildings and Improvements	(237,715)	(38,716)	-	(276,431)
Infrastructure	(438,825)	(66,876)	-	(505,701)
Machinery and Equipment	(722,293)	(42,836)	-	(765,129)
<i>Subtotal</i>	<u>(1,398,833)</u>	<u>(148,428)</u>	<u>-</u>	<u>(1,547,261)</u>
Capital Assets being Depreciated, Net	<u>2,142,495</u>	<u>(97,867)</u>	<u>26,900</u>	<u>2,071,528</u>
Capital Assets, Net	<u>\$ 2,291,253</u>	<u>\$ 1,072,167</u>	<u>\$ -</u>	<u>\$ 3,363,420</u>

Depreciation expense for governmental activities was charged to the City's governmental functions as follows:

Governmental Activities	
General Government	\$ 24,325
Public Safety	9,965
Public Works	65,122
Recreation and Culture	38,546
Depreciation Charged to Internal Service Fund	<u>10,470</u>
Total Governmental Activities	<u>\$ 148,428</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	35,353	-	8,864,037
Machinery and Equipment	109,167	-	-	109,167
<i>Subtotal</i>	<u>8,937,851</u>	<u>35,353</u>	<u>-</u>	<u>8,973,204</u>
Less Accumulated Depreciation				
Water and Sewer Distribution System	(4,151,209)	(162,993)	-	(4,314,202)
Machinery and Equipment	(98,269)	(2,332)	-	(100,601)
<i>Subtotal</i>	<u>(4,249,478)</u>	<u>(165,325)</u>	<u>-</u>	<u>(4,414,803)</u>
Capital Assets being Depreciated, Net	<u>4,688,373</u>	<u>(129,972)</u>	<u>-</u>	<u>4,558,401</u>
Capital Assets, Net	<u>\$ 4,708,923</u>	<u>\$ (129,972)</u>	<u>\$ -</u>	<u>\$ 4,578,951</u>

Depreciation expense for business-type activities totaled \$165,325 and was allocated to the water fund in the amount of \$112,872 and to the sewer fund in the amount of \$52,453.

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

Component Unit - Tax Increment Finance Authority	Beginning Balance	Additions	Reductions	Ending Balance
Capital Assets being Depreciated				
Equipment	\$ 35,015	\$ -	\$ -	\$ 35,015
Less Accumulated Depreciation				
Equipment	(16,340)	(2,334)	-	(18,674)
Capital Assets, Net	<u>\$ 18,675</u>	<u>\$ (2,334)</u>	<u>\$ -</u>	<u>\$ 16,341</u>

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

Note 5 - Interfund Transfers

Transfers are used to: 1) move revenues from the fund that is required to collect them to the fund that is required or allowed to expend them; 2) move receipts restricted to or allowed for debt service from the funds collecting the receipts to the debt service fund as debt service payments become due; and 3) use unrestricted revenues collected to finance various programs accounted for in other funds in accordance with budgetary authorizations.

City of Reading

Notes to the Financial Statements

The following transfers occurred between funds of the City for the year ended June 30, 2025:

<u>Transfer In</u>	<u>Transfer Out</u>	<u>Amount</u>
Capital Improvement	Sewer	\$ 19,830
Capital Improvement	Water	146,829
Capital Improvement	General	20,653
Local Streets	General	10,000
Local Streets	Major Streets	11,000
General	Capital Improvement	60,556
Local Streets	Capital Improvement	50,000
Major Streets	Capital Improvement	60,000
Capital Improvement	Refuse	1,505
Capital Improvement	Internal Service Fund	19,992
Water	Capital Improvement	75,000

Note 6 - Long-term Obligations

Governmental Activities

General Obligation Capital Improvement Bonds, Series 2015 - The City issued general obligation capital improvement bonds in June 2016 in the original amount of \$550,000. Principal payments are due annually in amounts ranging from \$50,000 to \$60,000. Interest is payable semiannually on May 1 and November 1 at rates ranging from 0.75% to 2.8%. The bonds mature on May 1, 2025.

General Obligation Capital Improvement Bonds, Series 2024 – The City issued general obligation capital improvement bonds in July 2024 in the original amount of \$950,000. Principal payments are due annually in amounts ranging from \$40,000 to \$93,000, with final maturity on May 1, 2039. Interest is payable semiannually on May 1 and November 1, commencing November 1, 2024, at a fixed interest rate of 4.73%. The bonds are limited tax general obligation bonds for which the City has pledged its limited tax full faith and credit. Principal and interest are payable from the City’s general funds and, if necessary, from ad valorem taxes levied on all taxable property within the City, subject to applicable constitutional, statutory, and charter tax rate limitations.

The following is a summary of the City’s long-term obligations for governmental activities for the year:

<u>Governmental Activities</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
<i>Direct Placement Debt</i>					
2015 General Obligation Capital Improvement Bonds	\$ 60,000	\$ -	\$ (60,000)	\$ -	\$ -
2024 Capital Improvement Bonds	-	950,000	(40,000)	910,000	42,000
<i>Total Direct Placement Debt</i>	<u>60,000</u>	<u>950,000</u>	<u>(100,000)</u>	<u>910,000</u>	<u>42,000</u>
<i>Other Long-term Obligations</i>					
Compensated Absences	18,784	6,206	-	24,990	8,746
Total Governmental Activities	<u>\$ 78,784</u>	<u>\$ 956,206</u>	<u>\$ (100,000)</u>	<u>\$ 934,990</u>	<u>\$ 50,746</u>

City of Reading

Notes to the Financial Statements

Business-type Activities

2008 Water System Revenue Bonds (91-08) - The City issued water system revenue bonds in 2008 bearing interest at a rate of 4.375%. Principal payments are due annually in amounts ranging from \$12,000 to \$70,000. The bonds mature in 2047.

1995 Water System Revenue Bonds (91-05) - The City issued water system revenue bonds in 1995 bearing interest at a rate of 4.50%. Principal payments are due annually in amounts ranging from \$20,000 to \$61,000. The bonds mature in 2036.

2006 Sewer System Revenue Bonds (92-07) - The City issued sewer system revenue bonds in 2006 bearing interest at a rate of 4.375%. Principal payments are due annually in amounts ranging from \$6,000 to \$29,000. The bonds mature in 2047.

2006 Sewer System Revenue Bonds (92-10) - The City issued sewer system revenue bonds in 2006 bearing interest at a rate of 4.25%. Principal payments are due annually in amounts ranging from \$22,000 to \$98,000. The bonds mature in 2047.

The following is a summary of the City's long-term obligations for business-type activities for the year:

Business-type Activities	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<i>Direct Placement Debt</i>					
2008 Water Revenue Bonds (91-08)	\$ 911,000	\$ -	\$ (22,000)	889,000	\$ 24,000
1995 Water Revenue Bonds (91-05)	595,000	-	(38,000)	557,000	40,000
2006 Sewer Revenue Bonds (92-07)	1,473,000	-	(39,000)	1,434,000	40,000
2006 Sewer Revenue Bonds (92-10)	429,000	-	(11,000)	418,000	12,000
<i>Total Direct Placement Debt</i>	<u>3,408,000</u>	<u>-</u>	<u>(110,000)</u>	<u>3,298,000</u>	<u>116,000</u>
<i>Other Long-term Obligations</i>					
Compensated Absences	5,867	3,882	-	9,749	3,412
Total Business-type Activities	<u>\$ 3,413,867</u>	<u>\$ 3,882</u>	<u>\$ (110,000)</u>	<u>\$ 3,307,749</u>	<u>\$ 119,412</u>

Annual debt service requirements to maturity are as follows:

Year Ending June 30,	Governmental Activities			Business-type Activities		
	Principal	Interest	Total	Principal	Interest	Total
2026	\$ 42,000	\$ 43,043	\$ 85,043	\$ 116,000	\$ 139,392	\$ 255,392
2027	45,000	41,056	86,056	121,000	134,273	255,273
2028	48,000	38,928	86,928	127,000	128,916	255,916
2029	52,000	36,658	88,658	133,000	123,317	256,317
2030	55,000	34,198	89,198	139,000	127,454	266,454
2031-2035	326,000	128,940	454,940	785,000	490,212	1,275,212
2036-2040	342,000	41,624	383,624	699,000	324,168	1,023,168
2041-2045	-	-	-	785,000	171,607	956,607
2046-2048	-	-	-	393,000	18,482	411,482
Totals:	<u>\$ 910,000</u>	<u>\$ 364,447</u>	<u>\$ 1,274,447</u>	<u>\$ 3,298,000</u>	<u>\$ 1,657,821</u>	<u>\$ 4,955,821</u>

City of Reading

Notes to the Financial Statements

Compensated absences for governmental activities are generally liquidated by the general fund, while compensated absences for business-type activities are liquidated by the water, sewer, and refuse funds.

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.

Benefits Provided

The Plan provides certain retirement, disability, and death benefits to plan members and beneficiaries. PA 427 of 1984, as amended, established and amends the benefit provisions of the participants in MERS. The MERS plan covers full-time employees at the City that belong to the Police and Fire and Ambulance bargaining units. Retirement benefits for employees are calculated as 1.30% of the employee's five-year final average compensation times the employee's years of service, with no maximum percentage of final average compensation. Normal retirement is at age 60. Retirement at a reduced benefit is available at age 50 with 25 years of service or age 55 with 15 years of service. Deferred retirement benefits vest after 10 years of credited service, but are not paid until the date retirement would have occurred had the member remained an employee. Employees are eligible for non-duty disability benefits after 10 years of service and for duty-related disability benefits upon hire. Disability retirement benefits are determined in the same manner as retirement benefits but are payable immediately and, if duty-related, without an actuarial reduction for retirement before age 60. An employee who leaves service may withdraw his or her contributions, plus any accumulated interest.

Benefit terms, within the parameters established by MERS, are generally established and amended by authority of the City Board, generally after negotiations of these terms with the affected unions. Police employee benefit terms may be subject to binding arbitration in certain circumstances.

City of Reading

Notes to the Financial Statements

Employees Covered by Benefit Terms

At the December 31, 2024, measurement 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	6
<i>Total Employees Covered by MERS</i>	<u>14</u>

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.

Employer contributions were 11.03% of annual payroll and the active employee contribution rate was 0.00% of annual payroll.

Net Pension Liability

The net pension liability was measured as of December 31, 2024, and the total pension liability used to calculate the net pension liability, was determined by an annual actuarial valuation as of that date.

Actuarial Assumptions

The total pension liability in the December 31, 2024 annual actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.50%
Salary Increases	3.00% plus merit and longevity: 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 3.00% long-term wage inflation assumption would be consistent with a price inflation of 3.00-4.00%. Mortality rates were based on the Pub-2010 mortality tables with generational projection using MP-2021. The actuarial assumptions used in the valuation were based on the results of the most recent actuarial experience study covering the period from January 1, 2019 through December 31, 2023.

City of Reading

Notes to the Financial Statements

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

Asset Class	Target Allocation	Target Gross Rate of Return	Long-term Expected Gross Rate of Return	Inflation Assumption	Long-term Expected Real Rate of Return
Global Equity	60.00%	7.00%	4.20%	2.50%	2.70%
Global Fixed Income	20.00%	4.66%	0.93%	2.50%	0.43%
Private Investments	20.00%	9.00%	1.80%	2.50%	1.30%
Total	100.00%		6.93%		4.43%

Discount Rate

The discount rate used to measure the total pension liability in the current and prior year was 7.18%. The current discount rate shown for GASB 68 purposes is higher than the MERS assumed rate of return. This is because, for GASB 68 purposes, the discount rate must be gross of administrative expenses, whereas for funding purposes, it is net of administrative expenses. The projection of cash flows used to determine the discount rate assumes that employer and employee contributions will be made at the rates agreed upon for employees and the actuarially determined rates for employers. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to pay all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

City of Reading

Notes to the Financial Statements

Changes in Net 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, 2023	\$ 720,507	\$ 514,570	\$ 205,937
<i>Changes for the Year:</i>			
Service Cost	18,372	-	18,372
Interest on Total Pension Liability	51,115	-	51,115
Differences Between Expected and Actual Experience	33,380	-	33,380
Changes of Assumptions	(1,742)	-	(1,742)
Contributions - Employer	-	49,489	(49,489)
Net Investment Income	-	38,380	(38,380)
Benefit Payments, Including Employee Refunds	(35,582)	(35,582)	-
Administrative Expenses	-	(1,145)	1,145
<i>Net Changes</i>	65,543	51,142	14,401
Balance at December 31, 2024	\$ 786,050	\$ 565,712	\$ 220,338
		Allocated to:	
		Governmental Activities	\$ 158,276
		Business-type Activities	62,062
		Total	\$ 220,338

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 Township	\$ 321,409	\$ 220,338	\$ 135,411

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

For the year ended June 30, 2025, the City recognized pension expense of \$65,541. As of June 30, 2025, the City reported deferred outflows and inflows of resources related to pensions from the following sources:

City of Reading

Notes to the Financial Statements

Source	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences Between Expected and Actual Experience	\$ 34,531	\$ 474
Net Difference Between Projected and Actual Earnings on Pension Plan Investments	19,969	-
Changes of Assumptions	2,944	1,742
Contributions Subsequent to the Measurement Date*	18,038	-
Total	\$ 75,482	\$ 2,216
Allocated to:		
Governmental Activities	\$ 54,222	\$ 1,591
Business-type Activities	21,260	625
Total	\$ 75,482	\$ 2,216

* 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, 2026.

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

Year Ending June 30,	Amount
2026	\$ 22,494
2027	29,206
2028	4,157
2029	(629)
Total	\$ 55,228

Assumption and Method Changes

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 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).

City of Reading

Notes to the Financial Statements

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.

As of the December 31, 2024 actuarial valuation, the assumed rate of investment return remains 6.93 percent. Investment performance measured for the one-year period ending December 31, 2024 did not result in a change to the assumed rate of return. The December 31, 2024 valuation liabilities were developed using this assumption, and the policy continues to be applied in the determination of valuation assets and employer contribution requirements.

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, 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, 2025, the City's property tax revenue for general operations was reduced by \$8,469.

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.

City of Reading

Notes to the Financial Statements

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 - Implementation of New Accounting Standard (GASB Statement No. 101, Compensated Absences)

Effective for the year ended June 30, 2025, the City implemented GASB Statement No. 101, *Compensated Absences*.

Under this guidance, a liability for compensated absences (e.g., vacation and sick leave) is recognized when the leave is 1) attributable to services already rendered, 2) accumulates or vests, and 3) is more-likely-than-not to be used for time off or paid to employees. The liability is measured using the amount of leave expected to be used or paid (including salary-related payments) and the pay rates in effect at period-end.

The City evaluated the impact of this standard and determined that its implementation did not result in a material change to the financial statements. The City's existing compensated absences policies and accounting practices already appropriately recognized and measured compensated absences in a manner consistent with the recognition and measurement requirements of GASB Statement No. 101. As a result, no adjustment to beginning net position or fund balance was required.

Note 12 - Subsequent Events

The City has evaluated subsequent events through December 30, 2025, 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, which is intended 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 in the amount of \$4,097,533. The contract 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 have a repayment period of 40 years at an interest rate not to exceed 2.375% and will finance water system improvements associated with the MELS Project. Repayments will be funded through monthly water utility revenues.

City of Reading

Notes to the Financial Statements

The total estimated project cost is \$4,765,700, which is supported by \$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 Transportation (MDOT) grant, and a \$257,200 City match. As of June 30, 2025, project costs totaling \$1,170,034 had been incurred and completed. The remaining project costs represent a construction commitment of the City.

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, 2025

	Budgeted Amounts		Actual	Variance
	Original	Final		Positive (Negative) Final to Actual
Revenues				
Taxes	\$ 368,732	\$ 395,244	\$ 396,960	\$ 1,716
Intergovernmental	337,751	311,701	313,216	1,515
Licenses and Permits	70,800	53,424	54,669	1,245
Charges for Services	10,850	15,502	15,767	265
Fines and Forfeits	300	789	789	0
Interest and Rents	6,300	13,002	14,234	1,232
Other Income	7,000	9,023	10,789	1,766
Total Revenues	801,733	798,684	806,424	7,740
Other Financing Sources				
Transfers In	--	--	60,556	60,556
Total Revenues and Other Financing Sources	801,733	798,684	866,980	68,296
Expenditures				
General Government				
City Manager	61,725	66,310	65,650	660
Elections	10,738	7,169	7,024	145
Audit Fees	8,200	12,025	12,025	--
Legal Fees	13,500	10,050	9,711	339
Clerk / Treasurer	91,683	65,708	59,853	5,855
Assessor / Tax Bills	16,668	16,822	16,161	661
Building and Grounds	62,614	86,923	78,813	8,110
Other General Government	35,504	21,552	16,682	4,870
Total General Government	300,632	286,559	265,919	20,640
Public Safety				
Police	365,135	248,849	231,290	17,559
Fire Protection	35,000	35,000	35,000	--
Total Public Safety	400,135	283,849	266,290	17,559
Public Works				
Cemeteries	43,897	45,002	39,166	5,836
Community and Economic Development				
Planning / Zoning	80,190	53,274	47,805	5,469
Economic Development	35,467	34,600	34,504	96
Total Community and Economic Development	115,657	87,874	82,309	5,565
Recreation and Culture				
Parks and Recreation	9,000	5,800	4,543	1,257
Total Expenditures	869,320	709,083	658,227	50,856
Other Financing Uses				
Transfers Out	85,000	85,000	30,653	54,347
Total Expenditures and Other Financing Uses	954,320	794,083	688,880	105,203
Excess (Deficiency) of Revenues and Other Sources Over Expenditures and Other Uses	(152,586)	4,600	178,100	173,500
Net Change in Fund Balance	(152,586)	4,600	178,100	173,500
<i>Fund Balance at Beginning of Period</i>	716,996	716,996	716,996	--
Fund Balance at End of Period	\$ 564,410	\$ 721,596	\$ 895,096	\$ 173,500

City of Reading
Schedule of Revenues, Expenditures, and Changes in Fund Balance-Budget and Actual
Major Streets
For the Year Ended June 30, 2025

	Budgeted Amounts		Actual	Variance
	Original	Final		Positive (Negative) Final to Actual
Revenues				
Intergovernmental	\$ 122,043	\$ 122,043	\$ 134,302	\$ 12,259
Interest and Rents	--	215	261	46
Total Revenues	<u>122,043</u>	<u>122,258</u>	<u>134,563</u>	<u>12,305</u>
Other Financing Sources				
Transfers In	--	--	60,000	60,000
Total Revenues and Other Financing Sources	<u>122,043</u>	<u>122,258</u>	<u>194,563</u>	<u>72,305</u>
Expenditures				
Public Works	136,900	142,097	138,803	3,294
Total Expenditures	<u>136,900</u>	<u>142,097</u>	<u>138,803</u>	<u>3,294</u>
Other Financing Uses				
Transfers Out	11,000	11,000	11,000	--
Total Expenditures and Other Financing Uses	<u>147,900</u>	<u>153,097</u>	<u>149,803</u>	<u>3,294</u>
Excess (Deficiency) of Revenues and Other Sources Over Expenditures and Other Uses	<u>(25,857)</u>	<u>(30,839)</u>	<u>44,760</u>	<u>75,599</u>
Net Change in Fund Balance	<u>(25,857)</u>	<u>(30,839)</u>	<u>44,760</u>	<u>75,599</u>
<i>Fund Balance at Beginning of Period</i>	91,835	91,835	91,835	--
Fund Balance at End of Period	<u>\$ 65,978</u>	<u>\$ 60,996</u>	<u>\$ 136,595</u>	<u>\$ 75,599</u>

City of Reading
Schedule of Revenues, Expenditures, and Changes in Fund Balance-Budget and Actual
Local Streets
For the Year Ended June 30, 2025

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance
	<u>Original</u>	<u>Final</u>		Positive (Negative) Final to Actual
Revenues				
Intergovernmental	\$ 36,971	\$ 36,971	\$ 40,931	\$ 3,960
Interest and Rents	--	76	92	16
Total Revenues	<u>36,971</u>	<u>37,047</u>	<u>41,023</u>	<u>3,976</u>
Other Financing Sources				
Transfers In	21,000	21,000	71,000	50,000
Total Revenues and Other Financing Sources	<u>57,971</u>	<u>58,047</u>	<u>112,023</u>	<u>53,976</u>
Expenditures				
Public Works	69,805	57,182	52,707	4,475
Total Expenditures	<u>69,805</u>	<u>57,182</u>	<u>52,707</u>	<u>4,475</u>
Excess (Deficiency) of Revenues and Other Sources Over Expenditures	<u>(11,834)</u>	<u>865</u>	<u>59,316</u>	<u>58,451</u>
Net Change in Fund Balance	<u>(11,834)</u>	<u>865</u>	<u>59,316</u>	<u>58,451</u>
<i>Fund Balance at Beginning of Period</i>	39,286	39,286	39,286	--
Fund Balance at End of Period	<u>\$ 27,452</u>	<u>\$ 40,151</u>	<u>\$ 98,602</u>	<u>\$ 58,451</u>

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

	2024	2023	2022	2021	2020	2019	2018	2017	2016	2015
Total Pension Liability										
Service Cost	\$ 18,372	\$ 14,555	\$ 13,644	\$ 11,778	\$ 12,764	\$ 9,701	\$ 7,942	\$ 9,021	\$ 8,298	\$ 5,309
Interest on Total Pension Liability	51,115	47,734	46,090	42,089	37,945	36,759	35,557	33,993	32,056	27,814
Differences Between Expected and Actual Experience	33,380	18,992	(1,895)	29,894	2,672	(2,138)	(12,510)	(6,239)	210	26,027
Changes of Assumptions*	(1,742)	5,888	-	25,834	22,728	12,667	-	-	-	13,845
Benefit Payments, Including Refunds	(35,582)	(35,582)	(35,590)	(21,703)	(20,449)	(17,006)	(16,693)	(16,693)	(16,693)	(5,175)
Net Change in Pension Liability	65,543	51,587	22,249	87,892	55,660	39,983	14,296	20,082	23,871	67,820
<i>Total Pension Liability - Beginning</i>	720,507	668,920	646,671	558,779	503,119	463,136	448,840	428,758	404,887	337,067
Total Pension Liability - Ending (a)	\$ 786,050	\$ 720,507	\$ 668,920	\$ 646,671	\$ 558,779	\$ 503,119	\$ 463,136	\$ 448,840	\$ 428,758	\$ 404,887
Plan Fiduciary Net Position										
Contributions - Employer	\$ 49,489	\$ 33,799	\$ 20,085	\$ 21,007	\$ 18,435	\$ 13,388	\$ 13,297	\$ 11,248	\$ 7,739	\$ 6,253
Net Investment Income (Loss)	38,380	51,455	(55,707)	67,050	54,604	51,040	(15,580)	46,750	36,925	(5,069)
Benefit Payments, Including Refunds	(35,582)	(35,582)	(35,590)	(21,703)	(20,449)	(17,006)	(16,693)	(16,693)	(16,693)	(5,175)
Administrative Expenses	(1,145)	(1,091)	(982)	(771)	(851)	(880)	(768)	(740)	(728)	(732)
Net Change in Plan Fiduciary Net Position	51,142	48,581	(72,194)	65,583	51,739	46,542	(19,744)	40,565	27,243	(4,723)
<i>Plan Fiduciary Net Position - Beginning</i>	514,570	465,989	538,183	472,600	420,861	374,319	394,063	353,498	326,255	330,978
Plan Fiduciary Net Position - Ending (b)	\$ 565,712	\$ 514,570	\$ 465,989	\$ 538,183	\$ 472,600	\$ 420,861	\$ 374,319	\$ 394,063	\$ 353,498	\$ 326,255
Net Pension Liability - Ending (a) - (b)	\$ 220,338	\$ 205,937	\$ 202,931	\$ 108,488	\$ 86,179	\$ 82,258	\$ 88,817	\$ 54,777	\$ 75,260	\$ 78,632
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	71.97%	71.42%	69.66%	83.22%	84.58%	83.65%	80.82%	87.80%	82.45%	80.58%
Covered Payroll	\$ 313,523	\$ 251,811	\$ 238,523	\$ 232,772	\$ 268,718	\$ 214,154	\$ 172,652	\$ 196,533	\$ 189,455	\$ 121,496
Net Pension Liability as a Percentage of Covered Payroll	70.28%	81.78%	85.08%	46.61%	32.07%	38.41%	51.44%	27.87%	39.72%	64.72%

Notes to the 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%.

2024 valuation - The investment rate of return assumption was reduced from 7.18% to 6.93%.

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

	2025	2024	2023	2022	2021	2020	2019	2018	2017	2016
Actuarially Determined Contribution	\$ 42,384	\$ 26,436	\$ 21,170	\$ 20,880	\$ 19,791	\$ 13,399	\$ 12,678	\$ 11,248	\$ 7,739	\$ 6,254
Contributions in Relation to the Actuarially Determined Contribution	<u>54,294</u>	<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>
Contribution Deficiency (Excess)	<u>\$ (11,910)</u>	<u>\$ (10,000)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (695)</u>
Covered Payroll	\$ 310,919	\$ 258,927	\$ 244,745	\$ 255,252	\$ 271,475	\$ 214,154	\$ 172,652	\$ 196,533	\$ 189,455	\$ 121,496
Contributions as a Percentage of Covered Payroll	17.46%	14.07%	8.65%	8.18%	7.29%	6.26%	7.34%	5.72%	4.08%	5.72%

Notes to the Schedule:

Actuarially determined contribution rates are calculated as of December 31 each year, which is the year 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
Remaining Amortization Period	15 Years
Asset Valuation Method	5 Years; Smoothed
Inflation	2.50%
Salary Increases	3.00% Wage Inflation with 0.00%-11.00% Merit and Longevity Increases
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	Rates Used were based on a version of the Pub-2010 and fully generational MP-2021

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, 2025

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, 2025, 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, 2025.

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 2025-001 through 2025-002 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

2025-001 - Preparation of Governmental Financial Statements and Material Audit Adjustments (Repeat Finding)

Finding Type:	Material weakness in internal control 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 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:	Material audit adjustments were necessary during the course of the audit, and the City's general ledger balances did not include all information necessary to produce complete financial statements in accordance with generally accepted accounting principles.
Cause:	This condition was caused by the City's decision to outsource the preparation of its annual financial statements to the external auditor rather than incur the costs associated with obtaining the training and expertise necessary to perform this function internally, as outsourcing this task is considered more cost effective.
Effect:	As a result, management was unable to prepare financial statements in accordance with generally accepted accounting principles without auditor assistance, increasing the risk that material misstatements in the financial statements could occur and not be prevented or detected on a timely basis.
Recommendation:	We recommend that management continue to evaluate the relative costs and benefits of securing the internal or other external resources necessary to identify and record material year-end adjustments and to prepare a draft of the City's annual financial statements in accordance with generally accepted accounting principles, as compared to contracting with its external auditor for these services.
Management Response:	Management has performed an ongoing evaluation of the costs and benefits associated with obtaining internal or external resources for the preparation of financial statements and has determined that the additional benefits of fully internalizing this function would not outweigh the related costs. Management will continue to review the draft financial statements and related notes prior to approval and will accept responsibility for their content and presentation.

City of Reading

Schedule of Findings and Responses

2025-002 - Inadequate Segregation of Duties Over Key Financial Processes (Repeat Finding)

Finding Type:	Material weakness in internal control over financial reporting.
Criteria:	Management is responsible for establishing and maintaining internal controls to safeguard City assets and ensure the integrity of financial reporting. A fundamental element of effective internal control is the segregation of incompatible duties such that no single individual has control over all aspects of a transaction.
Condition:	The City does not maintain adequate segregation of duties over key financial processes. The same individual is responsible for preparing journal entries, processing cash disbursements, and performing bank reconciliations, without independent review or approval by another qualified individual. These tasks represent incompatible functions that, if not segregated or independently reviewed, increase the risk of undetected errors or irregularities in financial reporting.
Cause:	This condition is the result of limited staffing and resource constraints, which restrict management's ability to segregate incompatible duties and implement formal compensating controls.
Effect:	As a result of this condition, the City is exposed to an increased risk that errors or misstatements—whether due to error or fraud—may occur and not be prevented or detected and corrected in a timely manner. The lack of review over reconciliations, cash disbursements, and journal entries reduces the effectiveness of the City's control environment.
Recommendation:	The City should implement formal compensating controls over journal entries, cash disbursements, and bank reconciliations, including documented independent review and approval by a qualified individual who does not prepare the entries or perform the reconciliations.
Management Response:	Management cannot accomplish the desired segregation of duties due to limited staffing. Management staff will provide increased oversight and review of operations to help correct errors and deter inappropriate actions and potential fraud.

December 30, 2025

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, 2025. 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 August 21, 2025. 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. During the fiscal year ended June 30, 2025, the City adopted Governmental Accounting Standards Board (GASB) Statement No. 101, *Compensated Absences*. As described in Note 11 to the financial statements, the adoption of this new accounting principle did not have a material impact on the City’s financial statements, and a restatement of prior year balances was not required. 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, 2025.

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

Gabridge & Company, PLC
Grand Rapids, MI