

DRAFT

City Commission

City of Clare

*December 15, 2025*

City Commission  
City of Clare, Michigan  
December 15, 2025

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We are pleased to submit this report, which summarizes the results of our audit, and other matters which we believe would be of interest to you.

## Services Provided

In accordance with our engagement letter, AHP provided the following services:

### Audit Services:

- Annual Audit – Completed.

### Nonattest Services:

- Assistance in drafting of the financial statements – Completed.
- Assistance with GASB entity-wide adjusting entries – Completed.
- Assistance with updating schedule of GASBS No. 87, Leases – Completed.
- Assistance with updating capital asset schedule – Completed.
- Auditing Procedures Report for the State of Michigan – In Process.
- F-65 Submission for the State of Michigan – In Process.

## Results of the Audit

The audit was conducted in accordance with auditing standards generally accepted in the United States of America and *Governmental Auditing Standards* and included such tests of the accounting records and such other auditing procedures as we considered necessary for the purpose of expressing an opinion on the financial statements.

The following summarizes various matters of interest noted during our audit.

### Significant Risks

As noted in our scope letter dated September 29, 2025, we identified certain areas as having significant risks related to the potential of a material misstatement. We audited each of those significant risks with audit procedures designed to mitigate those risks. Based on our procedures performed, we noted no matters that need to be communicated to you.

## Cybersecurity and Information Technology Controls

Cyberattacks are on the rise across the globe, and the cost of these attacks is ever increasing. Because of these attacks, entities stand to lose their reputation, the ability to operate efficiently, and proprietary information or assets. Entities may also be subject to financial and legal liabilities. Managing this issue is especially challenging because even an entity with a highly mature cybersecurity risk management program still has a residual risk that a material cybersecurity breach could occur and not be detected in a timely manner. We believe management should continue to monitor and evaluate this risk, which is a critical best practice. Additionally, periodic assessments of the system in order to verify that the control environment is functioning as designed are key parts of measuring associated business risk. We encourage those charged with governance to work with management on this very important topic. If we can be of assistance in the process, we would be happy to do so.

*Net Pension Liability* - The City's net pension obligation increased approximately \$140,000.

## Adopted Audit Standard

- No new standards in affect for fiscal year 2025.

## Adopted Accounting Standards

GASB Statement No. 101, *Compensated Absences*. This standard became effective for fiscal years beginning after December 15, 2023 which was the City's June 30, 2025 year-end. The standard updated current guidance for recognizing and measuring compensated absences. It requires that liabilities for compensated absences be recognized for (1) leave that has not been used and (2) leave that has been used but not yet paid in cash or settled through noncash means. A liability should be recognized for leave that has not been used if (a) the leave is attributable to services already rendered, (b) the leave accumulates, and (c) the leave is more likely than not to be used for time off or otherwise paid in cash or settled through noncash means.

Liabilities for certain types of compensated absences—including parental leave, military leave, and jury duty leave—will not be recognized until the leave commences. Generally, the liability will be measured using an employee's pay rate as of the date of the financial statements.

For governmental funds, expenditures will be recognized for the amount that normally would be liquidated with expendable available financial resources.

- Leave is attributable to services already rendered when an employee has performed the services required to earn the leave.
- Leave that accumulates is carried forward from the reporting period in which it is earned to a future reporting period during which it may be used for time off or otherwise paid or settled.
- In estimating the leave that is more likely than not to be used or otherwise paid or settled, a government should consider relevant factors such as employment policies related to compensated absences and historical information about the use or payment of compensated absences.

*Effect on the City:* This statement did not have a significant effect on the City's financial statements.

GASB Statement No. 102, *Certain Risk Disclosures*. Although governments are required to disclose information about their exposure to some risks, other risks have not been explicitly required. This Standard requires a government to assess whether a concentration or constraint makes the government vulnerable to the risk of a substantial impact. The standard became effective for fiscal years beginning after June 15, 2024.

Potential additional disclosures include descriptions of the following:

- The concentration or constraint
- Each event associated with the concentration or constraint that could cause a substantial impact if the event had occurred or had begun to occur prior to the issuance of the financial statements
- Actions taken by the government prior to the issuance of the financial statements to mitigate the risk.

*Effect on the City:* This statement did not have a significant effect on the City's financial statement disclosures.

### Future Accounting Standards

Below is a selection of recent GASB standards that may apply to future periods.

GASB Statement No. 103, *Financial Reporting Model Improvements*. This GASB statement improves and clarifies certain information for several areas as listed below and is effective for fiscal years beginning after June 15, 2025.

- Management's discussion and analysis
- Unusual or infrequent items
- Presentation of the proprietary fund statement of revenues, expenses, and changes in fund net position
- Major component unit information
- Budgetary comparison information

*Effect on the City:* This will affect the City's financial statements in some areas, but the degree of change is not known at this time.

GASB Statement No. 104, *Disclosure of Certain Capital Assets*. This GASB statement is to provide essential information about certain types of capital assets to users of the financial statements and is effect for fiscal years beginning after June 15, 2025. Required disclosures include: *Effect on the City:* This will affect the City's financial statements in some areas, but the degree of change is not known at this time.

- Requires intangible assets other than those disclosed through GASB statement 87 Leases, GASB statement 94 Public-Private and Public-Public Partnerships and Availability

Payment Arrangements, and GASB statement 96 Subscription-Based Information Technology Arrangements are to be disclosed separately by major class.

- Requires evaluation of capital assets held for sale each reporting period and disclosure of the ending balance of capital assets held for sale with historical cost and accumulated depreciation by major class of asset, and disclosure of the carrying amount of debt that any capital assets held for sale are pledged as collateral for each major class of asset.

*Effect on the City:* We do not expect this standard to have a significant effect on the city's financial statements.

## The Auditor's Communications with Those Charged with Governance

This section discusses our responsibilities under AICPA *Professional Standards section AU-C 260, The Auditor's Communication with Those Charged with Governance*. The following excerpts from that standard describe the specific matters required to be communicated to you and our responses thereto:

### Our Responsibility under U.S. Generally Accepted Auditing Standards

The auditor's standard report emphasizes that an audit conducted in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, is designed to provide reasonable, but not absolute, assurance that the financial statements are free of material misstatement and in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP). Our report dated December 15, 2025 follows this format. Because of the concept of reasonable assurance, and because we did not perform a detailed examination of all transactions, there is a risk that material errors, irregularities, or illegal acts, including fraud and defalcations, may exist and not be detected by us.

Our responsibility, as described by our professional standards, is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. GAAP. Our audit does not relieve you or management of your responsibilities.

As part of the audit, we considered the internal control of the City. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning internal control.

### Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our scope letter dated September 29, 2025. No matters came to our attention during our audit that resulted in a change to our timing or scope of our procedures.

## 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 of Clare are described in Note 1 to the financial statements. Two new accounting policies were adopted, and the application of existing policies was not changed during the year, other than required by the current year adopted accounting standards. 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 significant estimates affecting the financial statements are estimates related to 1) the determination of the net pension liability and 2) the useful lives of depreciable capital assets.

For the estimates listed above, we evaluated the key factors and assumptions used to develop the estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

The disclosures in the financial statements are neutral, consistent, and clear. Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting the financial statements were related to deposits and investments, capital assets, long-term debt, and employee retirement systems.

## 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 misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Proposed adjustments related primarily to pension and OPEB liabilities, accounts receivable, reclassifications, and entries to reflect government-wide activity not recorded in the fund financial statements. There were no significant uncorrected misstatements.

## Disagreements with Management

For purposes of this letter, a disagreement with management is a disagreement on financial accounting, reporting, or auditing matters, 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 the audit.

## Management Representations

We have requested certain representations from management that are included in the management's representation letter dated December 15, 2025. A copy of the representations is attached.

## Management's 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 financial statements or a determination of the type of 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 relevant facts. To our knowledge, there were no such consultations with other accountants.

## Major Issues Discussed with Management Prior to Retention

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

## Required Supplementary Information (RSI)

We applied certain limited procedures to management's discussion and analysis and the budgetary comparison information, which is required supplementary information 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.

## Other Supplementary Information

With respect to the other supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with U.S. GAAP, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the other supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

## Communication of Fees for Nonaudit Services

As previously described in this letter, we performed certain nonaudit services at the request of management and documented in an engagement letter. Fees for these services did not exceed those noted in our engagement letter.

Management Letter

We considered the City's internal control during the course of the audit, and we remained alert for areas where procedures and controls could be improved. We noted no matters involving the internal control over financial reporting and its operation that we would consider to be a material weakness.

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

We will be pleased to respond to any comments or questions you may have concerning this letter, or any other aspects of our services to the City.

It has been a pleasure to serve the City. We want to express our appreciation for the cooperation and courtesy extended to us by management and employees of the City and look forward to continuing our association in the future.

Sincerely,