

AGENDA REPORT

TO: Mayor Pat Humphrey & the Clare City Commission
FROM: Jeremy Howard, City Manager
DATE: January 12, 2023
RE: Audit Presentation and Approval of Fiscal Year 2021/22 Audit Report

For the Agenda of January 16, 2023

Background. The public accounting firm of Andrews, Hooper & Pavlik (AHP) of Midland, Michigan conducted an independent audit of the City of Clare's financial records for the City's fiscal year ending June 30, 2022. A qualified representative from the firm is scheduled to publicly present the results of the audit to the Clare City Commission at its regularly scheduled meeting on January 16, 2023. The audit results are unqualified meaning that no adverse findings were discovered or noted during the course of the independent audit. A draft copy of the complete audit report is attached for your review.

The Treasurer/Finance Director, City Clerk and City Manager will have each reviewed the audit report prior to the meeting and will have formally acknowledged the results in writing.

The City Commission is asked to formally approve the audit findings and results as presented by a qualified senior staff member of the public accounting firm Andrews, Hooper & Pavlik.

Issues & Questions Specified. Should the Clare City Commission formally approve the audit report?

Alternatives.

1. Approve the audit findings.
2. Do not approve the audit findings.
3. Defer/delay decision to a subsequently scheduled City Commission meeting.

Financial Impact. The City of Clare is required to file the results of its annual audit with the Michigan Department of Treasury; failure to do so will result in the withholding of state revenue sharing and render the City ineligible for other state and federally funded programs to include grants and loans. Approval of the audit is necessary to allow City Staff to file the audit and other related reports with appropriate state and federal agencies.

Recommendations. I recommend that the City Commission formally approve the audit results presented by Andrews, Hooper & Pavlik by adoption of attached Resolution 2023-007.

Attachments.

1. Report of Independent Auditors.
2. Fiscal Year 2021/22 Independent Audit Report and Audited Financial. - To Be Provided at Monday's meeting.
3. Management Acknowledgement Letter.
4. Resolution 2022-007.

City Commission

City of Clare

January 16, 2023

City Commission

City of Clare, Michigan

January 16, 2023

- Introduction
 - AHP Representatives
 - Duane Reyhl – Partner
 - Danielle Hoppe – Audit Manager
- Letter to City Commission
 - Services Provided and in Process
 - Results of our Audit of the Financial Statements
 - Required Communications with City Commission
 - Management Comments
 - Representation Letter
- Other Questions or Comments

January 16, 2022

City Commission
City of Clare

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 the initial application of GASBS No. 87, Leases - 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 October 27, 2022, 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 \$100,000. This was a combination of an increase of approximately \$900,000 in the actuarial accrued liability offset by an increase of approximately \$800,000 in the valuation of the underlying invested assets.

The adoption of Government Accounting Standards Board Statement No. 87, *Leases*, resulted in the recognition of a lease receivable and related deferred inflow of resources on the statement of net position for the lease contracts that the City holds as a lessor. The recognition of these amounts did not affect the City's overall net position or fund balances. As a lessee, the City had no significant leases that required the recognition of right-of-use assets or lease liabilities.

Adopted Audit Standard

New Audit Report. Beginning with the year ending June 30, 2022, the standard auditor report has been significantly updated as follows:

- The "Opinion" section of the report will be presented first.
- The "Basis for Opinion" section of the report will include an affirmative statement about the auditor's independence and fulfillment of the auditor's other ethical responsibilities.
- Expands the description of the responsibilities of management for the preparation and fair presentation of the financial statements
- Expands the description of the responsibilities of the auditor and key features of an audit

Adopted Accounting Standards

GASB Statement No. 87, *Leases*, applies to all state and local governments and establishes a single model for all lease accounting. The concept within this model is that a lease is a financing arrangement that permits the use on an underlying asset for a period of time. Lessees will record a lease liability and an intangible right-of-use asset. Lessors will record a lease receivable and a deferred inflow of resources. An exception is granted for short-term leases, which at the beginning of the lease, have a maximum possible term under the contract of 12 months or less, including any options to extend, regardless of its probability of being exercised.

Effect on the City: This applied to leases that the City had in place for its year ending June 30, 2022 as either a lessor or lessee.

GASB Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period*, establishes accounting requirements for interest cost incurred before the end of a construction period. Prior to this standard, such interest costs were capitalized. This Statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund.

Effect on the City: This did not affect the City for the year ending June 30, 2022.

Future Accounting Standards

Revised State of Michigan Uniform Chart of Accounts – This applies to the City’s beginning July 1, 2022.

GASB Statement No. 91, *Conduit Debt Obligations*, provides a single method of reporting conduit debt obligations by issuers and eliminates diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. This Statement clarifies that a conduit debt obligation is not a liability of the issuer; establishes standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations; and improves required note disclosures.

Effect on the City: None based on the City’s current circumstances. The standard will apply to future obligations starting with the City’s year ending June 30, 2023.

GASB Statement No. 93, *Replacement of Interbank Offered Rates*, addresses accounting and financial reporting implications that result from the replacement of an Interbank Offered Rate (IBOR.) The standard removes LIBOR as a benchmark interest rate for the qualitative evaluation of the effectiveness of an interest rate swap. The standard is effective starting with fiscal years ending June 30, 2022.

Effect on the City: No significant effects are expected.

GASB Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*, addresses issues related to public-private and public-public partnership arrangements (PPPs). A PPP is an arrangement in which a government (the transferor) contracts with an operator (a governmental or nongovernmental entity) to provide public services by conveying control of the right to operate or use a nonfinancial asset, such as infrastructure or other capital asset (the underlying PPP asset), for a period of time in an exchange or exchange-like transaction. Some PPPs meet the definition of a service concession arrangement (SCA), which is a PPP in which (1) the operator collects and is compensated by fees from third parties; (2) the transferor determines or has the ability to modify or approve which services the operator is required to provide, to whom the operator is required to provide the services, and the prices or rates that can be charged for the services; and (3) the transferor is entitled to significant residual interest in the service utility of the underlying PPP asset at the end of the arrangement. The requirements of this Statement are effective for fiscal years beginning after June 15, 2022.

Effect on the City: The City does not currently have any arrangements for which this standard would apply.

GASB Statement No. 96, *Subscription-Based Information Technology Arrangements*, provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users (governments). This Statement:

- Defines a SBITA.
- Establishes that a SBITA results in a right-to-use subscription asset—an intangible asset—and a corresponding subscription liability.
- Provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA.
- Requires note disclosures regarding a SBITA.

To the extent relevant, the standards for SBITAs are based on the standards established in Statement No. 87, *Leases*, as amended. This Statement is effective for fiscal years beginning after June 15, 2022.

Effect on the City: This could affect how the City records IT subscriptions, but the impact is not expected to be significant.

GASB Accounting Projects in Process

Financial Reporting Model—Reexamination of Statements 34, 35, 37, 41, and 46 and Interpretation 6. The GASB has a long-term project to improve the overall financial reporting model. The objective of these improvements, based on the GASB’s research to date would be to:

- Enhance the model’s effectiveness in providing essential decision-making information
- Enhance the ability to assess a government’s accounting
- Address certain application issues

While GASB’s preliminary assessment is that most areas of the current model are effective, a number of improvement areas were identified. Below is a summary of issues being explored:

- *Management’s Discussion and Analysis (MD&A).* Enhance the financial statement analysis component, consider the elimination of boilerplate requirements, and clarify guidance for presenting currently known facts, decisions, or conditions that are expected to have a significant effect on financial position or results of operations.
- *Government-Wide Financial Statements.* Explore alternatives for the format of the statement of activities and consider whether a government-wide statement of cash flows should be required, and if so, how those cash flows should be presented.
- *Major Funds.* Explore options for providing additional information about debt service funds, either individual or in aggregate.
- *Governmental Fund Financial Statements.* Explore a conceptually consistent measurement focus and basis of accounting and develop a presentation format for governmental fund financial statements consistent with the measurement focus and basis of accounting.
- *Proprietary Fund and Business-Type Activity Financial Statements.* Evaluate operating indicator alternatives in conjunction with evaluating the guidance for the separate presentation of operating and nonoperating revenues and expenses.

- *Fiduciary Fund Financial Statements.* Explore where the fiduciary fund financial statements should be presented in the basic financial statements.
- *Budgetary Comparisons.* Explore the appropriate method of communication (either as basic financial statements or required supplementary information) for budgetary comparison information and consider whether and, if so, which budget variances should be required to be presented.
- *Other Issues.* As appropriate and in conjunction with other topics, explore options that would permit more timely financial reporting or that would reduce complexity overall.

The current projected timetable for the final standard is late 2023 or early 2024.

Effect on the City: This is expected to affect all units of government, including the City. Based on the City's current profile, the proposed effective date for the City would be several years after the release of the pronouncement.

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 auditors' 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 January 16, 2023 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 October 27, 2022. 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. No 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 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 auditors' 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 January 16, 2022. 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.

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 material weaknesses.

* * *

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 during 2022. 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,

Audited Financial Statements

City of Clare
Clare and Isabella Counties, Michigan

*Year Ended June 30, 2022
with Report of Independent Auditors*

City of Clare

Audited Financial Statements

Year Ended June 30, 2022

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Audited Financial Statements

Year Ended June 30, 2022

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Report of Independent Auditors

To the City Commission
City of Clare
Clare and Isabella Counties, Michigan

Report on the Audit of the Financial Statements

Opinions

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, the discretely presented component units, and the aggregate remaining fund information of the City of Clare (City), as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, the discretely presented component units, and the aggregate remaining fund information of the City of Clare, as of June 30, 2022, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS). 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 of Clare and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the City of Clare'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 GAAS 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 GAAS, 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 entity'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 entity'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 on pages 4-11, the pension benefit information on pages 56-57, and the budgetary comparison information on pages 58-60, 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 Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Clare's basic financial statements. The combining financial statements for nonmajor funds, internal service funds, fiduciary finds, and component units for the year ended June 30, 2022 are presented for purposes of additional analysis and are not a required part of the basic financial statements.

Such information is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining financial statements for nonmajor funds, internal service funds, fiduciary finds, and component units are fairly stated in all material respects in relation to the basic financial statements as a whole for the year ended June 30, 2022.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 16, 2023, on our consideration of the City of Clare'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 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Clare's internal control over financial reporting and compliance.

Midland, Michigan
January 16, 2023

City of Clare

Management's Discussion and Analysis

June 30, 2022

This discussion and analysis of the City of Clare's financial performance provides an overview of the City's financial activities for the year that ended on June 30, 2022. Please read it in conjunction with the financial statements following this section.

Financial Highlights

- The assets of the City exceeded its liabilities at the close of the most recent year by \$20,463,005 (net position). Of this amount, \$1,785,707 represents unrestricted net position.
- The City's total net position increased by \$657,604.
- At the close of the current year, the City's governmental funds reported combined fund balances of \$3,017,391, an increase of \$360,050 in comparison with the prior year. Approximately 58% of this amount, which is \$1,750,263, is available for spending at the City's discretion (unassigned fund balance).
- At the end of the current year, unrestricted fund balance (the total of committed, assigned, and unassigned components of fund balance) for the General Fund was \$2,027,275, or approximately 52% of total General Fund expenditures.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other 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 information on all of the City's assets and liabilities, with the difference between the two 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 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 in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected special assessments and accrued interest expense).

City of Clare

Management's Discussion and Analysis

June 30, 2022

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, public safety, public works, community development, and recreation and culture. The business-type activities of the City include sewer and water operations.

The government-wide financial statements include not only the City itself (known as the primary government), but also a legally separate Local Development Financing Authority, Downtown Development Authority, and Brownfield Redevelopment Authority for which the City is financially accountable. Financial information for these component units 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 year. Such information may be useful in evaluating 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 City's near-term financing decisions. Both the governmental funds balance sheet and the governmental funds 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 seven individual governmental funds. Information is presented separately in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures, and changes in fund balances for the General Fund, which is considered to be a major fund.

The City adopts an annual appropriated budget for its General and special revenue funds. Budgetary comparison schedules for each major fund have been provided herein to demonstrate compliance with those budgets.

City of Clare

Management's Discussion and Analysis

June 30, 2022

Proprietary funds. The City maintains two different 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. Internal service funds are used to report activities that provide supplies and services to the City's other programs. 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.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the Sewer Fund and Water Fund, each of which is considered to be a major fund of the City. Conversely, both internal service funds are combined into a single, aggregated presentation in the proprietary fund financial statements. Individual fund data for the internal service funds are provided in the form of combining statements in the combining and individual fund statements and schedules section of this report.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside of the City. Fiduciary funds are not reflected in the government-wide financial statements 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.

The City maintains one type of fiduciary fund. The custodial funds report resources held by the City in a custodial capacity for individuals, private organizations, and other governments.

Notes to the financial statements. The notes provide additional information that is essential to 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 related to the City's employee benefit plan and the General Fund's and Major Street Fund's performance compared to their budgets.

The combining statements referred to earlier in connection with the nonmajor governmental funds and internal service funds are presented immediately following the aforementioned required 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 exceeded liabilities by \$20,463,005 at the close of the most recent year.

City of Clare

Management's Discussion and Analysis

June 30, 2022

City of Clare's Net Position

	Governmental Activities		Business-Type Activities		Total	
	2022	2021	2022	2021	2022	2021
Assets						
Current assets	\$ 4,140,872	\$ 3,415,638	\$ 3,026,746	\$ 3,134,313	\$ 7,167,618	\$ 6,549,951
Capital assets, net	15,088,957	14,343,797	10,811,208	10,431,264	25,900,165	24,775,061
Total assets	19,229,829	17,759,435	13,837,954	13,565,577	33,067,783	31,325,012
Deferred outflows of resources	1,054,772	775,521	206,918	170,237	1,261,690	945,758
Liabilities						
Current liabilities	1,021,170	429,203	309,225	204,422	1,330,395	633,625
Long-term liabilities	7,464,962	6,423,251	5,071,111	5,270,681	12,536,073	11,693,932
Total liabilities	8,486,132	6,852,454	5,380,336	5,475,103	13,866,468	12,327,557
Deferred inflows of resources	-	113,006	-	24,806	-	137,812
Net position						
Invested in capital assets, net of related debt	11,250,015	11,454,227	6,399,561	5,836,310	17,649,576	17,290,537
Restricted	794,485	868,481	233,237	191,395	1,027,722	1,059,876
Unrestricted	(263,031)	(753,212)	2,031,738	2,208,200	1,785,707	1,454,988
Total net position	\$ 11,798,469	11,569,496	\$ 8,664,536	\$8,235,905	\$20,463,005	\$19,805,401

The largest portion of the City's net position 86% reflects its investment in capital assets (e.g., land, buildings, 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 (5%) represents resources that are subject to external restrictions on how they may be used. The remaining amount of \$1,785,707 represents unrestricted net position to be used at the City's discretion.

At the end of the current 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 year.

City of Clare

Management's Discussion and Analysis

June 30, 2022

City of Clare's Changes in Net Position

	Governmental Activities		Business-Type Activities		Total	
	2022	2021	2022	2021	2022	2021
Revenues						
Program revenues:						
Charges for services	\$ 899,582	\$ 856,294	\$ 1,879,664	\$ 1,758,196	\$ 2,779,246	\$ 2,614,490
Operating grants and contributions	555,099	601,189	-	-	555,099	601,189
Capital grants and contributions	13,400	146,106	275,983	1,515,509	289,383	1,661,615
General revenues:						
Property taxes and fees	2,063,414	2,008,660	-	-	2,063,414	2,008,660
Special assessments	526	595,177	-	-	526	595,177
Grants and contributions not restricted to programs	663,700	598,192	-	-	663,700	598,192
Interest earnings	1,380	2,712	47,070	44,176	48,450	46,888
Gain on sale of assets	144,247	141,700	-	-	144,247	141,700
Miscellaneous	68,787	24,859	80,774	90,201	149,561	115,060
Total revenues	4,410,135	4,974,889	2,283,491	3,408,082	6,693,626	8,382,971
Expenses						
General government	1,286,158	1,563,298	-	-	1,286,158	1,563,298
Public safety	1,251,736	1,243,727	-	-	1,251,736	1,243,727
Public works	965,622	931,939	-	-	965,622	931,939
Community development	35,064	28,667	-	-	35,064	28,667
Recreation and culture	573,100	539,540	-	-	573,100	539,540
Interest on long-term debt	69,482	52,650	-	-	69,482	52,650
Sewer	-	-	1,001,771	1,084,233	1,001,771	1,084,233
Water	-	-	853,089	881,145	853,089	881,145
Total expenses	4,181,162	4,359,821	1,854,860	1,965,378	6,036,022	6,325,199
Change in net position	228,973	615,068	428,631	1,442,704	657,604	2,057,772
Net position-beginning	11,569,496	10,954,428	8,235,905	6,793,201	19,805,401	17,747,629
Net position-ending	\$11,798,469	\$11,569,496	\$ 8,664,536	\$ 8,235,905	\$20,463,005	\$19,805,401

Governmental Activities. During the current year, net position for governmental activities increased \$228,973 from the prior year for an ending balance of \$11,798,469. This increase was the result of a variety of factors.

Business-Type Activities. During the current year, net position for business-type activities increased \$428,631 from the prior year for an ending balance of \$8,664,536. The current year increase was due to the City maintaining normal operations and revenues exceeding expenditures.

City of Clare

Management's Discussion and Analysis

June 30, 2022

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 Commission.

As of June 30, 2022, the City's governmental funds reported combined fund balances of \$3,017,391, an increase of \$360,050 in comparison with the prior year. Approximately 58% of this amount constitutes unassigned fund balance of \$1,750,263, which is available for spending at the City's discretion. The remainder of the fund balance is either nonspendable, restricted, or assigned to indicate that it is 1) not in spendable form (\$166,916), 2) legally required to be maintained intact (\$500,563), 3) restricted for particular purposes (\$293,922), or 4) assigned for particular purposes (\$305,727).

The General Fund is the chief operating fund of the City. At the end of the current year, unassigned fund balance of the General Fund was \$1,750,263, while total fund balance increased to \$437,515. 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. Unassigned fund balance represents approximately 45% of total General Fund expenditures, while total fund balance represents approximately 62% of that same amount.

The fund balance of the City's General Fund increased by \$437,515 during the current year. Overall revenues decreased by approximately \$560,000 related to less bond proceeds of approximately \$550,000 in the fiscal year and expenditures decreased by approximately \$131,000 compared to the prior year.

Proprietary Funds. The City's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail. Unrestricted net position of the Sewer Fund at the end of the year was \$130,758 and for the Water Fund was \$1,516,027. The total decrease in net position for the Sewer Fund was \$66,724; while the Water Fund's net position increased by \$337,997. As noted earlier in the discussion of business-type activities, the change in net position for the Sewer Fund resulted from an increase in expenditures being greater than the increase in revenues and for the water fund the increase was a result normal operations.

City of Clare

Management's Discussion and Analysis

June 30, 2022

General Fund Budgetary Highlights

Original Budget Compared to Final Budget. During the year there was no need for any significant amendments to increase the original estimated revenues, appropriations, or other financing sources or uses.

Final Budget Compared to Actual Results. The most significant differences between estimated revenues and actual revenues were in the categories of state revenue, donations and contributions, proceeds from sale of assets due to timing of grant funding, and donations received for various projects. The most significant differences between estimated expenditures and actual expenditures were in the following categories: police department, fire department, street lights, parks and recreation, airport, and capital outlay and resulted from efforts to keep staffing levels reasonable based on needs and the timing and completion of projects.

Capital Assets and Debt Administration

Capital Assets. The City's investment in capital assets for its governmental and business-type activities as of June 30, 2022 was \$25,900,165 (net of accumulated depreciation). This investment in capital assets includes construction in progress, land, buildings, machinery, equipment, vehicles, park facilities, roads, highways, bridges, and the sewer and water systems. The total increase in capital assets for the current fiscal year was approximately 4%.

City of Clare's Capital Assets (net of accumulated depreciation)

	Governmental Activities		Business-Type Activities		Total	
	2022	2021	2022	2021	2022	2021
Land	\$ 4,139,102	\$ 4,203,345	\$ 53,389	\$ 53,389	\$ 4,192,491	\$ 4,256,734
Land improvements	5,401,367	5,461,336	33,122	36,066	5,434,489	5,497,402
Buildings	1,158,537	1,248,883	1,125,369	1,201,227	2,283,906	2,450,110
Equipment	575,797	655,649	1,330,521	1,019,536	1,906,318	1,675,185
Vehicles	1,815,948	897,892	-	-	1,815,948	897,892
System	-	-	8,198,244	8,044,815	8,198,244	8,044,815
Construction in progress	1,998,206	1,876,692	70,563	76,231	2,068,769	1,952,923
	\$15,088,957	\$14,343,797	\$ 10,811,208	\$10,431,264	\$ 25,900,165	\$24,775,061

Long-term Debt. At the end of the current fiscal year, the City had total bonded debt outstanding of \$8,250,589. Of this amount, \$7,086,954 is debt backed by the full faith and credit of the government. The remainder of the City's long-term obligations comprises installment purchase contracts.

City of Clare

Management's Discussion and Analysis

June 30, 2022

City of Clare's Outstanding Debt

	Governmental Activities		Business-Type Activities		Total	
	2022	2021	2022	2021	2022	2021
General obligation bonds	\$ 3,492,000	\$ 2,492,000	\$ 2,151,954	\$ 2,201,954	\$ 5,643,954	\$ 4,693,954
Revenue bonds		-	2,259,693	2,393,000	2,259,693	2,393,000
Special assessment bonds		-	-	-	-	-
Installment purchase contracts	346,942	397,570	-	-	346,942	397,570
	\$ 3,838,942	\$ 2,889,570	\$ 4,411,647	\$ 4,594,954	\$ 8,250,589	\$ 7,484,524

The City's total debt increased by approximately \$760,000, or 10%, during the current year. The reason for the increase is due to the City issuing one new bond in the amount of \$1,150,000 for public safety and public works projects.

Economic Factors and Next Year's Budgets and Rates

Revenues and expenditures for 2022-2023 are projected to increase 2% per year in each category within General Governmental Activities, slightly more within Business-Type Activities. These assumptions are based upon historical revenue and expense data that has been accumulated and extensively analyzed including changes in property taxation laws, state revenue sharing, and other regulatory changes affecting the City. The City has also, since the start of the Great Recession, actively pursued cost containment efforts and simultaneously expanded its property tax base. The economic challenges of the past decade have limited and severely hampered municipal governmental entities. However, during this timeframe, the City has renegotiated all of its outstanding debt to take advantage of historically-low interest rates saving hundreds of thousands in interest expenses and simultaneously and strategically implemented growth initiatives to be fully prepared to grow with the recovering economy.

Requests for Information

This financial report is designed to provide a general overview of the City's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to either: Mr. Jeremy Howard, City Manager, Email: jhoward@cityofclare.org or Ms. Shannon Sirpilla, City Treasurer, Finance and Technology Director, Email: ssirpilla@cityofclare.org.

City of Clare

Statement of Net Position

June 30, 2022

	Primary Government			Component Units
	Governmental Activities	Business-Type Activities	Total	
Assets				
Cash and cash equivalents	\$ 3,286,735	\$ 1,917,148	\$ 5,203,883	\$ 138,406
Investments held by trustee	209,636	-	209,636	-
Accounts receivable, net	33,834	254,398	288,232	-
Assessments receivable, net	595,172	-	595,172	-
Internal balances	(384,953)	384,953	-	-
Due from other governmental units	151,857	-	151,857	-
Inventory	102,614	56,288	158,902	-
Prepaid items	145,977	20,905	166,882	-
Restricted cash and cash equivalents	-	393,054	393,054	-
Capital assets, net:				
Assets not being depreciated	6,137,308	123,952	6,261,260	386,558
Assets being depreciated	8,951,649	10,687,256	19,638,905	170,747
Total assets	19,229,829	13,837,954	33,067,783	695,711
Deferred outflows of resources				
Related to pension	1,054,772	206,918	1,261,690	-
Liabilities				
Accounts payable	289,733	155,293	445,026	-
Accrued liabilities	23,844	9,476	33,320	-
Accrued interest payable	17,045	25,890	42,935	1,270
Due to other governmental units	224	-	224	-
Deposits and other liabilities	1,043	12,872	13,915	-
Unearned revenue	414,864	-	414,864	-
Long-term debt:				
Due in one year	274,417	105,694	380,111	65,000
Due in more than one year	3,564,525	4,305,953	7,870,478	291,000
Net pension liability	3,900,437	765,158	4,665,595	-
Total liabilities	8,486,132	5,380,336	13,866,468	357,270
Deferred inflows of resources				
Related to pension	-	-	-	-
Net position				
Invested in capital assets, net of related debt	11,250,015	6,399,561	17,649,576	201,305
Restricted for:				
Landfill postclosure care	209,636	-	209,636	-
Cemetery perpetual care	290,927	-	290,927	-
Streets and highways	293,922	-	293,922	-
Debt service	-	233,237	233,237	132,948
Community development	-	-	-	4,188
Unrestricted	(246,031)	2,031,738	1,785,707	-
Total net position	\$ 11,798,469	\$ 8,664,536	\$ 20,463,005	\$ 338,441

See accompanying notes.

City of Clare

Statement of Activities

Year Ended June 30, 2022

Functions/Programs:	Program Revenues				Net (Expense) Revenue and Changes in Net Assets			Component Units
	Expenses	Charges for Services	Operating	Capital	Primary Government		Total	
			Grants and Contributions	Grants and Contributions	Governmental Activities	Business-Type Activities		
Governmental activities:								
General government	\$ 1,286,158	\$ 144,385	\$ -	\$ -	\$ (1,141,773)		\$ (1,141,773)	
Public safety	1,251,736	309,195	7,528	-	(935,013)		(935,013)	
Public works	965,622	235,545	534,711	400	(194,966)		(194,966)	
Community development	35,064	-	-	-	(35,064)		(35,064)	
Recreation and culture	573,100	210,457	12,860	13,000	(336,783)		(336,783)	
Interest on long-term debt	69,482	-	-	-	(69,482)		(69,482)	
Total governmental activities	4,181,162	899,582	555,099	13,400	(2,713,081)		(2,713,081)	
Business-type activities:								
Sewer	1,001,771	1,023,112	-	-		\$ 21,341	21,341	
Water	853,089	856,552	-	275,983		279,446	279,446	
Total business-type activities	1,854,860	1,879,664	-	275,983		300,787	300,787	
Total primary government	\$ 6,036,022	\$ 2,779,246	\$ 555,099	\$ 289,383		300,787	(2,412,294)	
Component units:								
Downtown Development Authority	56,206	-	10,749	-				\$ (45,457)
Local Development Finance Authority	9,707	-	-	-				(9,707)
Brownfield Redevelopment Authority	-	-	-	-				-
Total component units	\$ 65,913	\$ -	\$ 10,749	\$ -				(55,164)
General revenues:								
Property taxes and related fees					2,063,414	-	2,063,414	104,420
Special assessments					526	-	526	-
Grants and contributions not restricted to specific programs					663,700	-	663,700	-
Interest earnings					1,380	47,070	48,450	17
Gain on sale of assets					144,247	-	144,247	-
Miscellaneous					68,787	80,774	149,561	-
Total general revenues					2,942,054	127,844	3,069,898	104,437
Change in net position					228,973	428,631	657,604	49,273
Net position-beginning					11,569,496	8,235,905	19,805,401	289,168
Net position-ending					\$ 11,798,469	\$ 8,664,536	\$ 20,463,005	\$ 338,441

See accompanying notes.

City of Clare

Governmental Funds Balance Sheet

June 30, 2022

	General	Major Street	Other Governmental Funds	Total
Assets				
Cash and cash equivalents	\$ 2,413,011	\$ 215,523	\$ 489,210	\$ 3,117,744
Investments held by trustee	209,636		-	209,636
Accounts receivable, net	31,472	-	-	31,472
Assessments receivable, net	547,810	-	526	548,336
Due from other governmental units	75,309	54,369	22,179	151,857
Due from other funds				
Inventory	32,742	-	-	32,742
Prepaid items	130,334	1,647	2,193	134,174
Total assets	<u>\$ 3,440,314</u>	<u>\$ 271,539</u>	<u>\$ 514,108</u>	<u>\$ 4,225,961</u>
Liabilities, deferred inflows of resources, and fund balances				
Liabilities:				
Accounts payable	\$ 63,751	\$ 1,112	\$ 163,424	\$ 228,287
Accrued liabilities	19,399	1,424	1,757	22,580
Due to other governmental units	224	-	-	224
Deposits and other liabilities	1,043	-	-	1,043
Unearned revenue	91,506	-	-	91,506
Total liabilities	175,923	2,536	165,181	343,640
Deferred inflows of resources:				
Unavailable revenue - long-term special assessments	864,404	-	526	864,930
Total deferred inflows of resources	864,404	-	526	864,930
Fund balances:				
Nonspendable - inventory	32,742	-	-	32,742
Nonspendable - prepaid items	130,334	1,647	2,193	134,174
Nonspendable - landfill postclosure care	209,636	-	-	209,636
Nonspendable - cemetery perpetual care	-	-	290,927	290,927
Restricted - streets and highways	-	267,356	26,566	293,922
Assigned - fire department	277,012	-	-	277,012
Assigned - cemetery	-	-	28,715	28,715
Unassigned	1,750,263	-	-	1,750,263
Total fund balances	2,399,987	269,003	348,401	3,017,391
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 3,440,314</u>	<u>\$ 271,539</u>	<u>\$ 514,108</u>	<u>\$ 4,225,961</u>

City of Clare

Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position

June 30, 2022

Total fund balances for governmental funds	\$ 3,017,391
Total net position reported for governmental activities in the statement of net position is different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. Those assets consist of:	
Capital assets	18,863,781
Accumulated depreciation	(4,759,825)
Other long-term assets are not available to pay for current period expenditures and are deferred in the funds.	
Long-term special assessments receivable	594,646
Deferred outflows represent financial uses, but are deferred expenses in the government-wide financial statements	1,054,772
The internal service funds are used by the City to charge the cost of operating a data processing service and a mobile equipment service to individual funds. A portion of the assets and liabilities of the internal service funds are included in governmental activities in the statement of net position.	
	790,366
Certain liabilities are not payable in the current period and are not reported in the funds.	
Accrued interest payable	(17,045)
Long-term liabilities applicable to the City's governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities. All liabilities, both current and long-term, are reported in the statement of net position. Balances as of June 30, 2022 are:	
Installment purchase contracts	(18,908)
General obligation limited tax bonds	(3,820,034)
Net pension liability	(3,900,437)
Other reconciling items	(6,238)
Total net position of governmental activities	<u>\$ 11,798,469</u>

City of Clare

Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances

Year Ended June 30, 2022

	General	Major Streets	Other Governmental Funds	Total
Revenues				
Property taxes and related fees	\$ 1,794,275	\$ -	\$ 269,139	\$ 2,063,414
Special assessments, net	74,927	-	526	75,453
Licenses and permits	81,359	-	-	81,359
Federal grants	13,000	-	-	13,000
State grants	663,700	386,696	148,015	1,198,411
Charges for services	698,026	-	3,000	701,026
Fines and forfeits	3,031	-	-	3,031
Interest and rentals	30,553	24	575	31,152
Donations	29,835	400	-	30,235
Other revenue	196,252	2,377	(600)	198,029
Total revenues	3,584,958	389,497	420,655	4,395,110
Expenditures				
General government	856,189	-	-	856,189
Public safety	1,164,423	-	-	1,164,423
Public works	442,139	225,374	615,099	1,282,612
Community development	35,064	-	-	35,064
Recreation and culture	557,415	-	-	557,415
Capital outlay	625,572	-	-	625,572
Debt service	201,188	-	101,580	302,768
Total expenditures	3,881,990	225,374	716,679	4,824,043
Excess (deficiency) of revenues over expenditures	(297,032)	164,123	(296,024)	(428,933)
Other financing sources (uses)				
Issuance of long-term debt	750,000	-	-	750,000
Transfers in	515,126	-	213,436	728,562
Transfers out	(530,579)	(157,000)	(2,000)	(689,579)
Total other financing sources (uses)	734,547	(157,000)	211,436	788,983
Net change in fund balances	437,515	7,123	(84,588)	360,050
Fund balances-beginning	1,962,472	261,880	432,989	2,657,341
Fund balances-ending	\$ 2,399,987	\$ 269,003	\$ 348,401	\$ 3,017,391

City of Clare

Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and
Changes in Fund Balances to the Statement of Activities

Year Ended June 30, 2022

Net change in fund balances - total governmental funds	\$ 360,050
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The change in net position reported for governmental activities in the statement of activities is different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Add: capital outlay	625,572
Subtract: depreciation expense	(506,046)
Subtract: sale of assets	(129,242)

Certain expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the funds.

Add: decrease in accrued interest payable	5,325
Subtract: increase in net pension liability net of related deferred outflows and inflows	226,128

Debt proceeds are reported as financing sources in governmental funds and thus contribute to the change in fund balance. In the statement of net position, however, issuing debt increases long-term liabilities and does not affect the statement of activities. Similarly, repayment of principal is an expenditure in the governmental funds but reduces the liability in the statement of net position.

Add: repayments of installment purchase contract	227,963
Subtract: bond proceeds	(1,150,000)

The internal service funds are used by the City to charge the costs of operating a data processing service and a mobile equipment service to individual funds. Some of the net revenue (expense) attributable to those funds is reported within governmental activities.

Net operating income (loss) from governmental activities in internal service funds	(194,572)
Interest earnings from governmental internal service funds	20
Gain (loss) on sale of capital assets in governmental internal service funds	15,005
Transfers out	(12,000)
Other reconciling items	760,770
Change in net position of governmental activities	<u>\$ 228,973</u>

City of Clare

Proprietary Funds Statement of Net Position

Year Ended June 30, 2022

	Sewer Fund	Water Fund	Total	Internal Service Funds
Assets				
Current assets:				
Cash and cash equivalents	\$ 173,872	\$ 1,743,276	\$ 1,917,148	\$ 168,991
Accounts receivable, net	131,682	122,716	254,398	2,362
Inventory	53,852	2,436	56,288	69,872
Prepaid items	14,015	6,890	20,905	11,803
Restricted cash:				
Cash - restricted for USDA bond reserves	125,003	34,814	159,817	-
Cash - restricted for USDA repair and replacement	134,417	98,820	233,237	-
Total current assets	632,841	2,008,952	2,641,793	253,028
Noncurrent assets:				
Capital assets:				
Land	10,757	42,632	53,389	85,000
Construction in progress	-	70,563	70,563	-
Land improvements, net	33,122	-	33,122	-
Buildings and improvements, net	1,072,504	52,865	1,125,369	79,351
Equipment, net	1,327,465	3,056	1,330,521	85,253
Vehicles, net	-	-	-	735,397
Sewer and water system infrastructure, net	2,803,572	5,394,672	8,198,244	-
Total noncurrent assets	5,247,420	5,563,788	10,811,208	985,001
Total assets	5,880,261	7,572,740	13,453,001	1,238,029
Deferred outflows of resources				
Related to pension	113,805	93,113	206,918	-
Liabilities				
Current liabilities:				
Accounts payable	32,456	122,837	155,293	61,473
Accrued expenses	4,641	4,835	9,476	1,237
Accrued interest payable	10,665	15,225	25,890	-
Deposits and other liabilities	12,872	-	12,872	-
Bonds and loans payable	60,429	45,265	105,694	23,803
Total current liabilities	121,063	188,162	309,225	86,513
Noncurrent liabilities:				
Bonds and loans payable	2,393,953	1,912,000	4,305,953	226,283
Net pension liabilities	420,837	344,321	765,158	-
Total liabilities	2,935,853	2,444,483	5,380,336	312,796
Deferred inflows of resources				
Related to pension	-	-	-	-
Net position				
Invested in capital assets, net of related debt	2,793,038	3,606,523	6,399,561	734,915
Restricted for debt service	134,417	98,820	233,237	-
Unrestricted	130,758	1,516,027	1,646,785	190,318
Total net position	\$ 3,058,213	\$ 5,221,370	\$ 8,279,583	\$ 925,233

See accompanying notes.

City of Clare

Reconciliation of the Net Position on the Statement of Net Position for Enterprise Funds
to the Net Position of Business-Type Activities on the Statement of Net Position

Year Ended June 30, 2022

Net position - total enterprise funds	\$ 8,279,583
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Total net position reported for business-type activities in the statement of net position is different because:

The internal service funds are used by the City to charge the cost of operating a data processing service and a mobile equipment service to individual funds. A portion of the assets and liabilities of the internal service funds are included in the business-type activities in the statement of net position.

384,953

Total net position of business-type activities	<u><u>\$ 8,664,536</u></u>
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City of Clare

Proprietary Funds Statement of Revenues, Expenses, and Changes in Net Position

Year Ended June 30, 2022

	Sewer Fund	Water Fund	Total	Internal Service Funds
Operating revenues				
Charges for services	\$ 1,023,112	\$ 856,552	\$ 1,879,664	\$ 475,409
Other revenue	5,663	75,111	80,774	45,762
Total operating revenues	1,028,775	931,663	1,960,438	521,171
Operating expenses				
Salaries and wages	230,806	241,351	472,157	69,459
Payroll taxes	16,840	17,537	34,377	4,998
Employee benefits	62,853	72,382	135,235	27,135
Retirement	-	11,794	11,794	19,792
Supplies	64,429	49,186	113,615	111,964
Postage	2,601	2,833	5,434	-
Professional and contracted services	24,548	26,664	51,212	39,151
Insurance	13,223	5,055	18,278	11,810
Telephone and communications	6,394	4,184	10,578	4,326
Professional development	1,053	1,886	2,939	-
Utilities	125,259	112,181	237,440	25,105
Repair and maintenance	49,336	51,799	101,135	107,669
Drain improvements	8,697	-	8,697	-
Equipment rental	121,800	82,500	204,300	-
Miscellaneous	3,269	2,062	5,331	790
Depreciation	285,419	173,753	459,172	136,186
Total operating expenses	1,016,527	855,167	1,871,694	558,385
Operating income (loss)	12,248	76,496	88,744	(37,214)
Nonoperating revenues (expenses)				
Interest earnings	86	46,984	47,070	20
Issuance of long-term debt	-	-	-	400,000
Proceeds from sale of assets	-	-	-	15,005
Interest expense	(69,058)	(51,466)	(120,524)	(12,814)
Net nonoperating revenues (expenses)	(68,972)	(4,482)	(73,454)	402,211
Income (loss) before transfers	(56,724)	72,014	15,290	364,997
Transfers				
Transfers out	(10,000)	(10,000)	(20,000)	(12,000)
Total transfers	(10,000)	(10,000)	(20,000)	(12,000)
Capital grant	-	275,983	275,983	-
Total capital contributions	-	275,983	275,983	-
Changes in net position	(66,724)	337,997	271,273	352,997
Total net position-beginning	3,124,937	4,883,373	8,008,310	572,236
Total net position-ending	\$ 3,058,213	\$ 5,221,370	\$ 8,279,583	\$ 925,233

See accompanying notes.

City of Clare

Reconciliation of the Statement of Revenues, Expenses, and Changes in Net Position of
Enterprise Funds to the Statement of Activities

Year Ended June 30, 2022

Net change in net position - total enterprise funds	\$ 271,273
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The change in net position reported for business-type activities in the statement of activities is different because:

The internal service funds are used by the City to charge the costs of operating a data processing service and a mobile equipment service to individual funds. Some of the net revenue (expense) attributable to those funds is reported within business-type activities.	157,358
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Other reconciling items	
Change in net position of business-type activities	<u><u>\$ 428,631</u></u>

City of Clare

Proprietary Funds Statement of Cash Flows

Year Ended June 30, 2022

	Sewer Fund	Water Fund	Total	Internal Service Funds
Cash flows from operating activities				
Receipts from customers	\$ 1,011,898	\$ 912,691	\$ 1,924,589	\$ 521,137
Payments to suppliers	(463,072)	(260,998)	(724,070)	(260,505)
Payments to employees	(308,965)	(341,461)	(650,426)	(120,973)
Net cash from operating activities	239,861	310,232	550,093	139,659
Cash flows from noncapital financing activities				
Transfers out	(10,000)	(10,000)	(20,000)	(12,000)
Proceeds from equipment loan	-	-	-	400,000
Net cash from noncapital financing activities	(10,000)	(10,000)	(20,000)	388,000
Cash flows from capital and related financing activities				
Purchases and construction of capital assets	(419,791)	(419,325)	(839,116)	(460,413)
Capital contributions	-	275,983	275,983	-
Proceeds from the sale of capital assets	-	-	-	15,005
Principal paid on capital debt	(100,572)	(82,735)	(183,307)	(23,375)
Interest paid on capital debt	(69,058)	(51,466)	(120,524)	(12,404)
Net cash from capital and related financing activities	(589,421)	(277,543)	(866,964)	(481,187)
Cash flows from investing activities				
Interest earnings	86	46,984	47,070	19
Net cash from investing activities	86	46,984	47,070	19
Net change in cash and cash equivalents	(359,474)	69,673	(289,801)	46,491
Balances-beginning of year	792,766	1,807,237	2,600,003	122,500
Balances-end of year	<u>\$ 433,292</u>	<u>\$ 1,876,910</u>	<u>\$ 2,310,202</u>	<u>\$ 168,991</u>
Displayed as:				
Cash and cash equivalents	\$ 173,872	\$ 1,743,276	\$ 1,917,148	\$ 168,991
Restricted cash and cash equivalents	259,420	133,634	393,054	-
	<u>\$ 433,292</u>	<u>\$ 1,876,910</u>	<u>\$ 2,310,202</u>	<u>\$ 168,991</u>
Reconciliation of operating loss to net cash from operating activities:				
Operating loss	\$ 12,248	\$ 76,496	\$ 88,744	\$ (37,214)
Adjustments to reconcile operating loss to net cash from operating activities:				
Depreciation expense	285,419	173,753	459,172	136,186
Change in assets and liabilities:				
Accounts receivable, net	(16,877)	(18,972)	(35,849)	(34)
Inventory	(8,030)	3,681	(4,349)	(20,552)
Prepaid items	7,215	8,107	15,322	3,382
Accounts payable	24,433	117,789	142,222	57,480
Accrued expenses	1,534	1,603	3,137	411
Deposits and other liabilities	(66,081)	(52,225)	(118,306)	-
Net cash from operating activities	<u>\$ 239,861</u>	<u>\$ 310,232</u>	<u>\$ 550,093</u>	<u>\$ 139,659</u>

City of Clare

Statement of Fiduciary Net Position

Year Ended June 30, 2022

	<u>Custodial Funds</u>
Assets	
Cash and cash equivalents	\$ 76,898
Total assets	<u>\$ 76,898</u>
Liabilities	
Accrued expenses	\$ 68,285
Due to other governmental units	8,613
Total liabilities	<u>\$ 76,898</u>

Statement of Changes in Fiduciary Net Position
Year Ended June 30, 2022

	<u>Custodial Funds</u>
Additions	
Property taxes collected for other governments	\$ 6,353,459
Deductions	
Property taxes distributed to other governments	<u>(6,350,526)</u>
Net change in fiduciary position	2,933
Net position at beginning of year	<u>73,965</u>
Net position at end of year	<u>\$ 76,898</u>

City of Clare

Component Units Statement of Net Position

June 30, 2022

	Downtown Development Authority	Local Development Finance Authority	Brownfield Redevelopment Authority	Total
Assets				
Cash and cash equivalents	\$ 134,218	\$ (448)	\$ 4,636	\$ 138,406
Capital assets, net:				
Assets not being depreciated	386,558	-	-	386,558
Assets being depreciated	130,106	40,641	-	170,747
Total assets	<u>650,882</u>	<u>40,193</u>	<u>4,636</u>	<u>695,711</u>
Liabilities				
Accrued interest payable	1,270	-	-	1,270
Long-term liabilities:				
Due in one year	65,000	-	-	65,000
Due in more than one year	291,000	-	-	291,000
Total liabilities	<u>357,270</u>	<u>-</u>	<u>-</u>	<u>357,270</u>
Net position				
Invested in capital assets, net of related debt	160,664	40,641	-	201,305
Restricted - debt service	132,948	-	-	132,948
Restricted - community development	-	(448)	4,636	4,188
Total net position	<u>\$ 293,612</u>	<u>\$ 40,193</u>	<u>\$ 4,636</u>	<u>\$ 338,441</u>

City of Clare

Reconciliation of the Component Units Balance Sheet to the Component Units Statement
of Net Position

June 30, 2022

Total fund balances for component units	\$ 138,406
Total net position reported for component units in the statement of net position is different because:	
Capital assets used in the component units' governmental activities are not financial resources and therefore are not reported in the funds. Those assets consist of:	
Capital assets	1,109,407
Accumulated depreciation	(552,102)
Certain liabilities are not due and payable in the current period and are not reported in the funds.	
Accrued interest payable	(1,270)
Long-term liabilities applicable to the component units' governmental activities are not due and payable in the current period and, accordingly, are not reported as fund liabilities. All liabilities, both current and long-term, are reported in the statement of net position. Balances at June 30, 2022 are:	
DDA bonds	(356,000)
Total net position of component units	<u>\$ 338,441</u>

City of Clare

Component Units Statement of Activities

June 30, 2022

Functions/Programs:	Program Revenues				Net (Expense) Revenue and Changes in Net Assets			Total
	Expenses	Operating Grants and Contributions	Capital Grants and Contributions	Downtown Development Authority	Local Development Finance Authority	Brownfield Redevelopment Authority		
Downtown Development Authority:								
Community and economic development	54,206.00	\$ 10,749	\$ -	\$ (43,457)	\$ -	\$ -	\$ (43,457)	
Local Development Finance Authority:								
Community and economic development	4,724	-	-	-	(4,724)	-	(4,724)	
Brownfield Redevelopment Authority:								
Community and economic development	-	-	-	-	-	-	-	
	<u>\$ 58,930</u>	<u>\$ 10,749</u>	<u>\$ -</u>	<u>(43,457)</u>	<u>(4,724)</u>	<u>-</u>	<u>(48,181)</u>	
General revenues:								
Property taxes and related fees				99,441	4,979	-	104,420	
Interest earnings				16	-	1	17	
Transfers out				(2,000)	(4,983)	-	(6,983)	
Total general revenues				<u>97,457</u>	<u>(4)</u>	<u>1</u>	<u>97,454</u>	
Change in net position				54,000	(4,728)	1	49,273	
Net position-beginning				239,612	44,921	4,635	289,168	
Net position-ending				<u>\$ 293,612</u>	<u>\$ 40,193</u>	<u>\$ 4,636</u>	<u>\$ 338,441</u>	

City of Clare

Reconciliation of the Component Units Statement of Revenues, Expenditures, and
Changes in Fund Balances to the Component Units Statement of Activities

June 30, 2022

Net change in fund balances - component units	\$ 13,488
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The change in net position reported for component units in the statement of activities is different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Add: capital outlay	3,488
Subtract: depreciation expense	(29,703)

Debt proceeds are reported as financing sources in governmental funds and thus contribute to the change in fund balance. In the statement of net position, however, issuing debt increases long-term liabilities and does not affect the statement of activities. Similarly, repayment of principal is an expenditure in the governmental funds but reduces the liability in the statement of net position.

Add: repayments of DDA bonds	<u>62,000</u>
Change in net position of component units	<u>\$ 49,273</u>

City of Clare

Notes to Financial Statements

June 30, 2022

1. Summary of Significant Accounting Policies

The accounting policies of the City of Clare (City) conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The following is a summary of the significant accounting policies used by the City:

A. Description of Government-wide Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all the nonfiduciary activities of the primary government and its component units. All fiduciary activities are reported only in the fund financial statements. Governmental activities, which normally are supported by taxes, intergovernmental revenues, and other nonexchange transactions, are reported separately from business-type activities, which rely to a significant extent on fees and charges to external customers for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

B. Reporting Entity

The City is governed by an elected five-member commission. The City provides services to its various residents in many areas, including general government, public safety, public works, recreation and culture, and sewer and water utilities. As required by GAAP, these financial statements present the City and its component units. The component units discussed below are included in the City's reporting entity because they are 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 (see note below for description) to emphasize that it is legally separate from the City.

Discretely Presented Component Units

Downtown Development Authority (DDA) – The DDA was created to correct and prevent deterioration in the downtown district, encourage historical preservation, and to promote economic growth within the downtown district. The DDA's governing body, which consists of twelve members, is selected by the City Commission. The City Commission approves the annual budget of the DDA. The DDA does not issue separate financial statements.

Local Development Finance Authority (LDFA) – The LDFA was created to help finance local industrial development projects. The LDFA's governing body, which consists of nine members, is selected by the City Commission. In addition, the LDFA's budget is subject to approval by the City Commission. The LDFA does not issue separate financial statements.

City of Clare

Notes to Financial Statements

June 30, 2022

1. Summary of Significant Accounting Policies (continued)**B. Reporting Entity (continued)****Discretely Presented Component Units (continued)**

Brownfield Redevelopment Authority (BRDA) – The BRDA was created to develop and implement brownfield projects. The BRDA’s governing body is selected by the City Commission. The City Commission approves the annual budget of the BRDA. The BRDA does not issue separate financial statements.

C. Basis of Presentation – Government-wide Financial Statements

While separate government-wide and fund financial statements are presented, they are interrelated. The governmental activities column incorporates data from governmental and internal service funds, while business-type activities incorporate data from the City’s enterprise funds. 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.

As discussed earlier, the City has three discretely presented component units. Although all may not be considered major component units, they are nevertheless shown in separate columns in the government-wide financial statements.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are interfund services provided and other charges between the City’s water and sewer functions and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

D. Basis of Presentation – Fund Financial Statements

The fund financial statements provide information about the City’s funds, including its fiduciary funds. Separate statements for each fund category – governmental, proprietary, and fiduciary – are presented. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as nonmajor funds. Major individual governmental and enterprise funds are reported as separate columns in the fund financial statements.

City of Clare

Notes to Financial Statements

June 30, 2022

1. Summary of Significant Accounting Policies (continued)**D. Basis of Presentation – Fund Financial Statements (continued)**

The City reports the following major governmental fund:

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 City reports the following major proprietary funds:

The *Sewer Fund* is used to record the revenues and expenses for the operation of a sewer system.

The *Water Fund* is used to record the revenues and expenses for the operation of a water system.

Additionally, the City reports the following fund types:

Internal Service Funds account for major machinery and equipment purchases and maintenance, as well as data processing services provided to other departments of the City on a cost reimbursement basis.

Custodial Funds account for assets held for other governments and other city funds in a custodial capacity, including tax collections, payroll, and benefit administration.

During the course of operations, the City has activity between funds for various purposes. Any residual balances outstanding at year-end are reported as due from/to other funds and advances to/from other funds. While these balances are reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Balances between the funds included in governmental activities (i.e., the governmental and internal service funds) are eliminated so that only the net amount is included as internal balances in the governmental activities column. Similarly, balances between the funds included in business-type activities (i.e., the enterprise funds) are eliminated so that only the net amount is included as internal balances in the business-type activities column. Further, certain activity occurs during the year involving transfers of resources between funds. In fund financial statements these amounts are reported at gross amounts as transfers in/out. While reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Transfers between the funds included in governmental activities are eliminated so that only the net amount is included as transfers in the governmental activities column. Similarly, balances between the funds included in business-type activities are eliminated so that only the net amount is included as transfers in the business-type activities column.

City of Clare

Notes to Financial Statements

June 30, 2022

1. Summary of Significant Accounting Policies (continued)**E. Use of Estimates**

The preparation of the financial statements in conformity with United States generally accepted accounting principles require management to make estimates and assumptions that affect the amounts of assets and liabilities, disclosure of contingent assets, and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Significant estimates include, but are not limited to, the net pension obligation.

F. Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as current financial resources or economic resources. The basis of accounting indicates the timing of transactions or events for recognition in the financial statements. The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. 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.

The 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 City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences, and claims and judgments, are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Issuance of long-term debt and acquisitions under capital leases are reported as other financing sources.

City of Clare

Notes to Financial Statements

June 30, 2022

1. Summary of Significant Accounting Policies (continued)**F. Measurement Focus and Basis of Accounting (continued)**

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. Entitlements are recorded as revenues when all eligibility requirements are met, including any time requirements, and the amount is received during the period or within the availability period for this revenue source (within 60 days of year-end). Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other eligibility requirements have been met, and the amount is received during the period or within the availability period for this revenue source (within 60 days of year-end). All other revenue items are considered to be measurable and available only when cash is received by the City.

The proprietary funds are reported using the economic resources measurement focus and the accrual basis of accounting. The custodial fund has no measurement focus but utilizes the accrual basis of accounting for reporting its assets and liabilities.

G. Budgetary Information

Budgets and Budgetary Accounting—The City follows the following procedures in establishing the budgetary data reflected in the financial statements.

- Annual budgets are legally adopted, and formal budgetary integration is employed as a management control device during the year for the General Fund and Special Revenue Funds. Annual Informational Budget Summaries are prepared for Debt Service Funds, Capital Project Funds, Enterprise Funds, and Internal Service Funds.
- Budgets can be amended during the year by a majority vote of the City Commission. The activity level in the General Fund and the fund level in the Special Revenue Funds are the legal level of control.
- Budgets for the General Fund and Special Revenue Funds are prepared on a modified accrual basis. Also, informational budgets for the Debt Service Funds and Capital Projects Funds are prepared on the modified accrual basis, while the Enterprise Fund and Internal Service Fund informational budgets are prepared using the accrual basis of accounting. Both methods are consistent with GAAP.
- Budget appropriations lapse at year-end.

City of Clare

Notes to Financial Statements

June 30, 2022

1. Summary of Significant Accounting Policies (continued)**H. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance**

Cash and Investments—Cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

Receivables and Payables—All trade and property tax receivables are shown net of allowance for uncollectible amounts.

Inventories and Prepaid Items—Inventories are valued at cost, on a first-in, first-out basis. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased. Certain payments to vendors reflect cost applicable to future years and are recorded as prepaid items in the government-wide and fund statements.

Restricted Assets—The revenue bonds of the enterprise funds require amounts to be set aside for debt service principal and interest. The amount has been classified as restricted assets.

Capital Assets—Capital assets, which include property, plant, equipment, and infrastructure assets are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Interest incurred, if any, during the construction of capital assets of business-type activities is included in the capitalized value of the assets constructed.

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

Land improvements	10 to 30 years
Buildings and improvements	15 to 60 years
Sewer and water systems	50 to 75 years
Vehicles	3 to 5 years
Equipment	3 to 5 years

City of Clare

Notes to Financial Statements

June 30, 2022

1. Summary of Significant Accounting Policies (continued)**H. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance (continued)**

Deferred outflows/inflows of resources—In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then.

Deferred outflows of resources consist of net outflows related to the City's multiple-employer net pension obligation. Net pension obligation amounts are amortized over the actuarial calculated expected remaining service life of the members. Employer contributions subsequent to the measurement date of the net pension liability are required to be reported as deferred outflows of resources.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The City has only one type of item, which arises only under a modified accrual basis of accounting, that qualifies for reporting in this category. Accordingly, the item, unavailable revenue, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues for special assessments. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

Pensions—For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Michigan Municipal Employees Retirement System (MERS) 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 as expense when due and payable in accordance with the benefit terms. Investments are reported at fair value.

City of Clare

Notes to Financial Statements

June 30, 2022

1. Summary of Significant Accounting Policies (continued)**H. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance (continued)**

Long-Term Obligations—In the government-wide financial statements and the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental or business-type activities. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported inclusive of the applicable bond premium or net of the applicable bond discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt. 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 are reported as other financing uses. Issuance costs are reported as debt service expenditures.

Net Position Flow Assumption—Sometimes the City will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds or donations) 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 City's policy to use restricted resources first, then unrestricted resources as they are needed.

Fund Balance Flow Assumption—Sometimes the City will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. The City's policy is that when multiple classifications are available and appropriate for a specific purpose, fund balance will be used first from the most restrictive category in order to the least restrictive.

City of Clare

Notes to Financial Statements

June 30, 2022

1. Summary of Significant Accounting Policies (continued)**H. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance (continued)**

Fund Balance Policies—In the fund financial statements, fund balance is presented in five possible categories:

Nonspendable – amounts which cannot be spent because they are either not in spendable form or are legally or contractually required to be maintained intact.

Restricted – amounts constrained to specific purposes by their providers (such as creditors, grantors, and higher levels of government), through constitutional provisions, or by enabling legislations.

Committed – amounts which are subject to limitations the City imposes upon itself through official actions made by the City Commission, and that remain binding unless removed in the same manner.

Assigned – amounts neither restricted nor committed for which the City has a stated intended use as established by the City Commission or an official to which the City Commission has delegated the authority to assign amounts for specific purposes.

Unassigned – amounts that are available for any purpose. The General Fund is the only fund that reports a positive unassigned fund balance amount. Unassigned balances also include negative balances in the governmental funds reporting resources restricted for specific programs.

Estimates—The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

I. Adoption of New Accounting Standards

On July 1, 2021, the City adopted GASB Statement No. 87, *Leases*, and subsequent pronouncements (GASBS No. 87.) This standard applies to all state and local governments and establishes a single model for all lease accounting. The concept within this model is that a lease is a financing arrangement that permits the use on an underlying asset for a period of time. As such, a lessee records (in financial statements using the economic resources measurement focus) a lease liability and an intangible right-of-use asset. A lessor records a lease receivable and a corresponding deferred inflow of resources. An exception is granted for short-term leases, which are defined as “a lease that, at the beginning of the lease, has a maximum possible term under the contract of 12 months or less, including any options to extend, regardless of its probability of being exercised.”

City of Clare

Notes to Financial Statements

June 30, 2022

1. Summary of Significant Accounting Policies (continued)**I. Adoption of New Accounting Standards (continued)**

Implementation of the provisions of GASBS No. 87 are retroactive and requires a government to evaluate all leases in place as of the beginning of the period during which implementation is first applied. The City applied GASBS No. 87 for its lessor leases receivable as of July 1, 2021 with no cumulative effect on beginning net position. The standard was not applied to the City's right-of-use assets and liabilities as a lessee for contracts previously accounted for as operating leases due to the insignificance of those amounts. For further discussion of the City's accounting for its leases, refer to Note 8.

J. Revenues and Expenditures/Expenses

Program Revenues—Amounts reported as 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 (including special assessments) that are restricted to meeting the operational or capital requirements of a particular function or segment. All taxes, including those dedicated for specific purposes, and other internally dedicated resources are reported as general revenues rather than as program revenues.

Property Taxes—The City property tax is levied each July 1st on the taxable valuation of property (as defined by State statutes) located in the City as of the preceding December 31st. Taxes are considered delinquent on March 1st of the following year, at which time penalties and interest are assessed.

The 2021 net taxable valuation of the City totaled \$92,908,398, on which ad valorem taxes levied consisted of 18.5000 mills for City operating purpose, 0.7500 mills for parks, and 3.0000 mills for streets. These amounts are recognized in the General Fund (operating and parks) and Local Street Fund (streets) as property taxes and related fees.

Proprietary Funds Operating and Nonoperating Revenues and Expenses—Proprietary funds distinguish operating revenues and expenses from nonoperating 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 City's enterprise and internal service funds are charges to customers for sales and services. The Sewer and Water funds also recognize as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the systems. Operating expenses for enterprise funds and internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

City of Clare

Notes to Financial Statements

June 30, 2022

2. Deposits and Investments

At year-end, the City's deposits and investments were reported in the basic financial statements in the following categories:

	Deposits	Investments	Total
Financial statement caption:			
Primary Government:			
Cash and cash equivalents	\$ 5,203,883	\$ -	\$ 5,203,883
Investments	-	-	-
Investments held by trustee	209,636	-	209,636
Restricted cash and cash equivalents	393,054	-	393,054
Component Units:			
Cash and cash equivalents	138,406	-	138,406
Fiduciary Funds:			
Cash and cash equivalents	76,898	-	76,898
	<u>\$ 6,021,877</u>	<u>\$ -</u>	<u>\$ 6,021,877</u>

Under its investment policy, the City restricts its investments to bonds, securities, and other obligations of the United States or an agency or instrumentality of the United States; repurchase agreements consisting of bonds, securities, and other obligations 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 financial institution, but only if the financial institution is eligible to be a depository of funds belonging to the State under a law or rule of this State or the United States. The City Commission has authorized the following financial institutions as depositories for the City: The Huntington National Bank and Mercantile Bank.

Investment and Deposit Risk

Interest Rate Risk—Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value is to changes in market interest rates. Unless matched to a specific cash flow, the City will not directly invest in securities maturing more than five years from the date of purchase. However, the City may collateralize its repurchase agreements using longer-dated investments not to exceed five years to maturity.

City of Clare

Notes to Financial Statements

June 30, 2022

2. Deposits and Investments (continued)**Investment and Deposit Risk (continued)**

Credit Risk—Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The City's current investment policy does specify a credit risk rating to be maintained. The City's investments are backed by U.S. governmental securities, which are rated AA+ and AAA by Standard & Poor's and Moody's Investor Services, respectively.

Custodial Credit Risk – Deposits—Custodial credit risk is the risk that, in the event of the failure of a depository financial institution, the City will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. State law does not require, and the City does not have, a policy for deposit custodial credit risk. As of year-end, \$287,625 of the City's bank balances of \$5,896,485 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Custodial Credit Risk – Investments—For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. State law does not require, and the City does not have, a policy for investment custodial credit risk.

Concentration of Credit Risk—The investment policy of the City contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by Michigan law.

City of Clare

Notes to Financial Statements

June 30, 2022

3. Capital Assets

Capital asset activity of the primary government for the current period was as follows:

Governmental Activities:	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not being depreciated:				
Land	\$ 4,203,344	\$ -	\$ (64,242)	\$ 4,139,102
Construction in progress	1,876,692	121,514	-	1,998,206
Total capital assets not being depreciated	6,080,036	121,514	(64,242)	6,137,308
Capital assets being depreciated:				
Land improvements	6,896,086	230,096	-	7,126,182
Buildings and improvements	3,264,066	-	-	3,264,066
Equipment	2,535,737	41,296	-	2,577,033
Vehicles	2,753,432	1,058,725	(325,000)	3,487,157
Total capital assets being depreciated	15,449,321	1,330,117	(325,000)	16,454,438
Less accumulated depreciation:				
Land improvements	(1,434,750)	(290,066)	-	(1,724,816)
Buildings and improvements	(2,015,183)	(90,346)	-	(2,105,529)
Equipment	(1,880,088)	(121,148)	-	(2,001,236)
Vehicles	(1,855,539)	(140,669)	325,000	(1,671,208)
Total accumulated depreciation	(7,185,560)	(642,229)	325,000	(7,502,789)
Total capital assets being depreciated, net	8,263,761	687,888	-	8,951,649
Governmental activities capital assets, net	\$ 14,343,797	\$ 809,402	\$ (64,242)	\$ 15,088,957

City of Clare

Notes to Financial Statements

June 30, 2022

3. Capital Assets (continued)

Business-type Activities:	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not being depreciated:				
Land	\$ 53,389	\$ -	\$ -	\$ 53,389
Construction in progress	76,231	1,278	(6,946)	70,563
Total capital assets not being depreciated	129,620	1,278	(6,946)	123,952
Capital assets being depreciated:				
Land improvements	425,549	-	-	425,549
Buildings and improvements	5,394,966	8,956	-	5,403,922
Equipment	1,960,253	385,402	(8,500)	2,337,155
Infrastructure	13,895,000	450,426	-	14,345,426
Total capital assets being depreciated	21,675,768	844,784	(8,500)	22,512,052
Less accumulated depreciation:				
Land improvements	(389,482)	(2,943)	-	(392,425)
Buildings and improvements	(4,193,738)	(84,815)	-	(4,278,553)
Equipment	(940,717)	(74,417)	8,500	(1,006,634)
Infrastructure	(5,850,187)	(296,997)	-	(6,147,184)
Total accumulated depreciation	(11,374,124)	(459,172)	8,500	(11,824,796)
Total capital assets being depreciated, net	10,301,644	385,612	-	10,687,256
Business-type activities capital assets, net	\$10,431,264	\$ 386,890	\$ (6,946)	\$10,811,208

City of Clare

Notes to Financial Statements

June 30, 2022

3. Capital Assets (continued)

Depreciation expense was charged to programs of the City as follows:

Governmental Activities	
General government	\$ 218,089
Public safety	119,894
Public works	120,912
Recreation and culture	76,854
Internal Service Fund depreciation	136,186
	<u>\$671,935</u>
Business-Type Activities	
Sewer	\$285,419
Water	173,753
	<u>\$459,172</u>

Discretely Presented Component Units

Activity for the DDA for the current period was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not being depreciated:				
Land	\$ 108,126	\$ -	\$ -	\$ 108,126
Constructions in progress	274,944	3,488	-	278,432
Total capital assets not being depreciated	383,070	3,488	-	386,558
Capital assets being depreciated:				
Land improvements	490,633	-	-	490,633
Equipment	138,200	-	-	138,200
Total capital assets being depreciated	628,833	-	-	628,833
Less accumulated depreciation:				
Land improvements	(334,972)	(25,555)	-	(360,527)
Equipment	(138,200)	-	-	(138,200)
Total accumulated depreciation	(473,172)	(25,555)	-	(498,727)
Total capital assets being depreciated, net	155,661	(25,555)	-	130,106
DDA capital assets, net	\$ 538,731	\$ (22,067)	\$ -	\$ 516,664

City of Clare

Notes to Financial Statements

June 30, 2022

3. Capital Assets (continued)

Activity for the LDFA for the current period was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets being depreciated:				
Land improvements	\$ 94,016	\$ -	\$ -	\$ 94,016
Total capital assets being depreciated	94,016	-	-	94,016
Less accumulated depreciation:				
Land improvements	(49,228)	(4,147)	-	(53,375)
Total accumulated depreciation	(49,228)	(4,147)	-	(53,375)
LDFA capital assets, net	<u>\$ 44,788</u>	<u>\$ (4,147)</u>	<u>\$ -</u>	<u>40,641</u>

Construction Commitments

The City's active construction projects as of June 30, 2022 included the following contractor commitments:

	<u>Spent to Date</u>	<u>Remaining Commitment</u>
Airport-Parallel Taxiway	\$ 66,949	\$ 572,051
Municipal Street Project	-	226,393
Lake Shamrock Dredging	21,373	3,627
Replace Lead Lines	379,686	608,630
Sole Source Purchase City Hall Boiler	-	14,859
City Hall Window Replacement	-	9,615
	<u>\$ 468,008</u>	<u>\$ 1,435,174</u>

City of Clare

Notes to Financial Statements

June 30, 2022

4. Interfund Receivables, Payables, and Transfers

As of June 30, 2022, there were no interfund receivables or payables between the funds. The composition of interfund transfers out and in is as follows:

Fund	Transfers Out	Fund	Transfers In
General	\$505,206	General	\$46,983
Major Street	157,000	Local Street	160,000
Local Street	2,000	Fire	103,143
Fire	23,373	Parks	365,000
Parks	2,000	Public Safety/Bldg Debt	53,436
DDA	2,000		
LFDA	4,983		
Internal Service	12,000		
Sewer	10,000		
Water	10,000		
	\$728,562		\$728,562

Transfers represent unrestricted revenues used to finance programs that the City must account for in specific funds in accordance with budgetary authorizations, amounts provided as subsidies, or matching funds for specific grant programs.

5. Long-Term Debt

The government issues bonds to provide for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the government. County contractual agreements and installment purchase agreements are also general obligations of the government. Special assessment bonds provide for capital improvements that benefit specific properties and will be repaid from amounts levied against those properties that directly benefited from the construction. In the event that a deficiency exists because of unpaid or delinquent special assessments at the time a debt service payment is due, the government is obligated to provide resources to cover the deficiency until other resources (such as tax sale proceeds or a re-assessment of the district) are received. Revenue bonds involve a pledge of specific income derived from the acquired or constructed assets to pay debt service.

City of Clare

Notes to Financial Statements

June 30, 2022

5. Long-Term Debt (continued)

Bond and contractual agreements can be summarized as follows:

	Interest Rate	Principal Matures	Beginning Balance	Additions (Reductions)	Ending Balance	Due Within One Year
Governmental Activities						
Public safety building – 2012 refunding bonds	3.37%	2035	\$ 415,000	\$ (35,000)	380,000	\$ 35,000
Soccer complex installment purchase	2.69%	2022	37,454	(18,546)	18,908	18,908
North Industrial Park	4.00%	2044	486,000	(13,000)	473,000	14,000
Sidewalk LED lighting	2.24%	2031	87,064	(8,706)	78,358	8,706
Recreational Complex Construction	2.60%	2037	291,000	(14,000)	277,000	15,000
2018 Freightliner Blade Truck	2.05%	2028	80,500	(11,500)	69,000	11,500
2018 Elgin Street Sweeper	3.60%	2033	192,552	(11,875)	180,677	12,303
2021 Shamrock Lake Bonds	1.95%	2035	1,300,000	(88,000)	1,212,000	88,000
2021B Capital Improvement Bond	1.90%	2037	-	1,150,000	1,150,000	71,000
			<u>\$2,889,570</u>	<u>\$ 949,333</u>	<u>3,838,942</u>	<u>\$ 274,417</u>
Business-Type Activities						
Sewer Fund:						
Sewage system revenue bonds	2.50%	2051	\$2,201,954	\$ (50,000)	2,151,954	51,000
2012 refunding bonds	2.15%	2023	50,000	(45,571)	4,429	4,429
2014 rural development bonds	3.25%	2054	303,000	(5,000)	298,000	5,000
Water Fund:						
2012 refunding bonds	2.23%	2023	60,000	(48,736)	11,264	11,265
2014 rural development bonds	3.25%	2054	507,000	(9,000)	498,000	9,000
2019 Water Plant Revenue Bond	2.125%	2059	1,473,000	(25,000)	1,448,000	25,000
			<u>\$4,594,954</u>	<u>\$ (183,306)</u>	<u>4,411,647</u>	<u>\$ 105,694</u>
Component Units						
DDA:						
2020 Refunding Bonds	1.2% to 1.6%	2026	\$ 147,000	\$ (35,000)	\$ 112,000	\$ 37,000
2020 Streetscape Bonds	1.84%	2030	271,000	(27,000)	244,000	28,000
			<u>\$ 418,000</u>	<u>\$ (62,000)</u>	<u>\$ 356,000</u>	<u>\$ 65,000</u>

City of Clare

Notes to Financial Statements

June 30, 2022

5. Long-Term Debt (continued)

Annual debt service requirements to maturity for the above obligations are as follows:

Year Ending June 30,	Governmental Activities		Business-Type Activities		Component Units	
	Principal	Interest	Principal	Interest	Principal	Interest
2023	\$ 274,417	\$ 72,019	\$ 105,694	\$ 111,293	\$ 65,000	\$ 5,912
2024	246,952	67,139	94,000	108,277	67,000	4,860
2025	249,411	62,833	96,000	105,914	30,000	3,763
2026	250,887	58,413	98,000	103,481	31,000	2,926
2027	254,379	53,926	100,000	101,011		2,374
2028-2032	1,268,219	198,856	544,000	465,470	98,000	3,625
2033-2037	1,096,677	81,780	615,000	393,194	-	-
2038-2042	135,000	29,200	701,000	310,917	-	-
2043-2047	63,000	3,840	793,000	217,084	-	-
2048-2052	-	-	776,953	110,649	-	-
2053-2057	-	-	325,000	34,524	-	-
2058-2061	-	-	163,000	5,302	-	-
	<u>\$ 3,838,942</u>	<u>\$ 628,006</u>	<u>\$ 4,411,647</u>	<u>\$ 2,067,103</u>	<u>\$ 356,000</u>	<u>\$ 23,459</u>

6. Segment Information—Enterprise Funds

The City issued revenue bonds to finance certain improvements to its sewer and water systems. Because the Sewer and Water funds are individual major funds that account entirely for the City's sewage treatment activities and water distribution, segment disclosures are not required.

7. Risk Management

The City participates in a public entity risk (insurance) pool with other local units of government in the Michigan Municipal Liability and Property Pool. This self-insurance plan provides members with loss protection for property damage and general liability. The City paid the annual premium for this insurance policy before June 30, 2022.

When a claim is incurred and/or paid, the member's loss contribution account is charged or credited according to the member's actual loss experience; no obligation is credited for another member's losses. If contributions are in excess of actual expenses and reserves, future contributions are decreased. Should any member have more losses paid on their behalf than contributions covering such losses, credit is extended within the association joint loss fund; such a deficit is repaid by the member in future contributions. The plan does not maintain separate funds for members and consequently the City's share of total assets and total equity is unknown. Audited financial statements of the plan are available.

City of Clare

Notes to Financial Statements

June 30, 2022

8. Deferred Compensation Plan

The City offers all its employees a deferred compensation plan created in accordance with the Internal Revenue Code Section 457. The assets of the plan were held in trust as described in Internal Revenue Code Section 457(g) for the exclusive benefit of the participants and their beneficiaries. The custodian thereof, for the exclusive benefit of the participants, holds the custodial account for the beneficiaries of this plan, and the assets may not be diverted to any other use. The administrators are agents of the City for the purposes of providing direction to the custodian of the custodial account from time to time for the investment of the funds held in the account, transfer of assets to or from the account, and all other matters. In accordance with the provisions of GASB Statement No. 32, plan balances and activities are not reflected in the City's financial statements.

A summary of the plan's investment activity for the year ended June 30, 2022, follows:

Balance – July 1, 2021	\$ 926,559
Employee contributions	93,426
Transfers	16,564
Current withdrawals	(28,096)
Interest and market losses	(104,803)
Adjustments/fees	(3,455)
Balance – June 30, 2022	<u>\$ 900,195</u>

9. Pension PlanDefined Benefit Pension Plan*General Information about the Pension Plan*

Plan Description. The employer's defined benefit pension plan provides certain retirement, disability and death benefits to plan members and beneficiaries. The employer participates in the Municipal Employees Retirement System (MERS) of Michigan. MERS is an agent multiple-employer, statewide public employee pension plan established by the Michigan Legislature under Public Act 135 of 1945 and administered by a nine-member Retirement Board. MERS issues a publicly available financial report that includes financial statements and required supplementary information. This report may be obtained accessing the MERS website at www.mersofmich.com. The employees included in this plan are the Police and Administrative Office personnel.

Contributions. The City 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.

City of Clare

Notes to Financial Statements

June 30, 2022

9. Pension Plan (continued)Defined Benefit Pension Plan (continued)

The City's contribution rate during the 2021 calendar valuation period was 30.87% of annual covered payroll for general employees, 30.79% of annual covered payroll for police employees, and 47.25% for Pere Marquette District Library full time employees. The City's contributions to the plan for the year ended June 30, 2022 were \$409,626 which equaled the City's required contribution.

The City may establish contribution rates to be paid by its covered employees. General employees are required to contribute 4% of their annual covered payroll; police employees contribute 8%, and Pere Marquette District Library employees contribute 4%. Employee contributions for the year ended June 30, 2022 were \$75,437

Benefit Provisions. The chart below summarizes the benefit provisions for each of the City's two covered groups.

<u>01 – General: Open Division</u>	<u>2021 Valuation</u>
Benefit Multiplier	2.25% Multiplier (80% max)
Normal Retirement Age	60
Vesting	10 years
Early Retirement (Unreduced)	-
Early Retirement (Reduced)	50/25 55/15
Final Average Compensation	3 years
COLA for Future Retirees	2.50% (Non-Compound)
COLA for Current Retirees	2.50% (Non-Compound)
Employee Contributions	4%
Act 88	Yes (Adopted 6/6/2005)

City of Clare

Notes to Financial Statements

June 30, 2022

9. Pension Plan (continued)Defined Benefit Pension Plan (continued)

02 – Police: Open Division	2021 Valuation
Benefit Multiplier	2.50% Multiplier (80% max) Frozen FAC; to 2.25% Multiplier (80% max)
Bridged Benefit Date	06/30/2016
Normal Retirement Age	60
Vesting	10 years
Early Retirement (Unreduced)	55/25
Early Retirement (Reduced)	50/25 55/15
Final Average Compensation	3 years
Employee Contributions	8%
Act 88	Yes (Adopted 6/6/2005)
07 – PMDL All FT EEs: Open Division	2021 Valuation
Benefit Multiplier	2.25% Multiplier (80% max)
Normal Retirement Age	60
Vesting	10 years
Early Retirement (Unreduced)	-
Early Retirement (Reduced)	50/25 55/15
Final Average Compensation	3 years
COLA for Future Retirees	2.50% (Non-Compound)
COLA for Current Retirees	2.50% (Non-Compound)
Employee Contributions	4%
Act 88	Yes (Adopted 6/6/2005)

City of Clare

Notes to Financial Statements

June 30, 2022

9. Pension Plan (continued)Defined Benefit Pension Plan (continued)

Employees covered by benefit terms. As of the December 31, 2021 valuation date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	29
Inactive employees entitled to but not yet receiving benefits	14
Active employees	<u>28</u>
	<u>71</u>

Net Pension Liability

The employer's net pension liability was measured as of December 31, 2021, 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, 2021 annual actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

- Inflation: 2.5%
- Salary Increases: 3.00% in the long-term
- Investment rate of return: 7.00%, net of investment expense, including inflation
- Although no specific price inflation assumptions are needed for the valuation, the 3% long-term wage inflation assumption would be consistent with a price inflation of 3% - 4%
- Mortality rates used were based on a version of Pub-2010 and fully generational MP-2019
- The actuarial assumptions used in valuation were based on the results of the most recent actuarial experience studies completed in 2018 and 2020

City of Clare

Notes to Financial Statements

June 30, 2022

9. Pension Plan (continued)Defined Benefit Pension Plan (continued)

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	Long-term Expected Real Rate of Return
Global Equity	60.0%	4.20%
Global Fixed Income	20.0%	0.90%
Private Investments	20.0%	1.90%
Total	100.00%	7.00%

Discount Rate. The discount rate used to measure the total pension liability is 7.25% for 2021. 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 Clare

Notes to Financial Statements

June 30, 2022

Changes in Net Pension Liability

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) – (b)
Balances as of December 31, 2020	\$ 10,726,901	\$6,172,866	\$4,554,035
Changes for the year			
Service Cost	183,628	-	183,628
Interest on total pension liability	781,035	-	781,035
Changes in benefits	-	-	-
Difference between expected and actual experience	81,289	-	81,289
Changes in assumptions	456,937	-	456,937
Employer contributions	-	382,822	(382,822)
Employee contributions	-	143,666	(143,666)
Net investment income	-	871,543	(871,543)
Benefit payments, including employee refunds	(596,612)	(596,612)	-
Administrative expense	-	(10,013)	10,013
Other changes	(3,311)	-	(3,311)
Net changes	1,162,417	460,748	701,669
Balances as of December 31, 2021	\$11,629,867	\$6,964,272	\$4,665,595

City of Clare

Notes to Financial Statements

June 30, 2022

9. Pension Plan (continued)Defined Benefit Pension Plan (continued)

Sensitivity of the Net Pension Liability to Changes in the Discount Rate. The following presents the net pension liability of the employer, calculated using the discount rate of 7.25%, as well as what the employer's net pension liability would be using a discount rate that is 1% point lower (6.25%) or 1% higher (8.25%) than the current rate.

	1% Decrease (6.25%)	Current Discount Rate (7.25%)	1% Increase (8.25%)
Net pension liability	\$6,231,650	\$4,749,704	\$3,517,334

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

For the year ended June 30, 2022 the employer recognized pension expense of \$884,424. The employer reported deferred outflows and inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences in experience	\$ 312,275	\$ -
Differences in assumptions	576,579	-
Excess (Deficit) Investment Returns	162,351	-
Contributions subsequent to the measurement date*	210,486	-
Total	\$ 1,261,690	\$ -

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

City of Clare

Notes to Financial Statements

June 30, 2022

9. Pension Plan (continued)Defined Benefit Pension Plan (continued)

Amounts reported as deferred outflows and inflows of resources related to pensions, excluding contributions subsequent to the measurement date, will be recognized in pension expense as follows:

Year Ended June 30	
2023	\$ 516,209
2024	346,256
2025	188,740
	<u>\$ 1,051,205</u>

Funding Policy – The funding policy provides for periodic employer contributions at actuarially determined rates that, expressed as percentages of annual covered payroll, are designed to accumulate sufficient assets to pay benefits when due. The normal cost and amortization payment were determined using an attained age actuarial funding method. Unfunded actuarial accrued liabilities, if any, were amortized as a level percent of payroll over a period of 26 years.

The schedule of funding progress, presented as required supplementary information following the notes to financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

10. Contingencies

The City receives financial assistance from other governmental agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the City. However, in the opinion of management, any such disallowed claims will not have a material effect on any financial statements herein or on the overall position of the City.

The City is subject to various legal proceedings arising in the course of providing public services to City residents. However, in the opinion of the City's attorney and management, the resolution of these matters will not have a material effect, if any, on the financial condition of the City.

City of Clare

Notes to Financial Statements

June 30, 2022

11. Landfill Post-Closure Care

The City owns and operated the Hatton Township Landfill (Landfill), which was closed in 1987. Following closure, the Landfill was capped. However, there have been claims of contamination from the landfill infiltrating local aquifers and contaminating local private wells.

The City hired a technical consultant to develop an assessment plan to determine the levels of alleged migratory contamination. The Michigan Department of Environmental Quality (DEQ) disagreed with the scope and extent of the City consultant's assessment and assumed the role of performing this assessment in 2000. The DEQ completed its assessment plan in 2003 and found no migratory contamination.

The City has contributed \$200,000 to be held in perpetuity in a designated and agreed-upon, third-party escrow account to defray any future costs and litigation ensuing from contamination caused by the Landfill.

The Landfill is no longer accepting solid waste. Any liability related to any other costs, which may possibly be incurred, cannot be estimated at this time, and no estimated liability has been recorded.

12. Tax Abatements

The City receives reduced property tax revenues as a result of Industrial Facilities Tax exemptions granted by the City. Industrial Facility Tax exemptions are intended to promote construction of new industrial facilities or to rehabilitate historical facilities. For the fiscal year ended June 30, 2022, the City's property tax revenues were reduced by \$13,185 under these agreements. There are no significant abatements made by the City.

City of Clare

Required Supplementary Information
Defined Benefit Pension Plan (MERS)

Schedule of Changes in the Employer's Net Pension Liability and Related Ratios

	2021	2020	2019	2018	2017	2016	2015	2014	2013	2012
Total pension liability										
Service Cost	\$ 183,628	\$ 166,797	\$ 153,722	\$ 154,120	\$ 144,430	\$ 163,000	\$ 158,301	\$ 154,504		
Interest	781,035	712,129	703,740	699,144	675,187	669,009	628,374	607,608		
Changes of benefit terms	-	-	-	(48,037)	40,916	(173,929)	(12,417)	-		
Difference between expected and actual experience	81,289	525,294	(45,357)	(216,322)	(26,763)	(39,835)	(143,831)	-		
Changes of assumptions	456,937	322,626	290,251	-	-	-	394,907	-		
Benefit payments including employee refunds	(596,612)	(555,518)	(515,531)	(546,980)	(531,306)	(532,186)	(546,575)	(500,277)		
Other	(3,311)	(8,911)	-	1	(1)	1	19,637	18,988		
Net change in total pension liability	902,966	1,162,417	586,825	41,926	302,463	86,060	498,396	280,823		
Total pension liability, beginning	10,726,901	9,564,484	8,977,659	8,935,733	8,633,270	8,547,210	8,048,814	7,767,991		
Total pension liability, ending	11,629,867	10,726,901	9,564,484	8,977,659	8,935,733	8,633,270	8,547,210	8,048,814	7,883,371	7,880,941
Plan fiduciary net position										
Contributions-employer	\$ 382,822	\$ 348,456	\$ 313,639	\$ 277,787	\$ 256,765	\$ 246,242	\$ 221,449	\$ 200,646		
Contributions-employee	143,666	236,085	69,055	68,396	67,274	90,212	94,551	75,078		
Net Investment income	871,543	697,484	697,443	(214,020)	669,346	538,864	(75,565)	314,166		
Benefit payments including employee refunds	(596,612)	(555,518)	(515,531)	(546,980)	(531,306)	(532,186)	(546,575)	(500,277)		
Administrative expense and other changes	(10,013)	(11,321)	(12,007)	(10,713)	(10,609)	(10,640)	(11,048)	(11,501)		
Transfers	-	(254,438)	-	-	-	-	-	-		
Net change in plan fiduciary net position	791,406	460,748	552,599	(425,530)	451,470	332,492	(317,188)	78,112		
Plan fiduciary net position, beginning	6,172,866	5,712,118	5,159,519	5,585,049	5,133,579	4,801,087	5,118,275	5,040,163		
Plan fiduciary net position, ending	\$ 6,964,272	\$ 6,172,866	\$ 5,712,118	\$ 5,159,519	\$ 5,585,049	\$ 5,133,579	\$ 4,801,087	\$ 5,118,275	\$ 5,351,846	\$ 5,194,914
Employer net pension liability	\$ 4,665,595	\$ 4,554,035	\$ 3,852,366	\$ 3,818,140	\$ 3,350,684	\$ 3,499,691	\$ 3,746,123	\$ 2,930,539	\$ 2,531,525	\$ 2,686,027
Plan fiduciary net position as a percentage of the total pension liability	59.9%	57.5%	59.7%	57.5%	62.5%	59.5%	56.2%	63.6%	67.9%	65.9%
Covered employee payroll	\$ 1,534,305	\$ 1,495,782	\$ 1,356,101	\$ 1,340,751	\$ 1,266,188	\$ 1,284,529	\$ 1,257,889	\$ 1,238,862	\$ 1,164,366	\$ 1,252,982
Employer's net pension liability as a percentage of covered employee payroll	304.1%	304.5%	284.1%	284.8%	264.6%	272.4%	297.8%	236.6%	217.4%	214.4%

Notes to schedule:

Benefit changes: There were no changes in benefits during the periods presented.

Changes in assumptions:

For 2021: 1) The assumed annual rate of investment return, net of all expenses, was lowered from 7.35% to 7.00%. 2) The asset smoothing period was changed from 10 years to 5 years, effective in 2016. There were no changes in actuarial assumptions or methods for 2021.

date.

These totals and ratios for years 2012 through 2020 are shown for comparative purposes and reflect the actuarial accrued liability, actuarial value of assets, unfunded actuarial accrued liability, and covered payroll as reported in previous years' financial statements.

City of Clare

Required Supplementary Information
 Defined Benefit Pension Plan (MERS)
 Schedule of Employer's Contributions

	2021	2020	2019	2018	2017	2016	2015	2014	2013
Actuarial determined contributions	\$ 400,415	\$ 357,211	\$ 313,639	\$ 277,787	\$ 256,765	\$ 246,242	\$ 221,449	\$ 200,646	\$ 203,749
Contributions in relation to the actuarially determined contribution	400,415	357,211	313,639	277,787	256,765	246,242	221,449	200,646	203,749
Contribution deficiency (excess)	-	-	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Covered Employee Payroll	\$ 1,534,305	\$ 1,495,782	\$ 1,356,101	\$ 1,340,751	\$ 1,266,188	\$ 1,284,529	\$ 1,257,889	\$ 1,238,862	\$ 1,164,366
Contributions as a percentage of covered employee payroll	26%	24%	23%	21%	20%	19%	18%	16%	17%

Notes to Schedule

Actuarial cost method	Entry Age
Amortization method	Level percentage of payroll, open
Remaining amortization period	17 years
Asset valuation method	10 year smoothed
Inflation	2.50%
Salary Increases	3.00%
Investment rate of return	7.00%
Retirement age	Varies depending on plan adoption
Mortality	50% Female/50% Male RP-2014 Annuity Mortality Table

Above dates are based on the actuarial measurement date

City of Clare

Budgetary Comparison Schedule - General Fund

June 30, 2022

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues				
Property taxes and related fees	\$ 1,786,939	\$ 1,796,780	\$ 1,794,275	\$ (2,505)
Special assessments, net	49,410	67,834	74,927	7,093
Licenses and permits	46,750	68,173	81,359	13,186
Federal revenue	352,650	352,650	13,000	(339,650)
State revenue	494,829	625,936	663,700	37,764
Charges for services	709,602	736,762	698,026	(38,736)
Fines and forfeitures	4,100	4,100	3,031	(1,069)
Interest and rentals	27,513	30,311	30,553	242
Other revenue - donations	55,775	71,040	29,835	(41,205)
Other revenue	74,434	191,792	196,252	4,460
Total revenues	3,602,002	3,945,378	3,584,958	(360,420)
Expenditures				
General government:				
City commission	66,155	66,655	45,641	21,014
City manager	135,241	136,166	133,950	2,216
Assessor	51,752	69,595	38,627	30,968
Clerk	225,203	226,143	218,103	8,040
Elections	16,070	16,060	4,440	11,620
Board of review	2,026	2,226	2,076	150
Cemetery	106,138	106,279	79,601	26,678
Buildings and grounds	84,607	83,801	65,177	18,624
Fiscal services	173,270	173,963	163,625	10,338
All other general government	48,950	107,050	104,949	2,101
Public safety:				
Police department	893,434	950,260	913,795	36,465
Fire department	265,888	265,888	232,310	33,578
Building inspection and regulation activities	19,000	19,000	18,318	682
Public works:				
Solid waste	215,530	237,575	231,817	5,758
Landfill closure	87,667	87,691	70,750	16,941
Department of public works	55,434	56,540	56,698	(158)
Drains	15,158	15,159	15,158	1
Street lights	58,378	67,794	67,716	78
Community development:				
Planning and zoning	28,700	43,700	35,064	8,636

City of Clare

Budgetary Comparison Schedule - General Fund (continued)

June 30, 2022

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Expenditures (continued)				
Recreation and culture:				
Parks and recreation	\$ 2,092,561	\$ 2,127,344	\$ 394,268	\$ 1,733,076
Airport	156,511	182,045	163,147	18,898
Capital outlay:				
General government	75,800	-	-	-
Public safety	613,230	625,620	625,572	48
Recreation and culture	63,000	37,500	-	37,500
Debt service:				
Principal	175,712	175,812	142,269	33,543
Interest and fiscal charges	68,291	68,291	58,919	9,372
Total expenditures	<u>5,793,706</u>	<u>5,948,157</u>	<u>3,881,990</u>	<u>2,066,167</u>
Excess (deficiency) of revenues over expenditures	<u>(2,191,704)</u>	<u>(2,002,779)</u>	<u>(297,032)</u>	<u>1,705,747</u>
Other financing sources (uses)				
Issuance of long-term debt	-	-	750,000	750,000
Transfers in	765,126	511,126	515,126	4,000
Transfers out	(771,333)	(526,333)	(530,579)	(4,246)
Total other financing sources (uses)	<u>(6,207)</u>	<u>(15,207)</u>	<u>734,547</u>	<u>749,754</u>
Net change in fund balances	(2,197,911)	(2,017,986)	437,515	2,455,501
Fund balances-beginning	1,962,472	1,962,472	1,962,472	-
Fund balances-ending	<u>\$ (235,439)</u>	<u>\$ (55,514)</u>	<u>\$ 2,399,987</u>	<u>\$ 2,455,501</u>

City of Clare

Budgetary Comparison Schedule - Major Streets Fund

June 30, 2022

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues				
State revenue	\$ 376,713	\$ 376,713	\$ 386,696	\$ 9,983
Interest earnings	100	100	24	(76)
Special assessments, net	1,002	1,002	-	(1,002)
Other revenue - donations	-	-	400	400
Other revenue	-	-	2,377	2,377
Total revenues	377,815	377,815	389,497	11,682
Expenditures				
Public works:				
Wages	72,737	72,767	67,849	4,918
Payroll taxes	5,564	5,564	4,859	705
Fringe benefits	28,225	28,225	24,476	3,749
Retirement	9,586	20,591	19,186	1,405
Internal service fund - mobile	65,300	65,300	65,300	-
Operating supplies	20,000	20,300	12,397	7,903
Road salt	20,500	26,400	8,923	17,477
Professional and contractual services	7,400	10,200	7,074	3,126
Electricity	600	600	84	516
Professional services - trees	2,500	2,500	1,685	815
Drain Improvements	13,541	13,541	13,541	-
Miscellaneous	300	300	-	300
Total expenditures	246,253	266,288	225,374	40,914
Excess (deficiency) of revenues over expenditures	131,562	111,527	164,123	52,596
Other financing sources (uses)				
Transfers out	(157,000)	(157,000)	(157,000)	-
Total other financing sources (uses)	(157,000)	(157,000)	(157,000)	-
Net change in fund balances	(25,438)	(45,473)	7,123	52,596
Fund balances-beginning	261,880	261,880	261,880	-
Fund balances-ending	\$ 236,442	\$ 216,407	\$ 269,003	\$ 52,596

City of Clare

Combining Balance Sheet - Nonmajor Governmental Funds

June 30, 2022

	Special Revenue			Debt Service	Permanent Cemetery	Total
	Local Street	Municipal Street	Drug Forfeiture	Public Safety	Perpetual Care	
Assets						
Cash and cash equivalents	\$ 41,519	\$ 173,299	\$ 2,894	\$ (48,144)	\$ 319,642	\$ 489,210
Assessments receivable, net	526	-	-	-	-	526
Due from other governmental units	22,179	-	-	-	-	22,179
Prepaid items	2,193	-	-	-	-	2,193
Total assets	\$ 66,417	\$ 173,299	\$ 2,894	\$ (48,144)	\$ 319,642	\$ 514,108
Liabilities, deferred inflows of resources, and fund balances						
Liabilities:						
Accounts payable	\$ 301	\$ 163,123	\$ -	\$ -	\$ -	\$ 163,424
Accrued liabilities	1,757	-	-	-	-	1,757
Total liabilities	2,058	163,123	-	-	-	165,181
Deferred inflows of resources:						
Unavailable revenue - long-term special assessments	526	-	-	-	-	526
Total deferred inflows of resources	526	-	-	-	-	526
Fund balances:						
Nonspendable - prepaid items	2,193	-	-	-	-	2,193
Nonspendable - cemetery perpetual care	-	-	-	-	290,927	290,927
Restricted - streets and highways	61,640	10,176	2,894	(48,144)	-	26,566
Assigned - cemetery	-	-	-	-	28,715	28,715
Total fund balances	63,833	10,176	2,894	(48,144)	319,642	348,401
Total liabilities, deferred inflows of resources, and fund balances	\$ 66,417	\$ 173,299	\$ 2,894	\$ (48,144)	\$ 319,642	\$ 514,108

See accompanying notes.

City of Clare

Combining Statement of Revenue, Expenditures, and Changes in Fund Balances - Nonmajor Governmental Funds

June 30, 2022

	Special Revenue			Debt Service	Permanent Cemetery	Total
	Local Street	Municipal Street	Drug Forfeiture	Public Safety	Perpetual Care	
Revenues						
Property taxes and related fees	\$ -	\$ 269,139	\$ -	\$ -	\$ -	\$ 269,139
Special assessments, net	526	-	-	-	-	526
State revenue	148,015	-	-	-	-	148,015
Charges for services	-	-	-	-	3,000	3,000
Interest and rentals	4	529	-	-	42	575
Other revenue	-	-	-	-	(600)	(600)
Total revenues	148,545	269,668	-	-	2,442	420,655
Expenditures						
Public works	288,675	326,424	-	-	-	615,099
Debt service:						
Principal	-	-	-	85,694	-	85,694
Interest and fiscal charges	-	-	-	15,886	-	15,886
Total expenditures	288,675	326,424	-	101,580	-	716,679
Excess (deficiency) of revenues over expenditures	(140,130)	(56,756)	-	(101,580)	2,442	(296,024)
Other financing sources (uses)						
Transfers in	160,000	-	-	53,436	-	213,436
Transfers out	(2,000)	-	-	-	-	(2,000)
Total other financing sources (uses)	158,000	-	-	53,436	-	211,436
Net change in fund balances	17,870	(56,756)	-	(48,144)	2,442	(84,588)
Fund balances-beginning	45,963	66,932	2,894	-	317,200	432,989
Fund balances-ending	\$ 63,833	\$ 10,176	\$ 2,894	\$ (48,144)	\$ 319,642	\$ 348,401

See accompanying notes.

City of Clare

Combining Statement of Net Position - Internal Service Funds

June 30, 2022

	Data	Mobile	Total
	Processing	Equipment	
Assets			
Current assets:			
Cash and cash equivalents	\$ 39,197	\$ 129,794	\$ 168,991
Accounts receivable, net	-	2,362	2,362
Inventory	-	69,872	69,872
Prepaid items	1,147	10,656	11,803
Total current assets	40,344	212,684	253,028
Noncurrent assets:			
Capital assets:			
Land	-	85,000	85,000
Buildings and improvements, net	-	79,351	79,351
Equipment, net	64,313	20,940	85,253
Vehicles, net	-	735,397	735,397
Total noncurrent assets	64,313	920,688	985,001
Total assets	104,657	1,133,372	1,238,029
Liabilities			
Current liabilities:			
Accounts payable	1,636	59,837	61,473
Accrued expenses	-	1,237	1,237
Long-term liabilities:			
Due in one year	-	23,803	23,803
Due in more than one year	-	226,283	226,283
Total liabilities	1,636	311,160	312,796
Net position			
Invested in capital assets	64,313	670,602	734,915
Unrestricted	38,708	151,610	190,318
Total net position	\$ 103,021	\$ 822,212	\$ 925,233

City of Clare

Combining Statement of Revenues, Expenses, and Changes in Net Position - Internal
Service Funds

June 30, 2022

	Data	Mobile	
	Processing	Equipment	Total
Operating revenues			
Charges for services	\$ 61,300	\$ 414,109	\$ 475,409
Other revenue	78	45,684	45,762
Total operating revenues	<u>61,378</u>	<u>459,793</u>	<u>521,171</u>
Operating expenses			
Salaries and wages	-	69,459	69,459
Payroll taxes	-	4,998	4,998
Employee benefits	-	27,135	27,135
Retirement	-	19,792	19,792
Supplies	8,741	103,223	111,964
Professional and contracted services	32,652	6,499	39,151
Insurance	1,187	10,623	11,810
Telephone and communications	-	4,326	4,326
Utilities	-	25,105	25,105
Repair and maintenance	-	107,669	107,669
Miscellaneous	-	790	790
Depreciation	29,120	107,066	136,186
Total operating expenses	<u>71,700</u>	<u>486,685</u>	<u>558,385</u>
Operating income (loss)	(10,322)	(26,892)	(37,214)
Nonoperating revenues (expenses)			
Interest earnings	4	16	20
Issuance of long-term debt	-	400,000	400,000
Gain on sale of assets	-	15,005	15,005
Interest expense	-	(12,814)	(12,814)
Total nonoperating revenues (expenses)	<u>4</u>	<u>402,207</u>	<u>402,211</u>
Income (loss) before transfers	(10,318)	375,315	364,997
Transfers			
Transfers out	<u>(11,000)</u>	<u>(1,000)</u>	<u>(12,000)</u>
Total transfers	<u>(11,000)</u>	<u>(1,000)</u>	<u>(12,000)</u>
Changes in net position	(21,318)	374,315	352,997
Total net position-beginning	124,339	447,897	572,236
Total net position-ending	<u>\$ 103,021</u>	<u>\$ 822,212</u>	<u>\$ 925,233</u>

City of Clare

Combining Statement of Cash Flows - Internal Service Funds

June 30, 2022

	Data	Mobile	
	Processing	Equipment	Total
Cash flows from operating activities			
Receipts from customers	\$ 61,378	\$ 459,759	\$ 521,137
Payments to suppliers	(42,088)	(218,417)	(260,505)
Payments to employees	-	(120,973)	(120,973)
Net cash from operating activities	<u>19,290</u>	<u>120,369</u>	<u>139,659</u>
Cash flows from noncapital financing activities			
Transfers out	(11,000)	(1,000)	(12,000)
Proceeds from equipment loan	-	400,000	400,000
Net cash from noncapital financing activities	<u>(11,000)</u>	<u>399,000</u>	<u>388,000</u>
Cash flows from capital and related financing activities			
Purchases and construction of capital assets	-	(460,413)	(460,413)
Proceeds from the sale of capital assets	-	15,005	15,005
Principal payments	-	(23,375)	(23,375)
Interest paid on capital debt	-	(12,404)	(12,404)
Net cash from capital and related financing activities	<u>-</u>	<u>(481,187)</u>	<u>(481,187)</u>
Cash flows from investing activities			
Interest earnings	3	16	19
Net cash from investing activities	<u>3</u>	<u>16</u>	<u>19</u>
Net change in cash and cash equivalents	8,293	38,198	46,491
Cash and cash equivalents at beginning of year	30,904	91,596	122,500
Cash and cash equivalents at end of year	<u>\$ 39,197</u>	<u>\$ 129,794</u>	<u>\$ 168,991</u>
Reconciliation of operating loss to net cash from operating activities:			
Operating income (loss)	\$ (10,322)	\$ (26,892)	\$ (37,214)
Adjustments to reconcile operating income (loss) to net cash from operating activities:			
Depreciation expense	29,120	107,066	136,186
Change in assets and liabilities:			
Accounts receivable, net	-	(34)	(34)
Inventory	-	(20,552)	(20,552)
Prepaid items	40	3,342	3,382
Accounts payable	452	57,028	57,480
Accrued expenses	-	411	411
Net cash from operating activities	<u>\$ 19,290</u>	<u>\$ 120,369</u>	<u>\$ 139,659</u>

City of Clare

Combining Balance Sheet - Fiduciary Funds

June 30, 2022

	General Agency Fund	Current Tax Collection Fund	Payroll Imprest Fund	Total
Assets				
Cash and cash equivalents	\$ 65,954	\$ -	\$ 10,944	\$ 76,898
Total assets	<u>\$ 65,954</u>	<u>\$ -</u>	<u>\$ 10,944</u>	<u>\$ 76,898</u>
Liabilities				
Accrued expenses	\$ 65,954	\$ -	\$ 2,331	\$ 68,285
Due to other governmental units	-	-	8,613	8,613
Total liabilities	<u>\$ 65,954</u>	<u>\$ -</u>	<u>\$ 10,944</u>	<u>\$ 76,898</u>

Statement of Changes in Fiduciary Net Position
Year Ended June 30, 2022

	General Agency Fund	Tax Collection Fund	Payroll Imprest Fund	Total
Additions				
Amounts collected for other governments	\$ 65,954	\$ 5,780,699	\$ 506,806	\$ 6,353,459
Deductions				
Amounts distributed to other governments	-	5,780,799	569,727	6,350,526
Net change in fiduciary position	<u>65,954</u>	<u>(100)</u>	<u>(62,921)</u>	<u>2,933</u>
Net position at beginning of year	<u>-</u>	<u>100</u>	<u>73,865</u>	<u>73,965</u>
Net position at end of year	<u>\$ 65,954</u>	<u>\$ -</u>	<u>\$ 10,944</u>	<u>\$ 76,898</u>

City of Clare

Combining Balance Sheet - Component Units

June 30, 2022

	Local			
	Downtown Development Authority	Development Finance Authority	Brownfield Redevelopment Authority	Total
Assets				
Cash and cash equivalents	\$ 134,218	\$ (448)	\$ 4,636	\$ 138,406
Total assets	<u>\$ 134,218</u>	<u>\$ (448)</u>	<u>\$ 4,636</u>	<u>\$ 138,406</u>
Fund balances:				
Restricted - debt service	134,218	-	-	134,218
Restricted - community development	-	(448)	4,636	4,188
Total fund balances	<u>134,218</u>	<u>(448)</u>	<u>4,636</u>	<u>138,406</u>
Total liabilities and fund balances	<u>\$ 134,218</u>	<u>\$ (448)</u>	<u>\$ 4,636</u>	<u>\$ 138,406</u>

City of Clare

Combining Statement of Revenues, Expenditures, and Changes in Fund Balances -
Component Units

	June 30, 2022			
	Local			
	Downtown Development Authority	Development Finance Authority	Brownfield Redevelopment Authority	Total
Revenues				
Property taxes and related fees	\$ 99,441	\$ 4,979	\$ -	\$ 104,420
Interest earnings	16	-	1	17
Other revenue	10,749	-	-	10,749
Total revenues	110,206	4,979	1	115,186
Expenditures				
Community development	25,243	577	-	25,820
Debt service:				
Principal	62,000	-	-	62,000
Interest and related fees	6,895	-	-	6,895
Total expenditures	94,138	577	-	94,715
Excess of revenue over expenditures	16,068	4,402	1	20,471
Other financing sources (uses)				
Transfers out	(2,000)	(4,983)	-	(6,983)
Total other financing sources (uses)	(2,000)	(4,983)	-	(6,983)
Net change in fund balances	14,068	(581)	1	13,488
Fund balances-beginning	120,150	133	4,635	124,918
Fund balances-ending	\$ 134,218	\$ (448)	\$ 4,636	\$ 138,406

January 16, 2023

Andrews Hooper Pavlik PLC
5915 Eastman Avenue, Suite 100
Midland, Michigan 48640

This representation letter is provided in connection with your audit of the financial statements of the City of Clare (City), which comprise the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information as of June 30, 2022, and the respective changes in financial position and, where applicable, cash flows for the year then ended, and the disclosures (collectively, the “financial statements”), for the purpose of expressing opinions as to whether the financial statements are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP).

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement. An omission or misstatement that is monetarily small in amount could be considered material as a result of qualitative factors.

We confirm, to the best of our knowledge and belief, as of January 16, 2023, the following representations made to you during your audit.

Financial Statements

- 1) We have fulfilled our responsibilities, as set out in the terms of the audit engagement letter dated October 27, 2022, including our responsibility for the preparation and fair presentation of the financial statements in accordance with U.S. generally accepted accounting principles (U.S. GAAP) and for preparation of the supplementary information in accordance with the applicable criteria.
- 2) The financial statements referred to above are fairly presented in conformity with U.S. GAAP and include all properly classified funds and other financial information of the primary government and all component units required by U.S. GAAP to be included in the financial reporting entity.
- 3) We acknowledge our responsibility 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.
- 4) We acknowledge our responsibility for the design, implementation, and maintenance of internal control to prevent and detect fraud.

- 5) Significant assumptions we used in making accounting estimates, including those measured at fair value, are reasonable.
- 6) Related party relationships and transactions, including revenues, expenditures/expenses, loans, transfers, leasing arrangements, and guarantees, and amounts receivable from or payable to related parties have been appropriately accounted for and disclosed in accordance with the requirements of U.S. GAAP.
- 7) Adjustments or disclosures have been made for all events, including instances of noncompliance, subsequent to the date of the financial statements that would require adjustment to or disclosure in the financial statements.
- 8) We are in agreement with the adjusting journal entries you have proposed, and they have been posted to the Township's accounts
- 9) The effects of uncorrected misstatements are immaterial, both individually and in the aggregate, to the financial statements as a whole for each opinion unit.
- 10) The effects of all known actual or possible litigation, claims, and assessments have been accounted for and disclosed in accordance with U.S. GAAP.
- 11) Guarantees, whether written or oral, under which the City is contingently liable, if any, have been properly recorded or disclosed.
- 12) We believe that the actuarial assumptions and methods used to measure pension and OPEB liabilities and costs for financial accounting purposes are appropriate in the circumstances.
- 13) Tax abatement agreements have been properly disclosed in the notes to the financial statements.

Information Provided

- 14) We have provided you with:
 - a) Access to all information, of which we are aware, that is relevant to the preparation and fair presentation of the financial statements, such as records (including information obtained from outside of the general and subsidiary ledgers), documentation, and other matters and all audit or relevant monitoring reports, if any, received from funding sources.
 - b) Additional information that you have requested from us for the purpose of the audit.
 - c) Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
 - d) Minutes of the meetings of City Commission or summaries of actions of recent meetings for which minutes have not yet been prepared.
- 15) All material transactions have been recorded in the accounting records and are reflected in the financial statements.
- 16) We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
- 17) We have no knowledge of any fraud or suspected fraud that affects the City and involves:
 - a) Management,
 - b) Employees who have significant roles in internal control, or

- c) Others where the fraud could have a material effect on the financial statements.
- 18) We have no knowledge of any allegations of fraud or suspected fraud affecting the City's financial statements communicated by employees, former employees, regulators, or others.
- 19) We have no knowledge of instances of noncompliance or suspected noncompliance with provisions of laws, regulations, contracts, or grant agreements, or abuse, whose effects should be considered when preparing financial statements.
- 20) We have disclosed to you all known actual or possible litigation, claims, and assessments whose effects should be considered when preparing the financial statements.
- 21) We have disclosed to you the names of the City's related parties and all the related party relationships and transactions, including any side agreements.

Government—specific

- 22) There have been no communications from regulatory agencies concerning noncompliance with, or deficiencies in, financial reporting practices.
- 23) We have identified to you any previous audits, attestation engagements, and other studies related to the audit objectives and whether related recommendations have been implemented.
- 24) We have identified to you any investigations or legal proceedings that have been initiated with respect to the period under audit.
- 25) The City has no plans or intentions that may materially affect the carrying value or classification of assets, deferred outflows of resources, liabilities, deferred inflows of resources, and fund balance or net position.
- 26) We are responsible for compliance with the laws, regulations, and provisions of contracts and grant agreements applicable to us, including tax or debt limits and debt contracts and legal and contractual provisions for reporting specific activities in separate funds.
- 27) We have appropriately disclosed all information for conduit debt obligations in accordance with GASB 91.
- 28) We have identified and disclosed to you all instances of identified and suspected fraud and noncompliance with provisions of laws, regulations, contracts, and grant agreements that we believe have a material effect on the financial statements.
- 29) There are no violations or possible violations of budget ordinances, laws and regulations (including those pertaining to adopting, approving, and amending budgets), provisions of contracts and grant agreements, tax or debt limits, and any related debt covenants whose effects should be considered for disclosure in the financial statements, or as a basis for recording a loss contingency, or for reporting on noncompliance.
- 30) As part of your audit, you assisted with the following:
 - a) Preparation of the financial statements and disclosures.
 - b) Year-end GASB 34 entries with source information provided by us.
 - c) Updating the long-term debt schedules with source information provided by us.
 - d) Updating pension liabilities and related deferred resources and inflows based on information provided by us.
 - e) Preparing State of Michigan Form F-65 (Annual Local Unit Fiscal Report).

We acknowledge our responsibility as it relates to those nonaudit services, including that we assume all management responsibilities; oversee the services by designating an individual, preferably within senior management, who possesses suitable skill, knowledge, or experience; evaluate the adequacy and results of the services performed; and accept responsibility for the results of the services. We have reviewed, approved, and accepted responsibility for those financial statements and disclosures.

- 31) The City has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset been pledged as collateral.
- 32) The City has complied with all aspects of contractual agreements that would have a material effect on the financial statements in the event of noncompliance.
- 33) The financial statements include all component units, appropriately present majority equity interests in legally separate organizations and joint ventures with an equity interest, and properly disclose all other joint ventures and other related organizations.
- 34) The financial statements include all fiduciary activities required by GASBS No. 84, as amended.
- 35) The financial statements properly classify all funds and activities in accordance with GASBS No. 34, as amended.
- 36) All funds that meet the quantitative criteria in GASBS Nos. 34 and 37 for presentation as major are identified and presented as such and all other funds that are presented as major are particularly important to financial statement users.
- 37) Components of net position (net investment in capital assets; restricted; and unrestricted) and classifications of fund balance (nonspendable, restricted, committed, assigned, and unassigned) are properly classified and, if applicable, approved.
- 38) Investments, derivative instruments, and land and other real estate held by endowments are properly valued.
- 39) Provisions for uncollectible receivables have been properly identified and recorded.
- 40) As a lessor, the City's lease receivables represent the present value of expected lease payments to be received over their noncancellable period plus renewal option periods that we believe are likely to be exercised. As a lessee, the City's right-of-use assets and related lease liabilities have been properly identified and recorded, except for immaterial contracts containing leases as disclosed in the financial statements.
- 41) Expenses have been appropriately classified in or allocated to functions and programs in the statement of activities, and allocations have been made on a reasonable basis.
- 42) Revenues are appropriately classified in the statement of activities within program revenues, general revenues, contributions to term or permanent endowments, or contributions to permanent fund principal.
- 43) Interfund, internal, and intra-entity activity and balances have been appropriately classified and reported.
- 44) Deposits and investment securities and derivative instruments are properly classified as to risk and are properly disclosed.
- 45) Capital assets, including infrastructure and intangible assets, are properly capitalized, reported, and, if applicable, depreciated or amortized.

- 46) We have appropriately disclosed the City’s policy regarding whether to first apply restricted or unrestricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position is available and have determined that net position is properly recognized under the policy.
- 47) We are following our established accounting policy regarding which resources (that is, restricted, committed, assigned, or unassigned) are considered to be spent first for expenditures for which more than one resource classification is available. That policy determines the fund balance classifications for financial reporting purposes
- 48) We acknowledge our responsibility for the required supplementary information (RSI). The RSI is measured and presented within prescribed guidelines and the methods of measurement and presentation have not changed from those used in the prior period. We have disclosed to you any significant assumptions and interpretations underlying the measurement and presentation of the RSI.
- 49) With respect to the combining financial statements for nonmajor funds, internal service funds, fiduciary finds, and component units, which are considered supplementary information (OSI):
- a) We acknowledge our responsibility for presenting the other supplementary information in accordance with U.S. GAAP, and we believe the supplementary information, including its form and content, is fairly presented in accordance with U.S. GAAP. The methods of measurement and presentation of the other supplementary information have not changed from those used in the prior period, and we have disclosed to you any significant assumptions or interpretations underlying the measurement and presentation of the supplementary information.
 - b) If the OSI is not presented with the audited financial statements, we will make the audited financial statements readily available to the intended users of the supplementary information no later than the date we issue the supplementary information and the auditor’s report thereon.

Signed:

Jeremy Howard
Clare City Manager

Shannon Sirpilla
Clare City Treasurer and Finance Director

Diane M. Lyon
Clare City Clerk

AGENDA REPORT

TO: Mayor Pat Humphrey & the Clare City Commission
FROM: Jeremy Howard, City Manager
DATE: January 12, 2023
RE: Audit Presentation and Approval of Fiscal Year 2021/22 Audit Report

For the Agenda of January 16, 2023

Background. The public accounting firm of Andrews, Hooper & Pavlik (AHP) of Midland, Michigan conducted an independent audit of the City of Clare's financial records for the City's fiscal year ending June 30, 2022. A qualified representative from the firm is scheduled to publicly present the results of the audit to the Clare City Commission at its regularly scheduled meeting on January 16, 2023. The audit results are unqualified meaning that no adverse findings were discovered or noted during the course of the independent audit. A draft copy of the complete audit report is attached for your review.

The Treasurer/Finance Director, City Clerk and City Manager will have each reviewed the audit report prior to the meeting and will have formally acknowledged the results in writing.

The City Commission is asked to formally approve the audit findings and results as presented by a qualified senior staff member of the public accounting firm Andrews, Hooper & Pavlik.

Issues & Questions Specified. Should the Clare City Commission formally approve the audit report?

Alternatives.

1. Approve the audit findings.
2. Do not approve the audit findings.
3. Defer/delay decision to a subsequently scheduled City Commission meeting.

Financial Impact. The City of Clare is required to file the results of its annual audit with the Michigan Department of Treasury; failure to do so will result in the withholding of state revenue sharing and render the City ineligible for other state and federally funded programs to include grants and loans. Approval of the audit is necessary to allow City Staff to file the audit and other related reports with appropriate state and federal agencies.

Recommendations. I recommend that the City Commission formally approve the audit results presented by Andrews, Hooper & Pavlik by adoption of attached Resolution 2023-007.

Attachments.

1. Report of Independent Auditors.
2. Fiscal Year 2021/22 Independent Audit Report and Audited Financial. - To Be Provided at Monday's meeting.
3. Management Acknowledgement Letter.
4. Resolution 2022-007.

City Commission

City of Clare

January 16, 2023

City Commission

City of Clare, Michigan

January 16, 2023

- Introduction
 - AHP Representatives
 - Duane Reyhl – Partner
 - Danielle Hoppe – Audit Manager
- Letter to City Commission
 - Services Provided and in Process
 - Results of our Audit of the Financial Statements
 - Required Communications with City Commission
 - Management Comments
 - Representation Letter
- Other Questions or Comments

January 16, 2022

City Commission
City of Clare

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 the initial application of GASBS No. 87, Leases - 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 October 27, 2022, 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 \$100,000. This was a combination of an increase of approximately \$900,000 in the actuarial accrued liability offset by an increase of approximately \$800,000 in the valuation of the underlying invested assets.

The adoption of Government Accounting Standards Board Statement No. 87, *Leases*, resulted in the recognition of a lease receivable and related deferred inflow of resources on the statement of net position for the lease contracts that the City holds as a lessor. The recognition of these amounts did not affect the City's overall net position or fund balances. As a lessee, the City had no significant leases that required the recognition of right-of-use assets or lease liabilities.

Adopted Audit Standard

New Audit Report. Beginning with the year ending June 30, 2022, the standard auditor report has been significantly updated as follows:

- The "Opinion" section of the report will be presented first.
- The "Basis for Opinion" section of the report will include an affirmative statement about the auditor's independence and fulfillment of the auditor's other ethical responsibilities.
- Expands the description of the responsibilities of management for the preparation and fair presentation of the financial statements
- Expands the description of the responsibilities of the auditor and key features of an audit

Adopted Accounting Standards

GASB Statement No. 87, *Leases*, applies to all state and local governments and establishes a single model for all lease accounting. The concept within this model is that a lease is a financing arrangement that permits the use on an underlying asset for a period of time. Lessees will record a lease liability and an intangible right-of-use asset. Lessors will record a lease receivable and a deferred inflow of resources. An exception is granted for short-term leases, which at the beginning of the lease, have a maximum possible term under the contract of 12 months or less, including any options to extend, regardless of its probability of being exercised.

Effect on the City: This applied to leases that the City had in place for its year ending June 30, 2022 as either a lessor or lessee.

GASB Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period*, establishes accounting requirements for interest cost incurred before the end of a construction period. Prior to this standard, such interest costs were capitalized. This Statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund.

Effect on the City: This did not affect the City for the year ending June 30, 2022.

Future Accounting Standards

Revised State of Michigan Uniform Chart of Accounts – This applies to the City’s beginning July 1, 2022.

GASB Statement No. 91, *Conduit Debt Obligations*, provides a single method of reporting conduit debt obligations by issuers and eliminates diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. This Statement clarifies that a conduit debt obligation is not a liability of the issuer; establishes standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations; and improves required note disclosures.

Effect on the City: None based on the City’s current circumstances. The standard will apply to future obligations starting with the City’s year ending June 30, 2023.

GASB Statement No. 93, *Replacement of Interbank Offered Rates*, addresses accounting and financial reporting implications that result from the replacement of an Interbank Offered Rate (IBOR.) The standard removes LIBOR as a benchmark interest rate for the qualitative evaluation of the effectiveness of an interest rate swap. The standard is effective starting with fiscal years ending June 30, 2022.

Effect on the City: No significant effects are expected.

GASB Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*, addresses issues related to public-private and public-public partnership arrangements (PPPs). A PPP is an arrangement in which a government (the transferor) contracts with an operator (a governmental or nongovernmental entity) to provide public services by conveying control of the right to operate or use a nonfinancial asset, such as infrastructure or other capital asset (the underlying PPP asset), for a period of time in an exchange or exchange-like transaction. Some PPPs meet the definition of a service concession arrangement (SCA), which is a PPP in which (1) the operator collects and is compensated by fees from third parties; (2) the transferor determines or has the ability to modify or approve which services the operator is required to provide, to whom the operator is required to provide the services, and the prices or rates that can be charged for the services; and (3) the transferor is entitled to significant residual interest in the service utility of the underlying PPP asset at the end of the arrangement. The requirements of this Statement are effective for fiscal years beginning after June 15, 2022.

Effect on the City: The City does not currently have any arrangements for which this standard would apply.

GASB Statement No. 96, *Subscription-Based Information Technology Arrangements*, provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users (governments). This Statement:

- Defines a SBITA.
- Establishes that a SBITA results in a right-to-use subscription asset—an intangible asset—and a corresponding subscription liability.
- Provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA.
- Requires note disclosures regarding a SBITA.

To the extent relevant, the standards for SBITAs are based on the standards established in Statement No. 87, *Leases*, as amended. This Statement is effective for fiscal years beginning after June 15, 2022.

Effect on the City: This could affect how the City records IT subscriptions, but the impact is not expected to be significant.

GASB Accounting Projects in Process

Financial Reporting Model—Reexamination of Statements 34, 35, 37, 41, and 46 and Interpretation 6. The GASB has a long-term project to improve the overall financial reporting model. The objective of these improvements, based on the GASB’s research to date would be to:

- Enhance the model’s effectiveness in providing essential decision-making information
- Enhance the ability to assess a government’s accounting
- Address certain application issues

While GASB’s preliminary assessment is that most areas of the current model are effective, a number of improvement areas were identified. Below is a summary of issues being explored:

- *Management’s Discussion and Analysis (MD&A).* Enhance the financial statement analysis component, consider the elimination of boilerplate requirements, and clarify guidance for presenting currently known facts, decisions, or conditions that are expected to have a significant effect on financial position or results of operations.
- *Government-Wide Financial Statements.* Explore alternatives for the format of the statement of activities and consider whether a government-wide statement of cash flows should be required, and if so, how those cash flows should be presented.
- *Major Funds.* Explore options for providing additional information about debt service funds, either individual or in aggregate.
- *Governmental Fund Financial Statements.* Explore a conceptually consistent measurement focus and basis of accounting and develop a presentation format for governmental fund financial statements consistent with the measurement focus and basis of accounting.
- *Proprietary Fund and Business-Type Activity Financial Statements.* Evaluate operating indicator alternatives in conjunction with evaluating the guidance for the separate presentation of operating and nonoperating revenues and expenses.

- *Fiduciary Fund Financial Statements.* Explore where the fiduciary fund financial statements should be presented in the basic financial statements.
- *Budgetary Comparisons.* Explore the appropriate method of communication (either as basic financial statements or required supplementary information) for budgetary comparison information and consider whether and, if so, which budget variances should be required to be presented.
- *Other Issues.* As appropriate and in conjunction with other topics, explore options that would permit more timely financial reporting or that would reduce complexity overall.

The current projected timetable for the final standard is late 2023 or early 2024.

Effect on the City: This is expected to affect all units of government, including the City. Based on the City's current profile, the proposed effective date for the City would be several years after the release of the pronouncement.

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 auditors' 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 January 16, 2023 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 October 27, 2022. 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. No 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 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 auditors' 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 January 16, 2022. 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.

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 material weaknesses.

* * *

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 during 2022. 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,

January 16, 2023

Andrews Hooper Pavlik PLC
5915 Eastman Avenue, Suite 100
Midland, Michigan 48640

This representation letter is provided in connection with your audit of the financial statements of the City of Clare (City), which comprise the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information as of June 30, 2022, and the respective changes in financial position and, where applicable, cash flows for the year then ended, and the disclosures (collectively, the “financial statements”), for the purpose of expressing opinions as to whether the financial statements are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP).

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement. An omission or misstatement that is monetarily small in amount could be considered material as a result of qualitative factors.

We confirm, to the best of our knowledge and belief, as of January 16, 2023, the following representations made to you during your audit.

Financial Statements

- 1) We have fulfilled our responsibilities, as set out in the terms of the audit engagement letter dated October 27, 2022, including our responsibility for the preparation and fair presentation of the financial statements in accordance with U.S. generally accepted accounting principles (U.S. GAAP) and for preparation of the supplementary information in accordance with the applicable criteria.
- 2) The financial statements referred to above are fairly presented in conformity with U.S. GAAP and include all properly classified funds and other financial information of the primary government and all component units required by U.S. GAAP to be included in the financial reporting entity.
- 3) We acknowledge our responsibility 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.
- 4) We acknowledge our responsibility for the design, implementation, and maintenance of internal control to prevent and detect fraud.

- 5) Significant assumptions we used in making accounting estimates, including those measured at fair value, are reasonable.
- 6) Related party relationships and transactions, including revenues, expenditures/expenses, loans, transfers, leasing arrangements, and guarantees, and amounts receivable from or payable to related parties have been appropriately accounted for and disclosed in accordance with the requirements of U.S. GAAP.
- 7) Adjustments or disclosures have been made for all events, including instances of noncompliance, subsequent to the date of the financial statements that would require adjustment to or disclosure in the financial statements.
- 8) We are in agreement with the adjusting journal entries you have proposed, and they have been posted to the Township's accounts
- 9) The effects of uncorrected misstatements are immaterial, both individually and in the aggregate, to the financial statements as a whole for each opinion unit.
- 10) The effects of all known actual or possible litigation, claims, and assessments have been accounted for and disclosed in accordance with U.S. GAAP.
- 11) Guarantees, whether written or oral, under which the City is contingently liable, if any, have been properly recorded or disclosed.
- 12) We believe that the actuarial assumptions and methods used to measure pension and OPEB liabilities and costs for financial accounting purposes are appropriate in the circumstances.
- 13) Tax abatement agreements have been properly disclosed in the notes to the financial statements.

Information Provided

- 14) We have provided you with:
 - a) Access to all information, of which we are aware, that is relevant to the preparation and fair presentation of the financial statements, such as records (including information obtained from outside of the general and subsidiary ledgers), documentation, and other matters and all audit or relevant monitoring reports, if any, received from funding sources.
 - b) Additional information that you have requested from us for the purpose of the audit.
 - c) Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
 - d) Minutes of the meetings of City Commission or summaries of actions of recent meetings for which minutes have not yet been prepared.
- 15) All material transactions have been recorded in the accounting records and are reflected in the financial statements.
- 16) We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
- 17) We have no knowledge of any fraud or suspected fraud that affects the City and involves:
 - a) Management,
 - b) Employees who have significant roles in internal control, or

- c) Others where the fraud could have a material effect on the financial statements.
- 18) We have no knowledge of any allegations of fraud or suspected fraud affecting the City's financial statements communicated by employees, former employees, regulators, or others.
- 19) We have no knowledge of instances of noncompliance or suspected noncompliance with provisions of laws, regulations, contracts, or grant agreements, or abuse, whose effects should be considered when preparing financial statements.
- 20) We have disclosed to you all known actual or possible litigation, claims, and assessments whose effects should be considered when preparing the financial statements.
- 21) We have disclosed to you the names of the City's related parties and all the related party relationships and transactions, including any side agreements.

Government—specific

- 22) There have been no communications from regulatory agencies concerning noncompliance with, or deficiencies in, financial reporting practices.
- 23) We have identified to you any previous audits, attestation engagements, and other studies related to the audit objectives and whether related recommendations have been implemented.
- 24) We have identified to you any investigations or legal proceedings that have been initiated with respect to the period under audit.
- 25) The City has no plans or intentions that may materially affect the carrying value or classification of assets, deferred outflows of resources, liabilities, deferred inflows of resources, and fund balance or net position.
- 26) We are responsible for compliance with the laws, regulations, and provisions of contracts and grant agreements applicable to us, including tax or debt limits and debt contracts and legal and contractual provisions for reporting specific activities in separate funds.
- 27) We have appropriately disclosed all information for conduit debt obligations in accordance with GASB 91.
- 28) We have identified and disclosed to you all instances of identified and suspected fraud and noncompliance with provisions of laws, regulations, contracts, and grant agreements that we believe have a material effect on the financial statements.
- 29) There are no violations or possible violations of budget ordinances, laws and regulations (including those pertaining to adopting, approving, and amending budgets), provisions of contracts and grant agreements, tax or debt limits, and any related debt covenants whose effects should be considered for disclosure in the financial statements, or as a basis for recording a loss contingency, or for reporting on noncompliance.
- 30) As part of your audit, you assisted with the following:
 - a) Preparation of the financial statements and disclosures.
 - b) Year-end GASB 34 entries with source information provided by us.
 - c) Updating the long-term debt schedules with source information provided by us.
 - d) Updating pension liabilities and related deferred resources and inflows based on information provided by us.
 - e) Preparing State of Michigan Form F-65 (Annual Local Unit Fiscal Report).

We acknowledge our responsibility as it relates to those nonaudit services, including that we assume all management responsibilities; oversee the services by designating an individual, preferably within senior management, who possesses suitable skill, knowledge, or experience; evaluate the adequacy and results of the services performed; and accept responsibility for the results of the services. We have reviewed, approved, and accepted responsibility for those financial statements and disclosures.

- 31) The City has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset been pledged as collateral.
- 32) The City has complied with all aspects of contractual agreements that would have a material effect on the financial statements in the event of noncompliance.
- 33) The financial statements include all component units, appropriately present majority equity interests in legally separate organizations and joint ventures with an equity interest, and properly disclose all other joint ventures and other related organizations.
- 34) The financial statements include all fiduciary activities required by GASBS No. 84, as amended.
- 35) The financial statements properly classify all funds and activities in accordance with GASBS No. 34, as amended.
- 36) All funds that meet the quantitative criteria in GASBS Nos. 34 and 37 for presentation as major are identified and presented as such and all other funds that are presented as major are particularly important to financial statement users.
- 37) Components of net position (net investment in capital assets; restricted; and unrestricted) and classifications of fund balance (nonspendable, restricted, committed, assigned, and unassigned) are properly classified and, if applicable, approved.
- 38) Investments, derivative instruments, and land and other real estate held by endowments are properly valued.
- 39) Provisions for uncollectible receivables have been properly identified and recorded.
- 40) As a lessor, the City's lease receivables represent the present value of expected lease payments to be received over their noncancellable period plus renewal option periods that we believe are likely to be exercised. As a lessee, the City's right-of-use assets and related lease liabilities have been properly identified and recorded, except for immaterial contracts containing leases as disclosed in the financial statements.
- 41) Expenses have been appropriately classified in or allocated to functions and programs in the statement of activities, and allocations have been made on a reasonable basis.
- 42) Revenues are appropriately classified in the statement of activities within program revenues, general revenues, contributions to term or permanent endowments, or contributions to permanent fund principal.
- 43) Interfund, internal, and intra-entity activity and balances have been appropriately classified and reported.
- 44) Deposits and investment securities and derivative instruments are properly classified as to risk and are properly disclosed.
- 45) Capital assets, including infrastructure and intangible assets, are properly capitalized, reported, and, if applicable, depreciated or amortized.

- 46) We have appropriately disclosed the City’s policy regarding whether to first apply restricted or unrestricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position is available and have determined that net position is properly recognized under the policy.
- 47) We are following our established accounting policy regarding which resources (that is, restricted, committed, assigned, or unassigned) are considered to be spent first for expenditures for which more than one resource classification is available. That policy determines the fund balance classifications for financial reporting purposes
- 48) We acknowledge our responsibility for the required supplementary information (RSI). The RSI is measured and presented within prescribed guidelines and the methods of measurement and presentation have not changed from those used in the prior period. We have disclosed to you any significant assumptions and interpretations underlying the measurement and presentation of the RSI.
- 49) With respect to the combining financial statements for nonmajor funds, internal service funds, fiduciary finds, and component units, which are considered supplementary information (OSI):
- a) We acknowledge our responsibility for presenting the other supplementary information in accordance with U.S. GAAP, and we believe the supplementary information, including its form and content, is fairly presented in accordance with U.S. GAAP. The methods of measurement and presentation of the other supplementary information have not changed from those used in the prior period, and we have disclosed to you any significant assumptions or interpretations underlying the measurement and presentation of the supplementary information.
 - b) If the OSI is not presented with the audited financial statements, we will make the audited financial statements readily available to the intended users of the supplementary information no later than the date we issue the supplementary information and the auditor’s report thereon.

Signed:

Jeremy Howard
Clare City Manager

Shannon Sirpilla
Clare City Treasurer and Finance Director

Diane M. Lyon
Clare City Clerk

RESOLUTION 2023-007

A RESOLUTION OF THE CLARE CITY COMMISSION APPROVING THE ANNUAL EXTERNAL AUDIT REPORT AND AUDITED FINANCIAL STATEMENTS FOR THE CITY OF CLARE'S FISCAL YEAR 2021/22.

WHEREAS, an independent audit of the accounting and financial records of the City of Clare for the City's fiscal year ending on June 30, 2022 was conducted by the public accounting firm of Andrews, Hooper & Pavlik (AHP) of Midland, Michigan; and

WHEREAS, said audit resulted in no significant or adverse findings and an unqualified (clean) audit opinion from Andrews, Hooper & Pavlik of the City. Said results being verbally presented to the Clare City Commission by a qualified representative of said accounting firm at a scheduled and noticed public meeting held on January 16, 2023; and

WHEREAS, it is necessary for the Clare City Commission to approve the results of said audit and audited financial statements to facilitate the filing of the audit and other related reports with appropriate State of Michigan and certain federal agencies; and

WHEREAS, the City Treasurer/Finance Director, the City Manager and the City Clerk have each reviewed, acknowledged and formally concur with the results of the audit; and

WHEREAS, the City Commission was provided with and has had ample time to review a draft copy of said audit report; and

WHEREAS, the City Commission has concluded that said audit report is acceptable and reflects an accurate statement of the fiscal status of the City of Clare.

NOW THEREFORE BE IT RESOLVED that the Clare City Commission hereby approves the results of the independent audit of the financial statements of the City of Clare for the fiscal year ending June 30, 2022. Said audit being conducted by the independent public accounting firm of Andrews, Hooper & Pavlik of Midland, Michigan.

BE IT FURTHER RESOLVED that the City Commission directs its Treasurer/Finance Director to file the appropriate reports of said audit findings and other reports with the various agencies and departments of the State of Michigan and the Federal Government.

ALL RESOLUTIONS AND PARTS OF RESOLUTIONS INsofar AS THEY CONFLICT WITH THE PROVISIONS OF THIS RESOLUTION BE AND THE SAME ARE HEREBY RESCINDED.

The Resolution was introduced by Commissioner _____ and supported by Commissioner _____. The Resolution declared adopted by the following roll call vote:

YEAS:

NAYS:

ABSENT:

Resolution approved for adoption on this 16th day of January, 2023.

Diane Lyon, City Clerk