CITY OF GAYLORD

Otsego County, Michigan

Additional Reports Required by 2 CFR Part 200 (Uniform Guidance)

For the year ended June 30, 2025

HUNGERFORD
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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

December 22, 2025

To the City Council
City of Gaylord
Otsego County, Michigan

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of City of Gaylord (the "City"), as of and for the year ended June 30, 2025, and the related notes to the financial statements, which collectively comprise City of Gaylord's basic financial statements, and have issued our report thereon dated December 22, 2025.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered City of Gaylord's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of City of Gaylord's internal control. Accordingly, we do not express an opinion on the effectiveness of City of Gaylord's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements, on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies, and therefore, material weaknesses or significant deficiencies may exist that were not identified. We identified certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as items 2025-01 and 2025-02, that we consider to be material weaknesses.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether City of Gaylord's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

City's Response to Findings

Government Auditing Standards required the auditor to perform limited procedures on City of Gaylord's response to the findings identified in our audit and described in the accompanying schedule of findings and questioned costs. City of Gaylord's response was not subject to the other auditing procedures applied in the audit of the financial statements and accordingly, we express no opinion on the response.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Hungerford

Certified Public Accountants
St. Joseph, Michigan

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

December 22, 2025

To the City Council
City of Gaylord
Otsego County, Michigan

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited City of Gaylord's compliance with the types of compliance requirements identified as subject to audit in the *OMB Compliance Supplement* that could have a direct and material effect on City of Gaylord's major federal program for the year ended June 30, 2025. City of Gaylord's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, City of Gaylord complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2025.

Basis for Opinion on Each Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of City of Gaylord and to meet our other ethical responsibilities, in accordance with 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 opinion on compliance for the major federal program. Our audit does not provide a legal determination of City of Gaylord's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and the provisions of contracts or grant agreements applicable to City of Gaylord's federal programs.

Auditor's Responsibility for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on City of Gaylord's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about City of Gaylord's compliance with the requirements of the major federal program as a whole.

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.

- Identify and assess the risks of material noncompliance, 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 City of Gaylord's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.

- Obtain an understanding of City of Gaylord's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of the City of Gaylord's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on Internal Control over Compliance

A *deficiency in internal control* over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis.

A *material weakness in internal control* over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control* over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the financial statements of City of Gaylord as of and for the year ended June 30, 2025. We issued our report thereon dated December 22, 2025, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.

Hungerford

Certified Public Accountants
St. Joseph, Michigan

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SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

CITY OF GAYLORD
For the year ended June 30, 2025

Federal Grantor Pass Through Grantor Program Title Grant Number	Assistance Listing Number	Current Year Expenditures
U.S. Department of Housing and Urban Development:		
Passed through Michigan State Housing Development Authority:		
Community Development Block Grant:	14.228	
MSF-2023- 6412-CDB		$ 5,800
Total U.S. Department of Housing and Urban Development		5,800
U.S. Department of Treasury:		
Passed through Michigan Department of Natural Resources:		
Coronavirus State and Local Fiscal Recovery Fund:	21.027	
Michigan Spark Grants:		
Elkview Expansion of Aspen Park		620,100
Pass through Michigan Department of Environment, Great Lakes, and Energy:		
Coronavirus State and Local Fiscal Recovery Fund:	21.027	
TMF-065		209,272
Total U.S. Department of Treasury		829,372
Total Federal Financial Assistance		**$ 835,172**

See notes to schedule of expenditures of federal awards.

Note A – Basis of Presentation

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal grant activity of City of Gaylord under programs of the federal government for the year ended June 30, 2025. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of City of Gaylord, it is not intended to and does not present the financial position, changes in net position, or cash flows, as applicable, of City of Gaylord.

Note B – Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles for Federal Awards* (Uniform Guidance), wherein certain types of expenditures are not allowable or are limited as to reimbursement.

Note C – Indirect Cost Rate

City of Gaylord has not elected to use the 10% de minimus indirect cost rate as allowed under the Uniform Guidance.

Note D – Federal Income Reconciliation

	Grant Expenditures Per Schedule of Federal Financial Assistance	Federal Revenue Per Financial Statements	Difference
Community Development Block Grant	$ 5,800	$ 5,800	$ -
Coronavirus State and Local Fiscal Recovery Fund	829,372	829,372	-
	$ 835,172	**$ 835,172**	**$ -**

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued:	*Unmodified*			
Internal control over financial reporting:				
· Material weakness(es) identified?	X	Yes		No
· Significant deficiency(ies) identified?		Yes	X	None reported
Noncompliance material to financial statements noted?		Yes	X	No

Federal Awards

Internal control over major programs:				
· Material weakness(es) identified?		Yes	X	No
· Significant deficiency(ies) identified?		Yes	X	None reported
Type of auditor's report issued on compliance for major programs:	*Unmodified*			
Any audit findings disclosed that are required to be reported in accordance with the Uniform Guidance?		Yes	X	No

Assistance Listing Number(s)	Name of Federal Program or Cluster
21.027	Coronavirus State and Local Fiscal Recovery Fund

Dollar threshold used to distinguish between Type A and Type B programs:	$ 750,000			
Auditee qualified as low-risk auditee?		Yes	X	No

Section II - Financial Statements Audit Findings

2025-01 (Repeat of 2024-01) **Material Weakness in Internal Controls over Financial Reporting**
Material Auditing Adjustments

Criteria: Management is responsible for reporting reliable financial data in accordance with Generally Accepted Accounting Principles.

Condition: Material adjustment was required for: accounts receivable related to payment in lieu of taxes (PILTs), state shared revenue, federal grants, and utility billings, adjustments to net pension and OPEB liabilities, capital asset additions and disposals, and depreciation expense.

This is a repeat of Finding 2024-01.

Cause: The City has determined that it is more cost effective to outsource the preparation of its financial statements to the auditors than it is to prepare in-house. The extra time and expense that would go into training and preparation by City personnel outweigh the benefits.

Effect: As a result of the City's decision, the system of internal controls does not address year-end adjustments that are required for financial statements.

Recommendation: We recommend that the City reconciles all general ledgers to subsidiary detail, monthly, to evaluate its financial position more accurately throughout the year.

View of Responsible Officials: Management has evaluated the cost-effectiveness of using internal versus external resources for preparing financial statements, including closing entries, concluding that costs currently exceed advantages. Management will, however, continue to explore training opportunities and remain actively involved in reviewing and approving draft statements, thereby accepting responsibility for their content and presentation.

2025-02 (Repeat.of 2024-02) **Material Weakness in Internal Controls over Financial Reporting Segregation of Duties**

Criteria: The City is responsible for the design and implementation of internal controls. Part of that system includes a proper segregation of duties. Segregation of duties means that no one individual can authorize, record, and maintain custody over the books and records.

Condition: As is the case with many comparable cities, the City does not retain the number the accounting personnel for a complete segregation of duties within its accounting department.

This is a repeat of Finding 2024-02.

Cause: Limited resources.

Effect: The City is exposed to an increased risk that misappropriation of assets may occur and not be detected in a timely fashion.

Recommendation: We encourage management to always seek out ways to improve its internal control system. As much as possible, have the appropriate members of management independently reviewing, reconciling, and approving transactions.

View of Responsible Officials: Management is aware of the risks associated with this condition and has made the determination that given the City's limited resources, full segregation of duties is not feasible at this time. Accordingly, the Finance Committee will continue to review monthly information to mitigate this risk and rely on the external audit to help identify and correct misstatements, as needed.

Section III – Major Federal Award Programs Findings and Questioned Costs

There were no findings or questioned costs.

2024-01 (Repeat of 2023-01) **Material Weakness in Internal Controls over Financial Reporting Material Auditing Adjustments**

Criteria: Management is responsible for reporting reliable financial data in accordance with Generally Accepted Accounting Principles.

Condition: Material adjustment was required for: reconciling fund balance with the prior year ending balance, accounts receivable and related revenue for state revenue sharing, derecognition of interfund transfers, recognition of interfund payables for PPT reimbursements owed to other funds, reclassifying interfund activity related to ACT 51, adjustments for investment in real estate and related investment income, adjustments to net pension and OPEB liabilities, capital asset additions and disposals, and depreciation expense.

This is a repeat of Finding 2023-01.

Cause: The City has determined that it is more cost effective to outsource the preparation of its financial statements to the auditors than it is to prepare in-house. The extra time and expense that would go into training and preparation by City personnel outweigh the benefits.

Effect: As a result of the City's decision, the system of internal controls does not address year-end adjustments that are required for financial statements.

Recommendation: We recommend that the City reconciles all general ledgers to subsidiary detail, monthly, to evaluate its financial position more accurately throughout the year.

View of Responsible Officials: Management has evaluated the cost-effectiveness of using internal versus external resources for preparing financial statements, including closing entries, concluding that costs currently exceed advantages. Management will, however, continue to explore training opportunities and remain actively involved in reviewing and approving draft statements, thereby accepting responsibility for their content and presentation.

Resolution: The finding has been repeated for the year ended June 30, 2025.

2024-02 (Repeat of 2023-02) **Material Weakness in Internal Controls over Financial Reporting Segregation of Duties**

Criteria: The City is responsible for the design and implementation of internal controls. Part of that system includes a proper segregation of duties. Segregation of duties means that no one individual can authorize, record, and maintain custody over the books and records.

Condition: As is the case with many comparable cities, the City does not retain the number of accounting personnel for a complete segregation of duties within its accounting department.

This is a repeat of Finding 2024-02.

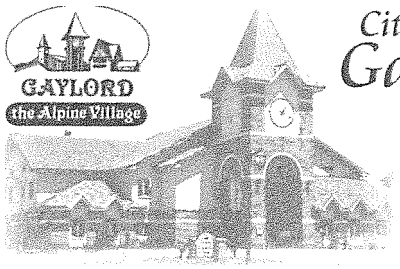
Cause: Limited resources.

Effect: The City is exposed to an increased risk that misappropriation of assets may occur and not be detected in a timely fashion.

Recommendation: We encourage management to always seek out ways to improve its internal control system. As much as possible, have the appropriate members of management independently reviewing, reconciling, and approving transactions.

View of Responsible Officials: Management is aware of the risks associated with this condition and has made the determination that given the City's limited resources, full segregation of duties is not feasible at this time. Accordingly, the Finance Committee will continue to review monthly information to mitigate this risk and rely on the external audit to help identify and correct misstatements, as needed.

Resolution: The finding has been repeated for the year ended June 30, 2025.



City of Gaylord

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Finding Number Federal Programs Audit	Responsible Person	Management Views	Corrective Action	Anticipated Completion Date
2025-01	Kim Awrey, City Manager	Management agrees with the finding and is in the process of implementing the recommendation.	The City will continue to explore training opportunities and remain actively involved in reviewing and approving draft statements, thereby accepting responsbility for their content and presentation	12/31/2025
2025-02	Kim Awrey, City Manager	Management agrees with the finding and is in the process of implementing the recommendation.	The City will continue to review monthly informaton to mitigate this risk and rely on the external audit to help identify and correct misstatements as needed. The City will also explore software capabilities to require transactions to be reviewed prior to posting.	12/31/2025