



HAMMERBACHER & CO.

Governmental Auditing,
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To the Board of Directors
Northern Bay Ambulance Service

We have audited the accompanying financial statements of the business-type activities and major fund of the Northern Bay Ambulance Service (the "Service") for the year ended March 31, 2023. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated February 18, 2024. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Service are described in Note 1 to the financial statements. We noted no transactions entered into by the Service during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the Service's financial statements were:

- Management's estimate of the useful lives of depreciable capital assets is based on the length of time it is believed that those assets will provide some economic benefit in the future.
- Management used prior year's estimate that accounts receivable is approximately 26% collectable.
- Management did not take a physical inventory at the balance sheet date but did so later in the fiscal year and those balances were used instead to estimate an inventory balance.
- Management did not have detailed vacation and sick leave balances to determine a liability balance for accrued compensated absences and an estimate was made utilizing all available information.

We evaluated key factors and assumptions used to develop these estimates and determined that they are reasonable in relation to the basic financial statements taken as a whole and in relation to the applicable opinion units.

The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

Our audit engagement was made difficult by the poor accounting and financial management practices of those employed during the year covered by this engagement. It was also more difficult because of the non-uniformity in how member governments remitted the special assessments they collected to the Service.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. We have provided management with a copy of the recommended adjusting journal entries and all misstatements have been corrected.

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated April 15, 2024.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Service's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. A member of management did reach out to another accounting firm to get a second opinion on how the Service recognizes revenue. No adjustments to revenue occurred because of this consultation.

Issues Discussed Prior to Retention of Independent Auditors

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

Communication of Internal Control Matters Identified in the Audit

In planning and performing our audit of the financial statements of the Service as of and for the year ended March 31, 2023, in accordance with auditing standards generally accepted in the United States of America, we considered the Service's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Service's internal control. Accordingly, we do not express an opinion on the effectiveness of the Service'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 combination of deficiencies, in internal control, such that there is 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 preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses. Given these limitations during our audit, we identified deficiencies in internal control that are required to be considered material weaknesses. These are listed below. Other material weaknesses may exist that have not been identified.

The Importance of Having a Qualified Accountant/Bookkeeper for the Service

The general ledger and trial balance we received to begin our audit bore no relationship whatsoever to the financial condition of the Service. Nearly every balance sheet account, including fund equity, and several revenue and expense accounts had to be adjusted. This condition was caused by the Board of Directors' decision to allow the Manager/Director to be responsible for financial management in addition to managing the ambulance operation.

We recommend utilizing a sufficiently educated, trained and experienced accountant/bookkeeper to provide accounting for the Service. Additionally, we recommend the accountant/bookkeeper report directly to the Board of Directors as a whole and not to the Manager/Director.

The Importance for the Board of Directors to Receive Timely Standardized Financial Reports

The State of Michigan's Accounting Procedures Manual states that the governing body (Board of Directors) must receive regular and timely financial reports to provide their required oversight responsibilities. These reports include a Balance Sheet and a Revenue and Expense compared to a Budget Report. These reports are standard from your QuickBooks accounting software and were not given at all to allow the Board of Directors to provide their oversight. This condition was caused by the Board of Directors' decision to let an unqualified financial management person handle these very important reporting requirements.

We repeat our previous recommendation to hire a qualified accountant/bookkeeper, one that reports to the Board of Directors as a whole and not to the Manager/Director.

The Importance of Performing Bank Reconciliations

The State of Michigan's Accounting Procedures Manual states that bank reconciliations must be performed, and they must be timely. Sound financial management demands this too. Bank reconciliations for the Service were not performed until the Township of Pinconning's management took over management of the Ambulance operation.

We repeat our previous recommendation to hire a qualified accountant/bookkeeper, one that reports to the Board of Directors as a whole and not to the Manager/Director.

The Importance of Payroll Tax Reporting to the IRS and State of Michigan

The Service has received several notices from the IRS and State of Michigan for non-compliance with reporting and payment requirements. This condition was caused by the Board of Directors' decision to allow the Manager/Director to be responsible for financial management in addition to managing the ambulance operation.

We repeat our previous recommendation to hire a qualified accountant/bookkeeper, one that reports to the Board of Directors as a whole and not to the Manager/Director.

Non-compliance with the State of Michigan's Uniform Chart of Accounts

The State of Michigan has a document called the Uniform Chart of Accounts. The State of Michigan states that compliance with its use is mandatory. The Service's Chart of Accounts did not conform to this format for the year we audited. Management has already taken steps to remedy this non-conformance.

The Inadequacy of the Service's Current Financial Policies

As part of our audit, we reviewed the Service's financial policies. All of them are very short and exceptionally vague. We recommend purchasing a publication from the Michigan Township's Association called "Policy Matters, Using Board & Administrative Policies to Manage Your Township" and rewrite key financial policies to manage the Service.

Furthermore, the State of Michigan wants certain policies to be adopted by a resolution. These include an Investment Policy, a Credit Card Policy, and an ACH or Electronic Payment Policy. For these policies, we recommend specifically adopting each one with a separate resolution.

The Requirement that the Governing Body Approve All Disbursements Before Being Released

A requirement in the State of Michigan's Accounting Procedures Manual is the following:

All disbursements must be approved by the legislative body prior to disbursement unless addressed otherwise in the charter. The legislative body may establish a formal policy to authorize limited payments prior to approval to avoid finance or late charges as well as to pay appropriated amounts and payroll (including related payroll taxes and withholdings). These disbursements must be approved after payment is made.

The State goes on to state:

Wire transfer and ACH authorization must be limited.

Our review of cash disbursements violated these two State of Michigan requirements by not allowing the Board of Directors to review disbursements before they were released and by paying nearly all disbursements electronically. We recommend the Service change its Cash Disbursements practices so that it is in compliance with this manual.

The Importance of Billing and Collections Management

One of our audit adjustments was to establish an allowance for doubtful accounts at March 31, 2023. For consistency with prior audited financial statements, current management decided to use an estimated allowance equal to 74% of the receivable balance found on AccuMed's Aged Accounts Receivable report. One of the keys to turning around the Service's financial condition, we believe, is to improve its billing and collections processes to maximize collection of every dollar the Service is owed.

The Importance of Uniformity in Member Governments Remitting Their Special Assessments

The State of Michigan in their oversight of governments demands uniformity. The State has a Uniform Chart of Accounts, a Uniform Budget Manual, and a Uniform Reporting format. We noted during our audit that member governments of the Service are not uniform in how they remit the special assessments they collect to fund the Service. Our opinion is these remittances should follow the same timing as property taxes. We recommend the member governments develop a "uniform" policy on the timing of these payments to the Service. Perhaps a discussion with the Bay County Treasurer's Office would be beneficial.

The Service is a Governmental Unit in the State of Michigan (Not a Non-profit Organization)

Legal entities are formed under State laws. Northern Bay Ambulance Service was formed as a governmental unit with the State of Michigan back in 1985. The State of Michigan recognizes the Service as a governmental unit and not a non-profit organization. We were given during our audit an IRS Determination Letter from 1989 stating that they received an application from the Service and were recognized as a Non-profit organization. We believe the application the Service sent at that time to the IRS was incorrect or flawed, and the IRS relied on this flawed application in granting Non-profit status. We recommend contacting the IRS and informing them that you are recognized as a governmental unit in the State of Michigan and that the application sent in 1989 was incorrect or flawed.

Is the Service Free of Any Indications of Fraud or Illegal Acts

Our audit was not for the purpose of identifying fraud or illegal acts. The purpose of our audit is to give an opinion that the financial statements are presented fairly in accordance with generally accepted accounting principles. We are, however, required to inquire of the Service's board members and employees to determine if they have any direct knowledge or suspicions of fraud. The respondents of our fraud inquiries did not indicate a belief that fraud existed. However, a former Manager/Director sued the Service for wrongful discharge, and in her suit, she alleges a number of complaints of wrongdoing that may rise to the level of fraudulent behavior. Given the Service's current financial condition, we recommend looking into seeking restitution if any of these complaints have merit.

Restriction on Use

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

Very truly yours,

Hammerbacher & Co., PLLC

Freeland, Michigan
April 15, 2024