



COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE
AT THE CONCLUSION OF THE AUDIT

To the Village Council
Village of Northport
Leelanau County
Northport, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Village of Northport for the sixteen months ended June 30, 2024. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated September 5, 2024. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Matters

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Village of Northport 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 2023-2024. We noted no transactions entered into by the Village 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 estimate affecting the governmental and business-type activities of the Village of Northport's financial statements was:

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. We evaluated the methods, assumptions, and data used to develop the estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

The financial statement disclosures are neutral, consistent and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. We detected various material misstatements as a result of our audit procedures that were corrected by management. The material adjustments made were a result of converting the entity's financial records from cash basis to modified accrual basis of accounting, providing client assistance as the client knew the adjustment was necessary but requested our assistance, and auditor proposed material adjustments related to the Village's debt service fund.

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 January 15, 2025.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Village of Northport's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

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

During the course of our audit of the basic financial statements of the Village of Northport for the sixteen months ended June 30, 2024, we noted the following items which we feel deserve comment:

Budgeting

During the course of our audit, it was noted that several activities within the General Fund were over budget by immaterial amounts. We recommend the Council monitor its budget on a monthly basis and amend the budget as soon as it becomes apparent expenditures will exceed appropriations to mitigate the risk of being overbudget by larger variances in the future.

Sales Tax

We noted several instances of sales tax being paid or reimbursed. The Village is exempt from sales tax and should not pay or reimburse sales tax.

Equipment Rent

The State of Michigan has established guidelines for renting equipment between funds of a governmental entity to ensure abuse of this practice does not occur. This is specifically important for compliance with Act 51 reporting with the Michigan Department of Transportation (MDOT) where funds are restricted for specific purposes. Equipment rent payments should be done using rates from MDOT Schedule C Report 375 and based on actual hourly usage of equipment. Currently the Village is paying an annual equipment rent amount but has no documentation to support this amount. As a result during our audit, we were not able to test equipment rents. We recommend the Village begin using established rates and tracking equipment usage and making payments based on calculations to ensure compliance. We can provide further guidance upon request.

Interest Rates and Return on Investments

Market interest rates are currently significantly higher than what the Village is currently earning, which for a majority of its cash is 0%. The Village should look into ways to increase interest earnings. There is great potential for the Village to earn significantly more in investment income than the approximate \$1,900 earned from a combination of checking, savings, and certificate of deposit accounts.

Capitalization Policy

During the audit, it came to our attention that the Village does not have a formal written capitalization policy. The Village is required by GASB Statement 34 to adopt a formal capitalization policy. We recommend this policy be drafted and adopted. According to the prior audit, the Village capitalizes individual assets with a cost of more than \$1,000 but we highly recommend that threshold be set at \$5,000.

Automated Clearing House (ACH) Policy

Public Act 738 of 2002 requires a local unit of government to adopt an ACH policy related to engaging in electronic banking transactions. We recommend the Village adopt such a policy.

Investment Policy

Public Act 20 of 1943, as amended requires a local unit of government to adopt an investment policy that establishes the investments the Village can invest in. We recommend the Village adopt such a policy.

Special Assessment Balance

There is an immaterial difference in what Leelanau Township, which collects and remits special assessments to the Village, and the Village show as the balance of sewer special assessments. We recommend the Township and Village investigate the difference as soon as possible but at a minimum before collection of the special assessments is complete.

Other Matters

We applied certain limited procedures to the management discussion and analysis and the budgetary comparison schedule, which are required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding the methods of preparing the information and comparing information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

We were engaged to report on the combining nonmajor fund financial statements, which accompany the financial statements but are not RSI. With respect to this supplementary information, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, 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 supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

Restriction on Use

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

UHY LLP

Cadillac, Michigan
January 15, 2025