

April 27, 2023

To the Honorable Mayor,
City Commissioners and City Manager
City of Key West, Florida

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 City of Key West, Florida, (the "City") as of and for the year ended September 30, 2022. However, we did not audit the financial statements of the Pension Trust Fund for Police Officers and Firefighters, which represent 67 percent, 66 percent, and 73 percent, respectively, of the assets, net position, and total additions of the Fiduciary Funds as of September 30, 2022, and the respective changes in financial position for the year ended. Also, we did not audit the financial statements of The Housing Authority of the City of Key West, Florida, which is the sole discretely presented component unit, as of and for the year ended December 31, 2021. Those statements were audited by other auditors whose reports have been furnished to us, and our opinions, insofar as it relates to the amounts included for the Pension Trust Fund for Police Officers and Firefighters and The Housing Authority of the City of Key West, Florida, are based solely on the reports of the other auditors. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, *Government Auditing Standards*, Uniform Guidance, and Chapter 10.550, *Rules of the Florida Auditor General*, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our engagement letter to you dated December 29, 2021. 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 City 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 ended September 30, 2022, except for the implementation of GASB Statement No. 87, *Leases*. 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 sensitive estimates affecting the City's financial statements were as follows:

- The fair value of investments held at year-end - In accordance with GASB Statement No. 40, *Deposit and Investment Risk Disclosures* and GASB Statement No. 72, *Fair Value Measurement and Application*, we have included information to aid the reader in understanding the City's investment portfolio.

- *Reserve for uncollectible accounts related to charges for services and other receivable balances* - Management reviews its allowance provision on an annual basis based on collection history, current economic conditions, and other factors.
- *Depreciation of capital assets* - Depreciation is provided on a straight-line basis over the respective estimated useful lives of capital assets. The City has informed us they used all relevant facts available to them at the time of acquisition to make the best judgments about the depreciation methods and estimated useful lives of capital assets.
- *Net pension liability (asset) related to the General Employees Retirement Plan and the Police Officers and Firefighters Retirement Plan* - The City contracted the services of pension consultants/actuaries and properly recorded the required activity to the City's accounting records in accordance with GASB Statement No. 68, *Accounting and Financial Reporting for Pensions - An Amendment of GASB Statement No. 27* and other applicable governmental accounting pronouncements.
- *Net OPEB obligation (asset)* - In Florida, state statutes require that the employer make health insurance coverage available to retirees at the employer's group rate. This creates an implicit cost arising as a result of the blended rate premium since retiree health care costs, on average, are higher than those of active employee healthcare costs. The City obtained an actuarial valuation to disclose and record its estimated costs and liability (asset) in accordance with the requirements of GASB Statement No. 75, *Accounting and Financial Reporting for Post-Employment Benefits Other than Pensions (OPEB)*.
- *Incurred but not reported liability related to the City's claims in the Insurance Fund* - The City contracted the services of a risk consultant/actuary and properly recorded the recommended reserve to the City's accounting records in accordance with GASB Statement No. 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues*.
- *GASB 87, Leases* - The City's lease receivable is measured at the present value of lease payments expected to be received during the lease term. The City may receive variable lease payments that are dependent upon the lessee's revenue, which are recorded as an inflow of resources in the period the payment is received. In addition, a deferred inflow of resources is recorded at the initiation of the lease in an amount equal to the initial recording of the lease receivable, which is amortized on a straight-line basis over the term of the lease arrangement(s).

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. Management has corrected all such misstatements. A detailed list of adjusting journal entries was provided to management and is also available upon request.

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 27, 2023.

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 City’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 City’s auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Matters

We applied certain limited procedures to the management’s discussion and analysis, and the schedules related to pensions and other post-employment benefits, 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 the information for consistency with management’s responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

We were engaged to report on supplementary information (combining and individual nonmajor fund financial statements, budgetary comparison schedules, and the schedule of expenditures of federal awards and state financial assistance) 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.

We were not engaged to report on the introductory and statistical sections, which accompany the financial statements but are not RSI. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Restriction on Use

This information is intended solely for the information and use of the Members 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.

Very truly yours,

KEEFE McCULLOUGH