

# **The City of Coral Gables, Florida**

Report to the Honorable Mayor and  
Members of the City Commission  
March 29, 2023

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The Honorable Mayor and Members of the City Commission  
Coral Gables, Florida

Attention: Honorable Mayor and Members of the City Commission

We are pleased to present this report related to our audit of the financial statements of the City of Coral Gables, Florida (the City) as of and for the year ended September 30, 2022. This report summarizes certain matters required by professional standards to be communicated to you in your oversight responsibility for the City's financial reporting process.

This report is intended solely for the information and use of the Mayor and Members of the City Commission and management, and is not intended to be, and should not be, used by anyone other than these specified parties. It will be our pleasure to respond to any questions you have about this report. We appreciate the opportunity to continue to be of service to the City.

## TABLE OF CONTENTS

Required Communications	1-3
Significant Accounting Estimates	4-7
Exhibits	
Exhibit A—Significant Written Communications Between Management and Our Firm	
• Representation Letters	
• 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 <i>Government Auditing Standards</i>	

## REQUIRED COMMUNICATIONS

Generally accepted auditing standards (AU-C 260, *The Auditor's Communication With Those Charged With Governance*) require the auditor to promote effective two-way communication between the auditor and those charged with governance. Consistent with this requirement, the following summarizes our responsibilities regarding the basic financial statement audit as well as observations arising from our audit that are significant and relevant to your responsibility to oversee the financial and related compliance reporting process.

### **Our Responsibilities With Regard to the Financial Statement and Compliance Audit**

Our responsibilities under auditing standards generally accepted in the United States of America and *Government Auditing Standards* issued by the Comptroller General of the United States have been described to you in our arrangement letter dated September 20, 2022. Our audit of the basic financial statements does not relieve management or those charged with governance of their responsibilities, which are also described in that letter.

### **Overview of the Planned Scope and Timing of the Financial Statement Audit**

We have issued a separate communication dated February 1, 2023, regarding the planned scope and timing of our audit and identified significant risks.

### **Accounting Policies and Practices**

#### **Preferability of Accounting Policies and Practices**

Under generally accepted accounting principles, in certain circumstances, management may select among alternative accounting practices. In our view, in such circumstances, management has selected the preferable accounting practice.

#### **Adoption of, or Change in, Accounting Policies**

Management has the ultimate responsibility for the appropriateness of the accounting policies used by the City. The City adopted Governmental Accounting Standards Board (GASB) Statement 87, *Leases* during the current period which resulted in a restatement of the financial statements as of October 1, 2021. Our opinion is not modified with respect to this matter. The City did not adopt any other significant new accounting policies, nor have there been any changes in existing significant accounting policies during the current period.

#### **Significant Accounting Policies**

We did not identify any significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

#### **Significant or Unusual Transactions**

We did not identify any significant or unusual transactions or significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

#### **Management's Judgments and Accounting Estimates**

Summary information about the process used by management in formulating particularly sensitive accounting estimates and about our conclusions regarding the reasonableness of those estimates is in the attached Summary of Significant Accounting Estimates.

#### **Basis of Accounting**

The basic financial statements were prepared on the assumption that the City will continue as a going concern.

## Audit Adjustments and Uncorrected Misstatements

There were no audit adjustments made to the original trial balance presented to us to begin our audit.

We are not aware of any uncorrected misstatements other than misstatements that are clearly trivial.

## Departure From the Auditor's Standard Report

### Reporting – Expected Emphasis-of-Matter Paragraph

As discussed in Note 1 to the basic financial statements, the City adopted GASB 87, *Leases* as of October 1, 2021. As a result of the adoption, the City restated the beginning assets and liabilities of the governmental activities, business-type activities, general fund and the parking fund, and recorded other lease-related items in the financial statements. Our opinions are not modified with respect to this matter. In light of this matter, we have included an emphasis of matter paragraph in the auditor's report.

Below is the paragraph that is included in the auditor's report:

### Emphasis of Matter

As discussed in Note 1 to the basic financial statements, the City adopted GASB 87, *Leases* as of October 1, 2021. As a result of the adoption, the City restated the beginning assets and liabilities of the governmental activities, business-type activities, general fund and the parking fund, and recorded other lease-related items in the financial statements. Our opinions are not modified with respect to this matter.

## Other Information in Documents Containing Audited Financial Statements

Our responsibility for other information in documents containing the City's audited basic financial statements is to read the information and consider whether its content or manner of its presentation is materially inconsistent with the financial information covered by our auditor's report or whether it contains a material misstatement of fact. We read the introductory section, statistical section and combining fund financial statements and schedules which are presented for purposes of additional analysis and are not a required part of the basic financial statements. We did not identify material inconsistencies with the audited basic financial statements.

## Observations About the Audit Process

### Disagreements With Management

We encountered no disagreements with management over the application of significant accounting principles, the basis for management's judgments on any significant matters, the scope of the audit or significant disclosures to be included in the basic financial statements.

### Consultations With Other Accountants

We are not aware of any consultations management had with other accountants about accounting or auditing matters.

### Significant Issues Discussed With Management

No significant issues arising from the audit were discussed or were the subject of correspondence with management.

### Significant Difficulties Encountered in Performing the Audit

We did not encounter any significant difficulties in dealing with management during the audit.

## Internal Control Matters

The first report listed below is included with Exhibit A. We will also issue, under separate cover, the other reports listed below in connection with our audit, as required by Government Auditing Standards, Uniform Guidance, and Chapter 10.550, Rules of the Auditor General of the State of Florida:

- 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*
- Independent Auditor's Report on Compliance for Each Major Federal Program; Report on Internal Control Over Compliance; and Report on the Schedule of Expenditures of Federal Awards as Required by the Uniform Guidance
- Management Letter in Accordance with Chapter 10.550, *Rules of the Auditor General of the State of Florida*.

## Shared Responsibilities for Independence

Independence is a **joint responsibility** and is managed most effectively when management, those charged with governance, audit committees, and audit firms work together in considering compliance with AICPA and *Government Accountability Office (GAO)* independence rules. For RSM to fulfill its professional responsibility to maintain and monitor independence, management, those charged with governance, and RSM each play an important role.

### Our Responsibilities

- AICPA and GAO rules require independence both of mind and in appearance when providing audit and other attestation services. RSM is to ensure that the AICPA and GAO's General Requirements for performing non-attest services are adhered to and included in all letters of engagement.
- Maintain a system of quality control over compliance with independence rules and firm policies.

### The City's Responsibilities

- Timely inform RSM, before the effective date of transactions or other business changes, of the following:
  - New affiliates, directors, officers or person in financial reporting and compliance oversight roles.
  - Changes in the reporting entity impacting affiliates such as related entities, investments, joint ventures, component units and jointly governed organizations.
- Provide necessary affiliate information such as new or updated structure charts, as well as financial information required to perform materiality calculations needed for making affiliate determinations.
- Understand and conclude on the permissibility, prior to the City and its affiliates, officers, directors or persons in a decision-making capacity, engaging in business relationships with RSM.
- Not entering into arrangements of nonaudit services resulting in RSM being involved in making management decisions on behalf of the City.
- Not entering into relationships resulting in RSM, RSM covered persons or their close family members, temporarily or permanently acting as an officer, director or person in an accounting, financial reporting or compliance oversight role at the City.

## Significant Written Communications Between Management and Our Firm

The representations letter provided to us by management are attached as Exhibit A.

## SIGNIFICANT ACCOUNTING ESTIMATES

Accounting estimates are an integral part of the preparation of financial statements and are based upon management's current judgment. The process used by management encompasses their knowledge and experience about past and current events, and certain assumptions about future events. You may wish to monitor throughout the year the process used to determine and record these accounting estimates. The following summarizes the significant accounting estimates reflected in the City's September 30, 2022 basic financial statements.

Significant Accounting Estimates	
<b>Accounting for Self-Insurance Liabilities</b>	
<b>Accounting policy</b>	The City is partially self-insured for general and auto liability, property, workers' compensation, and employees' health and dental. The accrued liability for estimated claims represents an estimate of the eventual loss on claims, including claims incurred but not yet reported.
<b>Management's estimation process</b>	The City utilizes the services of an actuary to assist in developing any risk reserves for general and auto liability, property and workers' compensation. A look back calculation is performed for employees' health and dental insurance for incurred but not reported amounts.
<b>Basis for our conclusion on the reasonableness of the estimate</b>	We have audited the underlying data supporting the estimates and reviewed management's methodology, including evaluating the actuarial reports and assumptions used which appears reasonable and consistently applied, and have deemed the resulting estimates to be reasonable.
<b>Accounting for Pension Plans and Related Net Pension Liabilities</b>	
<b>Accounting policy</b>	The net pension liabilities and related pension amounts are actuarially determined in accordance with the parameters established by the Governmental Accounting Standards Board. The difference between total pension liability and plan fiduciary net position at each plans' measurement date and any associated deferred outflows/inflows as of the period ended are recognized in the financial statements.
<b>Management's estimation process</b>	City management and/or the pension plans' management, with input from its actuary, developed the actuarial assumptions based on relevant criteria. City management reviewed and approved the financial statement estimates derived from the pension plans' actuarial reports.
<b>Basis for our conclusion on the reasonableness of the estimate</b>	We have audited the underlying data supporting the estimate and reviewed management's methodology, including evaluating the actuarial reports and assumptions used which appears reasonable and consistently applied, and have deemed the resulting estimates to be reasonable.

<b>Significant Accounting Estimates</b>	
<b>Depreciation of Capital Asset</b>	
<b>Accounting policy</b>	Depreciation on capital assets is provided using the straight-line method. The depreciable life of capital assets is established based on management's estimate of the useful lives of the assets.
<b>Management's estimation process</b>	Depreciation of capital assets is determined using the straight-line method of depreciation over the estimated useful lives of the asset, as assigned by management.
<b>Basis for our conclusion on the reasonableness of the estimate</b>	We have audited the underlying data supporting the estimate and reviewed management's methodology which appears properly and consistently applied and have deemed the resulting estimate to be reasonable.
<b>Allowance for Doubtful Accounts</b>	
<b>Accounting policy</b>	All trade and other receivables are shown net of an allowance for uncollectible amounts to arrive at the net realizable value.
<b>Management's estimation process</b>	Receivables are analyzed for their collectability based on the terms and conditions stated in individual agreements. In addition to receivables specifically identified as uncollectible, a general allowance is calculated based on the City's historical experience.
<b>Basis for our conclusion on the reasonableness of the estimate</b>	We have audited the underlying data supporting the estimate and reviewed management's methodology which appears properly and consistently applied and have deemed the resulting estimate to be reasonable.
<b>Accounting for Other Post-Employment Benefits</b>	
<b>Accounting policy</b>	Total other postemployment benefits (OPEB) liabilities, related deferred OPEB amounts and expenses are actuarially determined in accordance with the parameters established by the GASB.
<b>Management's estimation process</b>	Management with input from its OPEB actuary developed the actuarial assumptions based on relevant criteria. Management reviewed and approved the financial statement estimates derived from the OPEB actuarial report.
<b>Basis for our conclusion on the reasonableness of the estimate</b>	We have audited the underlying data supporting the estimate and reviewed management's methodology which appears properly and consistently applied and have deemed the resulting estimate to be reasonable.



**Significant Accounting Estimates**

**Investment Valuation**

<b>Accounting policy</b>	Investments are reported at fair value.
<b>Management’s estimation process</b>	The City engages an external investment consultant to perform a valuation assessment of their investments.
<b>Basis for our conclusion on the reasonableness of the estimate</b>	We tested the values of a sample of investment securities and concluded that the values as reported are reasonable.

**Accounting for Leases**

<b>Accounting policy</b>	<p><b>Lessee</b> At the commencement of a lease, the City initially measures the lease liability at the present value of payments expected to be made during the lease term. Subsequently, the lease liability is reduced by the principal portion of lease payments made. The leased asset is initially measured at the amount of the lease liability, and as applicable, less lease payments made on or before the lease commencement date, plus any initial direct costs ancillary to placing the underlying asset into service, less any lease incentives received at or before the lease commencement date. Subsequently, the leased asset is amortized on a straight-line basis over the shorter of the lease term or the useful life of the underlying asset.</p> <p><b>Lessor</b> At the commencement of a lease, the City initially measures the lease receivable at the present value of payments expected to be received during the lease term, reduced by any provision for uncollectible amounts, if applicable. Any initial direct costs required to be paid by the City are expensed in the period incurred. Subsequently, payments received are allocated first to any accrued interest receivable and then to the lease receivable. The deferred inflow of leased revenue is initially measured as the initial amount of the lease receivable, adjusted for lease payments received at or before the lease commencement date that relate to future periods, less any lease incentives paid to, or on behalf of, the lessee at or before the commencement of the lease term, if applicable. Subsequently, the deferred inflow of resources is recognized on a straight-line basis as revenue over the life of the lease term.</p>
<b>Management’s estimation process</b>	Management determines if any new leases meet the definition of a lease under GASB 87, <i>Leases</i> . If it meets the definition, the lease terms (commencement date, term period, payments, option periods, termination provisions, and discount rate) are evaluated and used to record the transaction in accordance with GASB 87, <i>Leases</i> . If the lease does not contain an explicit rate, the appropriate incremental borrowing rate that matches the lease term will be used.

**Basis for our conclusion  
on the reasonableness of  
the estimate**

We performed substantive test of details around the implementation of GASB 87, Leases, including a detail review of the right-to-use leased assets, lease payables, lease receivables, lease revenue and the related deferred inflows. Additionally, we reviewed the reasonableness of the incremental borrowing rate applied to various leases and concluded that the resulting estimates are reasonable.

Draft - For Discussion Purposes Only

## **EXHIBIT A**

### **Significant Written Communications Between Management and Our Firm**

**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**

**Independent Auditor's Report**

The Honorable Mayor and Members of the City Commission  
City of Coral Gables, Florida

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, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Coral Gables, Florida (the City) as of and for the year ended September 30, 2022, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated March xx, 2023. Our report includes a reference to other auditors who audited the financial statements of the City of Coral Gables Retirement Fund and the Police Officers' Pension Fund, as described in our report on the City's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors. The financial statements of the City of Coral Gables Retirement Fund were not audited in accordance with *Government Auditing Standards*, and accordingly this report does not include reporting on internal controls over financial reporting or instances of reportable noncompliance associated with the City of Coral Gables Retirement Fund. Our report also included an emphasis of matter paragraph for the adoption of Governmental Accounting Standards Board (GASB) Statement No. 87, *Leases*. The adoption of this statement resulted in the restatement of the financial statements as of October 1, 2021.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the City'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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City'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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the City'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 determination of financial statement amounts. 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*.

**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.

Miami, Florida  
March xx, 2023