



Members American Institute of Certified Public Accountants  
and Kentucky Society of Certified Public Accountants

## CPAs | Consultants

February 7, 2024

To the Mayor, Board of Commissioners  
and City Manager Thomas J. Fromme  
City of Newport  
998 Monmouth Street  
Newport, Kentucky 41071

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 Newport, Kentucky for the year ended June 30, 2023. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and *Government Auditing Standards* and the Uniform Guidance, 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 May 1, 2023. Professional standards also require that we communicate to you the following information related to our audit.

### **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 of Newport, Kentucky are described in Note A to the financial statements. As described in Note A to the financial statements, the City of Newport, Kentucky implemented GASB Statement No. 96, *Subscription-based Information Technology Arrangements* in 2023. We noted no transactions entered into by the City of Newport, Kentucky 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 of Newport, Kentucky's financial statements were:

1. Management's estimate of the depreciation expense is based on the cost of a capital asset divided by the useful life of the capital assets, using a straight line method.
2. Management's estimate of the Retirement Fund's net pension liability is based on an actuarial analysis performed at June 30, 2023.
3. Management's estimate of the net pension and OPEB liabilities for the other funds is based on actuarial information provided by Kentucky Retirement Systems (KRS) and audited by another auditor.

We evaluated the key factors and assumptions used to develop these 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. Management has corrected all such misstatements. The following material misstatement detected as a result of audit procedures was corrected by management:

- Refuse Fund – Adjustment of \$330,228 to move the purchase of a vehicle from expense into capital assets.

## **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 February 7, 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 City of Newport, Kentucky'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.

## **Items 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 City of Newport, Kentucky's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

## **Supplementary Information**

We applied certain limited procedures to the management's discussion and analysis, budgetary comparison schedules, pension schedules, and OPEB schedules, 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 the capital projects fund budgetary comparison schedule and the schedule of expenditures of federal awards, 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.

### **Other Matter**

The City's Employee Benefits Fund is an internal service fund that is used for the City's health and dental costs. Internal service funds are used to report activity that provides goods or services to other funds and departments of the government on a cost-reimbursement basis. The idea is that each department utilizing health and dental benefits should be charged based on the cost of those services. Failure to charge the total cost of services results in underreporting employee benefit costs in the department. During the year ended June 30, 2023, the General Fund was required to make a \$667,000 transfer to the Employee Benefits Fund to cover costs in excess of the premiums charged to the departments of the City. We recommend that the City consider increasing the premiums charged to the departments of the City to a level that will cover the expenses of the Employee Benefits Fund.

### **Restriction on Use**

This information is intended solely for the information and use of Board of Commissioners and management of the City of Newport, Kentucky and is not intended to be, and should not be, used by anyone other than these specified parties.

Sincerely,

**RFH**

RFH, PLLC  
Lexington, Kentucky  
February 7, 2024