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January 19, 2004

LF022504-08

City Council  
Mayor Jim Shaw  
and  
James Preston, Finance Officer  
City of Rapid City  
300 Sixth Street  
Rapid City, SD 57701

Dear Mayor Shaw, Jim, and Council:

We are pleased to confirm our understanding of the services we are to provide for **CITY OF RAPID CITY** (the City) for the year ended December 31, 2003. We will audit your general purpose financial statements as of and for the year end stated above. We understand that the financial statements will be presented in accordance with the financial reporting model described in GASB Statement No. 34. Also, the document we submit to you will include the Schedule of Expenditures of Federal Awards and Required Supplementary that will be subjected to the auditing procedures applied in our audit of the general purpose financial statements.

The objective of our audit will be the expression of an opinion as to whether the general purpose financial statements are fairly presented, in all material respects, in conformity with accounting principles generally accepted in the United States of America and to report on the fairness of the additional information referred to in the first paragraph when considered in relation to the general purpose financial statements taken as a whole. The objective also includes reporting on:

- Internal control related to the financial statements and compliance with laws, regulations, and the provisions of contracts or grant agreements, noncompliance with which could have a material effect on the financial statements in accordance with Government Auditing Standards.
- Internal control related to major programs and an opinion (or disclaimer of opinion) on compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a direct and material effect on each major program in accordance with the Single Audit Act Amendments of 1996 and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations.

The reports on internal control and compliance will each include a statement that the report is intended for the information of the governing board, management, specific legislative or regulatory bodies, federal awarding agencies, and if applicable, pass-through entities, and is not intended to be, and should not be, used by anyone other than these specified parties.

Our audit will be conducted in accordance with auditing standards generally accepted in the United States of America; the standards for financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; the Single Audit Act Amendments of 1996; and the provisions of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and will include tests of the accounting records of your organization, a determination of major program(s) in accordance with Circular A-133, and other procedures we consider necessary to enable us to express such an opinion and to render the required reports. If our opinion on the financial statements or the single audit compliance opinion is other than unqualified, we will fully discuss the reasons with you in advance. If, for any reason, we are unable to complete the audit or are unable to form or have not formed an opinion, we may decline to express an opinion or to issue a report as a result of this engagement.

Your management is responsible for establishing and maintaining internal control and for compliance with the provisions of contracts, agreements, and grants. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of the controls. The objectives of internal control are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, that transactions are executed in accordance with management's authorizations and recorded properly to permit the preparation of general purpose financial statements in accordance with generally accepted accounting principles, and that federal award programs are managed in compliance with applicable laws and regulations and the provisions of contracts and grant agreements.

Management is responsible for making all financial records and related information available to us. We understand that you will provide us with the basic information required for our audit and that you are responsible for the accuracy and completeness of that information. We will advise you about appropriate accounting principles and their application and will assist in the preparation of your financial statements, including the Schedule of Expenditures of Federal Awards, but the responsibility for the financial statements remains with you. This responsibility includes the establishment and maintenance of adequate records and effective internal control over financial reporting and compliance, the selection and application of accounting principles, and the safeguarding of assets. Management is responsible for adjusting the financial statements to correct material misstatements and for affirming to the auditor in the representation letter that the effects of any uncorrected misstatements aggregated by the auditor during the current engagement and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the financial statements taken as a whole. You are responsible for the design and implementation of programs and controls to prevent and detect fraud, and for informing us about all known or suspected fraud affecting the government involving (a) management, (b) employees who have significant roles in internal control, and (c) others where the fraud could have a material effect on the financial statements. You are also responsible for informing us of your knowledge of any allegations of fraud or suspected fraud affecting the government received in communications from employees, former employees, regulators, or others. In addition, you are responsible for identifying and ensuring that the entity complies with applicable laws and regulations. Additionally, as required by OMB Circular A-133, management is also responsible to follow up and take corrective action on reported audit findings and to prepare a summary schedule of prior audit findings and a corrective action plan. The summary schedule of prior audit findings should be available for our review at the beginning of field work.

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; therefore, our audit will involve judgment about the number of transactions to be examined and the areas to be tested. Also, we will plan and perform the audit to obtain reasonable, rather than absolute, assurance about whether the financial statements are free of material misstatement, whether caused by errors, fraudulent financial reporting, misappropriation of assets, or violations of laws or governmental regulations that are attributable to the entity or to acts by management or employees acting on behalf of the entity.

As required by the Single Audit Act Amendments of 1996 and OMB Circular A-133, our audit will include tests of transactions related to federal award programs for compliance with applicable laws and regulations and the provisions of contracts and grant agreements. Because an audit is designed to provide reasonable, but not absolute, assurance and because we will not perform a detailed examination of all transactions, there is a risk that material misstatements or noncompliance may exist and not be detected by us. In addition, an audit is not designed to detect immaterial misstatements or violations of laws or governmental regulations that do not have a direct and material effect on the general purpose financial statements or major programs. However, we will inform you of any material errors and any fraudulent financial reporting or misappropriation of assets that comes to our attention. We will also inform you of any violations of laws or governmental regulations that come to our attention, unless clearly inconsequential. We will include such matters in the reports required for a Single Audit. Our responsibility as auditors is limited to the period covered by our audit and does not extend to matters that might arise during any later periods for which we are not engaged as auditors.

Our procedures will include tests of documentary evidence supporting the transactions recorded in the accounts, which may include tests of the physical existence of inventories and direct confirmation of receivables and certain other assets and liabilities by correspondence with selected individuals, creditors, and financial institutions. We will request written representations from your attorneys as part of the engagement, and they may bill you for responding to this inquiry. At the conclusion of our audit, we will also request certain written representations from you about the financial statements and related matters.

In planning and performing our audit, we will consider the internal control sufficient to plan the audit in order to determine the nature, timing, and extent of our auditing procedures for the purpose of expressing our opinions on your general purpose financial statements and on your compliance with requirements applicable to major programs.

We will obtain an understanding of the design of the relevant controls and whether they have been placed in operation, and we will assess control risk. Tests of controls may be performed to test the effectiveness of certain controls that we consider relevant to preventing and detecting errors and fraud that are material to the general purpose financial statements and to preventing and detecting misstatements resulting from illegal acts and other noncompliance matters that have a direct and material effect on the general purpose financial statements. Tests of controls relative to the financial statements are required only if control risk is assessed below the maximum level. Our tests, if performed, will be less in scope than would be necessary to render an opinion on the internal control, and accordingly, no opinion will be expressed in our report on internal control issued pursuant to Government Auditing Standards.

We will perform tests of controls, as required by OMB Circular A-133, to evaluate the effectiveness of the design and operation of controls that we consider relevant to preventing or detecting material noncompliance with compliance requirements applicable to each of your major federal awards programs. However, our tests will be less in scope than would be necessary to render an opinion on these controls, and accordingly, no opinion will be expressed in our report on internal control issued pursuant to OMB Circular A-133.

An audit is not designed to provide assurance on internal control or to identify reportable conditions. However, we will inform the governing body or audit committee of any matters involving internal control and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the general purpose financial statements. We will also inform you of any nonreportable conditions or other matters involving internal control, if any, as required by OMB Circular A-133.

Our audit will be conducted in accordance with the standards outlined above. As part of obtaining reasonable assurance about whether the general purpose financial statements are free of material misstatement, we will perform tests of your compliance with applicable laws and regulations and the provisions of contracts and agreements, including grant agreements. However, the objective of those procedures will not be to provide an opinion on overall compliance, and we will not express such an opinion in our report on compliance issued pursuant to Government Auditing Standards.

OMB Circular A-133 requires that we plan and perform the audit to obtain reasonable assurance about whether the auditee has complied with applicable laws and regulations and the provisions of contract and grant agreements applicable to major programs. Our procedures will consist of the applicable procedures described in the "OMB Circular A-133 Compliance Supplement" for the types of compliance requirements that could have a direct and material effect on each of your major programs. The purpose of our audit will be to express an opinion on your compliance with requirements applicable to major programs in our report on compliance issued pursuant to OMB Circular A-133.

It is our understanding that you have not requested that we extend our normal audit procedures to any special areas. If you are aware of any restrictions that might limit the scope of our testing, we ask that you bring them to our attention as soon as possible. Such restrictions, if significant, may preclude us from issuing an unqualified opinion.

We understand that your employees will type all cash or other confirmations we request and will locate any documents selected by us for testing. If your employees cannot accomplish these tasks when requested, we will perform them for an additional fee at our standard hourly rates.

At the conclusion of the engagement, we will complete the appropriate sections of and sign the Data Collection Form that summarizes our audit findings. We will provide the requested number of our reports to your organization. However, it is management's responsibility to submit the reporting package (including financial statements, Schedule of Expenditures of Federal Awards, summary schedule of prior audit findings, auditors' reports, and a corrective action plan) along with the Data Collection Form to the designated federal clearinghouse and, if appropriate, to pass-through entities. The Data Collection Form and the reporting package must be submitted within the earlier of 30 days after receipt of the auditors' reports or nine months after the end of the audit period, unless a longer period is agreed to in advance by the cognizant or oversight agency for audits. At the conclusion of the engagement, we will provide information to management as to where the reporting packages should be submitted and the number to submit.

The workpapers for this engagement are the property of Ketel Thorstenson, LLP, and constitute confidential information. However, we may be requested to make certain workpapers available to a cognizant or oversight agency for audit or its designee, a federal agency providing direct or indirect funding, or the U.S. General Accounting Office for purposes of a quality review of the audit, to resolve audit findings, or to carry out oversight responsibilities. We will notify you of any such request. If requested, access to such workpapers will be provided under the supervision of our audit personnel. Furthermore, upon request, we may provide photocopies of selected workpapers to the aforementioned parties. The parties may intend, or decide, to distribute the photocopies or information contained therein to others, including other governmental agencies.

The workpapers for this engagement will be retained for a minimum of three years after the date the auditors' report is issued or for any additional period requested by your oversight agency or pass-through entity. If we are aware that a federal awarding agency, pass-through entity, or auditee is contesting an audit finding, we will contact the party(ies) contesting the audit finding for guidance prior to destroying the workpapers.

We expect to begin our audit on approximately April or May 2004 and to issue our reports no later than August 31, 2004. This time schedule may be adjusted depending on timeliness of information obtained from you during the audit process. You may expect a senior staff and assistant auditors from our firm to be present in your office during the course of our fieldwork to promote continuity. We will make every reasonable effort to assign the same audit personnel from previous years to the current audit.

Our fees for these services will be based on our standard hourly rates plus out-of-pocket costs (such as postage, travel, telephone, etc.) except that we agree that our gross fee, including expenses, will not exceed \$35,000. The fee estimate is based on anticipated cooperation from your personnel and the assumption that unexpected circumstances will not be encountered during the audit. Such unexpected circumstances might include, for example, a greater than expected risk of material misstatement due to fraud. If significant additional time is necessary, we will discuss it with you and arrive at a new fee estimate before we incur the additional costs. Our fee includes additional time for the new audit requirements under SAS #96 and 99. In addition, our fee assumes there will be two major Federal programs to test under OMB A-133 requirements. Our invoices for these fees will be rendered each month as work progresses and are payable on presentation. In accordance with our firm policies, work may be suspended if your account becomes 60 days or more overdue and may not be resumed until your account is paid in full. If we elect to terminate our services for nonpayment, our engagement will be deemed to have been completed upon written notification of termination, even if we have not completed our reports. You will be obligated to compensate us for all time expended and to reimburse us for all out-of-pocket costs through the date of termination. At completion of the engagement, we will submit a final invoice which is due upon receipt.

This engagement includes only those services specifically described in this letter. Other services, such as accounting assistance or representations before regulatory bodies, will be billed separately.

Our audit engagement ends on delivery of our audit report. Any follow-up services that might be required will be a separate, new engagement and will be billed accordingly.

As part of this understanding, you agree to not offer employment to any of our professional staff members assigned to your audit for a 24-month period following the delivery of your audit report, unless you obtain written permission from the partner in-charge of this engagement.

If you intend to publish or otherwise reproduce the financial statements and make reference to our firm, you agree to furnish us with the printer's proofs for our review and approval before printing. You also agree to provide us with a copy of the final reproduced material for our approval before you distribute it.

In the event we are requested pursuant to subpoena or other legal process to produce documents relating to current or prior engagements for the organization in legal, administrative, arbitration, or similar proceedings to which we are not a party, the organization shall reimburse us at standard billing rates for our professional time and expenses, including reasonable attorney's fees incurred by us in responding to such requests.

We are independent within the meaning of the AICPA code of ethics.

Government Auditing Standards – 1994 Revision requires that we provide you with a copy of our most recent quality control review report. Our September 25, 2001, peer review report accompanies this letter.

We understand that our services are subject to advance approval by the Auditor General. Such approval should be requested by you directly to the Auditor General.

We appreciate the opportunity to be of service to your organization and believe this letter accurately summarizes the significant terms of our engagement. If you have any questions, please let us know. If you agree with the terms of our engagement as described in this letter, please sign the enclosed copy and return it to us.

Sincerely yours,

KETEL THORSTENSON, LLP



John B. Walker, CPA/Managing Partner

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This letter correctly sets forth our understanding of the engagement.

Approved:

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Governing Board Chairman

Date

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Mayor

Date

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Finance Officer

Date