



Ketel Thorstenson, LLP

Certified Public Accountants/Business & Personal Consultants

810 Quincy Street • PO Box 3140, Rapid City, South Dakota 57709

Telephone (605) 342-5630 • FAX (605) 342-2172 • e-mail ktllp@ktllp.com • www.ktllp.com

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April 16, 2014

City Council
Sam Kooiker, Mayor
Pauline Sumption, Finance Officer
City of Rapid City
300 Sixth Street
Rapid City, SD 57701

Partners

- John B. Walker
CPA
- Michael H. Finnegan
CPA
- F. Peter Bergman
CPA
- Rex P. Vigoren
CPA, PFS
- Paul J. Thorstenson, CPA, PC
d/b/a Paul J. Thorstenson
CPA/ABV, CVA
- Brent E. Siekman
MST, CPA
- Stephen M. Schacht
CPA
- Denise M. Webster
CPA, PFS
- Merle G. Karen
CPA
- Jean M. Smith
CPA
- Fred F. Krush, Sr.
CPA
- Clark J. Kraemer
CPA
- Joel D. DeVries
CPA
- Douglas A. Kenoyer
CPA
- Nina Braun
CPA
- Jennifer L. Konvalin
CPA
- Kevin D. Sickels
CPA

Of Counsel

- Richard L. Siekman
CPA
- Leroy B. Ketel
CPA, Retired

Dear City Council:

We are pleased to confirm our understanding of the services we are to provide for the City of Rapid City (the Organization) for the year ended December 31, 2013. We will audit the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information, which collectively comprise the entity's basic financial statements as of and for the year end stated above. Accounting standards generally accepted in the United States of America provide for certain required supplementary information (RSI), such as management's discussion and analysis (MD&A), to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. As part of our engagement, we will apply certain limited procedures to the RSI in accordance with auditing standards generally accepted in the United States of America. These limited procedures will consist of inquires 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 will not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance. The following RSI is required by accounting principles generally accepted in the United States of America (U.S. GAAP) and will be subjected to certain limited procedures, but will not be audited:

1. Management's Discussion and Analysis
2. Budgetary Comparison Schedule
3. OPEB – Schedule of Funding Progress

We have also been engaged to report on supplementary information other than RSI that also accompanies the Organization's financial statements. We will subject the following supplementary information to the auditing procedures applied in our audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America and will provide an opinion on it in relation to the financial statements as a whole.

1. Schedule of Expenditures of Federal Awards
2. Combining Statements
3. Budgetary Comparison Schedules – Nonmajor Governmental Funds
4. Introductory Section
5. Statistical Section

Audit Objectives

The objective of our audit will be the expression of opinions as to whether the financial statements are fairly presented, in all material respects, in conformity with U.S GAAP and to report on the fairness of the supplementary information referred to above when considered in relation to the financial statements as a whole. The objective also includes reporting on:

- Internal control related to the financial statements and compliance with the provisions of laws, regulations, contracts, and 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 paragraph that states that the purpose of the report is solely to describe (a) the scope of testing of internal control over financial reporting and compliance, and the result of that testing, and not to provide an opinion on the effectiveness of internal control over financial reporting or on compliance, (b) the scope of testing internal control over compliance for major programs and major program compliance, and the result of that testing, and to provide an opinion on compliance but not to provide an opinion on the effectiveness of internal control over compliance, and (c) that the report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering internal control over financial reporting and compliance and OMB Circular A-133 in considering internal control over compliance and major program compliance. The paragraph will also state that the report is not suitable for any other purpose.

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, and will include tests of accounting records, a determination of major programs in accordance with OMB Circular A-133, and other procedures we consider necessary to enable us to express such opinions and to render the required reports. Our audit will also include performing procedures and/or requesting other auditors to perform procedures on the financial information of the Museum Alliance of Rapid City to enable us to express such an opinion. We cannot provide assurance that unmodified opinions will be expressed. Circumstances may arise in which it is necessary for us to modify our opinions or add emphasis-of-matter or other-matter paragraphs. If our opinions on the financial statements or the Single Audit compliance opinions are other than unmodified, we will 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 opinions, we may decline to express opinions or to issue a report as a result of this engagement. The major programs to be tested in accordance with OMB Circular A-133 will be determined during fieldwork.

Management Responsibilities

Management is responsible for preparing the basic financial statements, schedule of expenditures of federal awards, and all accompanying information, as well as all representations contained therein. Management is also responsible for identifying government award programs and understanding and complying with the compliance requirements, and for preparation of the Schedule of Expenditures of Federal Awards in accordance with the requirements of OMB Circular A-133. You are responsible for making all management decisions and performing all management functions relating to the financial statements, Schedule of Expenditures of Federal Awards, and related notes and for accepting full responsibility for such decisions.

Further, you agree to assume all management responsibilities for any non-audit services we provide; oversee the services by designating an individual, preferably from senior management, who possesses suitable skill, knowledge, or experience; evaluate the adequacy and results of the services; and accepting responsibility for them. At the present time, other services provided by Ketel Thorstenson, LLP and its affiliates include KT Connections, Inc. telephone and hardware services.

Management is responsible for establishing and maintaining effective internal controls, including internal controls over compliance, and for evaluating and monitoring ongoing activities to help ensure that appropriate goals and objectives are met and that there is reasonable assurance that government programs are administered in compliance with compliance requirements. You are also responsible for the selection and application of accounting principles; for the preparation and fair presentation of the financial statements in conformity with U.S. GAAP; and for compliance with applicable laws and regulations and the provisions of contracts and grant agreements.

Management is also responsible for making all financial records and related information available to us, and for ensuring that management is reliable and financial information is reliable and properly recorded. You are also responsible for providing us with (1) access to all information of which you are aware that is relevant to the preparation and fair presentation of the financial statements, (2) additional information that we may request for the purpose of the audit, and (3) unrestricted access to persons within the government from whom we determine it necessary to obtain audit evidence.

Your responsibilities also include identifying significant vendor relationships in which the vendor has responsibility for program compliance and for the accuracy and completeness of that information. Management's responsibilities include adjusting the financial statements to correct material misstatements and confirming to us in the written management representation letter that the effects of any uncorrected misstatements aggregated by us during the current engagement and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the financial statements 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 or illegal acts affecting the Organization involving (1) management, (2) employees who have significant roles in internal control, and (3) others where the fraud or illegal act 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 Organization received in communications from employees, former employees, grantors, regulators, or others. In addition, you are responsible for identifying and ensuring that the entity complies with applicable laws, regulations, contracts, agreements, and grants. 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.

You are responsible for the preparation of the Schedule of Expenditures of Federal Awards (SEFA) in conformity with OMB Circular A-133 and all other supplementary information, which we have been engaged to report on, in conformity with U.S. GAAP. You agree to include our report on the supplementary information in any document that contains, and indicates that we have reported on, such information. You also agree to include the audited financial statements with any presentation of the SEFA or other supplementary information that includes our report thereon. Your responsibilities include acknowledging to us in the representation letter that (a) you are responsible for presentation of the SEFA in accordance with OMB Circular A-133 and other supplementary information in accordance with GAAP; (b) that you believe the SEFA and other supplementary information, including its form and content, are fairly presented in accordance with OMB Circular A-133 and GAAP, respectively; (c) that the methods of measurement or presentation have not changed from those used in the prior period (or, if they have changed, the reasons for such changes); and (d) you have disclosed to us any significant assumptions or interpretations underlying the measurement or presentation of the information.

Management is responsible for establishing and maintaining a process for tracking the status of audit findings and recommendations. Management is also responsible for identifying for us previous financial audits, attestation engagements, performance audits, or other studies related to the objectives discussed in the Audit Objectives section of this letter. This responsibility includes relaying to us corrective actions taken to address significant findings and recommendations resulting from those audits or other engagements. You are also responsible for providing management's views on our current findings, conclusions, and recommendations, as well as your planned corrective actions for the report, and for the timing and format for providing that information.

Audit Procedures - General

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. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. 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 from (1) errors, (2) fraudulent financial reporting, (3) misappropriation of assets, or (4) 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. Because the determination of abuse is subjective, *Government Auditing Standards* do not expect auditors to provide reasonable assurance of detecting abuse.

Because of the inherent limitations of an audit, combined with the inherent limitations of internal control, 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, even though the audit is properly planned and performed in accordance with U.S. generally accepted auditing standards and *Government Auditing Standards*. 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 financial statements or major programs. However, we will inform the appropriate level of management of any material errors, fraudulent financial reporting, or misappropriation of assets that come to our attention. We will also inform the appropriate level of management of any violations of laws or governmental regulations that come to our attention, unless clearly inconsequential, and of any material abuse that comes to our attention. 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 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, and 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, funding sources, creditors, and financial institutions. We may 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 require certain written representations from you about the financial statements and related matters.

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.

Audit Procedures – Internal Controls

Our audit will include obtaining an understanding of the entity and its environment, including internal control, sufficient to assess the risks of material misstatement of the financial statements and to design the nature, timing, and extent of further audit procedures. 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 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 financial statements. Our tests, if performed, will be less in scope than would be necessary to render an opinion on internal control and, accordingly, no opinion will be expressed in our report on internal control issued pursuant to *Government Auditing Standards*.

As required by OMB Circular A-133, we will perform tests of controls over compliance 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 major federal award program. However, our tests will be less in scope than would be necessary to render an opinion on those 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 significant deficiencies or material weaknesses. However, during the audit, we will communicate to management and those charged with governance internal control related matters that are required to be communicated under AICPA professional standards, *Government Auditing Standards*, and OMB Circular A-133.

Audit Procedures - Compliance

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we will perform tests of your compliance with provisions of applicable laws, regulations, 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 also plan and perform the audit to obtain reasonable assurance about whether the auditee has complied with applicable laws and regulations and the provisions of contracts and grant agreements applicable to major programs. Our procedures will consist of tests of transactions and other 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 these procedures 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.

Engagement Administration, Fees, and Other

We understand that your employees will prepare all 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. 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 corrective action plan) along with the Data Collection Form to the federal audit clearinghouse and, if applicable, to pass-through entities. We will coordinate with you the electronic submission and certification. 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 audit.

John B. Walker is the engagement partner and is responsible for supervising the engagement and signing the report. We expect to begin our audit June 2014 and to issue our reports no later than September 30, 2014. You may expect a senior staff and assistant auditors from our firm to be present in your office during the course of our field work. 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 based on our previous proposal will be \$43,000. The fee assumes three major federal programs. Additional major programs will increase the fee by \$2,500 per additional major federal programs, except FEMA program will be at \$5,500 due to complexities of the program. 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 keep you informed of any problems we encounter and our fee will be adjusted accordingly. 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, even if we have not issued 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.

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. The terms and conditions of that new engagement will be governed by a new, specific engagement letter for that service.

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 at our standard rates plus out of pocket costs.

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. With regard to electronic dissemination of audited financial statements, including financial statements published electronically on your website, you understand that electronic sites are a means of distributing information and, therefore, we are not required to read the information contained in those sites or to consider the consistency of other information in the electronic site with the original document.

The audit documentation for this engagement is the property of Ketel Thorstenson, LLP, and constitutes confidential information. However, pursuant to authority given by law or regulation, we may be requested to make certain audit documentation available to a cognizant or oversight agency for audit or its designee, a federal agency providing direct or indirect funding, or the U.S. Government Accountability 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 audit documentation will be provided under the supervision of our audit personnel. Furthermore, upon request, we may provide photocopies of selected audit documentation to these parties. The parties may intend, or decide, to distribute the photocopies or information contained therein to others, including other governmental agencies.

The audit documentation for this engagement will be retained for a minimum of five years after the report release date or for any additional period requested by your oversight agency or grantor agency. 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 audit documentation.

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 Professional Conduct.

Government Auditing Standards require that we provide you with a copy of our most recent external peer review report, and any subsequent peer review reports received during the period of the contract, when requested by you. Our September 4, 2013, 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.

