



Ketel Thorstenson, LLP  
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March 20, 2024

City Commission  
Jessica McKeown, Finance Officer  
102 Sherman Street  
Deadwood, SD 57732

Dear City Commission and Finance Officer McKeown:

We are pleased to confirm our understanding of the services we are to provide for the City of Deadwood (the City) for the year ended December 31, 2021.

**Audit Scope and Objectives**

We will audit the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information, and the disclosures, 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. The City has elected to omit all Required Supplementary Information, including the Management Discussion and Analysis (MD&A), Budgetary Comparison Schedules, Schedule of the City's Proportionate Share of the Net Pension Asset (Liability), and Schedule of the City Contributions.

The objectives of our audit are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and issue an auditor's report that includes our opinion about whether your financial statements are fairly presented, in all material respects, in conformity with accounting principles generally accepted in the United States of America (GAAP); and report on the fairness of the supplementary information referred to in the second paragraph when considered in relation to the financial statements as a whole. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with auditing standards generally accepted in the United States of America (GAAS) and *Government Auditing Standards* will always detect a material misstatement when it exists. Misstatements, including omissions, can arise from fraud or error and are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment of a reasonable user made based on the financial statements.

The objectives also include reporting on internal control over financial reporting and compliance with provisions of laws, regulations, contracts, and award agreements, noncompliance with which could have a material effect on the financial statements in accordance with *Government Auditing Standards*.

### **Auditor's Responsibilities for the Audit of the Financial Statements**

We will conduct our audit in accordance with GAAS and the standards for financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and will include tests of your accounting records of the City and other procedures we consider necessary to enable us to express such opinions. As part of an audit in accordance with GAAS and *Government Auditing Standards*, we exercise professional judgment and maintain professional skepticism throughout the audit.

We will evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management. We will also evaluate the overall presentation of the financial statements, including the disclosures, and determine whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation. We will plan and perform the audit to obtain reasonable 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) violation of laws or governmental regulations that are attributable to the City or to acts by management or employees acting on behalf of the City. Because the determination of waste and abuse is subjective, *Government Auditing Standards* do not expect auditors to perform specific procedures to detect waste or abuse in financial audits nor do they expect auditors to provide reasonable assurance of detecting waste or 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 an unavoidable risk that some material misstatements may not be detected by us, even though the audit is properly planned and performed in accordance with GAAS 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. However, we will inform the appropriate level of management of any material errors, fraudulent financial reporting, or misappropriation of assets that comes 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. 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.

We will also conclude, based on the audit evidence obtained, whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the City's ability to continue as a going concern for a reasonable period of time.

Our procedures may include tests of documentary evidence supporting the transactions recorded in the accounts, tests of the physical existence of inventories, and direct confirmation of receivables and certain assets and liabilities by correspondence with selected customers, creditors, and financial institutions. We may also request written representations from your attorneys as part of the engagement, and they may bill you for responding to this inquiry.

In designing our audit procedures, professional standards require us to evaluate the financial statements and assess the risk that a material misstatement could occur. Areas that are potentially more susceptible to misstatements, and thereby require special audit considerations, are designated as "significant risks." Although our audit planning has not yet been concluded, we anticipate the following significant risks of material misstatement will be identified:

1. Revenue recognition
2. Management override of controls

If we conclude that the above risks are no longer significant or if new significant risks are identified, we will communicate those to you as part of our planning process.

Our audit of the financial statements does not relieve you of your responsibilities.

### **Audit Procedures – Internal Control**

We will obtain an understanding of the City and its environment, including the system of internal control, sufficient to identify and assess the risks of material misstatement of the financial statements, whether due to error or fraud, and to design and perform audit procedures responsive to those risks and obtain evidence that is sufficient and appropriate to provide a basis for our opinions. 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*. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentation, or the override of internal control. An audit is not designed to provide assurance on internal control or to identify significant deficiencies or material weaknesses. Accordingly, we will express no such opinion. 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 and *Government Auditing Standards*.

### **Audit Procedures – Compliance**

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we will perform tests of the City's compliance with the provisions of applicable laws, regulations, contracts, agreements, and grants. However, the objective of our audit 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*.

### **Other Services**

We will assist in preparing the financial statements and related notes, including GASB 34 adjustments, of the City in conformity with GAAP based on information provided by you. There are no other non-audit services provided by Ketel Thorstenson, LLP and its affiliates.

These non-audit services do not constitute an audit under *Government Auditing Standards* and such services will not be conducted in accordance with *Government Auditing Standards*. We will perform the services in accordance with applicable professional standards. We, in our sole professional judgment, reserve the right to refuse to perform any procedures or take any action that could be construed as assuming management responsibilities.

You agree to assume all management responsibilities for the financial statement preparation and any other non-audit services we provide. You will be required to acknowledge in the management representation letter the services provided and that you have evaluated the adequacy of the services and reviewed and approved the results of the services and have accepted responsibility for them. Further, you agree to oversee the non-audit services by designating an individual, preferably from senior management, with suitable skill, knowledge, or experience; evaluate the adequacy and results of those services and accept responsibility for them.

### **Responsibilities of Management for the Financial Statements**

Our audit will be conducted on the basis that you acknowledge and understand your responsibility for designing, implementing, establishing, and maintaining internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error, and for evaluating and monitoring ongoing activities to help ensure that appropriate goals and objectives are met; following laws and regulations; and ensuring that management and financial information is reliable and properly reported. Management is also responsible for implementing systems designed to achieve compliance with applicable laws, regulations, contracts, and grant agreements. You are also responsible for the selection and application of accounting principles, for the preparation and fair presentation of the financial statements and all accompanying information in conformity with GAAP with the oversight of those charged with governance, and for compliance with applicable laws and regulations and the provisions of contracts and grant agreements.

Management is responsible for making drafts of financial statements, all financial records, and related information available to us and for the accuracy and completeness of that information (including information from outside of the general and subsidiary ledgers). 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, such as records, documentation, identification of all related parties and all related-party relationships and transactions, and other matters; (2) additional information that we may request for the purpose of the audit; and (3) unrestricted access to persons within the City from whom we determine it necessary to obtain audit evidence. At the conclusion of our audit, we will require certain written representations from you about your responsibilities for the financial statements; compliance with laws, regulations, contracts, and grant agreements; and other responsibilities required by GAAS and *Government Auditing Standards*.

Your 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 of each opinion unit 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 City involving (1) management, (2) employees who have significant roles in internal control, and (3) others where the fraud could have a material effect on the financial statements. Your responsibilities include informing us of your knowledge of any allegations of fraud or suspected fraud affecting the City received in communications from employees, former employees, grantors, regulators, or others. In addition, you are responsible for identifying and ensuring that the City complies with applicable laws, regulations, contracts, agreements, and grants and for taking timely and appropriate steps to remedy fraud and noncompliance with provisions of laws, regulations, contracts, and grant agreements that we report.

Management is responsible for establishing and maintaining a process for tracking the status of audit findings and recommendations. Management is also responsible for identifying and providing report copies of previous financial audits, attestation engagements, performance audits, or other studies related to the objectives discussed in the Audit Scope and Objectives section of this letter. This responsibility includes relaying to us corrective actions taken to address significant findings and recommendations resulting from those audits, attestation engagements, performance audits, or other studies. 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.

#### **Engagement Administration, Fees, and Other**

Jeff Yennie is the engagement partner and is responsible for supervising the engagement and signing the report or authorizing another individual to sign it. We expect to begin our audit in April 2024 and to issue our reports soon thereafter.

We understand that your employees or outsourced accountants will prepare all confirmations and schedules we request and will locate any documents selected by us for testing. We will schedule the engagement based in part on deadlines, working conditions, and the availability of key personnel. We will plan the engagement based on the assumption that your personnel will cooperate and provide assistance by performing tasks such as preparing requested schedules, retrieving supporting documents, and preparing confirmations. If, for whatever reason, your personnel are unavailable to provide the necessary assistance in a timely manner, it may substantially increase the work we have to do to complete the engagement within the established deadlines, resulting in an increase in fees from our original fee estimate. If the engagement is rescheduled due to lack of providing enough information in a timely manner, we may assess a rescheduling fee up to 10 percent of your service fee, with a minimum rescheduling fee of \$1,000. We will not undertake any accounting services (including but not limited to reconciliation of accounts and preparation of requested schedules) without obtaining your approval.

We will provide PDF copies of our reports to the City; however, management is responsible for distribution of the reports and the financial statements. Unless restricted by law or regulation, or containing privileged and confidential information, copies of our reports are to be made available for public inspection.

We will utilize portals, collaborative, virtual workspaces in a protected, online environment. Our portals permit real-time collaboration across geographic boundaries and time zones and allow us to share data, engagement information, knowledge, and deliverables in a protected environment. To use the portals, you may be required by the provider of portals to execute a client portal agreement and agree to be bound by the terms, conditions and limitations of such agreement. You agree that we have no responsibility for the activities of the portals and agree to indemnify and hold us harmless with respect to all claims arising from your misuse of the portals.

You are responsible for maintaining your own copy of information provided on the portals. We do not provide back-up services for any of your data or records, including information we provide to you. Portals are utilized solely as a method of transferring data and are not intended for the storage of your information. Information on the portals may be deleted at any time.

If you decide to transmit your confidential information to us in a manner other than a secure portal, you accept responsibility for all unauthorized access to your confidential information. If you request that we transmit confidential information to you in a manner other than a secure portal or encrypted email, you agree that we are not responsible for any liability, including but not limited to, (a) any loss or damage of any nature, whether direct or indirect, that may arise as a result of our sending confidential information in a manner other than a secure portal, and (b) any damages arising as a result of any virus being passed on or with, or arising from any alteration of, any email message.

In providing our services to you, we may send data over the Internet, temporarily store electronic data via computer software applications hosted remotely on the Internet or utilize cloud-based storage. Your confidential electronic data may be transmitted or stored using these methods. In using these data communication and storage methods, our firm employs measures designed to maintain data security. We use reasonable efforts to keep such communications and electronic data secure in accordance with our obligations under applicable laws, regulations, and professional standards. You recognize and accept that we have no control over the unauthorized interception or breach of any communications or electronic data once it has been transmitted or if it has been subject to unauthorized access while stored, notwithstanding all reasonable security measures employed by us. You consent to our use of these electronic devices and applications during this engagement.

In the interest of enhancing our availability to meet your professional service needs while maintaining service quality and timeliness, we may use a third-party service provider to assist us. This may include provision of your confidential information to the third-party service provider. We require our third-party service providers to have established procedures and controls designed to protect client confidentiality and maintain data security. As the paid provider of professional services, our firm remains responsible for exercising reasonable care in providing such services, and our work product will be subjected to our firm's customary quality control procedures. By accepting the terms and conditions of our engagement, you are providing your consent and authorization to disclose your confidential information to a third-party service provider, if such disclosure is necessary to deliver professional services or provide support services to our firm.

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, subject to applicable laws and regulations, audit documentation and appropriate individuals will be made available upon request and in a timely manner to an oversight or grantor agency 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 copies of selected audit documentation to the aforementioned parties. These parties may intend, or decide, to distribute the copies or information contained therein to others, including other governmental agencies. Your acceptance of this engagement letter will serve as your advance consent to our compliance with these requests. We may bill you separately for our time and expenses in responding to any such requests.

The audit documentation for this engagement will be retained for a minimum of seven years after the report release date or for any additional period requested by your oversight or grantor agency. If we are aware that a federal awarding agency 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.

Assisting you with your compliance with the Corporate Transparency Act (“CTA”), including beneficial ownership information (“BOI”) reporting, is not within the scope of this engagement. You have sole responsibility for your compliance with the CTA, including its BOI reporting requirements and the collection of relevant ownership information. We shall have no liability resulting from your failure to comply with CTA. Information regarding the BOI reporting requirements can be found at <https://www.fincen.gov/boi>. Consider consulting with legal counsel if you have questions regarding the applicability of the CTA’s reporting requirements and issues surrounding the collection of relevant ownership information.

Our professional fees for the services outlined above will be based upon the complexity of the work to be performed and our professional time, not to exceed \$35,000, plus applicable sales tax. Professional time spent depends on the timely delivery, availability, quality, and completeness of the information you provide to us. If you choose to have us maintain lease calculations and schedules, an additional fee of \$150 per lease will be billed. You agree that you will deliver all records requested and respond to all inquiries made by our staff to complete this engagement on a timely basis. You will also be billed for travel and other out-of-pocket costs such as postage. We will provide you with an electronic copy of the financial statements. If you elect to have paper copies produced by us, they will be billed at \$25 each. 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 will 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 report. 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. You may request that we perform additional services not addressed in this engagement letter. If this occurs, we will communicate with you concerning the scope of the additional services and the estimated fees. We may also issue a separate engagement letter covering the additional services. In the absence of any other written communication from us documenting such additional services, our services will continue to be governed by the terms of this engagement letter and will be billed separately each month.

In the event we are requested pursuant to subpoena or other legal process to produce documents relating to current or prior engagements for the City in legal, administrative, arbitration, or similar proceedings to which we are not a party, the City shall reimburse us at our standard billing rates for our professional time and expenses, including reasonable attorney's fees, incurred by us in responding to such requests. In the event of a dispute, the courts of the state of South Dakota shall have jurisdiction, and all disputes will be submitted to the state of South Dakota, which is the proper and most convenient venue for resolution. We also agree that the law of the state of South Dakota shall govern all such disputes.

If a dispute arises out of or relates to this Agreement, including the scope of services contained herein, or the breach thereof, and if the dispute cannot be settled through negotiation, the parties agree first to try to settle the dispute by mediation administered by the American Arbitration Association (“AAA”) under the AAA Accounting and Related Services Arbitration Rules and Mediation Procedures before resorting to arbitration, litigation, or some other dispute resolution procedure. The mediator will be selected by mutual agreement of the parties. If the parties cannot agree on a mediator, a mediator shall be designated by the AAA. The mediation will be conducted in the state noted above.

The mediation will be treated as a settlement discussion and, therefore, all discussions during the mediation will be confidential. The mediator may not testify for either party in any later proceeding related to the dispute. No recording or transcript shall be made of the mediation proceedings. The costs of any mediation proceedings shall be shared equally by all parties. Any costs of legal representation shall be borne by the hiring party.

You agree to hold us harmless and to release, indemnify, and defend us from any liability or costs, including attorney's fees, resulting from management's knowing misrepresentations to us.

We are independent within the meaning of the AICPA *Code of Professional Conduct*.

You acknowledge we have invested time and money into developing and training our personnel. To ensure our independence is not impaired under the AICPA *Code of Professional Conduct*, you agree to inform the engagement partner before entering into any substantive employment discussions with any of our personnel. If you should choose to hire one of our employees, we may, at our discretion, charge you a recruiting fee of fifty percent of the annual salary offered to our employee to compensate us for the loss of our valued and extensively trained employee.

*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 23, 2022, 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.

### **Reporting**

We will issue a written report upon completion of our audit of the City's financial statements. Our report will be addressed to the City Commission. Circumstances may arise in which our report may differ from its expected form and content based on the results of our audit. Depending on the nature of these circumstances, it may be necessary for us to modify our opinions, add a separate section, or add an emphasis-of-matter paragraph or other-matter paragraph to our auditor's report, or if necessary, withdraw from this engagement. If our 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 an opinion, we may decline to express opinions or issue reports, or we may withdraw from this engagement.

If circumstances occur related to the condition of your records, the availability of sufficient, appropriate audit evidence, or the existence of a significant risk of material misstatement of the financial statements caused by error, fraudulent financial reporting, or misappropriation of assets, which in our professional judgment prevent us from completing the audit or forming an opinion on the financial statements, we retain the right to take any course of action permitted by professional standards, including declining to express an opinion or issue a report, or withdrawing from the engagement.

We will also provide a report (which does not include an opinion) 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 as required by *Government Auditing Standards*. The report on internal control and on compliance and other matters will state that (1) the purpose of the report is solely to describe the scope of 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 on compliance and (2) the report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. The report will also state that the report is not suitable for any other purpose. If during our audit we become aware that the City is subject to an audit requirement that is not encompassed in the terms of this engagement, we will communicate to management and those charged with governance that an audit in accordance with U.S. generally accepted auditing standards and the standards for financial audits contained in *Government Auditing Standards* may not satisfy the relevant legal, regulatory, or contractual requirements.

We appreciate the opportunity to be of service to you. Please sign below and return it to us to indicate your acknowledgement of, and agreement with, the arrangements for our engagement, and our respective responsibilities.

Sincerely,

KETEL THORSTENSON, LLP



Jeff T. Yennie, CPA, CVA  
Partner

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This letter correctly sets forth our understanding of our contract. I have read it and fully understand its terms and provisions.

Management Signature: \_\_\_\_\_

Title: \_\_\_\_\_

Date: \_\_\_\_\_

Governance Signature: \_\_\_\_\_

Title: \_\_\_\_\_

Date: \_\_\_\_\_



## Report on the Firm's System of Quality Control

To the Partners of Ketel Thorstenson, LLP  
and the Peer Review Committee of the Oklahoma Society of CPAs

We have reviewed the system of quality control for the accounting and auditing practice of Ketel Thorstenson, LLP (the Firm) in effect for the year ended March 31, 2022. Our peer review was conducted in accordance with the Standards for Performing and Reporting on Peer Reviews established by the Peer Review Board of the American Institute of Certified Public Accountants (Standards).

A summary of the nature, objectives, scope, limitations of, and the procedures performed in a System Review as described in the Standards may be found at [www.aicpa.org/prsummary](http://www.aicpa.org/prsummary). The summary also includes an explanation of how engagements identified as not performed or reported in conformity with applicable professional standards, if any, are evaluated by a peer reviewer to determine a peer review rating.

### **Firm's Responsibility**

The Firm is responsible for designing and complying with a system of quality control to provide the firm with reasonable assurance of performing and reporting in conformity with the requirements of applicable professional standards in all material respects. The firm is also responsible for evaluating actions to promptly remediate engagements deemed as not performed or reported on in conformity with the requirements of applicable professional standards, when appropriate, and for remediating weaknesses in its system of quality control, if any.

### **Peer Reviewer's Responsibility**

Our responsibility is to express an opinion on the design of and compliance with the firm's system of quality control based on our review.

### **Required Selections and Considerations**

Engagements selected for review included engagements performed under *Government Auditing Standards*, including a compliance audit under the Single Audit Act; and audits of employee benefit plans.

As a part of our peer review, we considered reviews by regulatory entities as communicated by the Firm, if applicable, in determining the nature and extent of our procedures.

**Opinion**

In our opinion, the system of quality control for the accounting and auditing practice of Ketel Thorstenson, LLP in effect for the year ended March 31, 2022, has been suitably designed and complied with to provide the Firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. Firms can receive a rating of *pass*, *pass with deficiency(ies)*, or *fail*. Ketel Thorstenson, LLP has received a peer review rating of *pass*.

*Anderson Zurmuehlen + Co, P.C.*

Billings, Montana  
September 23, 2022