

**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 Council  
City of Brookings, South Dakota

We have audited, in accordance with 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, the discretely presented component unit, each major fund and the aggregate remaining fund information of the City of Brookings, South Dakota (the City), as of and for the year ended December 31, 2019, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated June 29, 2020, which contained an "Emphasis of Matter" paragraph regarding a change in accounting principle. Our report includes a reference to other auditors who audited the financial statements of the Brookings Health System Fund, the Brookings Municipal Utilities Telephone, Electric, Water and Wastewater Funds, and the Brookings Health System Foundation, 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.

***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) to determine the 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 City'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 City'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 City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. As required by South Dakota Codified Law 4-11-11, this report is a matter of public record and its distribution is not limited.

**BKD, LLP**

Lincoln, Nebraska  
June 29, 2020

The Honorable Mayor, Members of  
the City Council and Management  
City of Brookings, South Dakota

As part of our audit of the financial statements of the City of Brookings, South Dakota as of and for the year ended December 31, 2019, we wish to communicate the following to you.

## **AUDIT SCOPE AND RESULTS**

### **Auditor's Responsibility Under 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**

An audit performed in accordance with 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 is designed to obtain reasonable, rather than absolute, assurance about the financial statements. In performing auditing procedures, we establish scopes of audit tests in relation to the opinion unit being audited. Our engagement does not include a detailed audit of every transaction. Our engagement letter more specifically describes our responsibilities.

These standards require communication of significant matters related to the financial statement audit that are relevant to the responsibilities of those charged with governance in overseeing the financial reporting process. Such matters are communicated in the remainder of this letter or have previously been communicated during other phases of the audit. The standards do not require the auditor to design procedures for the purpose of identifying other matters to be communicated with those charged with governance.

An audit of the financial statements does not relieve management or those charged with governance of their responsibilities. Our engagement letter more specifically describes your responsibilities.

The audits of the financial statements of the Brookings Health System Fund, the Brookings Municipal Utilities Telephone, Electric, Water and Wastewater Funds, and the Brookings Health System Foundation, a discretely presented component unit of the City, are performed by other auditors. Our opinions, as they relate to the above-mentioned financial statements are based solely on the reports of other auditors.

## **Qualitative Aspects of Significant Accounting Policies and Practices**

### **Significant Accounting Policies**

The City's significant accounting policies are described in Note 1 of the audited financial statements. The following accounting policies and practices are of significant importance to the City's financial statements:

- Fund accounting and the reconciliation of the governmental funds and government-wide financial statements
- Determination of governmental fund types and fund balance classifications
- Determination of potential component units

### **Alternative Accounting Treatments**

We had discussions with management regarding alternative accounting treatments within accounting principles generally accepted in the United States of America for policies and practices for material items, including recognition, measurement and disclosure considerations related to the accounting for specific transactions as well as general accounting policies, as follows:

- No matters are reportable

### **Management Judgments and Accounting Estimates**

Accounting estimates are an integral part of financial statement preparation by management, based on its judgments. The following areas involve significant areas of such estimates for which we are prepared to discuss management's estimation process and our procedures for testing the reasonableness of those estimates:

- Estimated useful lives assigned to capital assets
- Health insurance claims incurred
- Accrued closure/post-closure care costs

### **Financial Statement Disclosures**

The following areas involve particularly sensitive financial statement disclosures for which we are prepared to discuss the issues involved and related judgments made in formulating those disclosures:

- Revenue and receivable disclosures in connection with the Brookings Health System Fund
- Debt obligations – Long-term liabilities
- Pension plan
- Other postemployment benefit plan
- Subsequent events

## **Audit Adjustments**

During the course of any audit, an auditor may propose adjustments to financial statement amounts. Management evaluates our proposals and records those adjustments which, in its judgment, are required to prevent the financial statements from being materially misstated. A misstatement is a difference between the amount, classification, presentation or disclosure of a reported financial statement item and that which is required for the item to be presented fairly in accordance with the applicable financial reporting framework.

Areas in which adjustments were proposed and recorded include:

- Deposits and insurance expenditures – General Fund
- Unavailable revenue and revenues – General Fund
- Principal payments on debt and conservation and development expenditures – 75% Sales and Use Tax Fund
- Adjustment of other postemployment benefit liability and related line items
- Adjustment of net pension asset and related line items

## **Auditor’s Judgments About the Quality of the City’s Accounting Principles**

During the course of the audit, we made the following observations regarding the City’s application of accounting principles. The City implemented the provisions of the following Governmental Accounting Standards Board (GASB) Statements for its fiscal year ended December 31, 2019:

- GASB Statement No. 83, *Certain Asset Retirement Obligations*
- GASB Statement No. 84, *Fiduciary Activities*
- GASB Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowing and Direct Placements*

## **Disagreements with Management**

No matters are reportable.

## **Other Material Communication**

Listed below is another material communication between management and us related to the audit:

- Management representation letter (attached)

## **INTERNAL CONTROL OVER FINANCIAL REPORTING**

In planning and performing our audit of the financial statements of the City of Brookings, South Dakota as of and for the year ended December 31, 2019, in accordance with 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, we considered the City's internal control over financial reporting (internal control) as a basis for designing our audit procedures for the purpose of expressing our opinion 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.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified.

A deficiency 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 City's financial statements will not be prevented or detected and corrected on a timely basis.

A significant deficiency is a deficiency, or 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.

We observed the following matter that we consider to be a deficiency.

### **Deficiency**

#### *Proposed Audit Adjustments*

The preparation of the City's financial statements required adjusting journal entries for proper financial statement presentation. City controls did not identify all potential adjustments that had a significant effect on the financial statements at year-end. Management should review procedures to help ensure that controls are in place that will allow for the preparation of the financial statements in accordance with accounting principles generally accepted in the United States of America.

### **OTHER MATTERS**

Although not considered material weaknesses, significant deficiencies or deficiencies in internal control over financial reporting, we observed the following matters and offer these comments and suggestions with respect to matters which came to our attention during the course of the audit of the financial statements. Our audit procedures are designed primarily to enable us to form an opinion on the financial statements and, therefore, may not bring to light all weaknesses in policies and procedures that may exist. However, these matters are offered as constructive

suggestions for the consideration of management as part of the ongoing process of modifying and improving financial and administrative practices and procedures. We can discuss these matters further at your convenience and may provide implementation assistance for changes or improvements.

### *New Accounting Standards*

#### *Governmental Accounting Standards Board Statement No. 87*

The Governmental Accounting Standards Board has issued Statement No. 87, *Leases* (GASB 87). GASB 87 provides a new framework for accounting for leases under the principle that leases are financings. No longer will leases be classified between capital and operating. Lessees will recognize an intangible asset and a corresponding liability. The liability will be based on the payments expected to be paid over the lease term, which includes an evaluation of the likelihood of exercising renewal or termination options in the lease. Lessors will recognize a lease receivable and related deferred inflow of resources. Lessors will not derecognize the underlying asset. An exception to the general model is provided for short-term leases that cannot last more than 12 months. Contracts that contain lease and non-lease components will need to be separated so each component is accounted for accordingly.

This statement will be effective for the City's fiscal year ending December 31, 2022.

#### *Governmental Accounting Standards Board Statement No. 89*

The Governmental Accounting Standards Board has issued Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period* (GASB 89). GASB 89 requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred. As a result, interest costs incurred before the end of a construction period will not be included in the historical cost of a capital asset.

This statement will be effective for the City's fiscal year ending December 31, 2021.

#### *Governmental Accounting Standards Board Statement No. 92*

The Governmental Accounting Standards Board has issued Statement No. 92, *Omnibus 2020* (GASB 92). GASB 92 addresses a variety of topics including issues related to the following items:

Portions of this statement are effective immediately:

- Reporting by public entity risk pools for amounts that are recoverable from reinsurers or excess insurers; and
- Terminology used to refer to derivative instruments.

Portions of this statement will be effective for the City's fiscal year ending December 31, 2022:

- Reporting of intra-entity transfers of assets between a primary government employer and a component unit defined benefit pension plan or defined benefit other postemployment benefit (OPEB) plan;
- The applicability of Statements No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*, as amended and No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, as amended, to reporting assets accumulated for postemployment benefits;
- The applicability of certain requirements of Statement No. 84, *Fiduciary Activities*, to postemployment benefits;
- Measurement of liabilities (and assets, if any) related to asset retirement obligations (AROs) in a government acquisition; and
- Reference to nonrecurring fair value measurements of assets and liabilities in authoritative literature.

*Governmental Accounting Standards Board Statement No. 96*

The Governmental Accounting Standards Board has issued Statement No. 96, *Subscription-Based Information Technology Arrangements* (GASB 96). GASB 96 provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users. This Statement (1) defines a SBITA; (2) establishes that a SBITA results in a right-to-use subscription asset – an intangible asset – and a corresponding subscription liability; (3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) requires note disclosures regarding a SBITA.

This statement will be effective for the City’s fiscal year ending December 31, 2023.

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This communication is intended solely for the information and use of management, the Mayor, Members of the City Council and others within the organization and is not intended to be and should not be used by anyone other than these specified parties.

*BKD, LLP*

June 29, 2020