



August 28, 2012

City of Blaine
10801 Town Square Drive
Blaine, MN 55449-8101

We are pleased to confirm our understanding of the services we are to provide the City of Blaine, Minnesota for the years ending December 31, 2012, 2013 and 2014. The scope of services includes the following:

- We will audit the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information, which collectively comprise the basic financial statements of the City of Blaine, Minnesota as of and for the years ending December 31, 2012, 2013 and 2014. 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 City of Blaine, Minnesota's 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 City of Blaine's RSI in accordance with auditing standards generally accepted in the United States of America. These limited procedures will consist of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We 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 generally accepted accounting principles and will be subjected to certain limited procedures, but will not be audited:
 - Management's Discussion and Analysis
- We have also been engaged to report on supplementary information other than RSI that accompanies the City of Blaine, Minnesota'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:

- Combining and individual fund statements and schedules

The following other information accompanying the financial statements will not be subjected to the auditing procedures applied in our audit of the financial statements, and our auditor's report will not provide an opinion or any assurance on that other information:

- Introductory section
- Statistical section
- Preparation assistance, copying and binding of the Annual Financial Report. City provides electronic version of trial balance and directly supervises HLB TR support staff in assigning each account balance on the financial statements. City to provide content of the MD&A, Introductory Section, Footnotes and Statistical Section.
- State of Minnesota Legal Compliance Audit

Audit Objectives

The objective of our audit is the expression of opinions as to whether your basic financial statements are fairly presented, in all material respects, in conformity with generally accepted accounting principles and to 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. Our audit will be conducted in accordance with auditing standards generally accepted in the United States of America and the minimum procedures for auditors as prescribed by M.S. 6.65, and will include tests of the accounting records and other procedures we consider necessary to enable us to express such opinions. If our opinions on the financial statements are other than unqualified (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.

Management Responsibilities

Management is responsible for the basic financial statements and all accompanying information as well as all representations contained therein. You are also responsible for making all management decisions and performing all management functions; for designating an individual with suitable skill, knowledge, or experience to oversee our assistance with the preparation of your financial statements and related notes and any other nonattest services we provide; and for evaluating the adequacy and results of those services and accepting responsibility for them.

Management is responsible for establishing and maintaining effective internal controls, including monitoring ongoing activities; for the selection and application of accounting principles; and for the fair presentation in the financial statements of the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Blaine, Minnesota and the respective changes in financial position and where applicable, cash flows, in conformity with U.S. generally accepted accounting principles.

Management is also responsible for making all financial records and related information available to us and for the accuracy and completeness of that information. 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 include adjusting the financial statements to correct material misstatements and confirming to us in the 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 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 or illegal acts affecting the government involving (1) management, (2) employees who have significant roles in internal control, and (3) others where the fraud or illegal acts 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 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.

You are responsible for the preparation of the supplementary information in conformity with U.S. generally accepted accounting principles. You agree to include our report on the supplementary information in any document that contains and indicates that we have reported on the supplementary information. You also agree to include the audited financial statements with any presentation of the supplementary information that includes our reports thereon. Your responsibilities include acknowledging to us in the representation letter that (a) you are responsible for presentation of the supplementary information in accordance with GAAP; (b) that you believe the supplementary information, including its form and content, is fairly presented in accordance with GAAP; (c) that the methods of measurement or presentation have not changed from those used in the prior period (or, if they have changed, the reason for the changes); and (d)

you have disclosed to us any significant assumptions or interpretations underlying the measurement or presentation of the supplementary information.

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

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 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 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 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. 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 and any 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.

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 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 require certain written representations from you about the financial statements and related matters.

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. An audit is not designed to provide assurance on internal control or to identify deficiencies in internal control. 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.

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 of Blaine, Minnesota's compliance with the provisions of applicable laws, regulations, contracts and agreements. However, the objective of our audit will not be to provide an opinion on overall compliance and we will not express such an opinion.

The Minnesota Legal Compliance Audit Guide for Local Government requires that we test whether the auditee has complied with certain provisions of Minnesota Statutes. Our audit will include such tests of the accounting records and other procedures as we consider necessary in the circumstances.

Engagement Administration, Fees and Other

We understand that your employees will prepare all cash or other confirmations we request and will locate any documents selected by us for testing.

Unless additional work is requested, or circumstances require additional work, we agree that our fee for these audit services, including expenses (such as report reproduction, postage, etc.) will be \$41,000, \$42,000, and \$43,000 for the 2012, 2013, and 2014 audits, respectively. The fees for 2013 and 2014 assume no significant changes in accounting and auditing standards. We agree that our fee for accounting assistance services (if required) will not exceed \$14,000, 14,500 and \$15,500 for 2012, 2013, and 2014, respectively. We agree that our assistance with the preparation of the Comprehensive Annual Financial Report will be \$3,000, \$3,250, and \$3,500 for the 2012, 2013, and 2014 CAFR's, respectively. 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 120 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 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. The above fee is based on anticipated cooperation from your personnel, accurate and timely completion of workpapers per the client to prepare listing by your personnel, and the assumption that unexpected circumstances will not be encountered during the audit. Additional

audit procedures may be required for certain accounting issues or events, new contractual agreements, new accounting and auditing standards, such as legal requirements for new bond issues, new funds, new capital projects, new tax increment districts, if there is an indication of misappropriation or misuse of public funds, or difficulties encountered due to lack of accounting records, incomplete records, inaccurate records or turnover in the City's staff. If significant additional time is necessary due to a change in scopes of services or delays in receiving audit information requests, we will discuss it with you and arrive at a new fee estimate.

We appreciate the opportunity to be of service to the City of Blaine, Minnesota 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,

HLB TAUTGES REDPATH, LTD.



Peggy A. Moeller, CPA

PAM/aer

Response

This letter correctly sets forth the understanding of the City of Blaine:

By: _____

Title: _____

Date: _____

Nonaudit Services

The employee(s) assigned to oversee the nonaudit services is as follows:

Employee (name or title) _____