

Communication with Those Charged with Governance

To the Honorable Mayor and
Members of the City Council
City of Grant, Minnesota

We have audited the financial statements of the governmental activities and each major fund of the City of Grant, Minnesota as of and for the year ended December 31, 2010, and have issued our report thereon dated May 31, 2011. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated April 28, 2011. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Results

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the City of Grant, Minnesota are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2010. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the financial statements was management's estimation on the depreciation of capital assets. We evaluated the key factors and assumptions used to develop the depreciation of capital assets in determining that it is reasonable in relation to the financial statements taken as a whole.

The disclosures in the financial statements are neutral, consistent, and clear. Certain financial statement disclosures can be particularly sensitive because of their significance to financial statement users. The City of Grant, Minnesota does not have any particularly sensitive disclosures in its financial statements.

Difficulties Encountered in Performing the Audit

We encountered no difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management.

We identified the following uncorrected misstatements of the financial statements:

- Accrued interest payable is understated by \$2,428.
- Payroll tax expenses are understated by \$6,511.

Management has determined that the effect of the above misstatements are immaterial to the financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated May 31, 2011.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the City's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

During the course of our audit, we noted the following item that management should consider:

Approval of wages

The pay increase for the City clerk is approved and documented in the Council minutes. However, the approved hourly rate is not documented in the Council minutes. We recommend the City strengthen its documentation to include both the amount of the increase and the approved hourly rate.

Old outstanding checks

The City has several outstanding checks that are several years old. We recommend City staff determine the current status of these outstanding checks.

Escrow deposits

The City has recorded escrow deposits receivable (\$16,812) and escrow deposits payable (\$22,342) for which there has been no activity for several years. We recommend City staff determine the current status of these escrow deposits.

Other Information in Document Containing Audited Financial Statements

With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior year, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

This report is intended solely for the information and use of the City of Grant, Minnesota's City council and management and is not intended to be, and should not be, used by anyone other than these specified parties.

HLB Tautges Redpath, LTD.

HLB TAUTGES REDPATH, LTD.
White Bear Lake, Minnesota

May 31, 2011