

Accountants and Business Advisors

September 22, 2005

Coleen Schmidt  
Assistant Finance Officer  
City of Rapid City  
300 Sixth Street  
Rapid City, SD 57701

Dear Ms. Schmidt:

This letter is to confirm our understanding of the terms and objectives of our engagement and the nature and limitations of the services we will provide to the City of Rapid City (the "City"). We will apply the following procedures, which the City has specified and will enable you to comply with the arbitrage rebate laws contained in Section 148(f) of the Internal Revenue Code of 1986, as amended ("Code"), and applicable 1997 Final Treasury Regulations ("Reg."), to the City's \$12,695,000 Sales Tax Revenue Refunding Bonds, Series 2002 (the "Bonds"):

- (1) Read the Official Statement (selected sections only), Rebate/Non-Arbitrage Certificate, and Form 8038-G for the Bonds to understand the nature of this financing transaction (see Attach. I for required information and timeline).
- (2) Calculate the yield in accordance with Reg. 1.148-4 on the Bonds.
- (3) Accumulate the relevant investment activity of the Bonds and other proceeds subject to rebate for purposes of computing the rebate liability.
- (4) Using the Bond yield as determined in No. 2 above, we will calculate the potential rebate liability using the future value method as defined in Reg. 1.148-3 for your use in determining whether or not a rebate payment and Form 8038-T must be remitted to the Internal Revenue Service ("IRS").

This engagement to apply agreed-upon procedures will be performed in accordance with Statements on Standards for Attestation Engagements established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of the City. Grant Thornton shall be entitled to rely on the accuracy, completeness and reliability of all information provided by, and on all decisions and approvals of, the City (and the City's retained advisors, consultants, or legal counsel (as applicable)). Consequently, we make no representation regarding the sufficiency of the procedures described in this letter either for the purpose for which these reports have been requested or for any other purpose. The compliance with the laws and regulations mentioned above is the responsibility of the City. It is understood that our reports are intended solely for the information and use of the City, and are not intended to be and should not be used by anyone other than this specified party.

These agreed-upon procedures do not constitute an examination or review of the information provided to us, the objective of which would be the expression of an opinion on the completeness

or accuracy of the information for purposes of these calculations. Accordingly, we will not express such an opinion and the City will indemnify and hold us harmless from any liability, damages and legal or other costs we might sustain in the event such information is false, provided however, that should the City subsequently become an audit client that requires our independence, then said indemnity clause shall have no effect. Thus, an agreed-upon procedures engagement does not provide assurance that we will become aware of all significant matters that would be disclosed in an examination or review. If, as a result of applying the above procedures, any matters come to our attention that cause us to believe that such information should be adjusted, we will disclose those matters in our reports. However, it is possible that because of unexpected circumstances, we may determine that we cannot render a report or otherwise complete the engagement. If, in our professional judgment, the circumstances require, we may resign from the engagement prior to completion.

Our estimated fees (as detailed in Attachment II) for this engagement will not exceed \$5,000 for the interim, three and one-half year calculation ending approximately August 31, 2005. This quote includes only those services outlined above and any additional services such as appearing before judicial proceedings, governmental organizations, or the IRS, will be billed for separately.

We appreciate the opportunity to work with you on this engagement. If you have any questions about the engagement, please feel free to call Gregory A. Ichel at 612.677.5211 or me at 612.677.5237.

Very truly yours,

GRANT THORNTON LLP



M. Joseph Smith  
Partner - Public Finance  
GAI/iag

***Agreed and Accepted:***

The foregoing letter (along with Attachments I & II) fully describes the services required and is accepted by us.

**City of Rapid City**

By: \_\_\_\_\_

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

**ATTACHMENT I**  
**Required Information and Timeline**

In order to timely update your calculations and provide an accurate overall rebate calculation, Grant Thornton requires certain legal, investment and bond payment activity and other information (as detailed below). We are flexible in the form and manner in which this information is provided, so please don't hesitate to call us directly with any questions or concerns. In order to avoid possible additional fees (beyond those estimated in page two of the arrangement letter and further detailed in Attachment II), complete information is expected to be received by Grant Thornton no later than two weeks subsequent to the signed engagement letter.

**Legal Documents:**

- Copy of IRS Form 8038-G (Received)
- Copy of Rebate Certificate (Tab 12)
- Non-Arbitrage Certificate / Tax Compliance Agreement (if any)
- Bond Information Statement (Tab 14)
- Escrow Agreement with Certificate of Escrow Agent (Tab 2)
- Copy of Official Statement (Received)

**Investment and Expenditure Activity:**

- Transaction activity (i.e., bond proceed deposits, project expenditures, interest earnings, purchase/sale of investments including applicable gain/loss) from the bond's respective delivery date (3/5/02) through 8/31/05
- Portfolio asset listing as of computation date (i.e., 8/31/05)
- Provide any investment or similar guarantee agreement(s) including any upfront or related payments, including the amount(s) and dates paid

**Other:**

- Were there any bond proceeds held in non-Trustee accounts? If so, provide transaction detail from bond proceed deposit date to final disbursement date.
- Have any bonds been redeemed (other than scheduled maturities or mandatory sinking fund payments) or advance refunded? If so, provide transaction detail.

## ATTACHMENT II

| <u>Per Bond Series</u>  | <u>Fixed</u> |
|---|--------------|
| Future Yearly updates (if any or required)- stand alone bond issue reports    | \$3,000      |
| Preparation of IRS Form 8038-T (if required) (including related instructions) | 500          |

\* Please note, however, that our fees may in fact be greater than this estimate depending on the specifics of your bond issue and the required detailed calculations and analyses that must be made. Our estimated fees may also exceed our original estimate due to additional professional time incurred as a result of required follow-up with: (1) incomplete data sent or (2) multiple, repeat data requests due to failure to adhere to the data request timeline. In the event we anticipate our fees will exceed our estimate, we will notify you in advance. Should future calculations (if any), beyond our initial contemplated update be required, each of the above components is subject to future inflation adjustments based upon the Consumer Price Index-All Urban Consumers.