



Certified Public Accountants, PC

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ENGAGEMENT LETTER

January 23, 2012

Board of Directors
Morrow County School District No. 1
Lexington, Oregon

We are pleased to confirm our understanding of the services we are to provide Morrow County School District No. 1 (the district) for the year ended June 30, 2012. We will audit the basic financial statements of the district as of June 30, 2012 and for the year ended. In addition, we will audit the district's compliance over major federal award programs for the period ended June 30, 2012. Also, the document we submit to you will include the following additional information that will be subjected to the auditing procedures applied in our audit of the financial statements:

- Schedule of expenditures of federal awards

This audit agreement is in accordance with the requirements of Oregon Revised Statutes 297.405 through 297.555.

Accounting standards generally accepted in the United States of America require that management's discussion and analysis (MD&A), and budgetary comparison information on the General Fund and major special revenue funds are presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Government 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 the required supplementary information (RSI) in accordance with auditing standards generally accepted in the United States. These limited procedures will consist primarily of inquiries of management regarding their methods of measurement and presentation, and comparing the information for consistency with management's responses to our inquiries. We will not express an opinion or provide any form of assurance on the MD&A and it will be subjected to certain limited procedures but will not be audited.

We intend to provide an opinion on the budgetary comparison information in relation to the financial statements as a whole and it will be subjected to the auditing procedures applied in the basic financial statements.

Supplementary information other than RSI also accompanies the district's basic 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

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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. We intend to provide an opinion on the following supplementary information in relation to the financial statements as a whole.

- Schedule of expenditures of federal awards
- Combining and individual fund statements
- Supplemental supporting schedules

Audit of the Financial Statements

Our audit will be conducted in accordance with auditing standards generally accepted in the United States of America and the standards for financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and with *Minimum Standards for Audits of Oregon Municipal Corporations*, and will include tests of the accounting records of the district and other procedures we consider necessary to enable us to express an unqualified opinion that the basic financial statements are presented fairly, in all material respects, in conformity with accounting principles generally accepted in the United States of America and for expressing opinions on each opinion unit. If our opinions are other than unqualified, we will fully 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.

Our procedures will include tests of documentary evidence that support the transactions recorded in the accounts, tests of the physical existence of inventories, and direct confirmation of cash, investments, and certain other assets and liabilities by correspondence with customers, creditors, and financial institutions. Also, we will request written representations from your attorneys as part of the engagement, and they may bill you for responding to that inquiry. At the conclusion of our audit, we will also request certain written representations from you about the financial statements and related matters.

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. Our audit is designed to provide reasonable, but not absolute, assurance about whether the financial statements are free of material misstatement, whether due to error, fraudulent financial reporting, misappropriation of assets, or violations of laws, governmental regulations, grant agreements, or contractual agreements. Because of this concept of reasonable assurance and because we will not examine all transactions, there is a risk that material misstatements may exist and not be detected by us. Also, an audit is not designed to detect error or fraud that is immaterial to the financial statements. The entity's management is responsible for establishing and maintaining a sound system of internal control, which is the best means of preventing or detecting errors, fraudulent financial reporting, misappropriation of assets, or violations of laws, governmental regulations, grant agreements, or contractual agreements and abuse. Because the determination of abuse is subjective, *Government Auditing Standards* does not expect auditors to provide reasonable assurance of detecting abuse. Our responsibility as auditors is limited to the period covered by our audit and does not extend to matters that might arise during any later periods for which we are not engaged as auditors.

A financial statement audit includes obtaining an understanding of the entity and its environment, including its 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 material weaknesses or significant deficiencies. However, we will communicate to you and those charged with governance any material weaknesses or significant deficiencies that come to our attention.

In accordance with the requirements of *Government Auditing Standards*, we will also issue a written report describing the scope of our testing over internal control over financial reporting and over compliance with laws, regulations, and provisions of grants and contracts, including the results of that testing. However, providing an opinion on internal control and compliance over financial reporting will not be an objective of the audit and, therefore, no such opinion will be expressed.

Audit of Major Program Compliance

Our audit of the district's major federal award program(s) compliance will be made in accordance with the requirements of the Single Audit Act, as amended; and the provisions of U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*; and will include tests of accounting records, a determination of major programs in accordance with Circular A-133, and other procedures we consider necessary to enable us to express such an opinion on major federal award program compliance and to render the required reports. If our opinion on compliance for any major program is other than unqualified, we will fully discuss the reasons with you in advance.

Circular A-133 requires that we also plan and perform the audit to obtain reasonable assurance about whether the entity has complied with applicable laws and regulations and the provisions of contracts and grant agreements applicable to major federal award programs. Our procedures will consist of determining major federal programs and performing the applicable procedures described in the U.S. Office of Management and Budget Circular A-133 *Compliance Supplement* for the types of compliance requirements that could have a direct and material effect on each of the entity's major programs. The purpose of those procedures will be to express an opinion on the entity's compliance with requirements applicable to each of its major programs in our report on compliance issued pursuant to Circular A-133.

Also, as required by Circular A-133, we will perform tests of controls to evaluate the effectiveness of the design and operation of controls that we consider relevant to preventing or detecting material noncompliance with compliance requirements applicable to each of the entity's major federal award programs. However, our tests will be less in scope than would be necessary to render an opinion on these controls and, accordingly, no opinion will be expressed in our report.

We will issue a report on compliance that will include an opinion or disclaimer of opinion regarding the entity's major federal award programs, and a report on internal controls over compliance that will report any significant deficiencies and material weaknesses identified; however, such report will not express an opinion on internal control.

Management Responsibilities

We understand that you are responsible for the financial statements and for making all financial records and related information required for our audit available to us on a timely basis, and that you are responsible for the accuracy and completeness of that information. This management responsibility includes (a) establishing and maintaining adequate records and related internal control policies and procedures, (b) selecting and applying accounting principles, (c) safeguarding assets, and (d) identifying and ensuring that the entity complies with laws, regulations, grants, and contracts applicable to its activities and its federal award programs.

With regard to the supplementary information referred to above, you acknowledge and understand your responsibility: (a) for the preparation of the supplementary information in accordance with the applicable criteria; (b) to provide us with the appropriate written representations regarding supplementary information; (c) to include our report on the supplementary information in any document that contains the supplementary information and that indicates that we have reported on such supplementary information; and (d) to present the supplementary information with the audited financial statements, or if the supplementary information

will not be presented with the audited financial statements, to make the audited financial statements readily available to the intended users of the supplementary information no later than the date of issuance by you of the supplementary information and our report thereon.

We may advise you about appropriate accounting principles and their application and may assist in the preparation of your financial statements, but the responsibility for the financial statements remains with you. Management is also responsible for adjusting the financial statements to correct material misstatements and for affirming to us in the management representation letter that the effects of any uncorrected misstatements, resulting from errors or fraud, 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 agree that management is responsible for (a) the design and implementation of programs and controls to prevent and detect fraud, (b) informing us about any fraud or suspected fraud affecting the entity involving management, employees who have significant roles in internal control, or others where the fraud could have a material effect on the financial statements, and (c) informing us about any allegations of fraud or suspected fraud affecting the entity received in communications from employees, former employees, analysts, regulators, short sellers, or others. You agree that you will confirm your understanding of your responsibilities as defined in this letter to us in your management representation letter.

In addition, as required by Circular A-133, it is management's responsibility to prepare the schedule of expenditures of federal awards in accordance with Circular A-133 requirements, follow up and take corrective action on reported audit findings from prior periods and to prepare a summary schedule of prior audit findings, and follow up on current year audit findings and prepare a corrective action plan for such findings. Management is also responsible for submitting the reporting package and data collection form to the appropriate parties. Management will also make the auditor aware of any significant vendor relationships where the vendor is responsible for program compliance. You agree that you will confirm your understanding of your responsibilities as defined in this letter to us in your management representation letter.

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

If you intend to publish or otherwise reproduce the financial statements and make reference to our firm, you agree to provide us with printers' proofs or masters for our review and approval before printing. You also agree to provide us with a copy of the final reproduced material for our approval before it is distributed.

During the course of the engagement, we may communicate with you or your personnel via fax or e-mail, and you should be aware that communication in those mediums contains a risk of misdirected or intercepted communications.

Engagement Administration, Fees, and Other Matters

The audit shall be started as soon after the contract is executed as is agreeable to the parties hereto, and shall be completed and a written report thereon delivered within a reasonable time, but not later than six months after the close of the audit period, unless an extension of time is agreed upon. Robert M. Armstrong is the engagement partner for the audit services specified in this letter. His responsibilities include supervising Oster Professional Group, CPA's services performed as part of this engagement and signing or authorizing another qualified firm representative to sign the audit report. Adequate copies of the audit shall be delivered to the district and its form and content shall be in accordance with and not less than that required by the *Minimum Standards for Audits of Oregon Municipal Corporations*.

We will be available during the year to consult with you on financial management and accounting matters of a routine nature.

With respect to any nonattest services we perform, the district's management is responsible for (a) making all management decisions and performing all management functions; (b) assigning a competent individual to oversee the services; (c) evaluating the adequacy of the services performed; (d) evaluating and accepting responsibility for the results of the services performed; and (e) establishing and maintaining internal controls, including monitoring ongoing activities.

During the course of the audit we may observe opportunities for economy in, or improved controls over, your operations. We will bring such matters to the attention of the appropriate level of management, either orally or in writing.

At the conclusion of our audit engagement, we will communicate to those charged with governance the following significant findings from the audit:

- Our view about the qualitative aspects of the entity's significant accounting practices;
- Significant difficulties, if any, encountered during the audit;
- Uncorrected misstatements, other than those we believe are trivial, if any;
- Disagreements with management, if any;
- Other findings or issues, if any, arising from the audit that are, in our professional judgment, significant and relevant to those charged with governance regarding their oversight of the financial reporting process;
- Material, corrected misstatements that were brought to the attention of management as a result of our audit procedures;
- Representations we requested from management;
- Management's consultations with other accountants, if any; and significant issues, if any, arising from the audit that were discussed, or the subject of correspondence, with management.

Once the books are ready for audit, we will begin fieldwork as scheduled. Generally the books will be considered ready for audit when:

1. All activity is recorded in the accounting records and properly classified by fund.
2. Trial balance, in electronic Microsoft Excel format, has been provided **at least 2 weeks prior** to scheduled fieldwork.
3. General ledger cash accounts have been reconciled to the statements provided by the district financial institutions.
4. A listing of accounts receivable (FY2012 revenue received after 6/30/12), if applicable, have been listed by fund and income account, evaluated for collectability and amounts received within 60 days of year-end identified.
5. Inventories, if applicable, have been counted and valued.
6. A list of property and equipment acquired or disposed of, with dates and amounts, is prepared and depreciation has been calculated and a complete listing of fixed assets is available.
7. A listing of accounts payable (FY2012 expenses paid after 6/30/12), if applicable, to vendors and others is prepared and summarized by fund and expense account.
8. Payroll tax reports through the end of the fiscal year have been completed and reconciled to the general ledger.
9. A list of elected officials and their addresses at June 30 is prepared and made available.
10. New leases, contracts, and notes payable are summarized and made available for review.
11. A summary of current, pending or threatened litigation is prepared.
12. A schedule of expenditures of federal awards is prepared and reconciled to the general ledger revenue accounts.

13. See the attached items and examples specific to the district audit.

If the district is unable to complete some part of the necessary accounting work to have the district books ready for audit, we are available to assist the district. If the district desires to engage Oster Professional Group, CPA's (OPG) for assistance, a separate contract for services may be prepared prior to commencement. To maintain our independence and, therefore our ability to perform the audit in accordance with professional standards, there may be some limitations on the type of services that can be provided.

We will provide copies of our reports to the district; 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.

The audit documentation for this engagement is the property of OPG and constitutes confidential information. However, pursuant to authority given by law or regulation, we may be requested to make certain audit documentation available to a cognizant or oversight 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 management of any such request. If requested, access to such audit documentation will be provided under the supervision of OPG 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.

The audit documentation for this engagement will be retained for a minimum of five years after the date the auditors' report is issued or for any additional period requested by interested parties. If we are aware that a federal awarding agency, pass-through entity, or auditee is contesting an audit finding, we will contact the parties contesting the audit finding for guidance prior to destroying the audit documentation.

Government Auditing Standards requires that we provide the district with a copy of our most recent external peer review report and any letter of comment, and any subsequent peer review reports and letters of comment received during the period of the contract. Our peer review report for the year ended May 31, 2010, accompanies this letter.

Based on our estimates, the fee for the audit should not exceed \$23,350. This estimate is based on anticipated cooperation from district personnel and the assumption that unexpected circumstances will not be encountered during the audit. If significant additional time is necessary, we will discuss the reasons with management and arrive at a new fee estimate before we incur the additional costs.

This fee does not include additional costs related to the preparation of financial statements in accordance with GASB Statement 34 and the related Management's Discussion and Analysis. We anticipate the cost of assisting in the preparation of the financial statements and MD&A will not exceed \$4,670.

We do not charge for incidental telephone calls and inquiries, and we encourage management to use us as a resource throughout the year. Where we find that the district needs services that will require an additional fee, we can discuss those services and estimate a fee at that time.

We appreciate the opportunity to be of service to the district, and believe this letter accurately summarizes the significant terms of our engagement. If the district has any questions, please let us know. If the district agrees with the terms of our engagement as described in this letter, please sign the enclosed copy and return it to us.

Very truly yours,



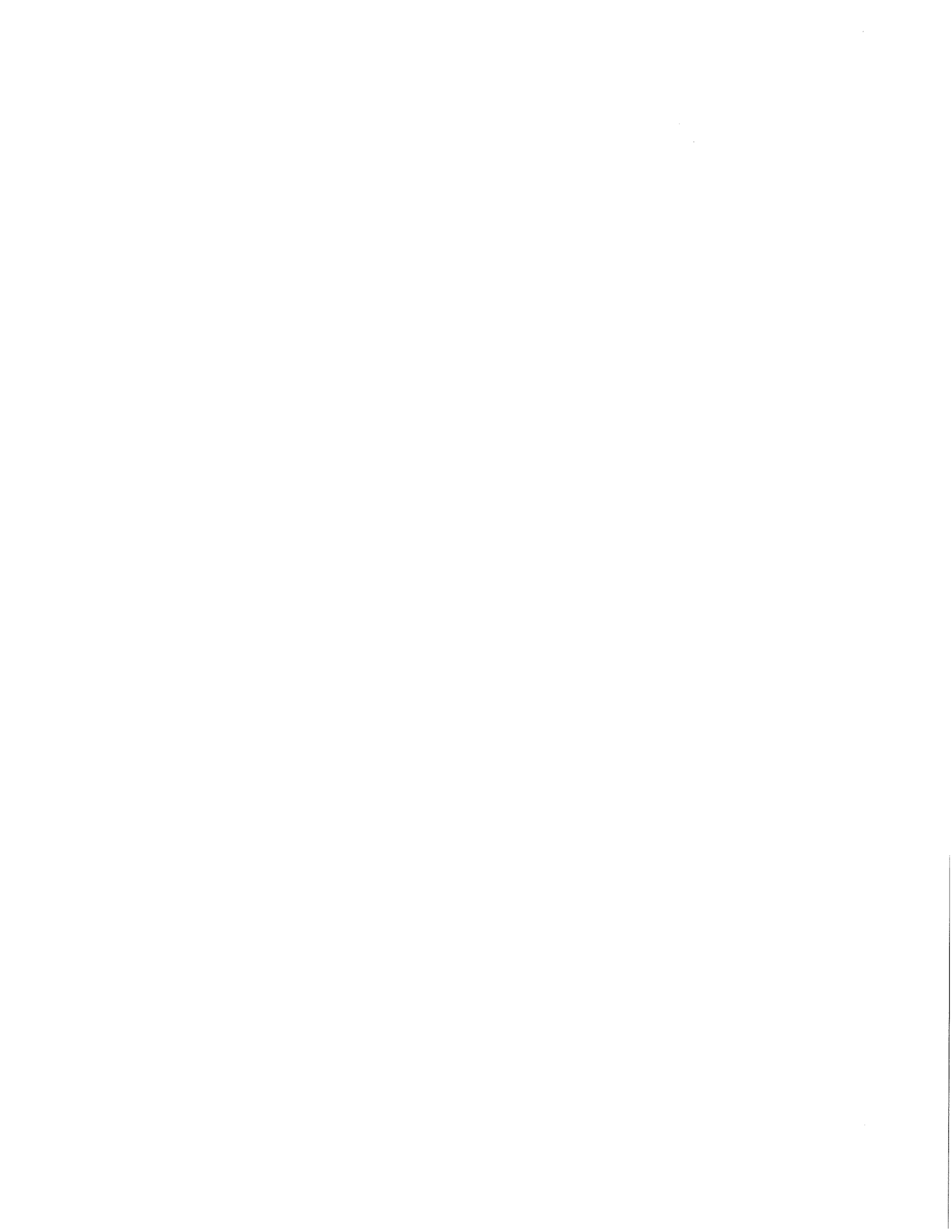
Robert M. Armstrong, CPA
Oster Professional Group, CPA's, PC

This letter correctly sets forth the understanding of the district.

By: _____

Title: Board Chairperson

Date: _____



System Review Report

August 16, 2010

To the Partners of
Oster Professional Group, CPAs, P.C.
and the Peer Review Committee of the Oregon Society of CPAs (OSCPA)

We have reviewed the system of quality control for the accounting and auditing practice of Oster Professional Group, CPAs, P.C. (the firm) in effect for the year ended May 31, 2010. 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. The firm is responsible for designing a system of quality control and complying with it to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. Our responsibility is to express an opinion on the design of the system of quality control and the firm's compliance therewith based on our review. The nature, objectives, scope, limitations of, and the procedures performed in a System Review are described in the standards at www.aicpa.org/prsummary.

As required by the standards, engagements selected for review included engagements performed under *Government Auditing Standards*.

In our opinion, the system of quality control for the accounting and auditing practice of Oster Professional Group, CPAs, P.C. in effect for the year ended May 31, 2010, 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*. Oster Professional Group, CPAs, P.C. has received a peer review rating of *pass*.

Wall & Wall P.C., CPAs

Wall & Wall, P.C., Certified Public Accountants

