



Talbot, Korvola & Warwick [LLP]
Certified Public Accountants & Consultants

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ATTACHMENT A



June 28, 2006

Board of Directors
Portland Public Schools
501 N. Dixon Street
Portland, Oregon 97227

Attention: Board Chair

This letter is to explain our understanding of the arrangements for the services we are to perform for Portland Public Schools, Portland, Oregon (the District) for the year ending June 30, 2006. We ask that you either confirm or amend this understanding.

We will perform an audit of the District's governmental activities, each major fund and the aggregate remaining fund information of and for the year ending June 30, 2006, which collectively comprise the basic financial statements. We understand that these financial statements will be prepared in accordance with accounting principles generally accepted in the United States of America. The objective of an audit of financial statements is to express an opinion on those statements.

We will also perform the audit of the District as of June 30, 2006, so as to satisfy the audit requirements imposed by the Single Audit Act and the U.S. Office of Management and Budget (OMB) Circular No. A-133.

We will conduct the audit in accordance with auditing standards generally accepted in the United States of America; *Government Auditing Standards* issued by the Comptroller General of the United States; the provisions of the Single Audit Act, OMB Circular A-133 and OMB's Compliance Supplement and *Minimum Standards for Audits of Oregon Municipal Corporations*. Those standards, circulars or supplements require that we plan and perform the audit to obtain reasonable rather than absolute, assurance about whether the financial statements are free of material misstatement whether caused by error, fraudulent financial reporting, or misappropriation of assets. Accordingly, a material misstatement, whether caused by error, fraudulent financial reporting, or misappropriation of assets, may remain undetected. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. As a result, an audit is not designed to detect errors or fraud that is immaterial to the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit will provide a reasonable basis for our reports.

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In addition to our reports on the District's financial statements, we will also issue the following reports or types of reports:

A report on the fairness of the presentation of the District's Schedule of Expenditures of Federal Awards for the year ending June 30, 2006.

Reports on internal control related to the financial statements, and major programs. These reports will describe the scope of testing of internal control and the results of our tests of internal controls.

Reports on compliance with laws, regulations, and the provision of contracts or grant agreements. We will report on any noncompliance which could have a material effect on the financial statements and any noncompliance which could have a direct and material effect on each major program.

A Schedule of Findings and Questioned Costs.

A Data Collection Form for Reporting on Audits of States, Local Governments and Non-Profit Organizations, U.S. Department of Commerce Form SF-SAC, for the year ending June 30, 2006.

Audit comments and disclosures as required by *Minimum Standards for Audits of Oregon Municipal Corporations*.

A report on the Summary of Revenues and Expenditures as required by *Minimum Standards for Audits of Oregon Municipal Corporations*.

The funds that you have told us are maintained by the District and that are to be included as part of our audit is consistent with those reported in the prior year.

The Federal Financial Assistance Programs that you have told us that the District participates in and that are to be included as part of the single audit are consistent with the prior year.

Our reports on internal control will include any reportable conditions and material weaknesses in the system of which we become aware as a result of obtaining an understanding of internal control and performing tests of internal control consistent with requirements of the standards and circular identified above. Our reports on compliance will address material errors; fraud; violations of compliance requirements, and other responsibilities imposed by state and Federal statutes and regulations and assumed by contracts; and any state or Federal grant, entitlement of loan program questioned costs of which we become aware, consistent with requirements of the standards and circulars identified above.

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If circumstances arise relating to the conditions of your records, the availability of sufficient, competent evidential matter, or indications of a significant risk of material misstatement of the financial statements because of error, fraudulent financial reporting, misappropriation of assets, or noncompliance which in our professional judgment prevent us from completing the audit or forming an opinion, we retain the unilateral right to take any course of action permitted by professional standards, including declining to express an opinion or issue a report, or withdrawal from the engagement.

As you know, management is responsible for 1) the preparation of the District's financial statements and the Schedule of Expenditures of Federal Awards, 2) establishing and maintaining effective internal control over financial reporting and safeguarding assets and internal control over compliance, including monitoring ongoing activities, and for informing us of all significant deficiencies in the design or operation of such controls of which it has knowledge, 3) properly recording transactions in the records, 4) identifying and ensuring that the District complies with the laws and regulations applicable to its activities, and for informing us about all known material violations of such laws or regulations, 5) the design and implementation of programs and controls to prevent and detect fraud, and for informing us about all known or suspected fraud affecting the District involving management, employees who have significant roles in internal control and others where the fraud could have a material effect on the financial statements, 6) informing us of its knowledge of any allegations of fraud or suspected fraud affecting the District received in communications from employees, regulators, or others, 7) making all financial records and related information available to us, 8) for adjusting the financial statements to correct material misstatements 9) following up and taking corrective action on audit findings, including the preparation of a summary Schedule of Prior Audit Findings, and a corrective action plan (if applicable), and 10) report distribution including submitting the reporting package. At the conclusion of our audit, we will request certain written representations from management about the financial statements and matters related thereto. We will also require that you affirm to us 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.

The Board of Directors is responsible for informing us of its views about the risks of fraud within the District, and its knowledge of any fraud or suspected fraud affecting the District. We will also determine that certain matters related to the conduct of the audit are communicated to the Board of Directors including 1) fraud involving senior management and fraud (whether caused by senior management or other employees) that causes a material misstatement of the financial statements, 2) illegal acts that come to our attention (unless they are clearly inconsequential), 3) disagreements with management and other serious difficulties encountered in performing the audit, and 4) various matters related to the District's accounting policies and financial statements.

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Subject to the limitations of the Oregon Tort Claims Act 30.260

1 The District hereby indemnifies Talbot, Korvola & Warwick, LLP (the Firm) and its partners and employees and holds them harmless from all claims, liabilities, losses, and costs arising in circumstances where there has been a knowing misrepresentation by a member of the District's management, regardless of whether such person was acting in the District's interest. This indemnification will survive termination of this letter.

30.300

You have informed us that you intend to prepare a comprehensive annual financial report (CAFR) and submit it for evaluation by the Government Finance Officers Association's Certificate of Achievement for Excellence in Financial Reporting and the Association of School Business Officials Certificate of Excellence in Financial Reporting. Our participation in the preparation of the CAFR is to consist of reviewing the CAFR's transmittal letter and statistical data for internal consistency and ensure compliance with GFOA and ASBO requirements. Should the District not be awarded these certificates, the District may, at its sole discretion, terminate this contract.

The working papers for this engagement are the property of the Firm. However, you acknowledge and grant your assent that representatives of the cognizant or oversight agency or their designee, other government audit staffs, and the U.S. Government Accountability Office shall have access to the audit working papers upon their request; and that we shall maintain the working papers for a period of at least seven years after the date of the report, or for a longer period if we are requested to do so by the cognizant or oversight agency. Access to requested workpapers will be provided under the supervision of the Firm's audit personnel and at a location designated by our Firm.

During the course of our engagement, we may accumulate records containing data which should be reflected in your books and records. You will determine that all such data, if necessary, will be so reflected. Accordingly, you will not expect us to maintain copies of such records in our possession.

The assistance to be supplied by organization personnel, including the preparation of schedules and analyses of accounts, will be discussed and coordinated with Heidi Franklin, Chief Financial Officer. The timely and accurate completion of this work is an essential condition to our completion of the audit and issuance of our audit report.

Our fees are based on the time required by the individuals assigned to the engagement, plus direct expenses. Interim billings will be submitted as work progresses and as expenses are incurred, but not more frequently than once a month. Billings are due upon submission. Our fee for the services described in this letter is estimated to be \$130,900 unless the scope of the engagement is changed, the assistance which the District has agreed to furnish is not provided, or unexpected conditions are encountered, in which case we will discuss the situation with you before proceeding. All other provisions of this letter will survive any fee adjustment.

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Our professional standards require that we perform certain additional procedures, on current and previous years' engagements, whenever a partner or professional employee leaves the firm and is subsequently employed by or associated with a client. Accordingly, the District agrees it will compensate the Firm for any additional costs incurred as a result of the employment of a partner or professional employee of the Firm.

In the event we are requested or authorized by the District or are required by government regulation, subpoena, or other legal process to produce our documents or our personnel as witnesses with respect to our engagements for the District, the District will, so long as we are not a party to the proceeding in which the information is sought, reimburse us for our professional time and expenses, as well as the fees and expenses of our counsel, incurred in responding to such requests.

Professional standards and our Firm policies require that we perform certain additional procedures whenever our reports are included, or we are named as accountants, auditors, or "experts" in a document used in a public offering of debt securities. Our report on the financial statements is not to be included in an official statement or other document involved with the sale of debt instruments without our prior consent. Additionally, if you intend to publish or otherwise reproduce the financial statements and/or make reference to us or our audit, you agree to provide us with printer's proofs or master for our review and consent before reproduction and/or release occurs. You also agree to provide us with a copy of the final reproduced material for our consent before it is distributed or released. Our fees for any additional services that may be required under our quality assurance system as a result of the above will be established with you at the time such services are determined to be necessary.

Any claim arising out of services rendered pursuant to this agreement shall be resolved in accordance with the laws of the State of Oregon. It is agreed by the District and the Firm or any successors in interest that no claim arising out of services rendered pursuant to this agreement by or on behalf of the District shall be asserted more than two years after the date of the last audit report issued by the Firm.

This letter constitutes, and is included as Attachment A to the Personal/Professional Services Contract, the complete and exclusive statement of agreement between Talbot, Korvola & Warwick, LLP and Portland Public Schools, superseding all proposals oral or written and all other communication, with respect to the terms of the engagement between the parties.

In accordance with *Government Auditing Standards*, a copy of our most recent peer review is enclosed for your information.



LE MASTER &
DANIELS PLLC

SPOKANE
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MOSES LAKE
OMAK
OTHELLO

QUINCY
TRI-CITIES
WALLA WALLA
WENATCHEE
YAKIMA

ACCOUNTING

To the Partners
Talbot, Korvola & Warwick LLP

AND

CONSULTING

SERVICES

MEMBER OF

THE

McGLADREY

NETWORK

We have reviewed the system of quality control for the accounting and auditing practice of Talbot, Korvola & Warwick LLP (the firm) in effect for the year ended March 31, 2003. A system of quality control encompasses the firm's organizational structure and the policies adopted and procedures established to provide it with reasonable assurance of conforming with professional standards. The elements of quality control are described in the Statements on Quality Control Standards issued by the American Institute of Certified Public Accountants (AICPA). The design of the system and compliance with it are the responsibility of the firm. Our responsibility is to express an opinion on the design of the system, and the firm's compliance with the system based on our review.

Our review was conducted in accordance with standards established by the Peer Review Board of the AICPA. In performing our review, we obtained an understanding of the system of quality control for the firm's accounting and auditing practice. In addition, we tested compliance with the firm's quality control policies and procedures to the extent we considered appropriate. These tests covered the application of the firm's policies and procedures on selected engagements. Because our review was based on selective tests, it would not necessarily disclose all weaknesses in the system of quality control or all instances of lack of compliance with it.

Because there are inherent limitations in the effectiveness of any system of quality control, departures from the system may occur and not be detected. Also, projection of any evaluation of a system of quality control to future periods is subject to the risk that the system of quality control may become inadequate because of changes in conditions, or because the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the system of quality control for the accounting and auditing practice of Talbot, Korvola & Warwick LLP in effect for the year ended March 31, 2003, has been designed to meet the requirements of the quality control standards for an accounting and auditing practice established by the AICPA and was complied with during the year then ended to provide the firm with reasonable assurance of conforming with professional standards.

Le Master & Daniels PLLC

Spokane, Washington
June 4, 2003