



GROVE, MUELLER & SWANK, P.C.
CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

RECEIVED
JUN 29 2005
LAFAYETTE CITY HALL

June 30, 2005

City Council
City of Lafayette
Lafayette, Oregon

This letter and contract dated March 31, 2003 explain our understanding of the arrangements for the services we are to perform for the City of Lafayette for the year ending June 30, 2005. We ask that you either confirm or amend this understanding.

We will perform an audit of City of Lafayette's governmental activities, business-type activities, each major fund, and aggregate remaining fund information as of and for the year ending June 30, 2005 which collectively comprise the basic financial statements. We understand that these financial statements will be prepared in accordance with the modified cash basis of accounting. The objective of an audit of financial statements is to express an opinion on those statements.

We will conduct the audit in accordance with auditing standards generally accepted in the United States of America and The Minimum Standards for Audits of Oregon Municipal Corporations. Those standards 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 are 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.

An audit also includes obtaining an understanding of internal control sufficient to plan the audit and to determine the nature, timing and extent of audit procedures to be performed. An audit is not designed to provide assurance on internal control or to identify significant deficiencies or material weaknesses. However, we will communicate to management and the audit committee any significant deficiencies or material weaknesses that become known to us during the course of the audit.

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.

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As you know, management is responsible for 1) the preparation of City of Lafayette's financial statements and the schedule of federal awards, 2) establishing and maintaining effective internal control over financial reporting and safeguarding assets and internal control over compliance, 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 City of Lafayette 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 entity 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 entity received in communications from employees, regulators, or others, 7) making all financial records and related information available to us, and 8) for adjusting the financial statements to correct material misstatements. 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 City is responsible for informing us of its views about the risks of fraud within the entity, and its knowledge of any fraud or suspected fraud affecting the entity. We will also determine that certain matters related to the conduct of the audit are communicated to the City Council 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 entity's accounting policies and financial statements.

City of Lafayette hereby indemnifies Grove, Mueller & Swank, P.C. and its shareholders 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 City of Lafayette's management, regardless of whether such person was acting in City of Lafayette's interest. This indemnification will survive termination of this letter.

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.

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. Billings are due upon submission. Our fee for the services described in this letter will not exceed \$5,250, plus \$750 for Single Audit procedures, if required, unless the scope of the engagement is changed, the assistance which the City 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.

In the event we are requested or authorized by City of Lafayette 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 City of Lafayette, City of Lafayette 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.

It is agreed by City of Lafayette and Grove, Mueller & Swank, P.C. or any successors in interest that no claim arising out of services rendered pursuant to this agreement by or on behalf of City of Lafayette shall be asserted more than two years after the date of the last audit report issued by Grove, Mueller & Swank, P.C.

If this letter defines the arrangements as you understand them, please sign and date the enclosed copy, and return it to us. We appreciate your business.


CERTIFIED PUBLIC ACCOUNTANTS

Confirmed on behalf of the addressee:

Dee J. Ruck, CITY ADMINISTRATOR

July 6, 2005