

October 12, 2006

To the Owners
The Bair CPA Group, Inc.

We have reviewed the system of quality control for the accounting and auditing practice of The Bair CPA Group, Inc. (the firm) in effect for the year ended May 31, 2006. A system of quality control encompasses the firm's organizational structure, 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 CPAs (AICPA). The firm is responsible for designing a system of quality control and complying with it to provide the firm reasonable assurance of conforming with 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 with its system of quality control based on our review.

Our review was conducted in accordance with standards established by the Peer Review Board of the AICPA. During our review, we read required representations from the firm, interviewed firm personnel and obtained an understanding of the nature of the firm's accounting and auditing practice, and the design of the firm's system of quality control sufficient to assess the risks implicit in its practice. Based on our assessments, we selected engagements and administrative files to test for conformity with professional standards and compliance with the firm's system of quality control. The engagements selected represented a reasonable cross-section of the firm's accounting and auditing practice with emphasis on higher-risk engagements. The engagements selected included among others, audits of Employee Benefit Plans, and engagements performed under Government Auditing Standards. Prior to concluding the review, we reassessed the adequacy of the scope of the peer review procedures and met with firm management to discuss the results of our review. We believe that the procedures we performed provide a reasonable basis for our opinion.

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. Our review was based on selected tests therefore it would not necessarily detect all weaknesses in the system of quality control or all instances of noncompliance with it. There are inherent limitations in the effectiveness of any system of quality control and therefore noncompliance with the system of quality control may occur and not be detected. 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 The Bair CPA Group, Inc. in effect for the year ended May 31, 2006, 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.

As is customary in a system review, we have issued a letter under this date that sets forth comments that were not considered to be of sufficient significance to affect the opinion expressed in this report.

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A PROFESSIONAL CORPORATION

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October 12, 2006

To the Owners
The Bair CPA Group, Inc.

We have reviewed the accounting and auditing practice of The Bair CPA Group, Inc. (the firm) for the year ended May 31, 2006, and have issued our report thereon dated October 12, 2006. That report should be read in conjunction with the comments in this letter, which were considered in determining our opinion. The matters described below were not considered to be of sufficient significance to affect the opinion expressed in that report.

Comment—The firm's quality control policies and procedures require consultation in situations that involve specialized industries and newly issued technical pronouncements. During our review, we noted certain instances where consultation was warranted, but the firm did not consult. As a result, presentation of the comparative statement of net assets available for benefits was omitted, and documentation of fraud risk assessment and internal control consideration were incomplete in an employee benefit plan audit. In addition, documentation of expectations in performing analytical procedures was omitted in review engagements. The presentation and documentation deficiencies were not of such significance to make the financial statements misleading.

Recommendation—We recommend the firm re-emphasize the importance of consulting on engagements involving specialized industries and newly issued pronouncements. The engagement partners, concurring partners, or both should affirm specifically that consultation occurred in all situations where it is required by firm policy or otherwise warranted. In addition, the firm should discuss at a staff training session its policies regarding consultation as outlined in its quality control document. The firm should encourage its staff to consult with or use authoritative sources in accordance with firm policy.

Comment—The firm's quality control policies and procedures require an evaluation and resolution of all questions regarding independence, integrity, and objectivity including a review of its accounts receivable for unpaid fees on continuing clients. Our review disclosed an instance where the firm issued a compilation report on a client's financial statements before the prior year's fee had been paid. As a result, the independence of the firm was considered impaired. The firm will indicate in compilation reports issued for all future engagements, that it is not independent with respect to this client until the fees for the prior year are paid. This compilation was deemed to be substandard. Based on our review of other engagements we were able to determine that this deficiency was isolated.

Recommendation—We recommend that the firm emphasize to its owners and staff the requirement of evaluating and resolving all questions regarding independence, integrity, and objectivity. Any independence issues should be fully discussed, documented and resolved in accordance with professional standards.

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