

Barbacane, Thornton & Company LLP

200 Springer Building  
3411 Silverside Road  
Wilmington, Delaware 19810

T 302.478.8940  
F 302.468.4001  
www.btcpa.com

January 24, 2013

*✓ Anthony Tabasso*

Mr. Hal Harper  
Chairman  
and  
Mr. Cary Vargo  
Township Manager  
Upper Uwchlan Township Authority  
140 Pottstown Pike  
Chester Springs, PA 19425-9156

Dear Mr. Harper and Mr. Vargo:

We are pleased to confirm our understanding of the services we are to provide Upper Uwchlan Township authority for the year ended December 31, 2012.

We will audit the Annual Audit and Financial Report of Upper Uwchlan Township as of and for the year ended December 31, 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 Annual Audit and Financial Report:

- Concise Financial Report

#### **Audit Objective**

The objective of our audit is the expression of an opinion as to whether your Annual Audit and Financial Report is fairly presented, in all material respects, in conformity with a prescribed basis of accounting that demonstrates compliance with the cash basis and budget laws of the Commonwealth of Pennsylvania. Our audit will be conducted in accordance with auditing standards generally accepted in the United States of America and will include tests of the accounting records and other procedures we consider necessary to enable us to express such an opinion. If our opinion on the Annual Audit and Financial Report is 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 an opinion, we may decline to express an opinion or to issue a report as a result of this engagement.

#### **Audit Procedures – General**

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. We will plan and perform the audit to obtain reasonable, rather than absolute, assurance about whether the financial statements are free of material misstatement, whether from errors, fraudulent financial reporting, misappropriation of assets, or violations of laws or governmental regulations that are attributable to the entity or to acts by management or employees acting on behalf of the entity.

**BARBACANE  
THORNTON  
& COMPANY**  
CERTIFIED PUBLIC ACCOUNTANTS

Because an audit is designed to provide reasonable, but not absolute, assurance and because we will not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us. In addition, an audit is not designed to detect immaterial misstatements or violations of laws or governmental regulations that do not have a material and direct effect on the financial statements. However, we will inform you of any material errors and fraudulent financial reporting or misappropriation of assets that come to our attention, and we will inform the appropriate level of management and the governing body of any fraudulent financial reporting or misappropriation of assets that come to our attention. We will also inform you of any violations of laws or governmental regulations that come to our attention, unless clearly inconsequential. Our responsibility as auditors is limited to the period covered by our audit and does not extend to any later periods for which we are not engaged as auditors.

Our procedures will include tests of documentary evidence supporting the transactions recorded in the accounts and may include tests of the physical existence of inventories, and direct confirmation of receivables and certain other assets and liabilities by correspondence with selected individuals, funding sources, creditors and financial institutions. We will request written representations from your attorneys as part of the engagement, and they may bill you for responding to this inquiry. At the conclusion of our audit, we will also require certain written representations from you about the financial statements and related matters.

#### **Audit Procedures - Internal Controls**

Our audit will include obtaining an understanding of the entity and its environment, including 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 deficiencies in internal control. However, during the audit, we will communicate to management and those charged with governance internal control related matters that are required to be communicated under AICPA professional standards.

#### **Audit Procedures - Compliance**

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we will perform tests of Upper Uwchlan Township's compliance with applicable laws and regulations and the provisions of contracts and agreements. However, the objective of our audit will not be to provide an opinion on overall compliance and we will not express such an opinion.

#### **Management Responsibilities**

Management is responsible for the Annual Audit and Financial Report and all accompanying information as well as all representations contained therein. You are also responsible for making all management decisions and performing all management functions; for designating an individual with suitable skill, knowledge or experience to oversee our assistance with the preparation of your Annual Audit and Financial Report and any other nonaudit services we provide; and for evaluating the adequacy and results from those services and accepting responsibility for them.

Management is responsible for establishing and maintaining effective internal controls including monitoring ongoing activities; for the selection and application of accounting principles; and for the fair presentation in the Annual Audit and Financial Report in conformity with the Department of Community and Economic Development ("DCED") of the Commonwealth of Pennsylvania cash basis and budget laws.

Management is responsible for making all financial records and related information available to us and for the accuracy and completeness of that information. Your responsibilities include adjusting the Annual Audit and Financial Report to correct material misstatements and for confirming to us in the representation letter 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 Annual Audit and Financial Report taken as a whole.

You are responsible for 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 Government involving (a) management, (b) employees who have significant roles in internal control, and (c) others where the fraud could have a material effect on the financial statements. Your responsibilities include informing us of your knowledge of any allegations of fraud or suspected fraud affecting the Government received in communications from employees, former employees, regulators or others. In addition, you are responsible for identifying and ensuring that the entity complies with applicable laws and regulations.

With regard to using our auditors' report, you understand that you must obtain our prior written consent to reproduce or use our report (e.g., in bond offering official statements, Department of Community and Economic Development ("DCED") electronic filings or other documents).

With regard to the electronic dissemination of audited financial statements, including financial statements published electronically on your website or any other website, you understand that electronic sites are a means to distribute information and, therefore, we are not required to read the information contained in these sites or to consider the consistency of other information in the electronic site with the original document.

During the course of our engagement, we will request information and explanations from management regarding, among other things, the Government's operations, internal controls, future plans, specific transactions and accounting systems and procedures. At the conclusion of our engagement, we will require, as a precondition to the issuance of our report, that management provide certain representations in a written representation letter. The procedures we will perform in our engagement and the conclusions we reach as a basis for our report will be heavily influenced by the written and oral representations that we receive from management. You agree that we shall not be responsible for any claim that may arise out of or relate to any of the written or oral representations relied upon by us in issuing our report to you.

In addition, you further agree to indemnify and hold us harmless from any claim, demand or potential liability and you agree to tender a defense (including providing counsel) on our behalf, reasonably acceptable to us, to defend against any claim, demand or potential liability arising out of our services performed under this engagement asserted, brought or commenced against us by any third party relating to or pertaining to any false or misleading representations by any officer, director or member of your management team. If you fail to tender a defense, you agree to pay all of our costs and attorneys' fees incurred by us incident to defending against any such claim, demand or potential liability asserted, brought or commenced against us by any third party. Additionally, you agree to reimburse us for any settlement reached by us or any monetary award paid by us (unless you have tendered the defense required herein) in the event any such claim, demand or potential liability is asserted, brought or commenced against us by any third party.

You agree that any claim, dispute or cause of action that may arise out of this engagement or relate, in any way, to this engagement, prior to any claim or cause of action being brought in any court or in any other proceeding, must first be brought to the attention of our Managing Partner by written notice ("Informal Dispute Notice") and you agree to give the Managing Partner at least twenty (20) days after receipt of your Informal Dispute Notice time to resolve any such claim or dispute ("Informal Dispute Procedure").

After the expiration of the Informal Dispute Procedure, you agree that any dispute not resolved must be submitted to mandatory mediation and that the parties will engage in the mediation process in good faith. The mandatory mediation process shall be initiated by a written demand given by either party to the other party in the engagement which describes the nature and basis of the dispute or disputes to be mediated and what relief

and/or damages are sought. A mediation demand must be made within one hundred eighty (180) days after the date of the Informal Dispute Notice. Mediation shall be conducted in accordance with the Commercial Mediation Rules of the American Arbitration Association existing as of the date of the mediation demand ("Mediation Rules"). The parties may agree to the selection of a mediator. However, if the parties are unable to agree to the selection of a mediator within twenty (20) days of the mediation demand (or such later time as the parties may mutually agree), such mediator shall be selected in accordance with the Mediation Rules. The Mediator selected must have a minimum of ten (10) years tax law or similar experience. You shall advance the costs of the mediation and we agree to reimburse you for one-half of such costs at the conclusion of the mediation process or as may otherwise be mutually agreed during the mediation process. The mediation shall be confidential.

Any court action or other litigation shall be conducted only within the County of New Castle, Delaware. Delaware law shall apply irrespective of any conflicts of laws rules. You agree and consent to personal jurisdiction in the federal and state courts located in New Castle County, Delaware. The parties both agree to waive any right to a trial by jury in any dispute.

Any claim or litigation arising out of this engagement, except solely for any claims by us for payment of amounts due to us under our invoices, must be commenced within the earlier of (i) one (1) year from the accrual of such claim or cause of action or (ii) one (1) year from the completion of the engagement, notwithstanding any statute of limitations or other statutory provision to the contrary. It is expressly understood that the completion of the engagement contemplated herein shall be deemed to have occurred upon delivery of our audit report to you. However, this period shall be deemed extended for ninety (90) days after the conclusion of the mediation process if the parties were engaged in the mediation process on the date that the period to commence any claim or litigation expires.

We shall not be liable for any incidental, consequential, punitive, exemplary or non-economic damages of any sort. In addition, any damages shall be limited to the amount of professional fees paid by you to us in connection with this engagement and shall not exceed such amount. Additionally, such damages shall only be required to be paid once and upon paying such damages, we shall have no further or other liability for any damages. As such, we may agree to refund to you the amount you paid for our services in this engagement and thereby discharge any further or other liability for any damages whatsoever without admitting any fault or liability.

#### **Other Matters**

An auditor is required to be "Independent" under applicable professional guidelines. If, at any time, our independence is questioned, challenged or otherwise at risk, we reserve the right to immediately discontinue any further services until such time as such independence issue is resolved to our satisfaction. You agree that you shall have no claim against us for any breach of this agreement if we, in good faith, cease performing work under this engagement due to any issue of independence.

The parties agree that no third party beneficiaries are intended to be created by this engagement or by the work performed by us in connection with this engagement. However, without limiting the applicability of all provisions in an agreement to any such person or entity under applicable law, it is expressly understood that any person or entity claiming to be a third party beneficiary of our services under this engagement shall be bound by all of the provisions of this engagement.

In the event we are required to respond to any subpoena, court order or other legal process directing us to produce documents and/or testimony (deposition, grand jury, trial or otherwise) related to knowledge or information we obtained and/or prepared related to, out of or during the course of this engagement, you agree to compensate us for all time expended by us, in the same manner as set forth above in connection with such response and to reimburse us all costs incurred in connection with such response at our usual rates in effect at such time. We will notify you of the receipt of any such subpoena, court order or other legal process, unless prohibited by law, by forwarding same to your last known address in our billing records. Unless we receive from you, at least a week before the response deadline in any such subpoena, court order or other legal process, a court order quashing or other evidence satisfactory to us in our sole discretion that such response deadline is extended, we will respond to such subpoena, court order or other legal process.

**Engagement Administration, Fees and Other**

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

The workpapers for this engagement are the property of Barbacane, Thornton & Company LLP and constitute confidential information. However, we may be requested to make certain workpapers available to the cognizant or grantor agency pursuant to authority given to it by law or regulation. If requested, access to such workpapers will be provided under the supervision of Barbacane, Thornton & Company LLP personnel. Furthermore, upon request, we may provide photocopies of selected workpapers to the cognizant or grantor agency. The cognizant or grantor agency may intend, or decide, to distribute the photocopies or information contained therein to others, including other governmental agencies. The organization agrees to compensate us for the time we expend in connection with such response and to reimburse us for all of our out-of-pocket costs incurred in that regard.

At the conclusion of our audit we will deliver 12 copies of the bound report. Additional copies will be made available for an additional fee.

The audit documentation for this engagement will be retained for a minimum of five years after the report release date or for any additional period requested by the Commonwealth of Pennsylvania.

Pamela W. Baker, CPA, CGFM is the engagement partner and is responsible for supervising the engagement and signing the report or authorizing another individual to sign it. Our fee for these services will be at our standard hourly rates plus out-of-pocket expenses. We estimate that our fees for the above services will be \$4,370. Our standard hourly rates vary according to the degree of responsibility involved and the experience level of the personnel assigned to your audit. Our invoices for these fees will be rendered each month as work progresses and are payable on presentation. Interest is charged at the rate of 1½ percent per month on past due invoices. In accordance with our firm policies, work may be suspended if your account becomes 90 days or more overdue and will not be resumed until your account is paid in full. If we elect to terminate our services for nonpayment, our engagement will be deemed to have been completed upon written notification of termination, even if we have not completed our report(s). You will be obligated to compensate us for all time expended and to reimburse us for all out-of-pocket expenditures through the date of termination. The suspension or termination of our work may result in adverse consequences to you including your failure to meet deadlines imposed by governments, lenders or other third parties. You agree that we will not be responsible for your failure to meet such deadlines, or for penalties or interest that may be assessed against you resulting from such failure. The above fee is based on anticipated cooperation from your personnel and the assumption that unexpected circumstances will not be encountered during the audit. If additional time is necessary, we will discuss it with you and arrive at a new fee estimate before we incur the additional costs.

You may request that we perform additional services not contemplated by this engagement letter. If this occurs, we will communicate with you regarding the scope of the additional services and the estimated fees. We also may issue a separate engagement letter covering the additional services. In the absence of any other written communication from us documenting such additional services, our services will continue to be governed by the terms of this engagement letter.

Our audit engagement ends on delivery of our audit report. Any follow-up services that might be required will be a separate, new engagement. The terms and conditions of that new engagement will be governed by a new, specific engagement letter for that service.

This engagement letter is contractual in nature and includes all of the relevant terms that will govern the engagement for which it has been prepared. The terms of this letter supersede any prior or contemporaneous oral or written discussions, negotiations, representations, promises or commitments by or between the parties. Any

modifications, changes or additions to the terms set forth in this letter will only become effective if evidenced by a writing signed or transmitted by the party against whom such amendment or modification is sought to be enforced clearly indicating assent to such amendment or modification.

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

Very truly yours,

*Barbacane, Thornton & Company LLP*

BARBACANE, THORNTON & COMPANY LLP

/tac

Enclosure

RESPONSE:

This letter correctly sets forth the understanding of Upper Uwchlan Township.

Approved by Anthony Tabasso Hal Harper, Chairman

Date 2/22/13

Approved by Cary Vargo, Township Manager

Date 2-22-13