

# McGladrey & Pullen

Certified Public Accountants

McGladrey & Pullen, LLP  
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April 26, 2010

Board of Supervisors  
East Fallowfield Township  
c/o Jill Bukata, Township Manager/Treasurer  
2264 Strasburg Road  
East Fallowfield, PA 19320

Dear Jill:

This letter is to explain our understanding of the arrangements for the services we are to perform for East Fallowfield Township (the "Township") for the year ending December 31, 2009. We ask that you either confirm or amend this understanding.

## **Audit Services**

We will perform an audit of the Township's governmental activities, each major fund, and aggregate remaining fund information as of and for the year ending December 31, 2009 which collectively comprise the basic financial statements. We understand that the 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 are responsible for forming and expressing an opinion about whether the financial statements that have been prepared by management with the oversight of the board of supervisors are presented fairly, in all material respects, in conformity with accounting principles generally accepted in the United States of America.

We will conduct the audit in accordance with auditing standards generally accepted in the United States of America. 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 or fraud. Accordingly, a material misstatement may remain undetected. Also, an audit is not designed to detect errors or fraud that are immaterial to the financial statements.

An audit of financial statements also includes obtaining an understanding of the Township 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 significant deficiencies or material weaknesses. However, we will communicate to management and the Board of Supervisors any significant deficiencies or material weaknesses that become known to us during the course of the audit.

We will also communicate to the Board of Supervisors (a) any fraud involving senior management and fraud (whether caused by senior management or other employees) that causes a material misstatement of the financial statements, (b) any illegal acts that come to our attention (unless they are clearly inconsequential), (c) any disagreements with management and other serious difficulties encountered in performing the audit, and (d) various matters related to the Township's accounting policies and financial statements.

We will also issue an Independent Auditor's Report on East Fallowfield Township's Commonwealth of Pennsylvania Annual Audit and Financial Report (DCED-CLGS-30) which the Township is required to file. We understand that these statements and schedules will be prepared pursuant to the financial reporting practices and procedures prescribed by the Commonwealth of Pennsylvania Department of Community and Economic Development (DCED) in its instructions for preparation of the Annual Audit and Financial Report (Form DCED-CLGS-30) and are not intended to be a presentation in conformity with accounting principles generally accepted in the United States of America. You acknowledge that you have the final responsibility for the material included in this report, and, therefore, you should review it carefully before you file it.

The funds that you have told us are maintained by the Township and that are to be included as part of our audit are listed here:

- General Fund
- Special Revenue Fund
- Capital Projects Fund
- Agency Fund

#### **East Fallowfield Township's Responsibilities**

Management is responsible for the financial statements, including the selection and application of accounting policies, adjusting the financial statements to correct material misstatements, and for making all financial records and related information available to us. Management is responsible for providing us with a written management representation letter confirming certain representations made during the course of our audit of the financial statements and affirming to us that it believes 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 and to the opinion units of the financial statements.

Management is responsible for establishing and maintaining effective internal control over financial reporting and for informing us of all significant deficiencies and material weaknesses in the design or operation of such controls of which it has knowledge.

Management is responsible for identifying and ensuring that the Township complies with the laws and regulations applicable to its activities, and for informing us about all known material violations of such laws or regulations. In addition, management is 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 Township involving management, employees who have significant roles in internal control, and others where the fraud could have a material effect on the financial statements. Management is also responsible for informing us of its knowledge of any allegations of fraud or suspected fraud affecting the Township received in communications from employees, former employees, analysts, regulators, or others.

The Board of Supervisors 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.

The Township agrees that our report on the financial statements will not be included in an official statement or other document involved with the sale of debt instruments without our prior consent. Additionally, if the Township intends 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 a 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 systems as a result of the above will be established with you at the time such services are determined to be necessary. In the event our auditor/client relationship has been terminated when the Township seeks such consent, we will be under no obligation to grant such consent or approval.

Because McGladrey & Pullen, LLP will rely on East Fallowfield Township and its management and Board of Supervisors to discharge the forgoing responsibilities, East Fallowfield Township holds harmless and releases McGladrey & Pullen, LLP, its partners, and employees from all claims, liabilities, losses, and costs arising in circumstances where there has been a knowing misrepresentation by a member of East Fallowfield Township's management which has caused, in any respect, McGladrey & Pullen, LLP's breach of contract or negligence. This provision shall survive the termination of this arrangement for services.

### **Township's Records and Assistance**

If circumstances arise relating to the condition of the Township's records, the availability of appropriate audit evidence, or indications of a significant risk of material misstatement of the financial statements because of error, fraudulent financial reporting, or misappropriation of assets, 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, issue a report, or withdraw from the engagement.

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

The assistance to be supplied by Township personnel, including the preparation of schedules and analyses of accounts, has been discussed and coordinated with Jill Bukata. The timely and accurate completion of this work is an essential condition to our completion of the audit and issuance of our audit report.

If, in connection with our audit, you request us to perform accounting services necessary for the preparation of the financial statements (such as drafting the financial statements, etc.), you agree to designate an appropriate individual to oversee the services, make all management decisions involved in those services, evaluate the adequacy and results of the services, and accept responsibility for the results of the services.

From time to time and depending upon the circumstances, we may use third-party service providers to assist us in providing professional services to you. In such circumstances, it may be necessary for us to disclose confidential client information to them. We enter into confidentiality agreements with all third-party service providers and we are satisfied that they have appropriate procedures in place to prevent the unauthorized release of your confidential information to others.

### **Fees, Costs, and Access to Workpapers**

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 \$23,000, plus out-of-pocket expenses, unless the scope of the engagement is changed, the assistance which the Township has agreed to furnish is not provided, or unexpected conditions are encountered, in which case we will discuss the situation with you before proceeding. Our estimate does not provide for consulting services and special projects which you may request, including additional accounting work required under GASB Statements. All other provisions of this letter will survive any fee adjustment.

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 in a key position. Accordingly, the Township agrees it will compensate McGladrey & Pullen, LLP for any additional costs incurred as a result of the Township's employment of a partner or professional employee of McGladrey & Pullen, LLP.

Board of Supervisors  
East Fallowfield Township  
c/o Jill Bukata, Township Manager/Treasurer  
April 26, 2010  
Page 4

In the event we are requested or authorized by East Fallowfield Township 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 East Fallowfield Township, East Fallowfield Township 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.

#### Claim Resolution

East Fallowfield Township and McGladrey & Pullen, LLP agree that no claim arising out of services rendered pursuant to this agreement shall be filed more than two years after the date of the audit report issued by McGladrey & Pullen, LLP or the date of this arrangement letter if no report has been issued. East Fallowfield Township waives any claim for punitive damages. McGladrey & Pullen, LLP's liability for all claims, damages and costs of East Fallowfield Township arising from this engagement is limited to the amount of fees paid by East Fallowfield Township to McGladrey & Pullen, LLP for the services rendered under this arrangement letter.

This letter constitutes the complete and exclusive statement of agreement between McGladrey & Pullen, LLP and East Fallowfield Township, superseding all proposals, oral or written, and all other communication, with respect to the terms of the engagement between the parties.

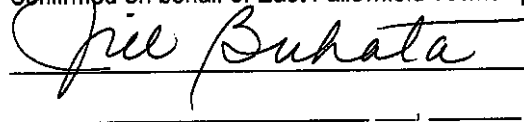
If this letter defines the arrangements as the Township understands them, please sign and date the enclosed copy and return it to us. We appreciate your business.

McGladrey & Pullen, LLP



Colleen A. Williams  
Partner

Confirmed on behalf of East Fallowfield Township:



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