

May 8, 2015

United Townships of Head, Clara & Maria  
15 Township Hall Road  
Stonecliffe, ON  
K0J 2K0

Dear Sir:

This letter will confirm the terms of engagement covering our audit of the financial statements of United Townships of Head, Clara & Maria for the fiscal year ending December 31, 2014.

**Objective, scope and limitations**

Our statutory function as auditors of United Townships of Head, Clara & Maria is to express an opinion on United Townships of Head, Clara & Maria's annual financial statements. We will conduct our audit in accordance with Canadian generally accepted auditing standards. Our audit will be conducted with the objective of expressing an opinion on the financial statements.

An auditor conducting an audit in accordance with Canadian generally accepted auditing standards obtains reasonable assurance that the financial statements taken as a whole are free of material misstatement, whether caused by fraud or error. It is important to recognize that an auditor cannot obtain absolute assurance that material misstatements in the financial statements will be detected because of:

- (a) factors such as use of judgment, and the use of testing of the data underlying the financial statements;
- (b) inherent limitations of internal control; and
- (c) the fact that much of the audit evidence available to the auditor is persuasive rather than conclusive in nature.

Furthermore, because of the nature of fraud, including attempts at concealment through collusion and forgery, an audit designed and executed in accordance with Canadian generally accepted auditing standards may not detect a material fraud. Further, while effective internal control reduces the likelihood that misstatements will occur and remain undetected, it does not eliminate that possibility. Because of the inherent limitations of an audit, together with the inherent limitations of internal control, there is an unavoidable risk that some material misstatements may not be detected, even though the audit is properly planned and performed in accordance with Canadian generally accepted auditing standards.

In making our risk assessments, we consider internal control relevant to the entity's preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. However, we will communicate to you in writing concerning any significant deficiencies in internal control relevant to the audit of the financial statements that we have identified during the audit.

### **Our responsibilities**

We will conduct our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

One of the underlying principles of the profession is a duty of confidentiality with respect to client affairs. Accordingly, except for information that is in or enters the public domain, we will not provide any third party with confidential information concerning the affairs of the entity without United Townships of Head, Clara & Maria's prior consent, unless required to do so by legal authority, or the rules of professional conduct / code of ethics of the Chartered Professional Accountants of Ontario. We will handle your confidential information in accordance with our firm's privacy policy which can be viewed in its entirety on our website at [www.welchllp.com](http://www.welchllp.com). Specifically, personal information will only be collected, used and disclosed for the intended purpose of the completion of our engagement. In accordance with professional regulations our client files must periodically be reviewed by practice inspectors and by other firm personnel to ensure that we are adhering to professional and Firm standards. File reviewers are required to maintain confidentiality of client information.

We will communicate in writing the relationships between us and United Townships of Head, Clara & Maria (including related entities) that, in our professional judgment, may reasonably be thought to bear on our independence.

The objective of our audit is to obtain reasonable assurance that the financial statements are free of material misstatement. However, if we identify any of the following matters, they will be communicated to the appropriate level of management:

- (a) misstatements, resulting from error, other than trivial errors;
- (b) fraud or any information obtained that indicates that a fraud may exist;
- (c) any evidence obtained that indicates that an illegal or possibly illegal act, other than one considered inconsequential, has occurred;
- (d) significant deficiencies in the design or implementation of internal control to prevent and detect fraud or error; and
- (e) related party transactions identified by us that are not in the normal course of operations and that involve significant judgments made by management concerning measurement or disclosure.

The matters communicated will be those that we identify during the course of our audit. Audits do not usually identify all matters that may be of interest to management in discharging its responsibilities. The type and significance of the matter to be communicated will determine the level of management to which the communication is directed.

We will consider United Townships of Head, Clara & Maria's internal control to identify types of potential misstatements, consider factors that affect the risks of material misstatement, and design the nature, timing and extent of further audit procedures. This consideration will not be sufficient to enable us to render an opinion on the effectiveness of internal control over financial reporting.

At the conclusion of our audit, unless unanticipated difficulties are encountered, we will submit to you an audit report that will be substantially in the form presented in Appendix A.

The form and content of our report may need to be amended in light of our audit findings. If during the course of our work it appears for any reason that we will not be in a position to render an unqualified opinion on the financial statements, we will discuss this with you.

### **Management's responsibilities**

Management is responsible for:

#### Financial statements

- (a) the preparation and fair presentation of United Townships of Head, Clara & Maria's financial statements in accordance with Canadian public sector accounting standards;

#### Completeness of information

- (a) providing us with and making available complete financial records and related data, and copies of all minutes of meetings of directors and committees of directors and all other information of which management is aware that is relevant to the preparation of financial statements;
- (b) providing us with information relating to any known or probable instances of non-compliance with legislative or regulatory requirements, including financial reporting requirements;
- (c) providing us with information relating to any illegal or possibly illegal acts, and all facts related thereto;
- (d) providing us with information regarding all related parties and related party transactions;
- (e) providing us with additional information we may request for the purpose of the audit; and

- (f) providing us with unrestricted access to persons within the entity from whom we determine it necessary to obtain audit evidence.

#### Written confirmation of significant representations

- (a) providing us with written confirmation of significant representations provided to us during the audit including matters that are:
  - i) directly related to items that are material, either individually or in the aggregate, to the financial statements;
  - ii) not directly related to items that are material to the financial statements but are significant, either individually or in the aggregate, to the engagement; and
  - iii) relevant to your judgments or estimates that are material, either individually or in the aggregate, to the financial statements.

#### Fraud and error

- (a) determining internal controls necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud and error;
- (b) assessing the risk that the financial statements may be materially misstated as a result of fraud;
- (c) providing us with information relating to any allegations of fraud or suspected fraud affecting the entity's financial statements communicated by employees, former employees, analysts, regulators or others;
- (d) communicating its belief that the effects of any uncorrected financial statement misstatements aggregated during the audit are immaterial, both individually and in the aggregate, to the financial statements taken as a whole; and
- (e) providing us with information relating to fraud or suspected fraud affecting the entity involving:
  - i) management;
  - ii) employees who have significant roles in internal control; or
  - iii) others, where the fraud could have a non-trivial effect on the financial statements;

#### Recognition, measurement and disclosure

- (a) providing us with its assessment of the reasonableness of significant assumptions underlying fair value measurements and disclosures in the financial statements;
- (b) providing us with any plans or intentions that may affect the carrying value or classification of assets or liabilities;
- (c) providing us with information relating to the measurement and disclosure of transactions with related parties;
- (d) providing us with an assessment of all areas of measurement uncertainty known to management that are required to be disclosed in accordance with the financial reporting framework selected;
- (e) providing us with information relating to claims and possible claims, whether or not they have been discussed with United Townships of Head, Clara & Maria's legal counsel;
- (f) providing us with information relating to other liabilities and contingent gains or losses, including those associated with guarantees, whether written or oral, under which United Townships of Head, Clara & Maria is contingently liable;
- (g) providing us with information on whether United Townships of Head, Clara & Maria has satisfactory title to assets, liens or encumbrances on assets exist, or assets are pledged as collateral;

- (h) providing us with information relating to compliance with aspects of contractual agreements that may affect the financial statements;
- (i) providing us with information concerning subsequent events; and
- (j) providing us with representations on specific matters communicated to us during the engagement.

Also, we will ask that your personnel, to the extent possible, prepare various schedules and analyses, and make various invoices and other documents available to our staff. This assistance will facilitate our work and minimize our costs to you. If for any reason your personnel are unable to provide this assistance we will discuss with you any fee revisions necessary to reflect the additional services we are required to undertake.

### **Other Matters**

All working papers, files, and other materials, created, developed or performed by our firm during the course of the audit are the property of our firm and will be retained by us in accordance with our policies and procedures.

In conducting an audit, our objective is to render an opinion as to whether or not United Townships of Head, Clara & Maria's financial statements are free from material misstatement. Accordingly, the audit process may not detect situations where you are incorrectly collecting or charging HST and payroll taxes or claiming input tax credits incorrectly. Only upon your written request will we consider undertaking a separate special engagement to perform detailed work in these areas.

If reproduction or publication of our report, including electronic filings or postings of the report on a website, is planned, a copy of that material should be submitted to us in sufficient time for our review before the printing process or posting process begins.

The examination of the financial statements and the issuance of our audit opinion are solely for the use of your organization and those to whom our report is specifically addressed by us. We make no representation of any kind to any third party in respect of these financial statements and we accept no responsibility for the use by any third party.

Unless we are advised to the contrary, our services may be conducted and obligations performed by the use of electronic transmission of information, documents and data, including confidential and sensitive information by Internet e-mail. If the communication relates to a matter of significance and there are concerns about possible effects of electronic transmissions a hard copy of such transmissions should be requested from us.

We ask that our name be used only with our consent and that any information to which we have attached a communication be issued with the communication unless otherwise agreed to by us.

United Townships of Head, Clara & Maria hereby agrees to release and indemnify Welch LLP and its partners and employees, and hold them harmless from all claims, liabilities, losses and costs arising in circumstances where there has been a known misrepresentation by a member of United Townships of Head, Clara & Maria's management regardless of whether the person was acting in the organization's interest. This release and indemnification will survive termination of this engagement letter.

You (and any others for whom our services are provided) may not recover from us, in contract or tort (including negligence), under statute or otherwise, aggregate damages in excess of the greater of (i) the total fees paid to us for the services provided and (ii) \$500,000. This limitation will not apply to losses caused by our fraud or willful misconduct or to the extent prohibited by applicable law or professional regulations. In no event shall we be liable for any damages relating to or arising out of any loss of profit, data or goodwill or any other consequential, incidental, indirect, punitive or special damages in connection with claims arising out of this Agreement. Our liability under this agreement shall be several and not joint and several, solidary or in solidum, with such others, and shall be limited to our share based on our relative contribution to the loss. Any claim shall be made no later than one year after you become aware (or ought reasonably to become aware) of the facts giving rise to a claim and no later than two years after the completion of the services contemplated under this agreement.

We will also be pleased to provide additional services upon request, in areas such as income tax planning, HST advice, business financing, management consulting, and valuations.

Our charges to the organization for our services will be made at our regular rates plus out-of-pocket expenses. Bills will be rendered on a regular (or periodic) basis with payment to be made upon presentation.

All invoices shall be due when issued. Interest shall be charged at a rate of 1.5% per month (the equivalent of 19.5% per annum). Interest will be compounded monthly.

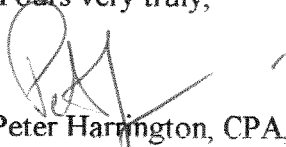
This engagement letter is subject to and governed by the laws of the Province of Ontario and the laws of Canada applicable therein. The province of Ontario will have exclusive jurisdiction in relation to any claim, dispute or difference concerning this engagement letter and any matter arising from it. Each party irrevocably waives any right it may have to object to any action being brought in those courts, to claim that the action has been brought in an inappropriate form, or to claim that those courts do not have jurisdiction.

The terms of engagement as outlined above will continue in effect from year to year unless changed in writing.

We believe the foregoing correctly sets forth our understanding, but if you have any questions, please let us know. If you find the arrangements acceptable, please acknowledge your agreement to the understanding by signing and returning to us the copy enclosed.

It is a pleasure for us to be of service to you. We look forward to many years of association with you and your organization.

Yours very truly,



Peter Harrington, CPA, CA  
**Welch LLP**

The services and terms set out are as agreed.

UNITED TOWNSHIPS OF HEAD, CLARA & MARIA

Per \_\_\_\_\_  
Melinda Reith, Clerk

Per \_\_\_\_\_  
Jim Gibson, Mayor

INDEPENDENT AUDITOR'S REPORT

To the Members of Council, Inhabitants and Ratepayers of the  
**CORPORATION OF THE UNITED TOWNSHIPS OF HEAD, CLARA & MARIA**

We have audited the accompanying consolidated financial statements of the **CORPORATION OF THE UNITED TOWNSHIPS OF HEAD, CLARA & MARIA**, which comprise the consolidated statement of financial position as at December 31, 2014, and the consolidated statements of operations, change in net financial assets and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

*Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian public sector accounting standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

*Auditors' Responsibility*

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis of our audit opinion.

*Opinion*

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the **CORPORATION OF THE UNITED TOWNSHIPS OF HEAD, CLARA & MARIA** as at December 31, 2014, and the results of its operations and its cash flows for the year then ended, in accordance with Canadian public sector accounting standards.

CHARTERED ACCOUNTANTS  
LICENSED PUBLIC ACCOUNTANTS

Pembroke, Ontario  
May 8, 2015