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Private & Confidential

March 24, 2015

Members of the Board of Directors
Town of Newmarket Public Library Board
438 Park Ave
Newmarket ON L3Y 1W1

Dear Sir/Madam:

Re: Audit of the Financial Statements of Town of Newmarket Public Library Board
For the year ended December 31, 2014

We are pleased to present our audit plan for the audit of the financial statements of Town of Newmarket Public Library Board for the year ending December 31, 2014.

Our report is designed to highlight and explain key issues which we believe to be relevant to the audit including audit risks, the nature, extent, timing and results of our audit work and the terms of our engagement, including fees. This report forms a significant part of our overall communication strategy with the Board of Directors and is designed to promote effective two-way communication throughout the audit process. It is important that we maintain effective two-way communication with the Board of Directors throughout the entire audit process so that we may both share timely information. The audit process will conclude with an Board of Directors meeting and the preparation of our final report to the Board of Directors.

This report has been prepared solely for the use of the Board of Directors and should not be distributed without our prior consent. Consequently, we accept no responsibility to a third party that uses this communication.

Terms of Reference

Our overall responsibility is to form and express an opinion on the financial statements. These financial statements are prepared by management, with oversight by those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities. The scope of our work, as confirmed in our engagement letter, and a summary of our proposed fees are set out below.

Engagement Objectives

- Forming and expressing an audit opinion on the financial statements.
- Present significant findings to the Board of Directors including key audit and accounting issues, any significant deficiencies in internal control and any other significant matters arising from our work.
- Provide timely and constructive management letters. This will include deficiencies in internal control identified during our audit.
- Consult regarding accounting and reporting matters as requested throughout the year.
- Read the other information included in the Company's Annual Report to identify material inconsistencies, if any, with the audited financial statements.
- Work with management towards the timely issuance of financial statements.

Independence

At the core of the provision of external audit services is the concept of independence. We are communicating matters that, in our professional judgment, may reasonably be thought to bear on our independence for the forthcoming audit of the Library.

In determining which relationships to report, we have considered the applicable legislation and relevant rules of professional conduct and related interpretations prescribed by the appropriate provincial institute/ordre covering such matters as the following:

- holding of a financial interest, either directly or indirectly in a client;
- holding a position, either directly or indirectly, that gives the right or responsibility to exert significant influence over the financial or accounting policies of a client;
- personal or business relationships of immediate family, close relatives, partners or retired partners, either directly or indirectly, with a client;
- economic dependence on a client; and
- provision of services in addition to the external audit engagement.

We have prepared the following comments to facilitate our discussion with you regarding independence matters.

We are not aware of any relationships between the Library and us that, in our professional judgment, may reasonably be thought to bear on our independence to date.

Audit Strategy

Our overall audit strategy involves extensive partner and manager involvement in all aspects of the planning and execution of the audit and is based on our overall understanding of the Library.

We will perform a risk based audit which allows us to focus our audit effort on higher risk areas and other areas of concern for management and the Board of Directors.

To assess risk accurately, we need to gain a detailed understanding of the Library's business and the environment it operates in. This allows us to identify, assess and respond to the risks of material misstatement.

To identify, assess and respond to risk, we obtain an understanding of the system of internal control in place in order to consider the adequacy of these controls as a basis for the preparation of the financial statements, to determine whether adequate accounting records have been maintained and to assess the adequacy of these controls and records as a basis upon which to design and undertake our audit testing.

Based on our risk assessment, we design an appropriate audit strategy to obtain sufficient assurance to enable us to report on the financial statements.

We choose audit procedures that we believe are the most effective and efficient to reduce audit risk to an acceptable low level. The procedures are a combination of testing the operating effectiveness of internal controls (when appropriate), substantive analytical procedures and other tests of detailed transactions.

Having planned our audit, we will perform audit procedures, maintaining an appropriate degree of professional skepticism, in order to collect evidence to support our audit opinion.

Materiality

Misstatements, including omitted financial statement disclosures, are considered to be material if they, individually or in aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Judgments about materiality are made in light of surrounding circumstances and include an assessment of both quantitative and qualitative factors and can be affected by the size or nature of a misstatement, or a combination of both.

For purposes of our audit, we have set preliminary materiality at \$40,000 based on 1.25% of revenue for the Library.

Our materiality calculation is based on the Library's preliminary results. In the event that actual results vary significantly from those used to calculate preliminary materiality, we will communicate these changes to the Board of Directors as part of our year end communication.

We will communicate all corrected and uncorrected misstatements identified during our audit to the Board of Directors, other than those which we determine to be "clearly trivial". Misstatements are considered to be clearly trivial for purposes of the audit when they are inconsequential both individually and in aggregate.

We encourage management to correct any misstatements identified throughout the audit process.

Risks and Planned Audit Responses

Based on our knowledge of the Library's business, our past experience, and knowledge gained from management and the Board of Directors, we have identified the following significant risks; those risks of material misstatement that, in our judgment, required special consideration.

Significant risks arise mainly because of the complexity of the accounting rules, the extent of estimation and judgment involved in the valuation of these financial statement areas, and the existence of new accounting pronouncements that affect them. We request your input on the following significant risks and whether there are any other areas of concern that the Board of Directors has identified. We have also provided a brief summary of how we plan to audit these significant risks.

Financial Statement Areas With Significant Risks	Proposed Audit Procedures
<ul style="list-style-type: none">• Revenue	<ul style="list-style-type: none">• Review revenue recognition policy for consistency with the professional standards.

Auditor's considerations of possible fraud and illegal activities

We are responsible for planning and performing the audit to obtain reasonable assurance that the financial statements are free of material misstatements, whether caused by error or fraud, by:

- Identifying and assessing the risks of material misstatement due to fraud;

- Obtaining sufficient and appropriate audit evidence regarding the assessed risks of material misstatement due to fraud, through designing and implementing appropriate responses; and
- Responding appropriately to fraud or suspected fraud identified during the audit.

The likelihood of not detecting a material misstatement resulting from fraud is higher than the likelihood of not detecting a material misstatement resulting from error because fraud may involve collusion as well as sophisticated and carefully organized schemes designed to conceal it.

During the audit, we will perform risk assessment procedures and related activities to obtain an understanding of the entity and its environment, including the Library's internal control, to obtain information for use in identifying the risks of material misstatement due to fraud and make inquiries of management regarding:

- Management's assessment of the risk that the financial statements may be materially misstated due to fraud, including the nature, extent and frequency of such assessments;
- Management's process for identifying and responding to the risks of fraud in the Library, including any specific risks of fraud that management has identified or that have been brought to its attention, or classes of transactions, account balances, or disclosures for which a risk of fraud is likely to exist;
- Management's communication, if any, to those charged with governance regarding its processes for identifying and responding to the risks of fraud in the Library; and
- Management's communication, if any, to employees regarding its view on business practices and ethical behaviour.

In response to our risk assessment and our inquiries of management, we will perform procedures to address the assessed risks, which may include:

- Inquiry of management, the Board of Directors, and others related to any knowledge of fraud, suspected fraud or alleged fraud;
- Perform disaggregated analytical procedures and consider unusual or unexpected relationships identified in the planning of our audit;
- Incorporate an element of unpredictability in the selection of the nature, timing and extent of our audit procedures; and
- Perform additional required procedures to address the risk of management's override of controls including:
 - ♦ Testing internal controls designed to prevent and detect fraud;
 - ♦ Testing the appropriateness of a sample of adjusting journal entries and other adjustments for evidence of the possibility of material misstatement due to fraud;

- ♦ Reviewing accounting estimates for biases that could result in material misstatements due to fraud, including a retrospective review of significant prior years' estimates; and
- ♦ Evaluating the business rational for significant unusual transactions.

The Board of Directors plays an important role in the audit planning process and we look forward to meeting with you to discuss our audit plan as well as any other matters that you consider appropriate.

Yours truly,

A handwritten signature in cursive script that reads "Michael Jones".

Michael Jones, CPA, CA

Partner

BDO Canada LLP

Chartered Professional Accountants, Licensed Public Accountants