Board of Management of the Toronto Zoo

Audit Results – Year Ended 31 December, 2008

Report to the Members of the Board of Management of the Toronto Zoo

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Members of the Board of Management
of the Toronto Zoo

12 May 2009

We are pleased to present the results of our audit of the financial statements of the Toronto Zoo (the "Zoo" or the "organization").

This report to the Board of Management summarizes the terms of our engagement, the issues of audit significance discussed with management and provides the communications required by our professional standards.

Our audit was designed to express an opinion on the December 31, 2008 financial statements of the Toronto Zoo. In planning the audit, we held discussions with management, considered current and emerging business risks, performed an assessment of risks that could materially affect the financial statements, and aligned our audit procedures accordingly. We received the full support and assistance of the organization's personnel in conducting our audit.

This report is intended solely for the use of the Board of Management, management and ultimately the City of Toronto, and is not intended to be and should not be used by anyone other than these specified parties. We disclaim any responsibility to any third party who may rely on it. Further, this report is a by-product of our audit of the December 31, 2008 financial statements and indicates matters identified during the course of our audit. Our audit did not necessarily identify all matters that may be of interest to the Board in fulfilling its responsibilities.

We appreciate this opportunity to meet with you to discuss the contents of this report and answer any questions you may have about these or any other audit-related matters.

Very truly yours,

Ernst & Young LLP

Chartered Accountants
Licensed Public Accountants

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2008 Audit Results and Communications:

Items of Audit Significance Discussed with Management

During the course of planning and executing our audit, the following items/matters of audit significance were discussed with management:

Item	Description	Audit Results and Comments
Employee Future Benefits	• Actuarial valuations are conducted on a periodic basis, with the last actuarial review completed by Mercer as at December 31, 2006 and extrapolated to December 31, 2007, 2008 and 2009. • During 2009, the City identified an error in the actuarial valuation of sick leave liabilities for 2007, which are included in employee future benefits payable. • Certain assumptions are made in preparing the valuation, including the determination of an appropriate discount rate.	• We have relied on the work performed by Mercer in auditing the 2008 financial statements. • The City identified an error in the actuarial valuation of sick leave liabilities, which impacted employee future benefits payable recorded in 2007. Mercer prepared a revised valuation of the sick leave liabilities as at December 31, 2007. As a result of the revised valuation, the employee future benefits payable was restated for 2007. • We assessed the assumptions used by Mercer in its 2008 valuation and found them to be reasonable, except for the 5% discount rate used to value the accrued benefit obligation. We believe a more appropriate discount rate at December 31, 2008 would be within the range of 7-7.5%, which would be comparable to market interest rates on high quality debt instruments with cash flows that match the timing and amount of the expected benefit payments to be made. • Management concurred and had Mercer prepare a revised valuation using a 7% discount rate for 2008, which we believe is reasonable. Management subsequently adjusted the accrued benefit obligation and unamortized actuarial gain in 2008 as a result of the revised valuation. There is no change to the employee future benefits payable in the current year as the change in the accrued benefit obligation is offset by the change in the unamortized net actuarial gains. (continued on next page)

Items of Audit Significance Discussed with Management (continued)

Item	Description	Audit Results and Comments
Employee Future Benefits (continued)		• We have reviewed the revised valuation prepared by Mercer and we concur with the adjustments recorded by management and the disclosures in the financial statements.
	• There were no changes to employee agreements in 2008 that would impact these extrapolations.	• We have confirmed through our audit procedures that no changes have been made to plans offered by the Board that would have an impact on the valuation provided by Mercer.
Capital Assets	• The Zoo's major capital facilities are owned by the City. • Management of the Zoo will facilitate the capital programs on the grounds that are financed through the City's capital works program. These assets are not recorded in the Zoo's financial statements. • Within the operating budget of the Zoo, management will make purchases of furniture and equipment and other acquisitions necessary for their operations. Management reviews their accounts at year end for amounts that are capital in nature and records these amounts as capital assets as part of their financial statement close process.	• Through our audit procedures, we review the significant expense accounts such as repairs and maintenance and contracted services to gain comfort that there were no significant amounts expensed that should have been capitalized. • Our testing resulted in finding approximately $283K of animal structures and other assets that have a useful life beyond one year. We discussed and recorded this item on the summary of audit differences and management subsequently adjusted their financial statements. • We recommend that management review the contracted services accounts throughout the year to identify amounts that are capital in nature and record them as capital assets within their accounting records. Management has indicated that they have currently implemented a capital asset tracking system.

Items of Audit Significance Discussed with Management (continued)

Item	Description	Audit Results and Comments
Deferred Revenue	• In the prior year, we noted that management did not have a system to appropriately track the redemption of gift certificates and, as a result, did not have historical information with respect to redemptions in order to estimate the deferred revenue related to gift certificates and provide audit evidence to support these deferrals.	• EY recommends that management implement a system to track redemptions so as to provide greater accuracy in the estimation of deferred amounts and redemption statistics.
Pay Equity	• The Zoo has a significant accrual for pay equity as a result of the Pay Equity Act. Amounts have been estimated to be payable to incumbents in predominantly female gender positions. The pay equity accrual was originally established in 2005 for the non- permanent employee positions. Pay equity payments have been made every year since 2006, however, the majority of the accrual has yet to be paid out. • Management continues to finalize the accrual for the remaining non-permanent employee positions. Accordingly, the accrual remains as estimated in 2005 with small annual adjustments (based on budget), due to management's expectation that the final payout will be more than originally estimated as was the case when the permanent employee payouts were made. • Management has accrued additional annual amounts of approximately $52K to reduce the impact of additional exposures it may incur.	• We request that the Board confirm that they are comfortable with the provision that exists as at December 31, 2008 and that, based on their knowledge, they do not believe there is a material error with respect to this estimation. • During our substantive testing, an error was identified related to the pay equity accrual. Instead of reducing the accrual, an amount of $58K was incorrectly expensed related to pay equity payments; as these amounts had already been accrued. The audit difference was brought to the summary of audit differences and was subsequently adjusted by management. • Based on work performed and confirmation from the Board, we concur with the provisions made.
Reorganization Accrual	• In the prior year, the Zoo recorded an accrual of $444K relating to the reorganization of the Toronto Zoo, which was approved by the Board of Directors. • The reorganization has not occurred and the accrual was reversed through income in the current year.	• EY has reviewed the reversal of the accrual in the current year and concurs with management's accounting for this transaction.

Items of Audit Significance Discussed with Management (continued)

Item	Description	Audit Results and Comments
Vendor Claims	- The Zoo has recorded an accrual in the amount of $306K for two vendor claims against the Zoo relating to outstanding payments for work performed.	- The accruals are based on management's best estimation of the likely payout to these vendors. - The accruals were for animal structures and other assets that have a useful life beyond one year which was expensed by management. We recorded this item on the summary of audit differences as it should be capitalized. Management subsequently adjusted the financial statements. - EY confirmed with the Zoo's legal counsel regarding these claims and the likelihood of payment and concur with the accruals recorded by management.
Related Party Transactions	- The Zoo has amounts receivable from the City of Toronto. The majority of the transactions relate to the capital and operating expenditures of the Zoo. - Management provided a reconciliation of the City of Toronto balances to ensure the year-end amounts were appropriately accounted for and in agreement with the City. - The Zoo has many ongoing transactions with the Zoo Foundation. Management ensured that the year end amounts recorded in the accounts of the Zoo were in agreement with the Foundation.	- We have confirmed all year end balances with the City and have concluded that all balances in the City have been appropriately reflected in the accounts of the Zoo. - We concur with the disclosures in the financial statements. - We have confirmed all year-end balances with the Foundation and concur with the disclosures in the financial statements.

Items of Audit Significance Discussed with Management (continued)

Item	Description	Audit Results and Comments
Cash Understatement due to Foreign Exchange	• During our interim and year end audit procedures on cash, EY identified a valuation issue with respect to the recording of foreign denominated cash balances.	• During our interim testing, EY noted several instances of foreign exchange differences due to the Zoo using lower than actual exchange rates. Management identified these differences through the monthly bank reconciliations and made manual adjustments to correct these errors. • At year-end, EY identified an understatement of cash balances denominated in US dollars as a result of the Zoo not translating US dollar bank accounts to CDN dollars at the year end rate. • The impact of the translation adjustment at December 31, 2008 is an understatement of cash of $16K and an overstatement of foreign exchange losses of the same amount. We have included this amount on the summary of audit differences. • We recommend that management review the foreign exchange translation of all USD bank accounts throughout the year to verify that the appropriate rates are being used to value foreign monetary assets and liabilities.
Electronic Cheque Signatures	• Cheques issued for amounts less then $30K are electronically signed by the Manager of Financial Services and the Chief Operating Officer. • The Accounting Supervisor reviews the cheques for completeness, accuracy and authorization and then forwards them to the Manager of Financial Services for secondary review. • Cheques issued for $30K or above are reviewed and signed by the Manager of Financial Services and then forwarded to one of the other authorized signatories.	• Although there is a review process for cheques under $30K by both the Accounting Supervisor and Manager of Financial Services, the Chief Operating Officer should also be involved in the review process.

Items of Audit Significance Discussed with Management (continued)

Item	Description	Audit Results and Comments
Accounts Receivable Invoicing	• During our audit procedures over accounts receivable, EY observed instances where invoices dated in 2009 were included in the December 31, 2008 accounts receivable sub ledger.	• Management indicated that these invoices relate to services performed in 2008 but not invoiced until 2009. • We recommend that management implement a system to ensure that all invoices are dated and billed in a timely manner in the period that services are performed.
Old Accounts Receivable	• During our audit procedures over accounts receivable, we observed a number of instances where invoices dated as far back as 1994 still remained in the accounts receivable sub ledger.	• Although these older receivables have been appropriately provided for in the allowance for doubtful accounts, management should establish a process for writing off accounts once they are deemed to be uncollectible.
Documentation of Goods Received	• During our audit procedures over inventory, EY identified two instances where goods were received in 2008 but were not entered into the accounting system until 2009. • Our audit procedures also identified invoices and packing slips for goods received which were not dated when received.	• All items received by the retail department should be entered into the system in a timely manner.
Bank Reconciliations	• During our audit procedures over bank reconciliations, EY noted that support for bank reconciliations was very difficult to follow and outstanding cheques and deposits were grouped together on the reconciliation.	• To reduce the difficulty in reviewing bank reconciliations the template used should segregate outstanding cheques, deposits, and other adjustments.

Items of Audit Significance Discussed with Management (continued)

Item	Description	Audit Results and Comments
Operating Agreement Between the Toronto Zoo and the Toronto Zoo Foundation	• As a result of the termination of the operating agreement on September 12, 2008, the Foundation has initiated court proceedings to transfer the restricted and endowment funds and investments in the aggregate amount of the two funds to the Toronto Community Foundation which will carry out the trust activities and make distributions in accordance with the terms of the donor restrictions and internal restrictions that have been placed on the funds. The remaining assets and liabilities will be assumed by the Zoo. The effective date is anticipated to be May 8th, 2009. • Effective April 1, 2009, the Foundation will no longer collect membership fees in relation to the Zoo or solicit donations and sponsorships for the benefit of the Zoo.	• We concur with management's disclosure regarding dissolution of this agreement in the financial statements.
Vacation Pay Accruals	• The Zoo's policy with respect to vacation pay is that vacation earned in one year must be used in the following year. • Our understanding from management is that the accrual at the end of the year may consist of two components: (1) carry-over from the prior years' vacation to the anniversary date (month/day of employment) and (2) from the anniversary date to year end.	• Our audit procedures were performed in order to test the reasonableness of the accruals at December 31, 2008. Through our procedures, we noted that management was using the first day on the month in which the anniversary date is included not the exact anniversary date as the basis of the accrual. By using the earliest date in the month, management is overstating the vacation accrual. We have estimated an overaccural of $28,197 for 2008 and $26,284 for 2007. These items have been recorded on the summary of audit differences.

Items of Audit Significance Discussed with Management (continued)

Item	Description	Audit Results and Comments
Changes to Accounting Policies	• Note 2 sets out details of the changes in accounting policies related to CICA 1535: Capital Disclosures and CICA 3031: Inventories. The required disclosures resulting from the adoption of Capital Disclosures are included in Note 13. • The Zoo has chosen to continue to apply the financial instruments section related to disclosures and presentations adopted last year, rather than adopting CICA 3862: Financial Instruments – Disclosures and CICA 3863: Financial Instruments – Presentation, which is described within Financial Instruments in Note 2. • Note 2 also sets out new rules that are effective for fiscal 2009 and will be adopted by the Zoo next year. These changes will require some additional disclosures in the notes to next year's financial statements.	• We concur with the additional disclosures in the financial statements. • We concur with the disclosures related to the new rules not yet adopted.
Changes to the 2008 Financial Statements	• There were no other significant changes to the 2008 financial statements other than those already addressed elsewhere in the document.	

Items of Audit Significance Discussed with Management (continued)

Item	Description	Audit Results and Comments
Accounting Standards in Canada New Direction	• In our audit planning package previously presented to the Audit Committee, under "New Developments in Accounting and Auditing Standards", we informed you of the strategic direction for financial reporting adopted by the Accounting Standards Board ("AcSB") in Canada. • For publicly accountable entities, Canadian GAAP (the CICA Handbook – Accounting) will be replaced by International Financial Reporting Standards ("IFRS") and cease to exist as a separate, distinct basis of financial reporting for publicly accountable enterprises. Adoption of IFRS is required for years beginning January 1, 2011 (including comparatives for 2010). • The Zoo is a government not-for-profit organization and is currently directed by the Public Sector Accounting Board (:PSAB") to adhere to the standards in the CICA Handbook – Accounting. As a result, PSAB and the AcSB are considering alternatives for reporting by government not-for-profit organizations in the future. • PSAB and the AcSB have issued an Invitation to Comment ("ITC") that sets out alternatives for financial reporting by government not-for-profit organizations. Alternatives presented in the ITC include: – Considering wither all government not-for-profit organizations should apply the same primary source of GAAP. – Applying accounting standards already included in the Public Sector Accounting ("PSA") Handbook. • Applying accounting standards already included in the PSA Handbook supplemented by the 4400 series of Sections currently in the CICA Handbook – Accounting.	• The results of the ITC will determine whether amendments to the existing Introduction to Public Sector Accounting Standards are required. Any amendments may change the appropriate source of generally accepted accounting principles used by government not-for-profit organizations, including the Zoo. • We will provide management with any updates and the impact to the Zoo's financial statements as PSAB considers these alternatives.

Summary of Audit Differences

During the course of our audit, we accumulate differences between amounts recorded by your organization and amounts that we believe are required to be recorded under generally accepted accounting principles. Following is a summary of those differences we have identified through the date of this report:

	Recording/Differences Would Have Increased (Decreased) Net Assets/Excess of Revenue over Expenses	
	2008 $	2007 $
Known Audit Differences:		
Incorrect F/X rate used for USD bank account	15,514	(19,636)
Unsupportable Future/Prepaid Admissions Event receivable	—	(13,427)
Understatement of CPP accrual	—	(16,250)
Overstatement of utilities expenses re: 2008 amounts	—	72,745
Understatement of allowance for doubtful	(12,972)	—
Understatement of GST receivable	36,072	—
Likely Audit Differences:		
Underaccrual of pay equity	—	(17,956)
Overaccrual of vacation pay	—	26,284
Total Unadjusted Audit Differences in Net Assets Before Turnaround Effect of Prior Year Differences	38,614	31,760
Turnaround Effect of Prior Year Differences in Net Assets	(31,760)	
Total Unadjusted Audit Differences in Excess of Revenue over Expenses	6,854	

Required Communications

Generally accepted auditing standards in Canada require the auditor to communicate certain matters to the Board that may assist them in overseeing management's financial reporting and disclosure process. Below we summarize these required communications as they apply to your organization.

Area	Comments
Auditors' Responsibilities Under Generally Accepted Auditing Standards (GAAS)	
As set out in the planning document presented to the Board of Management, we designed our audit to express an opinion on your organization's financial statements. The financial statements are the responsibility of management. Our audit was designed in accordance with GAAS which provides for reasonable, rather than absolute, assurance that the financial statements are free from material misstatement. As a part of our audit, we obtained a sufficient understanding of the internal control structure to plan our audit and to determine the nature, timing and extent of testing performed.	We anticipate issuing an unqualified audit opinion dated March 13, 2009 upon approval of the financial statements by the Board of Management and completion of certain outstanding procedures. The following procedures are outstanding: • Confirmation from the Board on the treatment of items of significance with respect to Pay Equity; • Confirmation from the Board that there are no areas of concern that have not been addressed in this document; • Letter of representation; and • Final procedures relating to the draft of the financial statements and footnotes.
Changes to Audit Approach Outlined in Planning Document	
In our planning document, we indicated that we would conduct our audit in accordance with Canadian generally accepted auditing standards in order to deliver to you our final report for your 2008 financial statements. We tested and relied on controls around admission revenues, payroll, purchases, payables, and disbursements, the remainder of the audit would be tested substantive in nature with the use of confirmations and specific testing of account balances.	There were no changes to the audit approach outlined in the planning document.

Required Communications (continued)

Area	Comments
Adoption of, or Changes in, an Accounting Principle , Including Material Alternative Accounting Treatments Discussed with Management and Acceptability of a Particular Policy used by Management	
We determine that the Board is informed about the initial selection of, and any changes in, significant accounting principles or their application when the accounting principle or its application, including alternative methods of applying the accounting principle, has a material effect on the financial statements. In addition, we report to the Board all alternative accounting treatments within Canadian generally accepted accounting principles (GAAP) for policies and practices related to material items (including recognition, measurement, presentation and disclosure alternatives) that have been discussed with management during the current audit period including acceptability of the policies or methods ultimately selected by management.	Refer to "Items of Audit Significance Discussed with Management" section.
Sensitive Accounting Estimates and Disclosures	
The preparation of financial statements requires the use of accounting estimates. Certain estimates and disclosures are particularly sensitive due to their significance to the financial statements and the possibility that future events may differ significantly from management's current judgments. We determine that the Board is informed about management's process for formulating particularly sensitive accounting estimates and disclosures and about the basis for our conclusions regarding the reasonableness of those estimates.	There are no significant judgments or estimates required to prepared the financial statements where actual amounts are likely to be significantly different from the estimates except for employee future benefits liability and pay equity discussed in "Items of Audit Significance Discussed with Management" section
Major Issues Discussed with Management Including Accounting for Significant Unusual Transactions and for Controversial or Emerging Areas	
We determine that the Board is informed about the methods used to account for significant unusual transactions and the effects of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.	We are not aware of any significant unusual transactions recorded by the organization or of any significant accounting policies used by the organization related to controversial or emerging areas for which there is a lack of authoritative guidance.

Required Communications (continued)

Area	Comments
Significant Audit Adjustments and Unrecorded Audit Differences Considered by Management to be Immaterial	
We provide the Board with information about adjustments arising from the audit (whether recorded or not) that could in our judgment either individually or in the aggregate have a significant effect on the organization's financial statements. We inform the Board about unrecorded audit differences accumulated by us (i.e. adjustments either identified by us or brought to our attention by management) during the current audit period and pertaining to the latest period presented that were determined by management to be immaterial, both individually and in the aggregate, to the financial statements taken as a whole.	There were ten recorded audit adjustments related to the current year, of which four related to balance sheet reclassifications. The remaining six are discussed in "Items of Audit Significance Discussed with Management" section. Refer to "Summary of Audit Differences" section for details of unrecorded differences.
Disagreements with Management	None.
Serious Difficulties Encountered in Dealing with Management when Performing the Audit	None.
Significant Weaknesses in Internal Controls	
We communicate all significant weaknesses in internal control over financial reporting that may have been identified during the course of our audit.	No significant weaknesses in internal control were identified. Refer to "Items of Audit Significance Discussed with Management" for areas for improvement noted through our audit procedures
Fraud and Illegal Acts	
We report to the Board fraud and illegal acts involving senior management and fraud and illegal acts (whether caused by senior management or other employees) that cause a material misstatement to the financial statements.	We are not aware of any matters that require communication.
We are also required to make inquiries of the Board related to fraud, including both (1) their views about the risks of fraud, and (2) their knowledge of any actual or suspected fraud.	We would request that the Board members raise with us any areas of risk not addressed in our communications and that they inform us of their knowledge of any actual or suspected fraud.

Required Communications (continued)

Area	Comments
Consultation with Other Accountants	None of which we are aware.
Other Information in Documents Containing Audited Financial Statements Our financial statement audit opinion relates only to the financial statements and accompanying notes. However, we also review other information in the Annual Report, such as Management's Discussion and Analysis, for consistency with the audited financial statements.	We are not aware of other information prepared by the organization that contains the audited financial statements.
Related Party Transactions Related party transactions identified by the auditor that are not in the normal course of operations or that involve significant judgments made by management concerning measurement or disclosure must be disclosed to the Board.	Related party amounts are with respect to the City of Toronto and the Toronto Zoo Foundation and are disclosed within the financial statements.
Major Issues Discussed with Management in Connection with Initial or Recurring Retention	None.
Matters Relating to Component Entities of the Organization When the financial statements of an organization (primary entity) include financial information from financial statements of a component entity (a subsidiary, investee (other than a portfolio investment), or joint venture; or an entity whose financial information from financial statements is included with those of the primary entity), the auditor communicates with the Board those matters relating to the component entities that in the auditor's judgment are of significance in the context of the primary entity (for example, weaknesses in systems of internal control that have resulted, or could result, in material errors in the primary entity's consolidated financial statements).	None of which we are aware.

Required Communications (continued)

Area	Comments
Auditors' Independence Canadian generally accepted auditing standards (GAAS) require that we communicate at least annually with you regarding all relationships between your organization and Ernst & Young that, in our professional judgment, may reasonably be thought to bear on our independence.	Refer to "Independence Letter" section.
Other Audit and Non-Audit Services Provided to Your Organization	None.
Fees	See below.

- A summary of our fees is included below for your reference.

	2008 $	2007 $
Annual audit fees	28,510	15,000
Other audit related fees	TBD	9,500

- Annual audit fees for 2008 are inclusive of expenses and plus GST. This is the first year of a two-year contract extension ending with the audit of the December 31, 2009 financial statements in accordance with our agreement with the City of Toronto.
- Other audit related fees are for additional assistance provided during the course of the audit for various accounting/auditing issues and are based on time incurred. We are in the process of discussing with management these additional audit related fees. These fees have will be agreed with management prior to billing.

Independence Letter

Members of the Board of Management
of the Toronto Zoo

12 May 2009

We have been engaged to audit the financial statements of the Toronto Zoo (the "Board") for the year ended December 31, 2008.

Pursuant to Canadian generally accepted auditing standards, we communicate at least annually with you regarding all relationships between Ernst & Young and its related entities and the Board and its related entities that, in our professional judgment, may reasonably be thought to bear on our independence.

We have prepared the following comments to facilitate our discussion with you regarding independence matters arising since May 7, 2008, the date of our last letter.

We are not aware of any relationships between Ernst & Young and the Board that, in our professional judgment, may reasonably be thought to bear on our independence since May 7, 2008, the date of our last letter.

Canadian generally accepted auditing standards require that we confirm our independence to the Board in the context of the Rules of Professional Conduct of the Institute of Chartered Accountants of Ontario. Accordingly, we hereby confirm that we are independent with respect to the Board within the meaning of the Rules of Professional Conduct of the Institute of Chartered Accountants of Ontario as of May 12, 2009.

The total fees charged to the Board during this period are set out in this Audit Results package.

We are looking forward to discussing with you the matters addressed in this package at our upcoming meeting.

This report is intended solely for the use of the Board of Management, management, and others within the Board (ultimately the City of Toronto) and should not be used for any other purposes.

Yours truly,

Ernst & Young LLP

Chartered Accountants
Licensed Public Accountants

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