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Members of the Board of Management
 of the Toronto Zoo

10 May 2010

Dear Members of the Board:

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

This report to the Board of Management summarizes 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, 2009 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 Council, 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, 2009 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 are looking forward to meeting with you to discuss the contents of this report and answer any questions you may have about these or any other audit-related matters.

Chartered Accountants
Licensed Public Accountants
 Mark Barrett, Partner / Wendy Miller, Manager
 (905) 882 3168 / (905) 882 3008

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
<p>Dissolution of the Toronto Zoo Foundation (the "Foundation")</p>	<ul style="list-style-type: none"> • The operating agreement between the Zoo and the Foundation was terminated in September 2008. The Foundation expects to complete the distribution of its net assets in 2010. • Subsequent to September 2008, the Foundation continued to accept donations and sponsorships but ceased any active fundraising. The Foundation continued to administer the membership program on behalf of the Zoo until February 28, 2009. Effective March 1, 2009, all deferred membership fees were transferred by the Foundation to the Zoo and the Zoo assumed responsibility for the administration of the membership program. • As of April 1, 2009, the Zoo offered employment to most Foundation employees and assumed the obligations for employee future benefits. • The Foundation reimbursed the Zoo for salaries and benefits of the transferred employees for the months of April and May as they continued to work on Foundation-related matters. 	<ul style="list-style-type: none"> • We have performed audit procedures on the transactions between the Foundation and the Zoo. We concur with the disclosures in the financial statements, subject to the completion of our procedures as outlined in the required communications.

Items of Audit Significance Discussed with Management (continued)

Item	Description	Audit Results and Comments
Dissolution of the Toronto Zoo Foundation (continued)	<ul style="list-style-type: none">• The Foundation entered into an agreement with the Zoo and the Toronto Community Foundation to establish a trust, to be referred to as the Toronto Zoo Trust, to which the funds included in the Restricted and Endowment Funds of the Foundation were to be transferred effective May 29, 2009. The trust agreement provides that the Toronto Community Foundation will administer the funds and perform distributions in accordance with the terms of the restrictions that have been placed on the funds. On June 1, 2009, the Foundation transferred investments totaling \$6,351,595 to the Toronto Community Foundation. This transfer was in excess of the total balance of the Restricted and Endowment Funds balance by \$57,826.• Effective May 29, 2009, the Foundation entered into an agreement with the Zoo to transfer all remaining assets and liabilities and expects to complete the distribution in 2010.	

Items of Audit Significance Discussed with Management (continued)

Item	Description	Audit Results and Comments
Agreement with Toronto Community Foundation ("TCF")	<ul style="list-style-type: none"> In 2009, the Zoo received donations, sponsorship revenues and performed fundraising functions as part of its development operations. The Zoo has recorded the development revenues in excess of development expenses of \$238,812 as a transfer expense in the statement of operations and as a current liability in the balance sheet to TCF. A draft agreement effective May, 2010 to December 2014 between the Zoo and TCF has been prepared detailing the terms and conditions for the transfer of the development funds. TCF will administer and invest the funds on behalf of the Zoo. The draft agreement allows the Zoo to request unrestricted development funds to be used at their discretion quarterly, or once annually. 	<ul style="list-style-type: none"> We have reviewed the draft agreement between the Zoo and TCF. The current terms and conditions for the transfer of unrestricted development funds do not support recording the transfer of these funds as expenses in the Zoo's financial statements. As the amount of the transfer in 2009 is below our materiality and the terms were not finalized at the time of the audit no adjustment was recorded on the financial statements. We recommend that management finalize the draft agreement and their accounting treatment for excess development revenues to ensure that the terms and conditions of the agreement reflect the nature of the transactions recorded in the Zoo's financial statements. We request that the Board confirm their intention to grant the development revenues in excess of development funds of \$238,812 to the TCF to become the property of TCF.
Deferred Revenue - Gift Cards	<ul style="list-style-type: none"> As disclosed in past years, management must improve their system to track the redemption of gift card. 	<ul style="list-style-type: none"> Through our audit procedures we noted that deferred gift card revenue was overstated by \$25K and gift card revenues understated by \$25K. This was brought to the summary of audit differences and subsequently adjusted for by management.
Deferred Revenue - Membership	<ul style="list-style-type: none"> Unearned membership fees collected by the Foundation prior to April 1, 2009 were transferred to the Zoo. Effective April 1, 2009, membership fees were collected by the Zoo. 	<ul style="list-style-type: none"> Through our audit procedures we noted that deferred revenue from membership fees transferred from the Foundation were understated by \$1.1M and membership fee revenues were overstated by \$1.1M. This was brought to the summary of audit differences and subsequently adjusted for by management.

Items of Audit Significance Discussed with Management (continued)

Item	Description	Audit Results and Comments
Significant Estimate - Pay Equity	<ul style="list-style-type: none"> 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. During the year, management refined the estimated accrual for the remaining non-permanent employee positions and as such recorded an additional \$52K. 	<ul style="list-style-type: none"> We recommend that management engage a pay equity specialist to reassess the estimated pay equity accrual. We request that the Board confirm that the pay equity accrual that exists as at December 31, 2009 is reasonable and that, based on their knowledge, they do not believe there is a material error with respect to this estimation. We concur with the disclosures in the financial statements, subject to the completion of our procedures as outlined in the required communications and confirmation from the Board.
Capital Assets	<ul style="list-style-type: none"> The Zoo's major capital facilities are owned by the City. Management of the Zoo facilitates 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. 	<ul style="list-style-type: none"> 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. We concur with the amounts capitalized by the Zoo and noted no amounts that were expenses that should have been capitalized.

Items of Audit Significance Discussed with Management (continued)

Item	Description	Audit Results and Comments
Vendor Claim	<ul style="list-style-type: none"> In 2008, the Zoo had recorded an accrual in the amount of \$132K for a vendor claim against the Zoo relating to outstanding payments for work performed. The accrual is based on management's best estimation of the likely payout to this vendor. 	<ul style="list-style-type: none"> We have performed audit procedures on the accrual and we concur with the disclosures in the financial statements, subject to completion of our procedures as outlined in the required communications.
Vacation Pay and Sick Leave Accruals	<ul style="list-style-type: none"> 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. 	<ul style="list-style-type: none"> Our audit procedures were performed in order to test the reasonableness of the accruals at December 31, 2009. 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 overaccrual of \$25,314. This was taken to our summary of audit differences and subsequently adjusted for by management.
	<p>As of April 1, 2009, the Zoo offered employment to most Foundation employees and assumed the obligations for employee future benefits. Amounts recorded in the Foundation for employee future benefits obligations were recorded in the Zoo's accounts payable and accrued liabilities.</p> <ul style="list-style-type: none"> A sick leave accrual was also recorded for former Foundation employees by management through its valuation of post-employment benefits as calculated by an actuarial firm. 	

Items of Audit Significance Discussed with Management (continued)

Item	Description	Audit Results and Comments
Vacation Pay and Sick Leave Accruals (Continued)	<ul style="list-style-type: none"> A vacation pay accrual for former Foundation employees had also been included in the total vacation pay accrual recorded in accounts payable and accrued liabilities in the financial statements. 	
Significant Estimate - Employee Future Benefits Payable	<ul style="list-style-type: none"> The Zoo sponsors defined benefit plans providing retirement and post employment benefits to employees. The City funds this obligation. The Zoo had an actuarial firm prepare an actuarial valuation for its retirement and post-employment benefits using the Zoo's data as at December 31, 2009. The result of this valuation was used in the recording of employee future benefit liabilities in the December 31, 2009 financial statements. 	<ul style="list-style-type: none"> As disclosed in our audit planning document, certain of our procedures rely on the work of specialists. In this instance, we rely on the work of the actuary for their calculation of the liability and we perform certain procedures around assumptions and data used by the actuary under generally accepted auditing standards. These tests do not include reperformance of the calculations. We have performed audit procedures on the valuation prepared by the actuarial firm and we concur with the disclosures in the financial statements, subject to completion of our procedures as outlined in the required communications.

Items of Audit Significance Discussed with Management (continued)

Item	Description	Audit Results and Comments
Opening equity balances	<ul style="list-style-type: none"> The closing equity balances in the general ledger as of December 31, 2008 did not agree to the financial statements. Certain 2008 audit adjustments recorded in the 2008 financial statements were not recorded in the general ledger as of December 31, 2008. 	<ul style="list-style-type: none"> We have performed audit procedures on the opening balances and noted that opening equity was understated by \$558K, accounts payable and accrued liabilities were understated by \$58K, and accounts receivable from the city was overstated by \$616K. The differences were brought to the summary of audit differences and subsequently recorded by management.
Supplies Adjustment	<ul style="list-style-type: none"> During the yearend inventory count, management noted that supplies were overstated by \$70,441 due to a pricing error made in 2008. Management adjusted for this error in the December 31, 2009 financial statements. 	<ul style="list-style-type: none"> As the error occurred in 2008, the adjustment recorded in the 2009 financial statements relates to the prior year and this amount was taken to the summary of audit differences.
Future Accounting Policy Changes	<ul style="list-style-type: none"> Note 2 to the financial statements sets out new rules that are proposed for future periods. 	<ul style="list-style-type: none"> We concur with the disclosures related to the proposed new rules.

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)

Revenue over Expenses	<u>2009</u>	<u>2008</u>
	\$	\$

Known Audit Differences:		
Incorrect valuation of supplies		(70,441)
Incorrect F/X rate used for USD bank account		15,514
Understatement of allowance for doubtful accounts		(12,972)
Understatement of GST receivable		36,072

Total Unadjusted Audit Differences Before Turnaround Effect of Prior Year Differences	<u>31,827</u>	<u>(31,827)</u>
Turnaround Effect of Prior Year Differences		(31,760)
Total Unadjusted Audit Differences in Excess of Revenue over Expenses	<u>31,827</u>	<u>(63,587)</u>

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
<p>Auditors' Responsibilities Under Generally Accepted Auditing Standards (GAAS)</p> <p>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.</p> <p>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.</p> <p>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.</p>	<p>We anticipate issuing an unqualified audit opinion dated March 12, 2010 upon approval of the financial statements by the Board of Management and completion of certain outstanding procedures. The following procedures are outstanding:</p> <ul style="list-style-type: none"> • Confirmation from the Board that there are no areas of concern that have not been addressed in this document; • Confirmation from the Board on the treatment of items of significance with respect to the TCF; • Legal confirmations; • Toronto Community Foundation confirmation; • Confirmation of balance receivable from City of Toronto; • Letter of management representation; • Final procedures relating to Pay Equity accrual; • Final procedures relating to employee future benefits payable; and • Final procedures relating to the draft of the financial statements and footnotes.
<p>Changes to Audit Approach Outlined in Planning Document</p> <p>In our planning document, we indicated that we would follow a substantive audit approach with most aspects of the audit except for admission revenues, payroll, purchases, payables, and disbursements where controls will be relied upon.</p>	<p>With the exception of membership revenue being tested substantively and relying on controls for payroll, there were no changes to the audit approach outlined in the planning document.</p>

Required Communications

Item	Description	Audit Results and Comments
<p>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</p>	<p>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.</p> <p>In addition, we report to the Board all alternative accounting treatments within Canadian generally accepted accounting principles 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 the acceptability of the policies or methods ultimately selected by management.</p>	<p>Effective January 1, 2009 the Zoo adopted retroactively the changes to the recommendations in CICA 4400: <i>Financial Statements Presentation for Not-for-Profit Organizations</i> that eliminate the requirement to disclose the amount of net assets invested in capital assets and suggest that the amount may be included in internally restricted net assets, as disclosed in note 2 to the financial statements.</p> <p>Effective January 1, 2009 the Zoo adopted the recommendation of CICA 4470: <i>Disclosure of Allocated Expenses for Not-for-Profit Organizations</i>. Additional disclosures required as a result of adopting this recommendation have been provided in the accounting policy note <i>Allocation of expenses</i>, as disclosed in note 2 to the financial statements.</p>
<p>Our Judgments About the Quality of the Organization's Accounting Principles</p>	<p>We discuss our judgments about the quality, not just acceptability, of the accounting principles as applied in the organization's financial reporting, including the consistency of the accounting policies and their application and the clarity and completeness of the financial statements and related disclosures.</p>	<p>We believe that the quality of accounting policies disclosed in the financial statements as applied in the financial reporting, the consistency of their application, and the understandability and completeness of the financial statements are reasonable in relation to industry practice.</p>

Required Communications (continued)

Area	Comments
<p>Sensitive Accounting Estimates and Disclosures</p> <p>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.</p> <p>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.</p>	<p>There are no significant judgments or estimates required to prepare the financial statements where actual amounts are likely to be significantly different from the estimates except for employee future benefits payable and pay equity discussed in "Items of Audit Significance Discussed with Management" section.</p>
<p>Major Issues Discussed with Management Including Accounting for Significant Unusual Transactions and for Controversial or Emerging Areas</p> <p>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.</p>	<p>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.</p>
<p>Significant Audit Adjustments and Unrecorded Audit Differences Considered by Management to be Immaterial</p> <p>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.</p>	<p>There was ten recorded audit adjustments identified by Ernst & Young during the audit and the more significant were discussed in "Items of Audit Significance". In aggregate, these adjustments resulted in increased expenses of \$271,012.</p>
<p>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.</p>	<p>Refer to "Summary of Audit Differences" section for details of unrecorded differences.</p>

Required Communications (continued)

Area	Comments
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 except for the financial statement close process. We have provided a management letter identifying suggestions for improvement.
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.
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.	We are not aware of any other documents prepared by the Zoo containing the audited financial statements.

Required Communications (continued)

Area	Comments
<p>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.</p>	<p>Related party amounts are with respect to the City of Toronto and the Toronto Zoo Foundation and are disclosed within the financial statements. The transactions are conducted in the normal course of operations.</p>
<p>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 Finance and Audit Committee 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).</p>	<p>None.</p>
<p>Major Issues Discussed with Management in Connection with Initial or Recurring Retention</p>	<p>None.</p>
<p>Auditors' Independence Canadian generally accepted auditing standards 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.</p>	<p>Refer to "Independence Letter" section.</p>
<p>Other Audit and Non-Audit Services Provided to Your Organization</p>	<p>None.</p>

Required Communications (continued)

Area

Comments

Fees

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

	2009	2008
	\$	\$
Annual audit fees	28,510	28,510
Other audit related fees	28,000	9,500

- Annual fees for 2009 are inclusive of expenses and plus GST. This is the last 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.

Independence Letter

Members of the Board of Management
of the Toronto Zoo

10 May 2010

We have been engaged to audit the financial statements of the Board of Management of the Toronto Zoo (the "Board") for the year ended December 31, 2009.

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 12, 2009, 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 12, 2009, 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 10, 2010.

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,

Chartered Accountants
Licensed Public Accountants

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