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# *Board of Management of the Toronto Zoo*

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*2014 year-end report  
to the Board of  
Management of the  
Toronto Zoo*

*Prepared as of  
May 6, 2015*



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May 6, 2015

Members of the Board of Management and Policy and Finance Committee of  
the Toronto Zoo

Dear Members of the Board of Management and Policy and Finance Committee:

We have substantially completed our audit of the financial statements of the Board of Management of the Toronto Zoo (the organization or the Zoo) prepared in accordance with the Public Sector Accounting Standards including standards that apply only to government not-for profit organizations (PSAS +4200) for the year ended December 31, 2014. We propose to issue our auditor's report on those financial statements, pending resolution of outstanding items outlined on page 1. Our draft auditor's report is included in Appendix B.

We prepared the accompanying report to assist you in your review of the financial statements. It includes an update on the status of our work, as well as a discussion on the significant accounting and financial reporting matters dealt with during the audit process.

We will review the key elements of this report at the upcoming meeting and discuss our findings with you.

We would like to express our sincere thanks to the management and staff of the organization who have assisted us in carrying out our work, and we look forward to our meeting on May 14, 2015. If you have any questions or concerns prior to the Policy and Finance Committee meeting, please do not hesitate to contact us in advance.

Yours very truly,

*PricewaterhouseCoopers LLP*

Chartered Professional Accountants

c.c.: John Tracogna, Chief Executive Officer  
Robin Hale, Chief Operating Officer  
Paul Whittam, Manager of Financial Services

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"PwC" refers to PricewaterhouseCoopers LLP, an Ontario limited liability partnership.

## ***Communications to the Policy and Finance Committee***

<b><i>Key matters for discussion</i></b>	<b><i>Comments</i></b>
<b>Status of the audit</b>	<p>PricewaterhouseCoopers LLP (PwC or we) have substantially completed our audit of the financial statements (the financial statements).</p> <p>Significant outstanding items at time of mailing include the following:</p> <ul style="list-style-type: none"> <li>• Reliance letter from Buck Consulting</li> <li>• Legal update to the date of the audit report from:               <ol style="list-style-type: none"> <li>a) Hicks Morley Hamilton Steward Storie LLP</li> <li>b) City of Toronto – Legal Services</li> </ol> </li> <li>• Management representation letter</li> <li>• Subsequent events procedures</li> <li>• Review and approval of final financial statements by the Policy and Finance Committee/ Board of Management</li> </ul>
<b>Service deliverables</b>	<p>The services we are providing:</p> <ul style="list-style-type: none"> <li>• We performed audit of the organization’s financial statements as of December 31, 2014 and for the year then ended prepared in accordance with PSAS + 4200.</li> </ul> <p>Our engagement letter sets out the terms and conditions for the audit and outlines the responsibilities of the auditors, management and those charged with governance.</p>
<b>Audit timeline</b>	<p>We worked with management to develop this project timeline:</p> <ul style="list-style-type: none"> <li>• Interim visit: December 1 – 5, 2014</li> <li>• Year-end visit: March 16 – 27, 2015</li> <li>• Clearance meeting with management: April 20, 2015</li> <li>• Year-end Policy and Final Committee meeting: May 14, 2015</li> <li>• Delivery of financial statements: upon Board of Management approval (May 27, 2015)</li> </ul>
<b>Audit approach</b>	<p>Our audit approach is a mixture of tests of internal controls and substantive testing. In the current year, our work included testing of key controls in the following areas:</p> <ul style="list-style-type: none"> <li>• Purchases, payables and disbursements</li> <li>• Payroll</li> <li>• Membership, admission and retail revenue</li> </ul> <p>All material areas were subject to tests of detail and substantive analytical testing.</p>

<b><i>Key matters for discussion</i></b>	<b><i>Comments</i></b>
<b>Materiality</b>	<p>Misstatements are considered to be material if they could reasonably be expected to influence the economic decisions of users of the financial statements.</p> <p>We set our materiality at \$1,413,000. We would report unadjusted and adjusted items over \$141,000 to the Policy and Finance Committee as a result of the audit.</p> <p>No unadjusted or adjusted items were noted during the current year audit however we have included the impact of prior year unadjusted items on the current year in Appendix A.</p>
<b>Fraud and illegal acts</b>	<p>We discuss fraud risk annually with management and the Policy and Finance Committee. Through our planning process (and prior years' audits), we developed an understanding of your oversight processes and have designed our audit procedures to address these risks.</p> <p>No fraud involving senior management, or employees with a significant role in internal control or that would cause a material misstatement of the financial statements and no illegal acts came to our attention as a result of our audit procedures. We confirmed with the Chair, on behalf of the Board and the Policy and Finance Committee, that there are no known, suspected or alleged incidents of fraud or illegal acts not previously discussed with us.</p>
<b>Management's representations</b>	<p>Under Canadian GAAS, we are required to inform you of the representations we are requesting from management. A copy of the management representation letter is included in Appendix C.</p>
<b>Subsequent events</b>	<p>No significant subsequent events which would impact the financial statements other than those disclosed have come to our attention.</p> <p>We would like to reconfirm that the Policy and Finance Committee is not aware of any other significant subsequent events that might affect the financial statements.</p>
<b>Professional Fees</b>	<p>Professional fees are in accordance with fee schedule agreed with the City of Toronto (the City). Any additional fees are in compliance with the billing guidelines agreed to with the City.</p>
<b>Significant accounting, auditing and reporting matters discussed with management</b>	
<b>Treatment of related party transactions</b>	<p>A high amount of activity occurs between the Zoo and the City. This includes transactions such as receipt of operating funding and other charges. In addition, there are numerous Funds (e.g. Animal Transaction Reserve Fund, Zoo Stabilization Reserve Fund, etc.) maintained by the City that are not recorded in the financial statements of the Zoo.</p>

<b>Key matters for discussion</b>	<b>Comments</b>
	<p>We received independent confirmation from the City of Toronto confirming the following balances to ensure that they have been accurately and completely presented and/or disclosed in the accounts of the Zoo:</p> <ul style="list-style-type: none"> <li>- General appropriation revenue</li> <li>- Capital works program financing</li> <li>- Receivable and payable balances from/to City</li> <li>- Animal transaction reserve fund</li> <li>- Endangered species reserve fund</li> <li>- Zoo Stabilization reserve fund</li> </ul> <p>Management interacts with City accounting staff to ensure transactions and balances are accurately reflected in the Funds maintained by the City. We have no visibility to the accounts maintained by the City and rely on their confirmation for these balances.</p> <p>We have reviewed the related party note disclosure with respect to the relationship with the City and it appears to be appropriate.</p>
<b>Employee future benefits</b>	<p>We obtained the actuarial valuation report prepared by Buck Consulting for 2014 and involved our internal specialist to review the reasonability of the assumptions in calculating the post-retirement benefits liability. We noted that although certain assumptions are identical to all City of Toronto entities, those may not be representative of the Toronto Zoo demographics. These were discussed with management and we concurred with management's position that as the plans for City of Toronto entities are similar, it is appropriate to use respective assumptions.</p> <p>We have also reviewed the accounting treatment of the employee benefit obligation in accordance with PSAS + 4200, and noted an expense of \$218,128 (2013 - \$132,535) related to current service costs, interest cost and amortization of actuarial gain (loss) recognized in the statement of operations net of benefits payments.</p> <p>Completion of the employee benefit obligation work at the City of Toronto group audit level remains open.</p>
<b>Deferred revenue and deferred development contributions</b>	<p>We have reviewed management's estimate of deferred revenue for reasonableness and assessed the reasonability of management's basis for recognizing deferred amounts to net income based on supporting documentation.</p> <p>As the organization presents both deferred revenue and deferred contributions as a single item in the statement of financial position, disclosure enhancement was suggested by PwC and accepted by management and the following wording was included in the note 12 <i>"Included in deferred revenue as at December 31, 2014, the amount of deferred development contributions is \$2,040,794 (2013 - \$1,616,816)."</i></p>

<b><i>Key matters for discussion</i></b>	<b><i>Comments</i></b>
	<p>A control recommendation from the prior year in regards to review of manual calculations has been resolved in the current year.</p>
<b>Transfer to Toronto Foundation</b>	<p>Based on our knowledge and management confirmation, the organisation has discretion to transfer to Toronto Foundation net income from development activities resulted in any specific fiscal year. As per management's decision the amount transferred for 2014 net development income was \$nil (2013 - \$543,247).</p> <p>However, in 2014 the organization made a decision to transfer to Toronto Foundation the amount of \$2,000,000 out of which \$1,945,000 was received in the current year from an estate and included in the development revenue. As at December 31, 2014 the organization transferred the amount of \$1,500,000 and \$445,000 is included in the receivable and payable balances from/to Toronto Foundation.</p> <p>This transfer was approved by the Board and is presented in the Transfers to Toronto Foundation line of the statement of operations. We agreed with management on the appropriateness of such presentation.</p>
<b>Payroll</b>	<p>We have obtained the ADP SOC 1 Type II report on the operating effectiveness of controls at the service organization for fiscal 2014. We obtained an understanding of the controls relied on by the organization and the results of the testing of those controls. We have validated key management controls around the payroll cycle, and tested the year-end payroll reconciliation. No exceptions were noted.</p>
<b>Management estimates</b>	<p>During the course of our work, we performed work on the accruals by reviewing supporting documentation for the balances, to assess the appropriateness of the reported amounts. On an overall basis, we noted no issues.</p>
<b>Risk of management override of controls</b>	<p>Accounting regulatory authorities require that the risk of material misstatement due to management override of controls be considered a significant risk on every audit engagement.</p> <p>In addition to our substantive testing of various transactions throughout the year, we incorporated an element of unpredictability into our audit procedures. Unpredictable procedures in the current year included testing of bidding process for a sample of capital additions and capital expenses. We noted no issues as a result of our testing.</p> <p>We also reviewed and tested of a sample of manual journal entries for appropriateness. We noted no issues as a result of our testing.</p>

<b>Key matters for discussion</b>	<b>Comments</b>
<p><b>Budgeted figures</b></p>	<p>Currently, under PSAS for government not-for-profit organizations, presentation of the budgeted figures is not a requirement. This budgeted information has been presented and audited to comply with the City audit team's reporting requirements. We agreed the budgeted figures per the statement of operations to the City of Toronto's approved budget for the Board of Management of the Toronto Zoo. No issues were noted.</p>
<p><b>Internal Control Recommendations</b></p>	
<p><b>Daily revenue reconciliation</b></p> <p>In the current year, we performed a test of control over the reconciliation performed on a daily basis to agree receipts to the revenue reports from ADMITS and RMS systems used to track admissions and retails revenue.</p> <p>PwC noted that although detailed reconciliation is performed by Guest Services staff, there is no evidence of formal sign off on the reconciliation. Formal sign off will improve the credibility of the reconciliation and create an audit trail to help determine the effectiveness of the control.</p>	<p><b>Recommendation</b></p> <p>We recommend that management establish a requirement for Guest Services staff responsible for performing the daily reconciliation to formally sign off on the reconciliation before submitting it to the finance department.</p> <p><b>Management's response</b></p> <p>Management has agreed to implement formal sign off on both ADMITS and RMS daily reconciliations on a going forward basis.</p>
<p><b>Depreciation of capital asset additions</b></p> <p>Consistent with prior years, it was noted that the Zoo records full year depreciation for all additions of capital assets in any given year. As this practice is not in line with CPA Canada Handbook, which stipulates that depreciation should be calculated over the period of service provided by an asset.</p> <p>The current practice results in an overstatement of depreciation expense and understatement of capital assets. Please see Appendix A for assessed impact.</p>	<p><b>Recommendation</b></p> <p>As a standard practice observable in NPO sector (meeting the cost versus benefits constraints for the organization), we would suggest to the Zoo to use half-year rule and calculate depreciation for the year as if assets were added in the middle of it, if specific calculation based on individual assets "ready-to-use" date is not plausible.</p> <p>We understand that this practice will not impact results reported to the City, but represents an improvement in compliance with PSAS+4200 requirements.</p> <p><b>Management's response</b></p> <p>On a going forward basis, management has decided to start calculating depreciation of an asset based on its "ready-to-use" date, as this is now possible for fixed assets records maintained by the Zoo.</p>

<b>Key matters for discussion</b>	<b>Comments</b>
<p><b>Review and approval of manual journal entries</b></p> <p>As part of our manual journal entry testing, we confirmed that manual journal entries are approved by Accounting Supervisor or Financial Analyst. However, it was noted both Accounting Supervisor and Financial Analyst have the ability of posting manual journal entries without further approval or authorization, increasing the control risk and potential for errors.</p>	<p><b>Recommendation</b></p> <p>In light of these findings, we recommend that management ensure there is an audit trail of approval for all journal entries made, either by way of signature on individual journal entries or on a summary of monthly journal entries posted.</p> <p><b>Management's response</b></p> <p>Management believes that monthly budget review process mitigates the risk of any unauthorized entries being not detected by management. However, management also agrees with the best practice recommendation of review and sign-off of the monthly summary of manual journal entries by the Manager of Financial Services.</p> <p>Management has also suggested and will implement the additional control of reciprocal review and posting of journal entries by the Accounting Supervisor and the Financial Analyst.</p>
<p><b>Deferred revenue</b></p> <p>In prior years, PwC noted that management made efforts to improve the tracking of its deferred revenue activities for better reporting purposes to ensure that no amounts in deferred revenue recognized into income, where related expenses had been incurred in prior periods.</p> <p>PwC noted that in the current year, no cut off adjustments resulted from testing of deferred revenue. As a result, PwC concludes that deferred membership revenue is reviewed before final posting to the general ledger.</p>	<p><b>Recommendation</b></p> <p>We had recommended in prior years that management complete a final review of the deferred revenue schedule for reasonability at each month's end to establish reasonability of amounts in the account. This would add a check to ensure that the manual process for tracking deferred membership revenue is most accurate.</p> <p><b>Update for 2014:</b></p> <p>During our testing of deferred revenue, we noted that the review process was implemented and no cut off errors were noted.</p>

The matters raised in this and other reports that will flow from the audit are only those that have come to our attention arising from or relevant to our audit that we believe need to be brought to your attention. They are not a comprehensive record of all the matters arising and, in particular, we cannot be held responsible for reporting all risks in your business or all internal control weaknesses. Comments and conclusions should only be taken in context of the financial statements as a whole, as we do not mean to express an opinion on any individual item or accounting estimate. This report has been prepared solely for your use. It was not prepared for, and is not intended for, any other purpose. No other person or entity shall place any reliance upon the accuracy or completeness of statements made herein. PwC does not assume responsibility to any third party, and, in no event, shall PwC have any liability for damages, costs or losses suffered by reason of any reliance upon the contents of this report by any person or entity other than you.



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## ***Appendix A: Summary of unadjusted misstatements***

## Summary of unadjusted misstatements

Description	Excess of revenue over expenses (under) over stated	Statement of financial position		
		Assets under (over) stated	Liabilities (under) over stated	Net assets (under) over stated
<i>To adjust for overstated accumulated depreciation since half year rule was not applied to additions made during any given year</i>				
DR. Capital assets		329,215		
CR. Depreciation expense	(35,347)			
CR. Opening net assets				(293,868)
<b>Total</b>	<b>(\$35,347)</b>	<b>\$329,215</b>	<b>\$nil</b>	<b>(\$293,868)</b>

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## ***Appendix B: Draft auditor's report and draft financial statements***

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## ***Appendix C: Draft management representation letter***

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## ***Appendix D: Changes affecting NPOs***

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## ***Appendix E: DirectorConnect***

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## ***Appendix F: Financial Reporting Release***

