
Board of Management of the Toronto Zoo

*2011 Year-end report
to the Board of
Management*

*Prepared as of May 3,
2012*





May 3, 2012

Members of the Board of Management
of the Toronto Zoo
1340 Pickering Parkway, Suite 101
Pickering, Ontario
L1V 0C4

Dear Members of the Audit Committee:

We have substantially completed our audit of the financial statements of the Board of Management of the Toronto Zoo (the Zoo) for the year ended December 31, 2011 prepared in accordance with Canadian generally accepted principles (GAAP). We propose to issue an unqualified report on those financial statements, pending resolution of outstanding items outlined on page 1.

We have issued 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 issues dealt with during the audit process.

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

We would like to express our sincere thanks to the management and the staff of the organization who have assisted us in carrying out our work and we look forward to your meeting on May 10, 2012. Should you have any questions or concerns prior to the Board meeting, please do not hesitate to contact me in advance.

Yours very truly,

PricewaterhouseCoopers LLP

Jeffrey Goldfarb
Partner
Audit and Assurance Group

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

*PricewaterhouseCoopers LLP, Chartered Accountants
North American Centre, 5700 Yonge Street, Suite 1900, North York, Ontario, Canada M2M 4K7
T: 416 218 1500, F: 416 218 1499, Direct T: +1 416 218 1531, Direct F: +1 416 814 3220, www.pwc.com/ca*

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

Index

Page

1.	Executive summary	1
2.	Significant audit, accounting and financial reporting matters	3
3.	Summary of unadjusted and adjusted items	6
4.	Other required communications	8
5.	Internal control recommendations	9
6.	2011 audit fees	12

Appendices

Appendix A: Management representation letter

Appendix B: Draft financial statements

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. This report has been prepared solely for your use and should not be quoted in whole or in part without our prior written consent. No responsibility to any third party is accepted, as the report has not been prepared for, and is not intended for, any other purpose. 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.

1. Executive summary

a. Status of the audit

We have substantially completed our audit of the 2011 financial statements (the financial statements). Our auditor's report will be issued once we receive and have completed our audit work on the outstanding items noted below and the financial statements have been approved by the Board of Directors.

This document includes the required communications between an auditor and Audit Committee, as required by Canadian Auditing Standards (CAS).

Our audit has been performed substantially in accordance with the plan and timeline previously communicated to you.

The following items will need to be completed/received prior to the issuance of our opinion. We will provide an update on the status of these items at our upcoming meeting.

Outstanding item	Notes
i. Updated legal responses from lawyers to financial statement release date	
ii. Subsequent events update	
iii. Receipt of signed management representation letter	
iv. Approval of the financial statements by the Board of Management	

b. Key issues for discussion

Discussion item	Summary	For further reference
Items discussed with Management	<ul style="list-style-type: none"> • During the course of our work we discussed the following items with management: <ol style="list-style-type: none"> 1. Rescinding of the accreditation with the AZA 2. Changes to accounting standards for not-for-profit organizations 	Section 2
Summary of unadjusted items	<ul style="list-style-type: none"> • As a result of our audit, we identified unadjusted items with an effect of \$142,000 overstatement of surplus for the year. • Unadjusted and adjusted items, including disclosure exceptions or items not impacting net income are listed in section 3. • In our opinion, the financial statements, taken as a whole, are free of material misstatement. 	Section 3
Fraud	<ul style="list-style-type: none"> • No instances of fraud were noted as part of our audit procedures • We wish to reconfirm whether the Audit Committee is aware of any known, suspected or alleged incidents of fraud. 	Section 4
Management representations	<ul style="list-style-type: none"> • Under CAS, 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 A. 	Appendix A

2. Significant audit, accounting and financial reporting matters

Preparation of the financial statements requires management to select accounting policies, as well as make critical accounting estimates and disclosures that may involve significant judgment and measurement uncertainty. These matters can significantly impact the organization's reported results.

We are responsible for discussing with the Audit Committee our views about the significant qualitative aspects of the organization's accounting practices, including accounting policies, the accounting estimates, and financial statement disclosures in accordance with the requirements of GAAP.

Our comments and views included in this report should only be taken in the context of the financial statements as a whole and are not meant to express an opinion on any individual item or accounting estimate. We are sharing our views with you to facilitate an open dialogue of these matters.

a. Update on risks identified during planning

Item	Discussion
Employee future benefits	<p>We agreed census data provided to the actuary to accounting records and employee files. We also obtained the actuarial valuation report prepared by Buck Consulting for the 2011 year, and reviewed the reasonability of the assumptions in calculating the post-retirement benefit liability, as well as assessed the consistency of the assumptions by comparing them with those used in prior periods and those suggested by PricewaterhouseCoopers (PwC) internal specialists.</p> <p>We have also confirmed with the City of Toronto the corresponding receivable equivalent to the employee benefit obligation in the statement of financial position of the Zoo.</p> <p>No exceptions were noted.</p>
Capital assets	<p>We have reviewed selected invoices and other documents supporting additions. We have also recalculated depreciation and assessed the reasonability of the useful lives of the capital assets. We have also reviewed significant expense accounts such as repairs and maintenance accounts to ensure no significant amounts were expensed that should have been capitalized. No exceptions were noted.</p>
Deferred revenue	<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. No exceptions were noted.</p>
Payroll	<p>We have also obtained the ADP Section 5970 report on the operating effectiveness of controls at the service organization for fiscal 2011. 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.</p> <p>We have also performed substantive analytical procedures on salary and benefits expenditures incurred in the current year.</p> <p>No exceptions were noted.</p>

Item	Discussion
Management estimates	<p>During the course of our work, we noted the following significant areas of judgment:</p> <p>Pay equity Management has determined that there are no factors arising in 2011 that would impact the estimates previously calculated by Towers Watson. Based on this assumption, the liability was reduced by the drawdown of 20% prescribed by Towers Watson. PwC assessed the reasonability of this assumption and recalculated the drawdown and noted no exceptions.</p>
Related party transactions	<p>We received independent confirmation from the City of Toronto confirming the following balances:</p> <ul style="list-style-type: none"> - General appropriation - Capital grants - Receivable and payable balances from and to City of Toronto - Animal reserve fund balance - Endangered species reserve fund balance - Receivable relating to post-employment benefits <p>No material exceptions were noted.</p> <p>We have reviewed the note disclosure with respect to the relationship with the City of Toronto and have agreed it to be appropriate.</p>

Other matters

Item 1	Rescinding of the accreditation with the AZA
<p>Background information</p>	<p>Subsequent to year-end, the accreditation status of the Toronto Zoo was rescinded by the Association of Zoos and Aquariums (AZA). The AZA stated that their decision was entirely due to governance matters and the decision by Toronto City Council, overturning a previous Board decision, regarding the transfer of elephants to another facility. The Zoo continues to maintain its accreditation with the Canadian Association of Zoos and Aquariums (CAZA).</p> <p>Management has also represented that the agreement with the City of Toronto does not preclude the Zoo from receiving funding as a result of the rescinding of the Zoo's accreditation, and there are no other significant sources of funding impacted by the AZA's decision.</p> <p>This may require increased administration or effort to execute certain animal transactions with accredited facilities. However, accreditation does not prevent the Zoo from executing these transactions.</p>
<p>PwC's view</p>	<p>We reviewed the agreement with the City of Toronto and we have not noted any clause that would cause the City of Toronto to reduce or remove funding to the Zoo as a result of the rescinding of the accreditation. Furthermore, the Zoo will be able to maintain its animal exhibits. Therefore, we concur with management that there is no going concern issue related to the rescinding of the accreditation.</p> <p>However, we feel that the event may affect the users of the financial statements and therefore requires disclosure. Accordingly, this item has been disclosed as a subsequent event in note 18 of the notes to the financial statements.</p>
<p>Management's response</p>	<p>Management has included a subsequent events disclosure in the notes to the financial statement.</p>

Item 2	Changes to accounting standards for not-for-profit organizations
<p>Background information</p>	<p>As noted in our audit plan prepared as of January 19, 2012, effective January 1, 2102, the Zoo will have to adopt new accounting standards. The standards may have a significant impact on the financial reporting for the Zoo.</p>
<p>PwC's view</p>	<p>We understand that management is aware of the change in accounting standards and is developing a project plan to implement the changes for the 2012 financial statements. We will follow-up with management in the 2012 interim planning and review to ensure their readiness in addressing the new standards.</p>
<p>Management's response</p>	<p>Management is aware of the change and is developing a project plan which will be disseminated to respective parties as required.</p>

3. Summary of unadjusted and adjusted items

We have concluded that the financial statements taken as a whole are free of material misstatement and (pending the completion, to our satisfaction, of the outstanding matters identified in section 1), we are prepared to issue an unqualified opinion on the financial statements.

Our responsibility is to issue an opinion as to whether the financial statements are free of material misstatement.

Under CAS, we are required to communicate to you the unadjusted items and the effect that they may have on our opinion and to request that unadjusted items be corrected. As a result of our audit, we identified certain items and have discussed these with management, and management adjusted the financial statements to reflect certain of these items. Management has concluded that the remaining unadjusted items, which are described in (a) below, are immaterial individually and in the aggregate.

We are also required to communicate the effects of any unadjusted items that relate to prior periods. These are also listed below.

a. Unadjusted items

The materiality level for December 31, 2011, as previously communicated to you, is \$1,900,000.

If all of the items (including differences in estimates) were adjusted, the following would be the effect on the organization's financial statements.

Description	Excess of revenue over expense	Statement of financial position		
	Over (under) stated \$	Assets (over) under stated \$	Liabilities over (under) stated \$	Net assets over (under) stated \$
To reverse gross up of utilities expense related to food services				
DR Food services revenue	202,360			
CR Food services expense	(202,360)			
To remove 2010 sponsorship income recorded as revenue in 2011				
DR Other revenue	142,000			
CR Net assets				(142,000)
Total unadjusted differences	142,000	nil	nil	(142,000)

We did not note any significant exceptions in the financial statement disclosures.

b. Adjusted items

Adjustments made by the organization as part of the audit process, are as follows:

Description	Excess of revenue over expense	Statement of financial position		
	Over (under) stated \$	Assets (over) under stated \$	Liabilities over (under) stated \$	Net assets over (under) stated \$
To reflect the impact related to the adjustment for HST resulting from the completion of the first full year HST return for 2011				
DR Accounts payable CR Other revenue	(515,742)		515,742	
To reclassify HST receivable from payable to receivables				
DR Accounts receivable CR Accounts payable		1,120,843	(1,120,843)	
Total adjusted differences	(515,742)	1,120,843	(605,101)	nil

4. Other required communications

CAS requires that the external auditor communicate certain matters to the Audit Committee that may assist you in overseeing management’s financial reporting and disclosure process.

Below, we summarize these required communications as they apply to you:

Matter to be communicated	PwC’s response
Management’s representations	<ul style="list-style-type: none"> • Under CAS, 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 A.
Significant deficiencies in internal control	<ul style="list-style-type: none"> • Recent changes to CAS require us to communicate to the Audit Committee internal control weaknesses identified as part of our audit that are considered to be significant deficiencies. • A significant deficiency is defined as an internal control deficiency that we consider merits the attention of the Audit Committee. • We did not note any significant deficiencies as a result of our work. However, we did note weakness that, if addressed, could strengthen the Zoo’s internal control system.
Significant difficulties or disagreements that occurred during the audit	<ul style="list-style-type: none"> • No difficulties or disagreements occurred while performing our audit that requires the attention of the Audit Committee.
Fraud and illegal acts	<ul style="list-style-type: none"> • No fraud came to our attention as a result of our audit procedures performed.

5. Internal control recommendations

The purpose of our audit was to enable us to express an opinion on the financial statements. The audit included consideration of internal control relevant to the preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control.

During our audit, we identified the following deficiencies and certain other control recommendations that we have discussed with management and wish to bring to your attention.

Current year findings

Observation	Recommendation	Management's response
Receivables		
The Allowance for Doubtful Accounts (AFDA) is not calculated with any formal process related to how old a receivable balance is. Certain long outstanding amounts have not been provided for which reasonably do not seem collectible at year end 2011. The total value of these amounts in 2011 is not considered material.	Management should formulate a formal AFDA calculation (i.e. aged balances in a certain bucket is automatically moved into AFDA).	Management agrees with the recommendation and will formalize a procedure for staff to follow in recommending the moving of an account to the allowance for doubtful account. However, due to unique aspects of the business, potential items will continue to be reviewed on a case by case basis as staff will continually persevere with attempts to collect older accounts before ultimately booking a provision to the allowance for doubtful accounts.
Revenue		
The current process of reconciling the daily cash and sales to the sales subledger does not provide comfort that the overall revenue reflected in the general ledger (G/L) is completely accurate. As a result, there is a potential for misstatement of the revenue figures if the revenue inputs are not fully reconciled to the revenue reflected in the G/L.	Enhance the monthly reconciliation of the revenue inputs to the revenue G/L output by completing a more detailed review, including a comparison of the input data with the net activity in the various revenue G/Ls, of the following items: <ul style="list-style-type: none"> • ADMITS daily journal summary report • RMS report on Stingray sales • RMS detailed sales report – Retail • RMS detailed sale report – Rides • List of manual journal entries coded under “GJ” excluding automated ADMITS posting 	Management agrees with the enhancement of the reconciliation process. Management currently reconciles daily sales and cash receipts to ensure completeness of admissions, membership, education, retail and ride revenue. The enhanced reconciliation process used for 2011 audit testing, as outlined, has since been implemented for 2012 and balanced accordingly. Further work was also done to eliminate the immaterial, unreconciled amount from 2011 reconciliation as verification of the process.

Observation	Recommendation	Management's response
<i>IT</i>		
<p>The system does not require passwords to meet certain complexity requirements. Staff members are able to use simple passwords which can be easily guessed and inappropriate access to the system may be obtained.</p>	<p>Management should enable complexity requirements.</p>	<p>Management generally agrees. Currently, there is a 7 character minimum password length for workstation access and a maximum duration of 120 days for passwords. As well, the system enforces a password history rule that prohibits users from re-employing their previous two passwords.</p> <p>Management will consider the option of enabling password complexity within our Microsoft Active Directory. If enabled, 3 out of the 4 characteristics outlined below would be required for user passwords:</p> <ul style="list-style-type: none"> • English uppercase characters (A through Z) • English lowercase characters (a through z) • Base-10 digits (0 through 9) • Non-alphanumeric (for example, !, \$, #, %). extended ASCII, symbolic, or linguistic characters

Update on prior year findings

Observation	Current status	Management's response
<i>Inventory</i>		
<p>In attending the inventory count on December 1, 2010, we noted no written instructions provided to count staff prior to the inventory count.</p> <p>In fiscal 2011, the finance team provided instructions to the counters. Furthermore, the finance team was in attendance at selected counts to supervise the count staff and ensure they were complying with the instructions.</p> <p>Going forward, the finance team will look to providing the count instructions in written form.</p>	<p>This has been remediated in the current year.</p>	<p>This has been remediated in the current year.</p>

6. 2011 audit fees

Fees

We previously communicated our estimated fees to you when we presented our audit plan on January 19, 2012.

The following is a summary of our fees for 2011 (exclusive of taxes and out-of-pocket expenses).

Service description	Actual fees 2011 \$
Financial statements audit	17,430

Appendix A: Management representation letter

[Client Letterhead]

PricewaterhouseCoopers LLP
North American Centre
5700 Yonge Street, Suite 1900
Toronto, Ontario
M2M 4K7

[Date]

We are providing this letter in connection with your audit of the financial statements of the Board of Management of the Toronto Zoo (the Zoo) as of December 31, 2011 and for the year then ended for the purpose of expressing an opinion as to whether such financial statements present fairly, in all material respects, the financial position, the results of operations and the cash flows of the Zoo in accordance with Canadian generally accepted accounting principles.

Management's responsibilities

We have fulfilled our responsibilities, as set out in the terms of the audit engagement letter dated November 1, 2010. In particular, we confirm to you that:

- We are responsible for the preparation and fair presentation of the financial statements in accordance with Canadian generally accepted accounting principles;
- We are responsible for designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error. In this regard, we are responsible for establishing policies and procedures that pertain to the maintenance of accounting systems and records, the authorization of receipts and disbursements, the safeguarding of assets and for reporting financial information in accordance with Canadian generally accepted accounting principles;
- We have provided you with all relevant information and access, as agreed in the terms of the audit engagement; and
- All transactions have been recorded in the accounting records and are reflected in the financial statements.

We confirm the following representations:

Preparation of financial statements

The financial statements include all disclosures necessary for fair presentation in accordance with Canadian generally accepted accounting principles and disclosures otherwise required to be included therein by the laws and regulations to which the Zoo is subject.

We have appropriately reconciled our books and records (e.g. general ledger accounts) underlying the financial statements to their related supporting information (e.g. sub ledger or third party data). All related reconciling items considered to be material were identified and included on the reconciliations and were appropriately adjusted in the financial statements. There were no material unreconciled differences or material general ledger suspense account items that should have been adjusted or reclassified to another account balance. There were no material general ledger suspense account items written off to a balance sheet account, which should have been written off to a profit and loss account and vice versa. All intracompany accounts have been eliminated or appropriately measured and considered for disclosure in the financial statements.

Accounting policies

We confirm that we have reviewed the Zoo's accounting policies and, having regard to the possible alternative policies, our selection and application of accounting policies and estimation techniques used for the preparation and presentation of the financial statements is appropriate in the Zoo's particular

circumstances to present fairly in all material respects its financial position, results of operations and cash flows in accordance with Canadian generally accepted accounting principles.

Internal controls over financial reporting

We have designed disclosure controls and procedures to provide reasonable assurance that material information relating to the Zoo, is made known to us by others.

We have designed internal control over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian generally accepted accounting principles.

We have disclosed to you all deficiencies in the design or operation of disclosure controls and procedures and internal control over financial reporting that we are aware as of December 31, 2011.

Disclosure of information

We have provided you with:

- Access to all information of which we are aware that is relevant to the preparation of the financial statements, such as records, documentation and other matters including:
 - Contracts and related data;
 - Information regarding significant transactions and arrangements that are outside of the normal course of business;
 - Minutes of the meetings of shareholders, management, directors and committees of directors. The most recent meetings held were October 20, 2011;
- Additional information that you have requested from us for the purpose of the audit; and
- Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.

Completeness of transactions

All contractual arrangements entered into by the Zoo with third parties have been properly reflected in the accounting records or/and, where material (or potentially material) to the financial statements, have been disclosed to you. We have complied with all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance.

Fraud

We have disclosed to you:

- The results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud;
- All information in relation to fraud or suspected fraud of which we are aware affecting the Zoo involving management, employees who have significant roles in internal control or others where the fraud could have a material effect on the financial statements; and
- All information in relation to any allegations of fraud, or suspected fraud, affecting the Zoo's financial statements, communicated by employees, former employees, analysts, regulators or others.

Compliance with laws and regulations

We have disclosed to you all aspects of laws, regulations and contractual agreements that may affect the financial statements, including actual or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements.

We are not aware of any illegal or possibly illegal acts committed by the Zoo's directors, officers or employees acting on the Zoo's behalf.

Accounting estimates and fair value measurements

Significant assumptions used by the Zoo in making accounting estimates, including fair value accounting estimates, are reasonable.

For recorded or disclosed amounts in the financial statements that incorporate fair value measurements, we confirm that:

- the measurement methods are appropriate and consistently applied;
- the significant assumptions used in determining fair value measurements represent our best estimates, are reasonable and have been consistently applied;
- no subsequent event requires adjustment to the accounting estimates and disclosures included in the financial statements; and
- the significant assumptions used in determining fair value measurements are consistent with the Zoo's planned courses of action. We have no plans or intentions that have not been disclosed to you, which may materially affect the recorded or disclosed fair values of assets or liabilities.

Significant estimates and measurement uncertainties known to management that are required to be disclosed in accordance with Canadian Institute of Chartered Accountants (CICA) Handbook Section 1508, *Measurement Uncertainty*, have been appropriately disclosed.

Related parties

We confirm the completeness of information provided to you regarding the identification of related parties as defined by CICA Handbook Section 3840, *Related Party Transactions*, which include, but are not limited to directors, officers, senior members of management, or immediate family members of such individuals, or entities over which these individuals are able to exert significant influence. We also confirm the completeness of information provided to you regarding the nature of the Zoo's relationships with and transactions involving those entities.

The identity and relationship of and balances and transactions with related parties have been properly recorded and adequately disclosed in the financial statements, as required by Canadian generally accepted accounting principles.

The list of related parties attached to this letter as Appendix A accurately and completely describes the Zoo's related parties and the relationships with such parties.

All reported accounts and reserve fund balances confirmed with the City of Toronto have been accurately and completely reflected in the financial statements.

Going concern

We have no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements (e.g. to dispose of the business or to cease operations).

We have assessed the impact of the the Association of Zoos and Aquariums (AZA) rescinding the Zoo's accreditation. We have determined that the Zoo will be able to continue as a going concern.

Revenue recognition

We have reviewed the criteria for revenue recognition included in CICA Handbook Section 3400, *Revenue*, and EIC 141, *Revenue Recognition*, and EIC 123, *Reporting Revenue Gross as a Principal vs. Net as an Agent*, namely, evidence of arrangement, delivery, fixed price and collectibility and are recognizing revenue in accordance with these standards.

Assets and liabilities

We have satisfactory title or control over all assets. All liens or encumbrances on the Zoo's assets and assets pledged as collateral, to the extent material, have been disclosed in notes to the financial statements.

Receivables recorded in the financial statements represent bona fide claims against debtors for sales or other charges arising on or before the statement of financial position date and are not subject to discount except for normal cash discounts. Receivables classified as current do not include any material amounts that are collectible after one year. All receivables have been appropriately reduced to their estimated net realizable value.

We have recorded or disclosed, as appropriate, all liabilities, in accordance with Canadian generally accepted accounting principles. All liabilities and contingencies, including those associated with guarantees, whether written or oral, under which the Zoo is contingently liable in accordance with Accounting Guideline 14, *Disclosure of Guarantees*, or CICA Handbook Section 3290, *Contingencies*, have been disclosed to you and are appropriately reflected in the financial statements.

Litigation and claims

All known actual or possible litigation and claims, which existed at the statement of financial position date or exist now, have been disclosed to you and accounted for and disclosed in accordance with Canadian generally accepted accounting principles, whether or not they have been discussed with legal counsel.

Misstatements detected during the audit

Certain representations in this letter are described as being limited to those matters that are material. Items are also considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would have been changed or influenced by the omission or misstatement.

We confirm that the financial statements are free of material misstatements, including omissions.

The effects of the uncorrected misstatements in the financial statements, as summarized in the accompanying schedule (Appendix B), are immaterial, both individually and in the aggregate, to the financial statements taken as a whole. We confirm that we are not aware of any uncorrected misstatements other than those included in Appendix B.

The adjusted misstatements identified during your audit and summarized in the attached table (Appendix C) have been approved by us and adjusted in the financial statements.

Events after balance sheet date

We have identified all events, including the rescinding of the AZA accreditation, that occurred between the statement of financial position date and the date of this letter that may require adjustment of, or disclosure in, the financial statements, and have effected such adjustment or disclosure.

Cash and banks

The books and records properly reflect and record all transactions affecting cash funds, bank accounts and bank indebtedness of the Zoo.

All cash balances are under the control of the Zoo, free from assignment or other charges, and unrestricted as to use, except as disclosed to you.

The amount shown for cash on hand or in bank accounts excludes trust or other amounts which are not the property of the Zoo.

Arrangements with financial institutions involving compensating balances or other arrangements involving restrictions on cash balances, line of credit, or similar arrangements have been properly disclosed.

All cash and bank accounts and all other properties and assets of the Zoo of which we are aware are included in the financial statements as at December 31, 2011.

Accounts receivable

All amounts receivable by the Zoo were recorded in the books and records.

Amounts receivable are considered to be fully collectible, except to the extent of \$81K in respect of which full allowance has been made in the accounts.

Amounts receivable that are non-interest bearing and are expected to be received more than a year after initial recognition date have been initially recognized at fair value, using an appropriate discount rate, and subsequently measured at amortized cost.

Inventory

Inventories recorded in the financial statements are stated at the lower of cost or net realizable value, cost being determined on the basis of first-in first-out (FIFO), with due provision recorded to reduce all damaged, wholly or partially obsolete, or unusable inventories to their estimated selling price less estimated cost to sell. Inventory quantities at the statement of financial position date were determined from physical counts or from the Zoo's perpetual inventory records, which have been adjusted on the basis of physical inventories taken by competent employees at the physical inventory count date. Liabilities for amounts unpaid are recorded for all items included in inventories at statement of financial position dates and all quantities billed to customers at those dates are excluded from the inventory balances.

Provision has been made to reduce excess or obsolete inventories to their estimated net realizable value.

Property, plant and equipment

All charges to property, plant and equipment asset accounts represented the actual cost of additions to property, plant and equipment.

No significant property, plant and equipment additions were charged to repairs and maintenance or other expense accounts.

Book values of property, plant and equipment sold, destroyed, abandoned or otherwise disposed of have been eliminated from the accounts.

Property, plant and equipment assets owned by the Zoo are being depreciated on a systematic basis over their estimated useful lives and the provision for depreciation was calculated on a basis consistent with that of the previous date.

All lease agreements covering property leased by or from the Zoo have been disclosed to you and classified as capital, operating, sales-type or direct financial leases as appropriate.

Assets held under capital leases are being amortized on a systematic basis over the period of expected use.

There have been no events or changes in circumstances that indicate the carrying value of a long-lived asset is not recoverable; accordingly management was not required to perform an impairment test in accordance with CICA Handbook Section 3063, *Impairment of Long-lived Assets* during the period. We believe that the carrying amount of the Zoo's long-lived assets is fully recoverable.

Accounts payable

Amounts payable that are non-interest bearing and are expected to be paid more than a year after initial recognition date have been initially recognized at fair value, using an appropriate discount rate, and subsequently measured at amortized cost.

Unearned revenue and deferred credits

All material amounts of unearned revenue and deferred credits were appropriately recorded in the books and records.

Commitments

Provisions have been made for losses to be sustained in the fulfillment of, or from inability to fulfill, any sales commitments.

Provisions have been made for losses to be sustained as a result of purchase commitments for inventory quantities in excess of normal requirements or at prices in excess of prevailing market prices.

Employee future benefits

All arrangements, whether formal or informal, explicit or implied, to provide retirement income and other post-retirement benefits to employees after they cease employment, have been identified to you and have been included in the actuarial valuation.

The details of all pension plan amendments since the date of the last actuarial valuation have been identified to you for the defined benefit pension plan.

The actuarial valuation incorporates management's best estimates.

The actuarial assumptions and methods used to measure liabilities and costs for financial accounting purposes for pension and other postretirement benefits are appropriate in the circumstances.

The Zoo does not plan to make frequent amendments to the pension or other postretirement benefit plans.

The Zoo's actuaries have been provided with all information required to complete their valuation.

The employee future benefit costs, assets and obligations have been determined, accounted for and disclosed in accordance with CICA Handbook Section 3461, *Employee Future Benefits* (as amended). In particular:

- The significant accounting policies that the Zoo has adopted in applying CICA Handbook Section 3461 are accurately and completely disclosed in the notes to the financial statements.
- Each of the best estimate assumptions used reflects management's judgment of the most likely outcomes of future events.
- The best estimate assumptions used are, as a whole, internally consistent, and consistent with the asset valuation method adopted.
- The discount rate used to determine the accrued benefit obligation was determined by reference to market interest rates at the measurement date on high-quality debt instruments with cash flows that match the timing and amount of expected benefit payments or inherent in the amount at which the accrued benefit obligation could be settled.
- The assumptions included in the actuarial valuation are those that management instructed Buck Consulting to use in computing amounts to be used by management in determining

pension costs and obligations and in making required disclosures in the above-named financial statements, in accordance with CICA Handbook Section 3461.

- In arriving at these assumptions, management has obtained the advice of Buck Consulting, but has retained the final responsibility for them.
- The source data and plan provisions provided to the actuary for preparation of the actuarial valuation are accurate and complete.
- The disclosure of the amounts and types of securities of the Zoo and its related parties included in the plan assets, the approximate amount of future annual benefits covered by insurance contracts issued by the Zoo or its related parties, and the transactions between the Zoo and the plan during the period are complete and accurate.
- The percentage of the fair value of total plan assets represented by each major category held at the measurement date is not disclosed because it is not expected to be useful in understanding the risks and expected long-term rate of return for the plan assets.
- All changes to plan provisions or events occurring subsequent to the date of the actuarial valuation and up to the date of this letter have been considered in the determination of pension costs and obligations and as such have been communicated to you as well as to the actuary.

Use of a specialist

We assume responsibility for the findings of specialists in evaluating the employee benefit obligation and pay equity obligation, and have adequately considered the qualifications of the specialists in determining the amounts and disclosures used in the financial statements and underlying accounting records. We did not give or cause any instructions to be given to specialists with respect to the values or amounts derived in an attempt to bias their work, and we are not otherwise aware of any matters that have had an impact on the independence or objectivity of the specialists.

Yours very truly,

Board of Management of the Toronto Zoo

John Tracogna, Chief Executive Officer

Robin Hale, Chief Operating Officer

Paul Whittam, Manager of Financial Services

Appendix A – List of related parties

City of Toronto

Appendix B – Summary of unadjusted misstatements (SUM)

Description	Excess of revenue over expense	Statement of financial position		
	Over (under) stated \$	Assets (over) under stated \$	Liabilities over (under) stated \$	Net assets over (under) stated \$
To reverse gross up of utilities expense related to food services				
DR Food services revenue	202,360			
CR Food services expense	(202,360)			
To remove 2010 sponsorship income recorded as revenue in 2011				
DR Other revenue	142,000			
CR Net assets				(142,000)
Total unadjusted differences	142,000	nil	nil	(142,000)

Appendix C – Summary of adjusted misstatements (SAM)

Description	Excess of revenue over expense	Statement of financial position		
	Over (under) stated \$	Assets (over) under stated \$	Liabilities over (under) stated \$	Net assets over (under) stated \$
To reflect the impact related to the adjustment for HST resulting from the completion of the first full year HST return for 2011				
DR Accounts payable CR Other revenue	(515,742)		515,742	
To reclassify HST receivable from payable to receivables				
DR Accounts receivable CR Accounts payable		1,120,843	(1,120,843)	
Total adjusted differences	(515,742)	1,120,843	(605,101)	nil

Appendix D – Internal control recommendations

Current year findings

Observation	Recommendation	Management's response
Receivables		
<p>The Allowance for Doubtful Accounts (AFDA) is not calculated with any formal process related to how old a receivable balance is. Certain long outstanding amounts have not been provided for which reasonably do not seem collectible at year end 2011. The total value of these amounts in 2011 is not considered material.</p>	<p>Management should formulate a formal AFDA calculation (i.e. aged balances in a certain bucket is automatically moved into AFDA).</p>	<p>Management agrees with the recommendation and will formalize a procedure for staff to follow in recommending the moving of an account to the allowance for doubtful account. However, due to unique aspects of the business, potential items will continue to be reviewed on a case by case basis as staff will continually persevere with attempts to collect older accounts before ultimately booking a provision to the allowance for doubtful accounts.</p>
Revenue		
<p>The current process of reconciling the daily cash and sales to the sales subledger does not provide comfort that the overall revenue reflected in the general ledger (G/L) is completely accurate. As a result, there is a potential for misstatement of the revenue figures if the revenue inputs are not fully reconciled to the revenue reflected in the G/L.</p>	<p>Enhance the monthly reconciliation of the revenue inputs to the revenue G/L output by completing a more detailed review, including a comparison of the input data with the net activity in the various revenue G/Ls, of the following items:</p> <ul style="list-style-type: none"> • ADMITS daily journal summary report • RMS report on Stingray sales • RMS detailed sales report – Retail • RMS detailed sale report – Rides • List of manual journal entries coded under “GJ” excluding automated ADMITS posting 	<p>Management agrees with the enhancement of the reconciliation process. Management currently reconciles daily sales and cash receipts to ensure completeness of admissions, membership, education, retail and ride revenue. The enhanced reconciliation process used for 2011 audit testing, as outlined, has since been implemented for 2012 and balanced accordingly. Further work was also done to eliminate the immaterial, unreconciled amount from 2011 reconciliation as verification of the process.</p>

IT

The system does not require passwords to meet certain complexity requirements. Staff members are able to use simple passwords which can be easily guessed and inappropriate access to the system may be obtained.

Management should enable complexity requirements.

Management generally agrees. Currently, there is a 7 character minimum password length for workstation access and a maximum duration of 120 days for passwords. As well, the system enforces a password history rule that prohibits users from re-employing their previous two passwords.

Management will consider the option of enabling password complexity within our Microsoft Active Directory. If enabled, 3 out of the 4 characteristics outlined below would be required for user passwords:

- English uppercase characters (A through Z)
- English lowercase characters (a through z)
- Base-10 digits (0 through 9)
- Non-alphanumeric (for example, !, \$, #, %). extended ASCII, symbolic, or linguistic characters

Prior year findings

Observation	Current status	Management's response
<i>Inventory</i>		
<p>In attending the inventory count on December 1, 2010, we noted no written instructions provided to count staff prior to the inventory count.</p> <p>In fiscal 2011, the finance team provided instructions to the counters. Furthermore, the finance team was in attendance at selected counts to supervise the count staff and ensure they were complying with the instructions.</p> <p>Going forward, the finance team will look to providing the count instructions in written form.</p>	<p>This has been remediated in the current year.</p>	<p>This has been remediated in the current year.</p>