
Board of Management of the Toronto Zoo

*2012 Year-end report
to the Board of
Management*

*Prepared as of
March 22, 2013*





March 22, 2013

Members of the Board of Management of the
Toronto Zoo

Dear Members of the Board of Management:

We have substantially completed our audit of the financial statements (the financial statements) of the Board of Management of the Toronto Zoo (the Zoo) prepared in accordance with Public Sector Accounting Standards including accounting standards that apply only to government not-for-profit organizations for the years ended December 31, 2012 and December 31, 2011, and as at January 1, 2011. We propose to issue an unqualified report on the financial statements, pending resolution of outstanding items outlined on page 1. Our draft auditor's report is included in Appendix A.

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 our meeting on April 11, 2013. 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

Michael Nicoló
Engagement Partner
Audit and Assurance Group

cc: 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.

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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 financial statements. Our auditor's report will be issued once we receive and have completed our audit work on the outstanding items noted below.

This document includes the required communications between an auditor and Board, as required by Canadian generally accepted auditing standards (Canadian GAAS).

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	Status as at April 11, 2013
i. Legal update to the date of the audit report	
ii. Receipt of signed management representation letter	
iii. Subsequent events update to the date of the audit report	
iv. Approval of the financial statements by the Policy & Finance Committee/Board of Directors	

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: <ul style="list-style-type: none"> - Accounting standards - adoption of Public Sector Accounting Standards, including accounting standards for government not-for profit organizations, in the Public Sector Accounting Handbook as outlined in Section 2. 	Section 2
Summary of unadjusted and adjusted items	<ul style="list-style-type: none"> • As a result of our audit, we identified unadjusted items with an effect of \$252,478 on the excess of expenses over revenues for the current year. • Our audit opinion also covers the December 31, 2011 comparative period and the January 1, 2011 opening statement of financial position. • 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 Board is aware of any known, suspected or alleged incidents of fraud. 	Section 4
Management representations	<ul style="list-style-type: none"> • 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 B. 	Appendix B

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 Board 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. Transition to Public Sector Accounting Standards

Item	Discussion
<p>Transition to Public Sector Accounting Standards</p>	<p>In 2010, The Canadian Institute of Chartered Accountants (CICA) Handbook - Public Sector was revised to include Accounting Standards that apply only to Government not-for Profit Organizations, to allow Government not-for-Profit Organizations the choice to apply such standards in addition to Public Sector Accounting Standards (PSAS), or PSAS alone, effective for the years beginning on or after January 1, 2012.</p> <p>Effective January 1, 2012, the Board elected to adopt PSAS including the accounting standards that apply only to government not-for-profit organizations as issued by the Canadian Public Sector Accounting Board. The accounting policies selected under this framework have been applied consistently and retrospectively as if these policies had always been in effect, except for the transitional exemption exercised related to retirement and post-employment benefits, described below.</p> <p>In preparation of the financial statements in the current year, the Board elected to early adopt PS 3450, Financial Instruments, and the associated standards of PS 1201, Financial Presentation, and PS 2601, Foreign Currency Translation. These specific standards have been applied prospectively from January 1, 2012 in accordance with the transition provisions of these standards as this is the first set of PSAS financial statements for the Zoo.</p> <p>Below is the key change resulting from transition to PSAS:</p> <p>Employee Benefit Obligation</p> <p>As a result of transitioning to PSAS, the Zoo was required to revalue its pension benefit obligation for a number of reasons disclosed in the notes to the financial statement:</p> <ul style="list-style-type: none"> - The Zoo is now using a discount rate referencing the City's cost of borrowing. This change has been applied retroactively. - The Zoo has also retroactively recognized unamortized actuarial gains and losses on the date of transition. Accumulated actuarial gains and losses are amortized over the remaining service life of the employee group. - Finally, the Zoo also retroactively recognized unamortized past service costs relating to previous year's plan amendments as PSAS requires these costs to be expensed immediately.

Item	Discussion
	<p>Exemption</p> <p>In accordance with PSAS transitional provisions, the Zoo has elected to use the exemption in paragraph 10 under PS 3255, Retirement and Post-employment Benefits. Under Section PS 3255, the Zoo amortizes actuarial gains and losses to the liability or asset over the expected average remaining service life of the related employee group. Retroactive application of this approach requires the Zoo to split the cumulative actuarial gains and losses from the inception of the plan until the date of the transition to PSAS into a recognized portion and an unrecognized portion. The Zoo has elected to recognize all cumulative actuarial gains and losses as at the date of transition to PSAS directly in the statement of operations.</p>

b. 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 2012, 2011 and 2010 years, 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 PwC internal specialists.</p> <p>For the current year, we also performed analysis to ensure the appropriateness of accounting for the post-employment benefit plans as defined benefit plans, and the retirement plan as a defined contribution plan under PSAS.</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. No exceptions were noted.</p> <p>Completion of the employee benefit obligation work at the City of Toronto group audit level remains open.</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.</p> <p>We noted adjustments and unadjusted items that have been included in Section 3. A control recommendation has also been included in Section 5 of this report.</p>
Payroll	<p>We have also obtained the ADP CSAE 3416 report on the operating effectiveness of controls at the service organization for fiscal 2012. 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>An adjustment to benefits expense has been reported in Section 3.</p>

Item	Discussion
Management estimates	<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>
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 it appears to be appropriate.</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 Canadian GAAS, 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 final materiality level for December 31, 2012 is \$900,000 (2011 - \$860,000, 2010 – \$624,000).

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

December 31, 2012

Description	Excess of revenue over expense	Statement of financial position		
	Overstated (understated) \$	Assets (overstated) understated \$	Liabilities overstated (understated) \$	Net assets overstated (understated) \$
To reverse the gross-up of utilities expense		-	-	-
DR Revenue	\$215,216			
CR Operating expenses	(215,216)			
To reverse deferred revenue recognized in 2012 relating to prior periods		-	-	
DR Revenue	252,478			
CR Opening surplus/deficit				(252,478)
Total unadjusted differences	252,478	-	-	(252,478)

December 31, 2011

	Excess of revenue over expense	Statement of financial position		
Description	Overstated (understated) \$	Assets (overstated) understated \$	Liabilities overstated (understated) \$	Net assets overstated (understated) \$
To recognize deferred revenue related to 2011				
DR Deferred revenue			252,478	(163,433)
CR Opening surplus/deficit	(89,045)			
CR Revenue				
Net impact of previously reported unadjusted items				
DR Revenue	142,000			
CR Opening surplus/deficit				(142,000)
Total unadjusted differences	52,955	-	252,478	(305,433)

January 1, 2011

	Excess of revenue over expense	Statement of financial position		
Description	Overstated (understated) \$	Assets (overstated) understated \$	Liabilities overstated (understated) \$	Net assets overstated (understated) \$
To recognize deferred revenue related to 2011		-		
DR Deferred revenue				
CR Opening surplus/deficit	(72,572)		204,311	(131,739)
CR Revenue				
Total unadjusted differences	(72,572)	-	204,311	(131,739)

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		
	Overstated (understated) \$	Assets (overstated) understated \$	Liabilities overstated (understated) \$	Net assets overstated (understated) \$
To reclassify GST receivable to accounts receivable from accounts payable				
DR GST receivable	-	1,269,633		-
CR GST payable			(1,269,633)	
To record capital expenditures payable at year-end	-			-
DR Receivable from City of Toronto		267,980		
CR Accounts payable			(267,980)	
To adjust for overstatement of employee benefit expense		-		-
DR Accounts payable			126,059	
CR Payroll expense	(126,059)			
To defer memberships recognized as revenue		-		-
DR Revenue	75,492			
CR Deferred membership			(75,492)	
Total adjusted differences	(50,567)	1,537,613	(1,487,046)	-

4. *Other required communications*

Canadian GAAS requires that the external auditor communicate certain matters to the Board 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 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 B.
Significant deficiencies in internal control	<ul style="list-style-type: none"> Recent changes to Canadian GAAS require us to communicate to the Board 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 Board. During our work, we did not note any significant deficiencies; however, we have included control recommendations to strengthen certain areas of the Zoo's internal control systems in Section 5.
Other information in documents containing audited financial information	<ul style="list-style-type: none"> Once it is available, we will read the annual report and consider whether its content or manner and preparation is materially consistent with the financial statements.
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 required the attention of the Board.
Fraud and illegal acts	<ul style="list-style-type: none"> No fraud came to our attention as a result of our audit procedures.

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 control recommendations that we have discussed with management and wish to bring to your attention.

Current year findings

Observation	Recommendation	Management's response
<p>Deferred Revenue</p> <p>Through our testing of the deferred revenue process, PwC noted that management made efforts to improve the tracking of its deferred revenue activities for better reporting purposes. As a result, there were also amounts in the deferred revenue balance recognized into income in the current year, where expenses had been incurred in prior periods. This resulted in cut-off adjustments reported in Section 3.</p> <p>PwC also noted that \$76K of membership revenues from the month of December were recognized as revenue, rather than being deferred, as a result of deferred membership revenue not being completely reviewed before final posting to the general ledger.</p>	<p>We recommend 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 will add a check to ensure that the manual process for tracking deferred membership revenue is most accurate.</p>	<p>Management is in agreement with this recommendation.</p>
<p>HST/GST Tracking</p> <p>During our testing of the reasonability of HST/GST balances, we noted that the Zoo does not maintain a receivable account for HST/GST activity. All activity is maintained in a payable account. At year-end, we proposed a reclassification from accounts payable to accounts receivable.</p>	<p>We recommend that management set up a receivable account for GFT/HST tracking purposes to avoid reporting understatements/overstatements of accounts payable or accounts receivable balances at year end.</p>	<p>As the impact on net assets is nil, this has not been addressed in the past. Management agrees that a receivable account for GST/HST may be beneficial, and will consider this recommendation going forward.</p>

Update on prior year findings

Observation	Recommendation	Management's response
<p>Revenue reconciliation process</p> <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.</p> <p>Update for 2012: PwC noted that the enhanced reconciliations were performed for the 2012 year-end. No exceptions were noted. This has been remediated in the current year.</p>	<p>This has been remediated in the current year.</p>
<p>Password controls</p> <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>Update for 2012: Through PwC's review of the security settings in Microsoft Dynamics GP, password complexity requirements were enabled. This has been remediated in the current year.</p>	<p>This has been remediated in the current year.</p>

Appendix A: Draft auditor's report and draft financial statements

Appendix B: Management Representation Letter

April 11, 2013

PricewaterhouseCoopers LLP
North American Centre
5700 Yonge Street, Suite 1900
Toronto, Ontario
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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, 2012, December 31, 2011, and January 1, 2011 and for the years ended December 31, 2012 and December 31, 2011 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, the changes in net assets and the cash flows of the Zoo are in accordance with Canadian public sector accounting standards.

Management's responsibilities

We have fulfilled our responsibilities, as set out in the terms of the audit engagement 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 public sector accounting standards;
- 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 public accounting standards;
- 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 public sector accounting standards 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 public sector accounting standards.

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 public sector accounting standards.

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, 2012, December 31, 2011 and as at January 1, 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 management, directors and committees of directors. The most recent meetings held were:
 - Board of management of the Toronto Zoo – December 18, 2012 and February 15, 2013
 - Policy and Finance Committee – October 4, 2012
- 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 PS 2130, 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 PS 42250, Reporting Controlled and Related Entities by Not-For-Profit Organizations, and CICA Handbook Section PS 4260, Disclosure of Related Party Transactions by Not-For-Profit Organizations, 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 public sector accounting standards.

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.

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 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.

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 dates 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 public sector accounting standards. All liabilities and contingencies, including those associated with guarantees, whether written or oral, under which the Zoo is contingently liable in accordance with PS 3300, Contingent Liabilities, 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 public sector accounting standards, 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.

Restatement of prior year's balances

The restatement made to correct a material misstatement in the prior year's financial statements that affect the comparative information has been appropriately accounted for and disclosed in accordance with the requirements of Canadian public sector accounting standards.

Events after balance sheet date

We have identified all events 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 at [balance sheet dates].

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 \$41K 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 dates 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 dates. 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 PS 3150, *Tangible Capital 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 including deferred income taxes 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 December 31, 2012, the date of the last actuarial valuation, have been identified to you for defined benefit pension plan.

The actuarial valuations dated December 31, 2012, December 31, 2011 and December 31, 2010 incorporate 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.

All changes to the plan and the employee group and the fund's performance since the last actuarial valuation have been reviewed and considered in determining the pension plan expense and the estimated actuarial present value of accrued pension benefits and value of pension fund assets for defined benefit pension plan.

The Zoo's actuaries have been provided with all information required to complete their valuations as at December 31, 2012, December 31, 2011 and December 31, 2010.

The employee future benefit costs, assets and obligations have been determined, accounted for and disclosed in accordance with PS 3250, Retirement Benefits, and PS 3255, Post-employment Benefits, Compensated Absences and Termination Benefits. In particular:

- The significant accounting policies that the Zoo has adopted in applying PS 3250, Retirement Benefits, and PS 3255, Post-employment Benefits, Compensated Absences and Termination Benefits 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 the City's cost of borrowing.
- The assumptions included in the actuarial valuation are those that management instructed Buck Consultants 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 PS 3250, Retirement Benefits, and PS 3255, Post-employment Benefits, Compensated Absences and Termination Benefits.
- In arriving at these assumptions, management has obtained the advice of Buck Consultants, 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 the 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.

Public Sector Accounting Standards (PSAS)

Effective January 1, 2012, the Zoo elected to adopt PSAS including the accounting standards that apply only to government not-for-profit organizations as issued by the Canadian Public Sector Accounting Board. The accounting policies selected under this framework have been applied consistently and retrospectively as if these policies had always been in effect, except for the transitional exemption noted below.

The Zoo has elected to use the exemption in paragraph 10 under PS 3255, Retirement and Post-employment Benefits. Under Section PS 3255, the Zoo amortizes actuarial gains and losses to the liability or asset over the expected average remaining service life of the related employee group. Retroactive application of this approach requires the Zoo to split the cumulative actuarial gains and losses from the inception of the plan until the date of the transition to PSAS into a recognized portion and an unrecognized portion. The Zoo has elected to recognize all cumulative actuarial gains and losses as at the date of transition to PSAS directly in the statement of operations.

First-time Adoption by Government Organizations

We have ensured that the financial statements contain all the presentation and disclosures requirements of paragraphs 4 to 22 of PS 2125, First-time adoption by government organizations.

Early adoption

The Board has early adopted PS 3450, Financial Instruments, and the associated standards of PS 1201, Financial Presentation, and PS 2601, Foreign Currency Translation. These specific standards have been applied prospectively from January 1, 2012 in accordance with the transition provisions of these standards as these are the first PSAS financial statements for the Zoo.

Yours 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 Uncorrected Misstatements

December 31, 2012

Description	Excess of revenue over expense	Statement of financial position		
	Overstated (understated) \$	Assets (overstated) understated \$	Liabilities overstated (understated) \$	Net assets overstated (understated) \$
To reverse the gross-up of utilities expense		-	-	-
DR Revenue	\$215,216			
CR Operating expenses	(215,216)			
To reverse deferred revenue recognized in 2012 relating to prior periods		-	-	
DR Revenue	252,478			
CR Opening surplus/deficit				(252,478)
Total unadjusted differences	252,478	-	-	(252,478)

December 31, 2011

	Excess of revenue over expense	Statement of financial position		
Description	Overstated (understated) \$	Assets (overstated) understated \$	Liabilities overstated (understated) \$	Net assets overstated (understated) \$
To recognized deferred revenue related to 2011		-		
DR Deferred revenue			252,478	
CR Opening surplus/deficit				(163,433)
CR Revenue	(89,045)			
Net impact of previously reported unadjusted items		-	-	
DR Revenue	142,000			
CR Opening surplus/deficit				(142,000)
Total unadjusted differences	52,955	-	252,478	(305,433)

January 1, 2011

	Excess of revenue over expense	Statement of financial position		
		Assets (overstated) understated \$	Liabilities overstated (understated) \$	Net assets overstated (understated) \$
Description	Overstated (understated) \$			
To recognize deferred revenue related to 2011		-		
DR Deferred revenue			204,311	
CR Opening surplus/deficit				(131,739)
CR Revenue	(72,572)			
Total unadjusted differences	(72,572)	-	204,311	(131,739)

Appendix C – Summary of Adjusted Misstatements

Adjustments made by the Zoo as part of the audit process for the year ended December 31, 2012 are as follows:

Description	Excess of revenue over expense	Statement of financial position		
	Overstated (understated) \$	Assets (overstated) understated \$	Liabilities overstated (understated) \$	Net assets overstated (understated) \$
To reclassify GST receivable to accounts receivable from accounts payable				
DR GST receivable	-	1,269,633		
CR GST payable			(1,269,633)	-
To record capital expenditures payable at year-end	-			-
DR Receivable from City of Toronto		267,980		
CR Accounts payable			(267,980)	
To adjust for overstatement of employee benefit expense		-		-
DR Accounts payable			126,059	
CR Payroll expense	(126,059)			
To defer memberships recognized as revenue		-		-
DR Revenue	75,492			
CR Deferred membership			(75,492)	
Total adjusted differences	(50,567)	1,537,613	(1,487,046)	-

Appendix D – Internal Control Recommendations

Current year findings

Observation	Recommendation	Management's response
<p>Deferred Revenue</p> <p>Through our testing of the deferred revenue process, PwC noted that management made efforts to improve the tracking of its deferred revenue activities for better reporting purposes. As a result, there were also amounts in the deferred revenue balance recognized into income in the current year, where expenses had been incurred in prior periods. This resulted in cut-off adjustments reported in Section 3.</p> <p>PwC also noted that \$76K of membership revenues from the month of December were recognized as revenue, rather than being deferred, as a result of deferred membership revenue not being completely reviewed before final posting to the general ledger.</p>	<p>We recommend 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 will add a check to ensure that the manual process for tracking deferred membership revenue is most accurate.</p>	<p>Management is in agreement with this recommendation.</p>
<p>HST/GST Tracking</p> <p>During our testing of the reasonability of HST/GST balances, we noted that the Zoo does not maintain a receivable account for HST/GST activity. All activity is maintained in a payable account. At year-end, we proposed a reclassification from accounts payable to accounts receivable.</p>	<p>We recommend that management set up a receivable account for GFT/HST tracking purposes to avoid reporting understatements/overstatements of accounts payable or accounts receivable balances at year end.</p>	<p>As the impact on net assets is nil, this has not been addressed in the past. Management agrees that a receivable account for GST/HST may be beneficial, and will consider this recommendation going forward.</p>

Update on prior year findings

Observation	Recommendation	Management's response
<p>Revenue reconciliation process</p> <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.</p> <p>Update for 2012:</p> <p>PwC noted that the enhanced reconciliations were performed for the 2012 year-end. No exceptions were noted.</p> <p>This has been remediated in the current year.</p>	<p>This has been remediated in the current year.</p>
<p>Password controls</p> <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>Update for 2012:</p> <p>Through PwC's review of the security settings in Microsoft Dynamics GP, password complexity requirements were enabled.</p> <p>This has been remediated in the current year.</p>	<p>This has been remediated in the current year.</p>

Appendix C: Financial Reporting Release

