

DRAFT

**Board of Management of the
Toronto Zoo**

**Financial Statements
December 31, 2010**

DRAFT

**FOR DISCUSSION WITH MANAGEMENT ONLY – SUBJECT TO AMENDMENT
NOT TO BE FURTHER COMMUNICATED**

May @@, 2011

Independent Auditor's Report

**To the Directors of
Board of Management of the Toronto Zoo**

We have audited the accompanying financial statements of Board of Management of the Toronto Zoo, which comprise the balance sheet as at December 31, 2010 and the statements of operations, changes in net assets and cash flows for the year then ended, and the related notes including a summary of significant accounting policies.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion of these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation 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 the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we obtained in our audit is sufficient and appropriate to provide a basis for our audit opinion.

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Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Board of Management of the Toronto Zoo as at December 31, 2010 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Other matter

The financial statements of the Board of Management of the Toronto Zoo for the year ended December 31, 2009, were audited by another auditor who expressed a modified opinion on those statements on March 12, 2010 (except as to note 16 which is as of November 16, 2010). The opinion expressed was due to the inability to obtain sufficient audit evidence to form an opinion with respect to the valuation of a pay equity accrual.

Chartered Accountants, Licensed Public Accountants

**FOR DISCUSSION WITH MANAGEMENT ONLY – SUBJECT TO AMENDMENT
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Board of Management of the Toronto Zoo

Balance Sheet

As at December 31, 2010

	2010 \$	2009 \$
Assets		
Current assets		
Cash	7,529,841	10,535,126
Accounts receivable		
City of Toronto (note 3)	2,720,744	1,028,355
Trade	298,453	204,518
Toronto Community Foundation (note 10)	230,649	-
Inventories (note 16)	432,395	440,352
Prepaid supplies	269,325	321,140
	<u>11,481,407</u>	<u>12,529,491</u>
Capital assets - net (note 4)	2,422,905	2,520,881
Receivable from City of Toronto (note 3(c))	<u>10,637,845</u>	<u>10,517,527</u>
	<u>24,542,157</u>	<u>25,567,899</u>
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities (note 15)	5,967,120	6,876,553
Deferred revenue	4,079,683	3,990,007
Due to Toronto Community Foundation (note 10)	-	238,812
	<u>10,046,803</u>	<u>11,105,372</u>
Employee future benefits payable (note 5)	<u>10,637,845</u>	<u>10,517,527</u>
	20,684,648	21,622,899
Net assets		
Internally restricted (note 6)	<u>3,857,509</u>	<u>3,945,000</u>
	<u>24,542,157</u>	<u>25,567,899</u>
Commitments and contingencies (notes 11 and 14)		

Approved by the Board of Directors

Director_____
Director

See accompanying notes.

**FOR DISCUSSION WITH MANAGEMENT ONLY – SUBJECT TO AMENDMENT
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Board of Management of the Toronto Zoo

Statement of Operations

For the year ended December 31, 2010

	2010	2009	
	Budget \$ (Unaudited)	Actual \$	Actual \$
Revenue			
Funding from City of Toronto			
General appropriation	11,388,300	11,388,300	11,676,507
Capital works contribution	171,000	76,000	-
Funding from deferred revenue	934,295	468,091	811,333
Admission	12,209,807	11,238,977	13,782,845
Membership	3,346,702	3,651,559	3,296,175
Food services	5,590,228	5,682,662	6,151,509
Gift shop operations	3,300,500	2,608,657	2,813,533
Parking	2,614,857	2,799,661	2,526,715
Rides and rentals	1,396,000	769,549	1,010,286
Education programs	800,446	749,662	787,071
Other revenue and recoveries	2,011,642	2,216,930	974,851
Interest		10,485	8,328
Development division	1,428,615	648,933	566,400
	<u>45,192,392</u>	<u>42,309,466</u>	<u>44,405,553</u>
Expenses			
Operations and administration	22,227,949	21,888,273	20,984,639
Conservation, education and research	6,921,402	6,941,324	6,913,892
Marketing and communications	5,577,197	5,162,515	5,087,828
Food services	4,436,694	5,117,559	4,780,866
Gift shop operations (note 16)	2,465,342	2,009,303	2,282,273
General management	2,126,555	1,532,118	1,852,308
Amortization of capital assets	-	527,600	499,039
Development division	1,437,253	747,438	327,588
	<u>45,192,392</u>	<u>43,926,130</u>	<u>42,728,433</u>
Excess of (expenses over revenue) revenue over expenses before the following	-	(1,616,664)	1,677,120
Transfer to Toronto Community Foundation (note 10)	-	(260,765)	(238,812)
Additional subsidy required from (transfer of excess funding to) City of Toronto (notes 1 and 3(b))	-	1,669,620	(1,209,727)
Transfer from City of Toronto related to change in employees future benefits payable (note 3(c))	-	120,318	441,479
Excess of (expenses over revenue) revenue over expenses for the year	-	<u>(87,491)</u>	<u>670,060</u>

See accompanying notes.

**FOR DISCUSSION WITH MANAGEMENT ONLY – SUBJECT TO AMENDMENT
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Board of Management of the Toronto Zoo

Statement of Changes in Net Assets
For the year ended December 31, 2010

	2010		
	Internally restricted \$ (note 6)	Unrestricted \$	Total \$
Net assets - Beginning of year	3,945,000	-	3,945,000
Excess of expenses over revenue for the year		(87,491)	(87,490)
Interest on internally restricted fund (note 6)	10,485	(10,485)	-
Change in net assets invested in capital assets	(97,976)	97,976	-
Net assets - End of year	3,857,509	-	3,857,509
	2009		
	Internally restricted \$ (note 6)	Unrestricted \$	Total \$
Net assets - Beginning of year	3,274,940	-	3,274,940
Excess of revenue over expenses for the year	-	670,060	670,060
Interest on internally restricted fund (note 6)	8,328	(8,328)	-
Change in net assets invested in capital assets	661,732	(661,732)	-
Net assets - End of year	3,945,000	-	3,945,000

See accompanying notes.

**FOR DISCUSSION WITH MANAGEMENT ONLY – SUBJECT TO AMENDMENT
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Board of Management of the Toronto Zoo

Statement of Cash Flows

For the year ended December 31, 2010

	2010 \$	2009 \$
Cash provided by (used in)		
Operating activities		
Excess of (expenses over revenue) revenue over expenses for the year	(87,491)	670,060
Add: Item not involving cash		
Amortization of capital assets	527,600	499,039
	440,109	1,169,099
Changes in non-cash working capital balances		
Accounts receivable		
City of Toronto	(1,692,389)	221,940
Trade	(93,935)	152,975
Toronto Zoo Foundation		826,961
Due from Toronto Community Foundation	(230,649)	-
Inventories	7,957	(79,081)
Prepaid supplies	51,815	64,134
Accounts payable and accrued liabilities	(909,433)	(4,066,529)
Deferred revenue	89,676	1,837,534
Due to Toronto Community Foundation	(238,812)	238,812
	(2,575,661)	365,845
Investing activities		
Purchase of capital assets	(429,624)	(1,003,867)
Decrease in cash during the year	(3,005,285)	(638,022)
Cash - Beginning of year	10,535,126	11,173,148
Cash - End of year	7,529,841	10,535,126
Supplementary information		
Capital assets included in accounts payable and accrued liabilities	-	156,909

See accompanying notes.

**FOR DISCUSSION WITH MANAGEMENT ONLY – SUBJECT TO AMENDMENT
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Board of Management of the Toronto Zoo

Notes to Financial Statements

December 31, 2010

1 Operations and relationship with the City of Toronto

The Board of Management of the Toronto Zoo (the Board) is a local board established by the City of Toronto (the City). The Board operates, manages and maintains the zoological gardens and related facilities known as the Toronto Zoo (the Zoo) under the terms of an agreement between the Board and the City. As defined within the City of Toronto Act, 1997, the City is entitled to any surplus resulting from the Board's activities and is responsible for any deficit the Board incurs (note 3(b)).

The live collection of the Zoo is the property of the City and, accordingly, is not recorded in the accounts of the Board. The Board trades and sells specimens surplus to its needs, recording animal trades at fair value. All these transactions are recorded through the Animal Transaction Reserve Fund held by the City (note 7). In addition, the City maintains an Endangered Species Reserve Fund for the Board (note 8).

The City established the Zoo Stabilization Reserve Fund in 1996 for the purpose of investing in revenue-generating activities of the Board, preparing for special events in advance of the budget year and offsetting revenue shortfalls. The Zoo Stabilization Reserve Fund is also recorded in the accounts of the City (note 9).

Major capital facilities are the property of the City. Consequently, major capital facilities are recorded in the accounts of the City and not in these financial statements (note 4). In addition, the Board contributes to the City's vehicle and insurance reserve and expenses these contributions as made. Contributions for the year amounted to \$333,000 (2009 - \$333,000) for the vehicle reserve and \$191,200 (2009 - \$188,117) for the insurance reserve, and are included within operations and administration on the statement of operations.

The Board is a registered charity and, as such, is not subject to income taxes.

2 Summary of significant accounting policies

The financial statements have been prepared in accordance with Canadian generally accepted accounting principles for non-profit oriented organizations.

The significant accounting policies are summarized as follows:

Revenue recognition

Revenues from admissions and other related services are recognized at point of sale. The Board follows the deferral method of accounting for contributions. Unrestricted contributions are recognized as revenue when received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured. Restricted contributions are deferred and recognized as revenue in the year in which the related expenses are recognized.

**FOR DISCUSSION WITH MANAGEMENT ONLY – SUBJECT TO AMENDMENT
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Board of Management of the Toronto Zoo

Notes to Financial Statements

December 31, 2010

Deferred revenue

Deferred revenue includes the balance of funds which have been received from Membership operations and specific grant-based operating projects which the Board has not yet expended.

Inventories

Inventories consist of gift shop merchandise and are recorded at the lower of cost, recorded on a first-in, first-out basis, and net realizable value.

Capital assets

Capital assets are recorded at cost and are amortized on a straight-line basis over their estimated useful lives as follows:

Computer equipment	3 years
Other equipment and animal structures	5 - 10 years
Furniture	10 years

Contributed materials and services

Agreements are entered into with corporate sponsors whereby these sponsors provide cash, products, advertising or entertainment support to the Zoo. In return, consideration is provided in a number of diverse ways, including specific rights to events and promotional activities or advertising recognition. Because of the difficulty of determining their fair value, contributed materials and services are not recognized in the financial statements.

Employee future benefits

The Board has adopted the following policies with respect to employee future benefit plans:

- the Board's contributions to a multi-employer, defined benefit pension plan are expensed when contributions are due;
- the costs of termination benefits and compensated absences are recognized when the event that obligates the Board occurs. Costs include projected future compensation payments, health-care continuation costs and fees paid to independent administrators of these plans, calculated on a present value basis;
- the costs of other employee benefits are actuarially determined using the projected benefits method prorated on service and management's best estimate of retirement ages of employees, salary escalation, and expected health-care costs;
- past service costs from plan amendments are amortized on a straight-line basis over the expected average remaining service period of employees active at the date of amendment;

**FOR DISCUSSION WITH MANAGEMENT ONLY – SUBJECT TO AMENDMENT
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(2)

Board of Management of the Toronto Zoo

Notes to Financial Statements

December 31, 2010

- employee future benefit liabilities are discounted using current interest rates on long-term bonds; and
- net actuarial gains and losses are amortized over the expected average remaining service life of the related employee group.

Derivative financial instruments

The Board utilizes derivative financial instruments in the management of its purchase of electricity. The Board's policy is not to utilize derivative financial instruments for trading or speculative purposes.

Derivative contracts entered into by the City in connection with the purchase of electricity, to which the Board is a party, are not designated to be a hedging relationship and are recorded at their fair value as a financial asset or a financial liability based on quoted market prices or dealer quotes with changes in fair value, if any, recorded in the statement of operations.

Financial instruments

The Board has chosen to continue to apply The Canadian Institute of Chartered Accountants (CICA) Handbook Section 3861, Financial Instruments - Disclosure and Presentation, in place of Section 3862, Financial Instruments - Disclosures, and Section 3863, Financial Instruments - Presentation.

The Board has designated its financial instruments as follows:

- cash as held-for-trading;
- current accounts receivable and long-term receivables as loans and receivables; and
- accounts payable and accrued liabilities as other liabilities.

Use of estimates

The preparation of these financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and the liabilities, and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

3 Related party transactions, City of Toronto

- a) In the normal course of operations, the Board incurs costs for various expenses payable to the City such as hydro, legal, and other administration costs. Transactions between the City and the Board are made at the agreed on exchange amount. In addition, the Board manages on behalf of the City the capital program for

**FOR DISCUSSION WITH MANAGEMENT ONLY – SUBJECT TO AMENDMENT
NOT TO BE FURTHER COMMUNICATED**

Board of Management of the Toronto Zoo

Notes to Financial Statements

December 31, 2010

the Zoo. As a result, the Board will incur capital expenses that are recoverable from the City and this comprises a large component of the year-end receivable with the City.

- b) As part of the terms of the agreement between the Board and the City, any operating excess or deficiency is to be transferred to or recovered from the City (note 1). These amounts are included in current accounts receivable from the City and the changes during the year are as follows:

	2010 \$	2009 \$
Due to City related to operating excess - Beginning of year	(1,718,871)	(509,144)
Excess funding receivable from (transferred to) City	1,669,620	(1,209,727)
	<u>(49,251)</u>	<u>(1,718,871)</u>

- c) The Board has recorded a non-interest bearing, long-term receivable in connection with the expected recoveries of employee benefit costs (note 5) from the City, since the City is ultimately responsible for any deficit the Board incurs. It is not possible to determine the fair value of this receivable as there are no fixed terms of repayment.
- d) In the normal course of operations, the Board purchases hydro energy services from Toronto Hydro which is a related party by virtue of its relationship with the City. In the current year, services purchased from Toronto Hydro during the year amounted to \$1,100,164 (2009 - \$1,060,185). The amount payable to Toronto Hydro at year end was \$222,096.

4 Capital assets

The live collection of the Zoo and the major capital facilities are the property of the City. The City, through its capital works program, financed approximately \$3,938,311 (2009 - \$5,325,621) of capital improvements to the Zoo during the year. Since the capital facilities are not an asset of the Board, these amounts have not been recorded in these financial statements.

Capital assets consist of the following:

	2010		
	Cost \$	Accumulated amortization \$	Net \$
Computer equipment	159,651	153,055	6,596
Other equipment and animal structures	4,022,199	1,742,286	2,279,913
Furniture	188,584	52,188	136,396
	<u>4,370,434</u>	<u>1,947,529</u>	<u>2,422,905</u>

**FOR DISCUSSION WITH MANAGEMENT ONLY – SUBJECT TO AMENDMENT
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(4)

Board of Management of the Toronto Zoo

Notes to Financial Statements

December 31, 2010

	2009		
	Cost \$	Accumulated amortization \$	Net \$
Computer equipment	153,054	118,325	34,729
Other equipment and animal structures	3,615,085	1,268,277	2,346,808
Furniture	172,673	33,329	139,344
	<u>3,940,812</u>	<u>1,419,931</u>	<u>2,520,881</u>

5 Employee benefits

The Board has a number of defined benefit plans providing pension, sick leave, gratuity benefits and other retirement and post-employment benefits, including health, dental, life insurance and long-term disability benefits to certain employees. Information about the Board's defined benefit plans, other than the multi-employer defined benefit plan noted below, in aggregate, is as follows:

	2010 \$	2009 \$
Sick leave	3,372,045	3,236,267
Other retirement and post-employment benefits	6,508,406	5,555,542
Total accrued benefit obligations	9,880,451	8,791,809
Unamortized actuarial gain	757,394	1,725,718
Total employee future benefits payable (note 3(c))	<u>10,637,845</u>	<u>10,517,527</u>

Under the sick leave benefit plan, unused sick leave can accumulate and employees may become entitled to a cash payment when they leave the Board's employment. The liability for the accumulated sick leave days represents the extent to which the eligible employees have vested and could be taken in cash by them on termination.

The continuity of the Board's accrued benefit obligations is as follows:

	2010 \$	2009 \$
Balance - Beginning of year	8,791,809	8,583,184
Current service cost	262,741	253,727
Interest cost	500,835	496,751
Benefits paid	(553,369)	(375,676)
Actuarial gain (loss)	878,435	(166,177)
Balance - End of year	<u>9,880,451</u>	<u>8,791,809</u>

**FOR DISCUSSION WITH MANAGEMENT ONLY – SUBJECT TO AMENDMENT
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(5)

Board of Management of the Toronto Zoo

Notes to Financial Statements

December 31, 2010

The total expenses related to these benefits include the following components:

	2010 \$	2009 \$
Current service cost	262,741	253,727
Interest cost	500,835	496,751
Amortization of actuarial gain	(89,889)	(89,889)
	<u>673,687</u>	<u>660,589</u>

For purposes of the financial statement presentation, these expenses are included in the figures in the statement of operations. These expenses are not included in the budget numbers, as they are not part of the financial planning process with the City and, as such, they result in an excess (deficiency) of revenue over expenses from budget.

Cash payments made during the year are as follows:

	2010 \$	2009 \$
Sick leave	215,171	90,000
Other retirement and post-employment benefits	338,198	285,676
	<u>553,369</u>	<u>375,676</u>

The benefit plans, as noted above, are all unfunded; however, the Board participates in reserve funds established by the City. The amounts contributed to these reserve funds during the year were \$1,571,895 (2009 - \$1,509,413) and are included in the statement of operations.

Due to complexities in valuing the liabilities, actuarial valuations are conducted on a periodic basis. The most recent actuarial valuation was completed on December 31, 2010.

The significant actuarial assumptions adopted in measuring the Board's accrued benefit obligations and benefit costs are as follows:

	2010 %	2009 %
Discount rate for accrued benefit obligations		
Sick leave	4.5	5.3
Other retirement and post-employment benefits	4.5 - 5.1	5.3 - 6.1
Discount rate for accrued benefit costs		
Sick leave	7.6	7.0
Other retirement and post-employment benefits	7.6	7.0
Rate of compensation increase	3.0	3.0

**FOR DISCUSSION WITH MANAGEMENT ONLY – SUBJECT TO AMENDMENT
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(6)

Board of Management of the Toronto Zoo

Notes to Financial Statements

December 31, 2010

For measurement purposes, a 7.6% annual rate of increase in the per capita cost of covered health-care benefits was assumed. The rate is assumed to decrease gradually to 4.6% by 2020 and remain at that level thereafter.

In addition to the above noted plans, the Board makes contributions to the Ontario Municipal Employees Retirement Fund, which is a multi-employer plan, on behalf of qualifying employees. The plan is a defined benefit plan, which specifies the amount of the retirement benefit to be received by the employees based on the length of service and rates of pay. Total employer contributions for the year ended December 31, 2010, amounted to \$1,171,637 (2009 - \$1,127,219).

6 Internally restricted fund

Details of internally restricted net assets are as follows:

	2010 \$	2009 \$
Invested in capital assets	2,422,905	2,520,881
Ride & Revenue Development project	1,434,604	1,424,119
	<u>3,857,509</u>	<u>3,945,000</u>

The Board has internally restricted \$1,434,604 (2009 - \$1,424,119) for the Ride & Revenue Development project, consisting of insurance proceeds and interest earned thereon, from the monorail property damage claim for anticipated capital improvements.

7 Animal Transaction Reserve Fund

The Animal Transaction Reserve Fund is a fund of the City and is not recorded in these financial statements. The purpose of the Animal Transaction Reserve Fund is to accumulate all funds earned from animal trading activity, which are available to the Zoo to be used to finance any net cost of animal trading activity. Details of the Animal Transaction Reserve Fund are as follows:

	2010 \$	2009 \$
Balance - Beginning of year	323,092	372,566
Revenue		
Revenue from animals sold	3,328	-
Interest earned	3,696	4,567
Expenses		
Animals purchased	(51,865)	(51,988)
Other	-	(2,053)
Balance - End of year	<u>278,251</u>	<u>323,092</u>

**FOR DISCUSSION WITH MANAGEMENT ONLY – SUBJECT TO AMENDMENT
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(7)

Board of Management of the Toronto Zoo

Notes to Financial Statements

December 31, 2010

8 Endangered Species Reserve Fund

The Endangered Species Reserve Fund is a fund of the City and is not recorded in these financial statements. The Endangered Species Reserve Fund was established for the purpose of funding conservation, education and research projects for the preservation of endangered species. Details of the Endangered Species Reserve Fund are as follows:

	2010 \$	2009 \$
Balance - Beginning of year	816,601	785,487
Revenue		
Interest earned	7,136	36,291
Donations, grants and wishing wells	58,602	49,624
Expenses		
Services and rentals	(60,726)	(54,801)
Balance - End of year	<u>821,613</u>	<u>816,601</u>

9 Zoo Stabilization Reserve Fund

The Zoo Stabilization Reserve Fund is a fund of the City and is not recorded in these financial statements. The City established the Zoo Stabilization Reserve Fund for the purpose of investing in revenue generating activities, preparing for special events in advance of the budget year and offsetting revenue shortfalls with the objective of reducing the Zoo's reliance on the City's tax levy. For years beginning after December 31, 2004, any excess funds are to be transferred to the City, unless approved otherwise, as a transfer to the Zoo Stabilization Reserve Fund. In prior periods, the Zoo Stabilization Reserve Fund has been fully depleted with no remaining balance in the fund for two consecutive years.

10 Toronto Community Foundation

In September 2008, the Board ended its relationship with the Toronto Zoo Foundation (the Foundation). The Foundation continued to operate for an interim period for the orderly windup of its affairs and dissolution of its net assets. On May 29, 2009 this process was successfully completed.

In an agreement between the Board and the Foundation, the Foundation's financial assets of \$6,293,769 were transferred to the Toronto Community Foundation. The Foundation performs a financial stewardship role and administers the funds in accordance with the terms of the trust agreement between the Foundation, the Toronto Community Foundation and the Board.

**FOR DISCUSSION WITH MANAGEMENT ONLY – SUBJECT TO AMENDMENT
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Board of Management of the Toronto Zoo

Notes to Financial Statements

December 31, 2010

The value of funds administered by the Toronto Community Foundation as at December 31 is outlined below:

	2010 \$	2009 \$
Donor restricted funds	1,725,026	1,615,962
Internally restricted	2,798,853	2,574,616
Unrestricted	3,200,406	2,943,630
Development	22,158	57,611
	<u>7,746,443</u>	<u>7,191,819</u>

The Board and the Toronto Community Foundation entered into a Trust Distribution Agreement on May 29, 2009, which defines how the trust property is distributed to the Zoo and the reporting requirements for the parties.

A separate development funds agreement between the Toronto Community Foundation and the Board, effective August 17, 2010, outlines the process relating to funds raised subsequent to this date by the development division of the Zoo and transferred to the Toronto Community Foundation, to be held by this organization on behalf of, and for the future use of, the Zoo.

The transfer activity between the Toronto Community Foundation and the Board in 2010 included a transfer to the Board of \$730,226 (2009 - \$nil) and a transfer from the Board of \$260,756 (2009 - \$238,812). A net receivable of \$230,649 has been reflected in the statement of financial position (2009 - net payable of \$238,812).

11 Capital expenditures commitment

As at December 31, 2010, the Board was contractually committed for \$3,703,785 (2009 - \$6,487,245) in capital expenditures.

12 Financial instruments

The carrying values of the Board's financial instruments approximate their fair values unless otherwise noted.

The Board is exposed to changes in electricity prices associated with a wholesale spot market for electricity in Ontario. The Board has addressed the commodity price risk exposure associated with changes in the wholesale price of electricity by entering into energy related purchase and sales contracts, through an agreement with the City, which fixes a portion of the wholesale price over the term of the contract. One contract was outstanding as at December 31, 2009 and expired on December 31, 2010. The contract is in a loss position as at December 31, 2010; however the Board's portion of this loss is nominal.

**FOR DISCUSSION WITH MANAGEMENT ONLY – SUBJECT TO AMENDMENT
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(9)

Board of Management of the Toronto Zoo

Notes to Financial Statements

December 31, 2010

13 Capital management

In managing capital, the Board focuses on liquid resources available for operations. The Board's objective is to have sufficient liquid resources to continue operating despite adverse financial events and to provide it with the flexibility to take advantage of opportunities that will advance its purposes. The need for sufficient liquid resources is considered in the preparation of an annual budget and in the monitoring of cash flows and actual operating results compared to the budget. As at December 31, 2010, the Board has met its objective of having sufficient liquid resources to meet its current obligations.

14 Contingencies

In the normal course of its operations, the Board is subject to various arbitrations, litigations and claims. Where a potential liability is determinable, management believes the ultimate disposition of the matters will not materially exceed the amounts recorded in the accounts. In other cases, the ultimate outcome of the claims cannot be determined at this time. Any additional losses related to claims will be recorded in the year during which the liability is determinable.

15 Pay equity

An accrual for pay equity amounts due to employees and former employees of \$500,597 (2009 - \$648,806) is included in accounts payable and accrued liabilities. Any increase or decrease to this accrual for pay equity has no impact on the excess revenue over expenses since there is an equal and offsetting adjustment to the transfer of funding to the City.

16 Inventories

The amount of inventories recognized as cost of sales during the year was \$1,153,916 (2009 - \$1,349,688), and is included in gift shop operations expense.

17 Comparative financial statements

The comparative financial statements have been reclassified from the financial statements previously presented to conform to the presentation of the 2010 financial statements.

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(10)