

Board of Management of the Toronto Zoo
Year-end Report to the Board of Management
December 31, 2010

Reported as at May 11, 2011

May 11, 2011

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 of the Toronto Zoo (the "Zoo" or the "organization") for the year ended December 31, 2010 and propose to issue an unqualified report on those financial statements, pending resolution of outstanding items outlined on page 1. Our draft auditor's report is included as 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 the members of the Board our key findings.

We would like to express our sincere thanks to the management and the staff of the Zoo who have assisted us in carrying out our work and we look forward to our meeting on May 19, 2011. 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

Sara Oates
Associate Partner – Not-for-Profit Services
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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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 2010 financial statements. Our audit report will be issued once we receive and have completed our audit work on the outstanding items noted below.

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 or 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 May 19, 2011
i. Final assessment of actuarial assumptions within the Buck consulting report, including confirmation of the unamortized actuarial gain	
ii. Confirmation from City of the \$1.6M receivable relating to additional subsidy required from City of Toronto	
iii. Final testing of calculation of amount receivable from Toronto Community Foundation	
iv. Receipt and testing of support for \$900K late adjustment to accounts payable	
v. Legal response update to financial statement release date	
vi. Receipt of signed management representation letter	
vii. Final review of financial statements and note disclosures	
viii. Approval of the financial statements by the Board of Management of the Toronto Zoo	

b. Key issues for discussion

The following is a summary of the key audit and financial reporting issues we discussed with management during the audit. Further details on each issue can be found within this document.

	Issue	Summary discussion	For further reference
i.	Significant audit and accounting matters	<p>We identified several areas of focus in our audit plan. We will provide an update to the Board of Management on the following areas:</p> <ul style="list-style-type: none"> ◦ Pay equity liability ◦ Employee future benefits ◦ Capital assets ◦ Deferred revenue ◦ Payroll cycle ◦ Management estimates ◦ Treatment of related party transactions 	Section 2
ii.	Summary of unadjusted items	<ul style="list-style-type: none"> • We identified several unadjusted items during the audit. As a result, the deficit is overstated by \$74,786 as compared to overall materiality of \$624,000. In our opinion, the financial statements, taken as a whole, are free of material misstatement. We also noted disclosure exceptions and other unadjusted items not affecting net income (loss). These are discussed on page 6 and detailed in Appendix B. • In our opinion, the financial statements, taken as a whole, are free of material misstatement. 	Section 3
iii.	Independence	<ul style="list-style-type: none"> • We have included confirmation of our independence in Appendix C. 	Appendix C
iv.	Fraud	<ul style="list-style-type: none"> • No instances of fraud were noted during the course of our audit. • We wish to reconfirm whether the Board of Management is aware of any known, suspected or alleged incidents of fraud. 	
v.	Management representations	<ul style="list-style-type: none"> • Under Canadian Auditing Standards, 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

The preparation of the financial statements under Canadian generally accepted accounting principles (GAAP) requires management to select accounting policies as well as make critical accounting estimates and disclosures that involve significant judgment and measurement uncertainty, which can significantly impact the company's reported results.

We are responsible for discussing with the Board our views about the significant qualitative aspects of the company's accounting practices, including the appropriateness of accounting policies, the reasonability of key accounting estimates and judgments, as well as the adequacy of financial statement disclosures.

Our comments and conclusions 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.

During the audit, we discussed the following items with management.

Issue	Discussion
<p>Pay equity liability</p> <p>The Zoo has a liability for Pay Equity that represents retroactive compensation due to employees, past and present, as a result of wage disparities between females and males working jobs that were later deemed to be identical.</p> <p>This liability was a critical audit issue for the previous auditor, and the inability of the auditor to reach a conclusion on the appropriateness of the accrual resulted in a reservation of the audit opinion for the year ended December 31, 2009.</p>	<p>In the prior year, we understand that the previous auditor was unable to obtain sufficient audit comfort over the pay equity payable, as recorded in the financial statements. This resulted in a reservation of opinion with respect to the 2009 financial statements. Therefore, in the current year in order to obtain comfort on the opening balance with respect to this accrual and to enable us to opine without reservation we have performed testing on the balance recognized at December 31, 2009.</p> <p>A set of complex calculations are involved in arriving at the final pay equity balance. As a result, in the prior year, management engaged the services of an external HR consulting firm, Towers Watson, to perform the pay equity calculations to recommend a final complete and accurate balance for December 31, 2009.</p> <p>We reviewed the results of the actuarial analysis done by Towers Watson in order to obtain comfort over the opening 2010 pay equity balance. Based on this report, the accrual was drawn down by 20% for the 2010 year, resulting in an accrual at year-end of \$500K (2009 - \$649K). We obtained an independent representation letter from Towers Watson in the current year, confirming that there have been no significant changes to their valuation assessment of the pay equity liability of the Zoo since their analysis dated in November 2010. On the basis of our work, we have concluded that the amounts recorded as at December 31, 2009 and 2010 with respect to pay equity are appropriate.</p> <p>Consequently, although we are required in our audit opinion to make reference to nature of the prior year's opinion, we have been able to remove the reservation in the current year.</p>

Issue	Discussion
Employee future benefits	<p>As discussed in our audit planning document, certain of our procedures rely on the work of specialists. In this instance, we rely on the work of the actuary for their calculation of the liability relating to employee future benefits of \$10.6M (2009 - \$10.5M). We perform certain procedures relating to the assumptions and data used by the actuary under generally accepted auditing standards.</p> <p>We have performed audit procedures on the valuation prepared by Buck Consulting and we have agreed the liability as recorded in the financial statements, and the disclosures on the financial statement to be appropriate, subject to completion of our work on the following items:</p> <ul style="list-style-type: none"> • Confirmation of unamortized actuarial gain (20101 - \$757K. 2009 - \$1,725K). • Final review of actuarial assumptions • we obtained the actuarial report prepared by Buck Consulting, who have calculated the value of the employee future benefit payable amount at the end of fiscal 2010. Our review of this report is still in progress and we will update the Board on our work in this area at the time of the meeting. We are also still awaiting confirmation of the unamortized actuarial gain portion of the liability, which was \$757K at year end (2009 - \$1,725K). <p>We are also awaiting confirmation from the City of Toronto to support a corresponding receivable of \$10.6M equivalent to the employee benefit obligation in the statement of financial position of the Zoo.</p>
Capital assets	<p>As part of our work, we reviewed the significant expense accounts such as repairs and maintenance and contracted services to gain comfort that there were no significant amounts expensed that should have been capitalized. We also tested the amounts capitalized in the year to ensure that capital amounts had been accurately and appropriately recorded. No exceptions were noted.</p>
<p>Deferred revenue</p> <p>Deferred revenue relates to specific amounts received for projects and membership revenues received relating the future periods. At year-end, the total amount deferred was \$4.1M (2009 - \$3.9M). Revenues are deferred when their use has been restricted</p>	<p>In our testing of deferred revenues relating to specific projects (2010 - \$2.4M, 2009 - \$2.0M), we tested a sample of items which had been deferred at year-end to ensure that they had been accurately recorded and appropriately deferred. No exceptions were noted.</p> <p>We also tested on a sample basis the \$1.7M (2009 - \$1.9M) of deferred membership revenues to ensure that the amounts received from various customers had been accurately recorded and appropriately deferred when the amounts relate to future</p>

Issue	Discussion
by the donor or funder.	<p>periods. No exceptions were noted.</p> <p>We noted that the deferred membership revenues are manually tracked and calculated in Excel. We agreed the total membership information within the Excel file to the Admits system report, and recalculated the memberships deferred. Based on our recalculation, no issues were noted.</p>
Payroll cycle	<p>We obtained the ADP Section 5970 report on the operating effectiveness of controls at the service organization for fiscal 2010. We obtained an understanding of the controls relied on by the organization and the results of the testing of those controls.</p> <p>We also tested the key payroll controls in place at the Zoo to ensure the accuracy of information and payments, including controls around new hires, terminations, and changes to salary and benefit amounts. We reviewed the various hiring, termination and status changes forms. We also performed substantive analytical procedures on salary and benefits for full-time staff, and tests of details for part-time and contracted staff. There were no issues arising from our work. No exceptions were noted.</p>
<p>Management estimates</p> <p>We are required to highlight to the Board any significant areas where management has performed estimates or applied judgment which may affect the amounts recognized in the financial statements.</p>	<p>During the course of our work, we noted the following areas of judgment:</p> <p>Vacation accrual</p> <p>As at the year-end, the accrued vacation liability was \$ 1.2M (\$2009 - \$1.1M). Currently, management calculates the accrual based on the first day on the month in which the anniversary date is included rather than the exact anniversary date. Based on the actual anniversary date, we have estimated that the vacation accrual is overstated by \$66K. This has been included on the summary of unadjusted items in Section 3 of this report.</p>
Treatment of related party transactions	<p>We received independent confirmation from the City of Toronto confirming the following balances:</p> <ul style="list-style-type: none"> - Operating grants provided to the Zoo by the City - Receivable and payable balances from and to City of Toronto - Animal transaction reserve fund balance - Endangered species reserve fund balance - Zoo stabilization reserve fund balance <p>Confirmation of the transfer of \$1.6M to the City is still outstanding. We will update the Board on our work in this area at the meeting on May 19.</p> <p>We have reviewed the note disclosure with respect to the relationship with the City and have agreed it to be appropriate.</p>

Issue	Discussion								
<p>Toronto Community Foundation (TCF)</p> <p>The Zoo entered into a trust distribution agreement with TCF on May 29, 2009 which defines how the trust property is distributed to the Zoo. A separate development funds agreement effective August 17, 2010 outlines the process relating to funds raised by the development division of the Zoo and transferred to TCF, to be held by TCF on behalf of, and for the future use of, the Zoo.</p>	<p>Management has recorded a net receivable from TCF of \$230K at the year end. This is comprised of:</p> <table data-bbox="667 415 1333 590"> <tr> <td>Amount payable at fiscal 2009</td> <td style="text-align: right;">(\$239K)</td> </tr> <tr> <td>Portion of trust funds to be transferred from TCF</td> <td style="text-align: right;">\$730K</td> </tr> <tr> <td>Development funds to be transferred to TCF</td> <td style="text-align: right;">(\$261K)</td> </tr> <tr> <td>Net receivable from TCF</td> <td style="text-align: right;">\$230K</td> </tr> </table> <p><u>Transfer of trust funds previously held by the Foundation</u></p> <p>The trust funds amount receivable relates to amounts restricted for specific projects and is calculated as 15% of the specific trust funds transferred in 2009. The amount receivable was deferred upon initial recognition but has been recognized as revenue as the related expenses have been incurred.</p> <p>The trust distribution agreement details other amounts which could be repayable by TCF to the Zoo. We are in the process on confirming that there are no other amounts which will be receivable from TCF relating to 2010. We will update the Board on our work in this area at the meeting on May 19.</p> <p><u>Development funds agreement</u></p> <p>The agreement details the terms and conditions for the transfer of the development funds. TCF administers and invests the funds on behalf of the Zoo. The agreement allows the Zoo to request unrestricted development funds to be used at their discretion.</p> <p>Currently, the development funds to be transferred are recorded as an expense in the statement of operations. However, given the nature of these amounts and the wording in the agreement, we believe that it would be appropriate to recognize these amounts as a reduction of net assets rather than an expense. This has been included on the summary of unadjusted differences in section 3.</p> <p>We request that the Board confirm their intention to transfer the development revenues in excess of development expenses of \$261K to TCF for fiscal 2010.</p> <p><u>Funds held with TCF</u></p> <p>We also obtained confirmation from TCF of the \$7.5M in fund balances (internally restricted, donor restricted, unrestricted and development funds) as disclosed in note 10 of the financial statements. No exceptions were noted.</p>	Amount payable at fiscal 2009	(\$239K)	Portion of trust funds to be transferred from TCF	\$730K	Development funds to be transferred to TCF	(\$261K)	Net receivable from TCF	\$230K
Amount payable at fiscal 2009	(\$239K)								
Portion of trust funds to be transferred from TCF	\$730K								
Development funds to be transferred to TCF	(\$261K)								
Net receivable from TCF	\$230K								

3. Summary of unadjusted and adjusted items

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

As a result of our audit, we identified certain items and have discussed these with management. Management has adjusted the financial statements to reflect certain of these items. The items that remain unadjusted are summarized in (a) below. Under Canadian Auditing Standards we are required to ask the Board to consider adjusting the financial statements for these items.

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

a. Unadjusted items

Total unadjusted items have a net effect decreasing the deficit from operations by \$74,786. The materiality level (as previously communicated to you) is \$624,000.

Description	Excess of revenue over expense	Statement of financial position		
		Assets (over) under stated	Liabilities over (under) stated	Net assets over (under) stated
To adjust for an over accrual of vacation liability	(66,323)	-	66,323	-
To reclassify GST receivable from a payable account to a receivable account	-	224,040	(224,040)	-
To record an invoice payable dated in fiscal 2010.	204,942	-	(204,942)	-
To adjust for projected overstatement of salary expense	(31,522)	-	-	31,522
To adjust for the over accrual of professional fees	(36,233)		36,233	
To adjust for unreconciled difference between the Zoo and City with respect to capital billings	115,115	(115,115)		
To record development funds transferred to TCF as a reduction of net assets	(260,765)			260,765
Total unadjusted differences	(74,786)	108,925	(326,426)	292,287

b. Adjusted items

The following items have been reflected in the 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 reclassify accounts payable debit balances to accounts receivable	-	94,437	(94,437)	-
To present the TCF receivable and payable balances on a net basis	-	(499,577)	499,577	-
Total adjusted difference	-	(405,140)	405,140	-

4. Other required communications

Canadian Auditing Standards require 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 the Board.

Matter to be communicated	PwC's response
Management's representations	Under Canadian Auditing Standards, 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 difficulties or disagreements that occurred during the audit	No difficulties or disagreements occurred while performing our audit that requires the attention of the Board.
Fraud and illegal acts	No fraud involving senior management, employees with a significant role in internal control, or that would cause a material misstatement of the financial statements, 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 controls 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 did not note any significant control deficiencies. However, we did discuss the following minor recommendations with management.

Item	Recommendation	Management's response
<p>Inventory instructions</p> <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>We recommend preparing inventory count instructions, communicated to staff in advance of the count. This will better ensure that the count instructions are understood, and allow the opportunity for staff to clarify questions in advance. With written instructions on hand, counters can most accurately conduct their procedures on the day of the count as well.</p>	<p>Management noted that written inventory instructions related to the legacy retail system did exist. As the new system was implemented in 2010, no formal instructions were written. However, thorough instructions were verbally communicated on the day of the count.</p> <p>Furthermore, the Finance Manager and members of the finance team attended some of the counts to supervise the staff and ensure they were complying with the instructions.</p> <p>Management will consider drafting written instructions based on the new retail system moving forward.</p>

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

**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 on 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.

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

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

DRAFT

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

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))	10,637,845	10,517,527
	<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)	10,637,845	10,517,527
	<u>20,684,648</u>	<u>21,622,899</u>
Net assets		
Internally restricted (note 6)	3,857,509	3,945,000
	<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
NOT TO BE FURTHER COMMUNICATED**

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
Capital works contribution	171,000	76,000
Funding from deferred revenue	934,295	468,091
Admission	12,209,807	11,238,977
Membership	3,346,702	3,651,559
Food services	5,590,228	5,682,662
Gift shop operations	3,300,500	2,608,657
Parking	2,614,857	2,799,661
Rides and rentals	1,396,000	769,549
Education programs	800,446	749,662
Other revenue and recoveries	2,011,642	2,216,930
Interest	-	10,485
Development division	1,428,615	648,933
	<u>45,192,392</u>	<u>42,309,466</u>
		44,405,553
Expenses		
Operations and administration	22,227,949	21,888,273
Conservation, education and research	6,921,402	6,941,324
Marketing and communications	5,577,197	5,162,515
Food services	4,436,694	5,117,559
Gift shop operations (note 16)	2,465,342	2,009,303
General management	2,126,555	1,532,118
Amortization of capital assets	-	527,600
Development division	1,437,253	747,438
	<u>45,192,392</u>	<u>43,926,130</u>
		42,728,433
Excess of (expenses over revenue) revenue over expenses before the following	-	(1,616,664)
Transfer to Toronto Community Foundation (note 10)	-	(260,765)
Additional subsidy required from (transfer of excess funding to) City of Toronto (notes 1 and 3(b))	-	1,669,620
Transfer from City of Toronto related to change in employees future benefits payable (note 3(c))	-	120,318
Excess of (expenses over revenue) revenue over expenses for the year	-	<u>(87,491)</u>
		670,060

See accompanying notes.

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

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
NOT TO BE FURTHER COMMUNICATED**

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
NOT TO BE FURTHER COMMUNICATED**

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.

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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;

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- 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

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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)
	<hr/>	<hr/>
Due to City related to operating excess - End of year	(49,251)	(1,718,871)

- 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
	<hr/>	<hr/>	<hr/>
	4,370,434	1,947,529	2,422,905

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	2009		
	Cost	Accumulated	Net
	\$	amortization	\$
		\$	\$
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
	<u>9,880,451</u>	<u>8,791,809</u>
Total accrued benefit obligations	9,880,451	8,791,809
Unamortized actuarial gain	757,394	1,725,718
	<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)
	<u>9,880,451</u>	<u>8,791,809</u>

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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)
	673,687	660,589

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
	553,369	375,676

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

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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>

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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	821,613	816,601

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.

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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
	7,746,443	7,191,819

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.

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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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Appendix B: Management representation letter

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

May XX, 2011

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, 2010 and for the years 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 Board of Management of the Toronto 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 with the City of Toronto and related entities, including the Zoo, 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, 2010.

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:
 - Board of Management of the Zoo, November 25, 2010
- 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).

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.

All amounts calculated related to amounts receivable from and payable to the Toronto Community Foundation (TCF) have been appropriately calculated in accordance with most recent agreement dated August 17, 2010. The amount of \$260,765 payable to the Toronto Community Foundation represents the amount approved by the Board for transfer to TCF.

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 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 December 31, 2010.

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 \$10K 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 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 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.

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, 2010, the date of the last actuarial valuation, have been identified to you for the defined benefit pension plan.

The actuarial valuation dated December 31, 2010 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 as at December 31, 2010, date of last valuation, and their extrapolation to December 31, 2012.

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

- The significant accounting policies that the Zoo has adopted in applying CICA 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 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 [client] 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 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 truly,

Board of Management of the Toronto Zoo

John Tracogna, Chief Executive Officer

Robin Hale, Chief Operating Officer

Paul Whittam, Finance Manager

Appendix A – List of related parties

City of Toronto

Appendix B – Summary of Uncorrected 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 adjust for an over accrual of vacation liability	(66,323)	-	66,323	-
To reclassify GST receivable from a payable account to a receivable account	-	224,040	(224,040)	-
To record an invoice payable dated in fiscal 2010.	204,942	-	(204,942)	-
To adjust for projected overstatement of salary expense	(31,522)	-	-	31,522
To adjust for the over accrual of professional fees	(36,233)		36,233	
To adjust for unreconciled difference between the Zoo and City with respect to capital billings	115,115	(115,115)		
To record development funds transferred to TCF as a reduction of net assets	(260,765)			260,765
Total unadjusted differences	(74,786)	108,925	(326,426)	292,287

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 reclassify accounts payable debit balances to accounts receivable	-	94,437	(94,437)	-
To present the TCF receivable and payable balances on a net basis	-	(499,577)	499,577	-
Total adjusted difference	-	(405,140)	405,140	-

Appendix C: Independence letter

May 11, 2011

Members of the Board of Management
Toronto Zoo
361A Old Finch Avenue
Toronto, ON M1B 5K7

Dear Board members:

We have been engaged to audit the financial statements of the Toronto Zoo (the Organization) for the year ended December 31, 2010.

Canadian generally accepted auditing standards (GAAS) require that we communicate at least annually with you regarding all relationships between the Organization, its management and us that may reasonably be thought to bear on our independence.

In determining which relationships to report, these standards require us to consider relevant rules and related interpretations prescribed by the Institute of Chartered Accountants of Ontario and applicable legislation, covering such matters as:

- (a) holding a financial interest, either directly or indirectly, in a client;
- (b) serving as an officer or director of a client;
- (c) performance of management functions for an assurance client;
- (d) personal or business relationships of immediate family, close relatives, partners or retired partners, either directly or indirectly, with a client or its management;
- (e) economic dependence on a client;
- (f) long association of senior personnel with a listed entity audit client;
- (g) audit committee approval of services to a listed entity audit client; and
- (h) provision of services in addition to the audit engagement.

We have prepared the following comments to facilitate our discussion with you regarding independence matters arising since November 1, 2010, the date of our engagement letter with the City of Toronto, which refers to the services we provide to the Zoo.

We are not aware of any relationships between the Organization or its management and PricewaterhouseCoopers LLP that may reasonably be thought to bear on our independence, that have occurred from November 1, 2010 to May 11, 2011.



We hereby confirm that we are independent with respect to the Organization within the meaning of the Rules of Professional Conduct of the Institute of Chartered Accountants of Ontario as of May 11, 2011.

This report is intended solely for the use of the Board of Management of the Zoo, management, and others within the Organization and should not be used for any other purposes.

Yours very truly,

PricewaterhouseCoopers LLP

Chartered Accountants, Licensed Public Accountants

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