The Niagara Parks Commission

MANAGEMENT REPORT

The accompanying financial statements are the responsibility of the management of The Niagara Parks Commission.

These financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles. Financial statements are not precise since they include certain amounts based on estimates and judgements. Management has determined such amounts on a reasonable basis in order to ensure that the financial statements are presented fairly, in all material respects.

The Commission maintains a system of internal accounting and administrative control that is designed to provide reasonable assurance the financial information is relevant, reliable and accurate and that the Commission's assets are properly accounted for and adequately safeguarded.

The Commission is responsible for ensuring that management fulfills its responsibilities for financial reporting and is ultimately responsible for reviewing and approving the financial statements.

The Commission meets periodically with management to discuss internal controls over the financial reporting process, auditing matters and financial reporting issues, and to satisfy itself that each party is properly discharging its responsibilities.

The financial statements have been audited by Crawford, Smith and Swallow Chartered Accountants LLP, the external auditors, in accordance with Canadian generally accepted auditing standards on behalf of the Commission, the Minister of Tourism and the Auditor General. Crawford, Smith and Swallow Chartered Accountants LLP has full and free access to the records of the Commission.

John A. M. Kernahan
General Manager
December 18, 2009

Robert J. McIlveen
Executive Director, Corporate Services
December 18, 2009

AUDITORS' REPORT

To The Niagara Parks Commission, the Minister of Tourism and the Auditor General

Pursuant to the Niagara Parks Act which provides that The Niagara Parks Commission, an agency of the Crown, shall be audited by the Auditor General or an auditor designated by the Lieutenant Governor in Council, we have audited the balance sheet of The Niagara Parks Commission as at October 31, 2009 and the statements of operations, equity and cash flows for the year then ended. These financial statements are the responsibility of management. 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 plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Commission as at October 31, 2009 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Crawford, Smith and Swallow
Chartered Accountants LLP
Licensed Public Accountants
Niagara Falls, Ontario
December 18, 2009

Balance Sheet ~ October 31, 2009

STATEMENT 1

Assets	2009	2008
	(In thousands of dollars)	
	$	$
Current Assets		
Cash	2,161	2,255
Accounts receivable	2,036	2,000
Inventories		
Saleable merchandise	5,129	4,551
Maintenance and other supplies	1,560	1,519
Prepaid expenses	386	303
	11,272	10,628
Fixed Assets - notes 2 and 3	154,491	158,558
Other Asset	56	63
	165,819	**169,249**

Liabilities and Equity		
Current Liabilities		
Accounts payable	5,467	5,967
Accrued payroll	2,214	2,403
Deferred income - notes 15 and 16	3,471	367
Current portion of long-term financing	2,112	2,055
	13,264	10,792
Long-Term Financing - note 3	29,845	31,818
Post-Employment Benefits - note 4	3,600	3,560
Power Plant Stabilization Obligation - note 15	21,243	-
Commitments - notes 6 and 15		
Contingencies - notes 7 and 15		
Equity – Statement 2	97,867	123,079
	165,819	**169,249**

See accompanying notes

Signed on behalf of the Commission:

Chairman

Commissioner

Statement of Equity ~ for the year ended October 31, 2009

STATEMENT 2

	2009	2008
	(In thousands of dollars)	
	$	$
Equity, Beginning of Year	124,348	127,872
Accounting Change – note 17	(1,269)	(1,269)
Equity, Beginning of Year as Restated	123,079	126,603
Net Loss for the Year – Statement 3	(3,969)	(3,524)
Power Plant Stabilization Adjustment – note 15	(21,243)	–
Equity, End of Year	**97,867**	**123,079**

See accompanying notes

Statement of Operations ~ for the year ended October 31, 2009

STATEMENT 3

	2009	2008
	(In thousands of dollars)	
	$	$
Income		
Gift shops, restaurants and attractions	62,686	65,857
Land rent	6,213	6,215
Commissions, rentals and fees	2,710	2,905
Premium on United States funds – net	307	1,071
Gain (loss) on disposal of fixed assets – net	665	(44)
Sundry income	153	576
	72,734	76,580
Expenses		
Gift shops, restaurants and attractions		
Cost of goods sold	10,475	11,526
Operating expenses	29,852	31,788
Maintenance	12,393	13,488
Administrative and police	9,884	9,588
Marketing and promotion	4,101	4,435
	66,705	70,825
Net Income for the Year before Undernoted Items	6,029	5,755
Other Items		
Interest expense - net - note 8	1,719	810
Depreciation - note 9	8,279	8,469
	9,998	9,279
Net Loss for the Year	**(3,969)**	**(3,524)**

See accompanying notes

Statement of Cash Flows ~ for the year ended October 31, 2009

STATEMENT 4

	2009	2008
	(In thousands of dollars)	
	$	$
Operating Activities		
Net loss for the year	(3,969)	(3,524)
Charges against income not requiring an outlay of funds		
- post-employment benefits	369	364
- depreciation	8,279	8,469
- amortization of franchise fee	7	6
- loss (gain) on disposal of fixed assets - net	(665)	44
	4,021	5,359
Net change in non-cash working capital balances related to operations - note 11	1,677	(3,940)
Funds provided by operating activities	5,698	1,419
Investing Activities		
Fixed asset acquisitions - note 11	(4,086)	(24,123)
Proceeds on sale of fixed assets	685	32
Franchise fee payment		(69)
Funds used by investing activities	(3,401)	(24,160)
Financing Activities		
Net decrease in long-term financing	(2,062)	(1,573)
Cash outlay related to post-employment benefits	(329)	(261)
Funds used by financing activities	(2,391)	(1,834)
Decrease in Cash Position	(94)	(24,575)
Cash Position, Beginning of Year	2,255	26,830
Cash Position, End of Year	**2,161**	**2,255**

See accompanying notes

Notes to Financial Statements ~ for the year ended October 31, 2009

Organization

The Niagara Parks Commission (the "Commission") is governed by the Niagara Parks Act. Initially established in 1885, the Commission is an "Operational Enterprise" of the Province of Ontario and is responsible for maintaining, protecting and showcasing over 1,700 hectares of parkland stretching some 56 kilometres along the Niagara River from Lake Erie to Lake Ontario. The Commission is exempt from corporate income taxes under the Income Tax Act (Canada) and Ontario Corporations Tax Act.

The Commission is also classified as a "Government Business Enterprise" by the Ministry of Finance and as such, the Commission's audited financial statements are published as part of the Public Accounts.

1. Significant Accounting Policies

Basis of accounting

The financial statements of the Commission are the representations of management prepared in accordance with Canadian generally accepted accounting principles, consistently applied. Because a precise determination of many assets and liabilities is dependent upon future events, the preparation of periodic financial statements necessarily involves the use of estimates and approximations. These have been made using careful judgement in the light of available information. The financial statements have, in management's opinion, been properly prepared within reasonable limits of materiality and within the framework of the accounting policies summarized below:

Revenue recognition

Income from gift shops, restaurants and attractions are recognized when merchandise has been transferred or services have been rendered. Income from land rent, commissions, rentals, fees and sundry are recognized over the life of the agreement or when earned.

Inventories

Inventories of saleable merchandise are valued at the lower of average cost and net realizable value.

Fixed assets

All fixed assets are recorded at cost. Depreciation has been recorded using the straight-line method, with rates from 2.5 to 14 per cent for buildings, roadways and structures, 10 to 33 per cent for equipment and furnishings and from 8 to 33 per cent for vehicles.

Franchise fee

A franchise fee is classified as an other asset and is being amortized on a straight-line basis over 10 years.

Foreign currency translation

These financial statements are presented in Canadian dollars. Assets and liabilities denominated in foreign currencies are translated at the exchange rates in effect at the balance sheet date. Gains and losses on translation are reflected in net earnings of the period.

1. **Significant Accounting Policies** – continued

Financial instruments

The Commission has elected the following balance sheet classifications with respect to its financial assets and financial liabilities:

Cash is classified as "assets held for trading" and is measured at fair value.

Accounts receivable are classified as "loans and receivables" and are measured at amortized cost, which, upon initial recognition, is considered equivalent to fair value.

Accounts payable and accrued liabilities, other liabilities and long-term financing are classified as "other financial liabilities" and are initially measured at fair value.

Capitalized interest

The Commission capitalizes an amount of interest on all funds expended for those capital works in progress and financed via long-term financing.

2. **Fixed Assets**

(In thousands of dollars)

	Cost	Accumulated Depreciation	2009	2008
	$	$	$	$
Land	14,359	–	14,359	13,555
Land improvements	17,135	–	17,135	17,135
Buildings, roadways and structures	189,908	76,702	113,206	115,041
Equipment and furnishings	40,650	32,632	8,018	10,247
Vehicles	9,076	7,833	1,243	1,406
	271,128	117,167	153,961	157,384
Capital works in progress	530	–	530	1,174
	271,658	**117,167**	**154,491**	**158,558**

3. Long-Term Financing

(In thousands of dollars)

	2009 $	2008 $
Unsecured fixed rate term loan requiring blended payments of principal and interest of $ 2,640,907 per annum, bearing interest at 5.06% through to April, 2027	30,783	31,815
Unsecured fixed rate term loan requiring principal payments of $ 1,000,000 per annum, bearing interest at 4.01% through to December, 2009	1,000	2,000
The Commission has an obligation under capital lease, bearing interest of nil, requiring monthly payments of $ 1,076 to August, 2011, secured by equipment with a net book value of $ 34,853	22	35
The Commission has an obligation under capital lease, bearing interest of nil, requiring monthly payments of $ 659 to May, 2011, secured by equipment with a net book value of $ 21,342	13	20
The Commission has an option to purchase land requiring annual payments of $ 7,300 until Jauary 2028 - see note 16	139	-
Obligation under capital lease, bearing interest of nil, requiring monthly payments of $463 to September, 2009	-	3
	31,957	33,873
Less portion due within one year	2,112	2,055
	29,845	**31,818**

The principal payments of the long-term financing obligations due in the next five fiscal periods are as follows:

(In thousands of dollars)

	$
2010	2,112
2011	1,162
2012	1,204
2013	1,264
2014	1,328

4. Post-Employment Benefits

Defined Termination Benefit

The Commission provides a defined employee future benefit, payable on termination to certain full-time employees with a minimum of five years of service. The benefit is calculated on the basis of one week's remuneration, at the time of termination, for every year of full-time service provided to the Commission to a maximum of 26 weeks. The accrued benefit liability as at October 31, 2009 is $ 3,600,464 (2008 - $ 3,560,461).

As a result of an actuarial valuation conducted in 2007 for the year ending October 31, 2007, it was determined that an actuarial gain of $ 242,488 existed. The actual obligation as at October 31, 2009 is $ 3,357,976 (2008 - $ 3,317,973). Since the actuarial gain is less than 10% of the actual obligation, no minimum amortization has been recorded for the year.

The Commission requires that an actuarial valuation of the post employment benefits be conducted every three years. Therefore, the next valuation required would be for the year ending October 31, 2010.

Defined Benefit Plan Information *(In thousands of dollars)*

	2009 $	2008 $
Employee benefit plan assets	–	–
Employee benefit plan liabilities	3,600	3,560
Employee benefit plan deficit	**3,600**	**3,560**
Benefit obligation recognized on the balance sheet		
Benefit obligation, beginning of year	3,560	3,457
Expense for the year	369	364
Benefits paid during the year	(329)	(261)
Benefit obligation, end of year	**3,600**	**3,560**

The main actuarial assumptions applied in the valuation of the defined benefit plan are as follows:

Interest (Discount) Rate - The accrued obligation and the expense for the year were determined using a discount rate of 5%.

Salary Levels - Future salary and wage levels were assumed to increase at 3% per annum.

Pension Benefits

The Commission provides pension benefits for all its permanent employees (and to non-permanent employees who elect to participate) through the Public Service Pension Fund ("PSPF") and the Ontario Public Service Employees' Union Pension Fund ("OPSEU Pension Fund"). These are defined benefit pension plans for employees of the Province and many provincial agencies. The Province of Ontario, which is the sole sponsor of the PSPF and a joint sponsor of the OPSEU Pension Fund, determines the Commission's annual payments to the funds. As the sponsors are responsible for ensuring that the pension funds are financially viable, any surpluses or unfunded liabilities arising from statutory actuarial funding valuations are not assets or obligations of the Commission. The Commission's annual payments of $ 1,582,962 (2008 - $ 1,649,534), are included in the administrative and general expense in the Statement of Operations.

The cost of post-employment, non-pension benefits are paid by the Management Board Secretariat and are not included in the Statement of Operations.

5. Credit Facilities

The credit facilities, which have a maximum borrowing capacity of $ 15,000,000, provide for two types of loans. There is a variable rate option with a rate which varies with the Bank of Montreal's prime rate and there is a fixed rate operating loan facility available for terms of 30/60/90/180 or 364 days at rates which are set relative to Banker's Acceptance rates. These credit facilities are unsecured and expired on October 31, 2009. The Commission has negotiated an extension on these facilities until the tendering of a five year contract for banking services is awarded. As at October 31, 2009, NIL has been drawn upon for all credit facilities.

On November 18, 2009, the Commission received $6 ,500,000 which represents an additional unsecured loan requiring blended payments of principal and interest of $ 569,159 per annum, bearing interest at 5.07% through to April, 2027.

6. Commitments

Capital Projects

The Commission is committed to spending approximately $ 550,000 on capital projects in the next year.

7. Contingencies

The Commission is in litigation pertaining to certain claims for which the likelihood of loss is not determinable and the amount not reasonably estimable. Accordingly, no provision for these claims is reflected in the financial statements.

8. Interest Expense

(In thousands of dollars)

	2009 $	2008 $
Interest income	(23)	(431)
Loan interest expense	1,742	1,241
	1,719	**810**

9. Depreciation

(In thousands of dollars)

	2009 $	2008 $
Depreciation of income producing assets	4,850	5,085
Depreciation of non-income producing assets	3,429	3,384
	8,279	**8,469**

10. Operating Leases

The Commission leases vehicles, equipment and premises under operating leases expiring in various years through 2012. The total obligation under operating leases amounts to approximately $ 777,000.

Future payments for each of the next three years are as follows:

(In thousands of dollars)

	$
2010	391
2011	203
2012	183

11. Statement of Cash Flows

Changes in working capital components include:

(In thousands of dollars)

	2009 $	2008 $
Accounts receivable	(36)	(237)
Inventories	(619)	(1,458)
Prepaid expenses	(83)	97
Accounts payable and accrued payroll	(689)	(2,359)
Deferred income	3,104	17
	1,677	**(3,940)**

Acquisition of fixed assets

During the year, fixed assets were acquired at an aggregate cost of $ 4,232,000 (2008 - $ 24,561,000) of which $ 146,000 (2008 - $438,000) was acquired by means of capital leases and other non-cash acquisitions. Cash payments of $ 4,086,000 (2008 - $ 24,123,000) were made to purchase fixed assets.

(In thousands of dollars)

Interest

	2009 $	2008 $
Interest received	**23**	**431**
Interest paid	**1,820**	**2,714**

12. Financial Instruments and Risk Management

Fair Value

Fair value information with respect to long-term financing has been omitted because it is not practicable to determine fair value with sufficient reliability.

The fair value of the post employment termination benefit was determined using an actuarial valuation based on information presented in note 4 to the financial statements.

Credit Risk

The Commission is exposed to a credit risk by its customers. However, because of the large number of customers, credit risk concentration is reduced to a minimum.

Currency Risk

The Commission has cash of $ 53,637 that is denominated in US dollars. These funds have been converted to the Canadian equivalent at the rate of $ 1 US equals $ 1.0704 Canadian. The Commission realizes approximately 10.89% (2008 - 14.87%) of its sales in foreign currency. Consequently, some assets and revenues are exposed to foreign exchange fluctuations.

Cash Flow Risk

The Commission has variable rate bank overdraft facilities bearing interest which varies with the prime interest rate. Accordingly, the Commission is exposed to cash flow risks relating to potential fluctuations in market interest rates.

13. Capitalized Interest

The Commission has capitalized nil (2008 - $ 598,609) of interest related to the expansion of the Table Rock Complex which was completed in June 2008.

14. Surplus Funds

Pursuant to Section 16(2) of the Niagara Parks Act any surplus moneys shall, on the order of the Lieutenant Governor in Council, be paid to the Minister of Finance and shall form part of the Consolidated Revenue Fund.

15. Transfer of Defunct Power Stations

The Province of Ontario has directed the Commission accept ownership of three former electricity generating power stations all located within Commission lands.

The Toronto Power Generating Station ("TPGS") and the Ontario Power Generating Station ("OPGS") were transferred by Ontario Power Generation Inc. ("OPG") to the Commission at no cost in August, 2007. The Canadian Niagara Power Generating Station ("CNP") currently owned by Fortis Ontario was transferred April 30, 2009.

As part of the terms of transfer of TPGS and OPGS, OPG was to undertake certain structural and environmental work to ensure that the buildings were no threat to the public. The Ministry of Tourism has engaged the services of an architectural firm (The Ventin Group Inc.) to ensure that the original Government Directive was complied with and to identify work and related costs required to "stabilize and mothball" the facilities until an ultimate use for the buildings can be determined. The Ventin Group has now reported that there are substantial costs required to bring TPGS and OPGS to what would be considered a "mothball" state. The Ventin Group also identified the remaining lead paint as a deficiency which OPG should have resealed. Additional costs would be required to bring these two buildings to a "development ready" state. Further, there are in existence certain secondary structures related to TPGS and OPGS that were not accounted for in the original Directive that will result in additional remediation costs at some point in the future.

The Commission is of the belief that the acceptance of these Power Generating Stations will require an infusion of funds that is beyond its capacity to meet. As at October 31, 2009, ongoing negotiations with the Province have not resulted in any assurance that the Commission will not be responsible for any future costs. Any costs that are expected to be incurred for the purposes described above will not commence without funding received from the Province.

Therefore, an asset retirement obligation of $ 25,146,000 was calculated. This value represents the Commission's best estimate of the costs required to "stabilize and mothball" the four sites related to the power stations based on the report received from the Ventin Group. The report also identifies contingency costs of approximately $ 3,600,000 which have not been accrued in the asset retirement obligation at this time. The Commission estimates that this work could take approximately 3 to 4 years to complete. In order to determine the net present value of the asset retirement obligation, staff have estimated that, subject to financing being received from the Province, work will not commence for several years. Therefore it is estimated that the work may commence in 2016. The cost of capital and the rate of inflation estimated over the course of the calculation is 5.059% and 3% respectively. This resulted in a net present value of $ 21,243,000 as at October 31, 2009 and was recorded directly to equity.

As at October 31, 2009, the Commission has received $ 1,550,000 in funding from the Ministry of Tourism to assist in the "stabilizing and mothball" process. This amount is recorded in deferred income on the Balance Sheet and is to be spent by July 31, 2010. The Commission has incurred annual costs related to maintenance and security for all sites. To date, $ 32,714 of the funding has been utilized for this purpose.

16. Niagara Parks Commission and Peace Bridge Authority Land Transfer Obligation

During the year, the Commission and the Peace Bridge Authority ("PBA") entered into an agreement to transfer parcels of land. The PBA acquired a 5.952 acre parcel located in Fort Erie from the Commission for $ 2,021,206. The Commission acquired an option for $ 670,000 plus an annual sum of $ 7,300 adjusted for inflation, to receive 1.973 acres of river front property located at the end of Jarvis Street in Fort Erie from the PBA. The agreement calls for the net proceeds to the Commission in the amount of $ 1,351,206 to be spent on a) funding improvements at Old Fort Erie which are intended for the 200th year anniversary of the War of 1812 and b) returning and or maintaining the Jarvis Street property as parkland. It is the Commission's intent to use the net proceeds as part of a submission to the Federal and Provincial governments in order to obtain matching grants. The net proceeds have been recorded as part of deferred income on the Balance Sheet. To date, no expenditures have been incurred on this project.

17. Accounting Change

Accrued unused vacation pay credits earned by full-time employees were not previously recorded. The estimated value of this liability is $ 1,269,344 and has been retroactively adjusted to equity. The vacation pay liability is included in accrued payroll. Accrued payroll as at October 31, 2008 has increased to $ 2,403,000 from $ 1,134,000.

18. International Financial Reporting Standards

On February 13, 2008, the Accounting Standards Board confirmed that publicly accountable enterprises will be required to adopt International Financial Reporting Standards ("IFRS") in place of Canadian generally accepted accounting principles for reporting purposes for fiscal years beginning on or after January 1, 2011. A limited number of converged standards will be incorporated into Canadian generally accepted accounting principles prior to 2011, with the remaining standards to be adopted at the change over date. At this time, the impact on the Commission's future financial position and results of operations is not reasonably determinable or estimable.