Financial Statements

The Niagara Parks Commission

October 31, 2010

Contents

THE NIAGARA PARKS COMMISSION

MANAGEMENT REPORT
October 31, 2010

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 judgments. 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 gaining assurance 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 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 Grant Thornton LLP, the external auditors, in accordance with Canadian generally accepted auditing standards on behalf of the Commission, the Minister of Tourism and Culture and the Auditor General. Grant Thornton LLP has full and free access to the records of the Commission.

Robert J. McIlveen	John Wallace
Interim General Manager	Controller
December 22, 2010	December 22, 2010

Grant Thornton

Auditors' report

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To The Niagara Parks Commission,

the Minister of Tourism and Culture and the Auditor General

We have audited the balance sheet of The Niagara Parks Commission as at October 31, 2010 and the statements of operations, equity and cash flows for the year then ended. These financial statements are the responsibility of the Commission's 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, 2010 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

The comparative figures as at October 31, 2009 and for the year then ended were audited by other auditors who expressed an opinion on those statements in their report dated December 18, 2009.

Grant Thornton LLP

Port Colborne, Ontario
December 22, 2010

Chartered Accountants
Licensed Public Accountants

The Niagara Parks Commission
Balance Sheet

Statement 1

October 31	**2010**	2009
	(in thousands of dollars)	
Assets		
Current		
Cash	**$ 6,502**	$ 2,161
Accounts receivable	**3,208**	2,036
Inventories		
Saleable merchandise	**5,135**	5,129
Maintenance and other supplies	**1,426**	1,560
Prepaid expenses	**487**	386
	16,758	11,272
Fixed assets (Notes 3 and 6)	**150,452**	154,491
Other	**49**	56
	$ 167,259	$ 165,819
Liabilities and Equity		
Current		
Accounts payable	**$ 6,088**	$ 5,467
Accrued payroll	**2,070**	2,214
Deferred income (Note 4)	**2,285**	3,471
Current portion of long term financing (Note 6)	**1,390**	2,112
	11,833	13,264
Deferred Stimulus Funding (Note 5)	**1,349**	
Long term financing (Note 6)	**34,956**	29,845
Post-employment benefits (Note 7)	**3,759**	3,600
Power Plant stabilization obligation (Note 9)	**26,727**	21,243
Equity (Note 11) (Statement 2)	**88,635**	97,867
	$ 167,259	$ 165,819

Commitments (Notes 9 and 12)

Contingencies (Notes 9 and 13)

On behalf of the Commission

Fay Booker Chair   Janice A. Thomson. Vice Chair

See accompanying notes to the financial statements

The Niagara Parks Commission
Statement of Equity

Statement 2

Year Ended October 31	**2010**	2009
	(in thousands of dollars)	
Equity, beginning of year	**$ 97,867**	$ 123,079
Net loss (Statement 3)	**(9,232)**	(3,969)
Power Plant stabilization adjustment (Note 9)		(21,243)
Equity, end of year	**$ 88,635**	$ 97,867

See accompanying notes to the financial statements.

The Niagara Parks Commission
Statement of Operations

Statement 3

Year Ended October 31	**2010**	2009
	(in thousands of dollars)	
Income		
Gift shops, restaurants and attractions	**$ 62,546**	$ 62,346
Land rent	**6,297**	6,213
Commissions, rentals and fees	**2,655**	2,710
Premium on United States funds – net	**314**	307
Gain on disposal of fixed assets – net	**2**	665
Sundry income	**226**	153
	72,040	72,394
Expenses		
Gifts shops, restaurants and attractions		
Cost of goods sold	**10,691**	10,475
Operating expenses	**30,214**	29,512
Maintenance	**12,968**	12,393
Administrative and police	**8,948**	9,884
Marketing and promotion	**3,588**	4,101
	66,409	66,365
Net income for the year before undernoted items	**5,631**	6,029
Other items		
Interest expense – net (Note 14)	**1,878**	1,719
Depreciation (Note 15)	**7,501**	8,279
	9,379	9,998
Net loss from operations	**(3,748)**	(3,969)
Net increase in Power Plant obligation (Note 9)	**5,484**	
Net loss	**$ (9,232)**	$ (3,969)

See accompanying notes to the financial statements.

The Niagara Parks Commission
Statement of Cash Flows

Statement 4

Year Ended October 31	**2010**	2009
	(in thousands of dollars)	
Operating activities		
Net loss	**$ (9,232)**	$ (3,969)
Charges against income not requiring an outlay of funds		
Post-employment benefits	**343**	369
Depreciation	**7,501**	8,279
Amortization of franchise fee	**7**	7
Gain on disposal of fixed assets – net	**(2)**	(665)
Increase in Power Plant obligation liability – net	**5,484**	
	4,101	4,021
Net change in non-cash working capital balances related to operations (Note 16)	**(1,854)**	1,677
Funds provided by operating activities	**2,247**	5,698
Investing activities		
Fixed asset acquisitions (Note 16)	**(3,462)**	(4,086)
Proceeds on sale of fixed assets	**2**	685
Funds used by investing activities	**(3,460)**	(3,401)
Financing activities		
Net increase in deferred Stimulus Funding	**1,349**	
Net increase (decrease) in long term financing	**4,389**	(2,062)
Cash outlay related to post-employment benefits	**(184)**	(329)
Funds acquired (used) by financing activities	**5,554**	(2,391)
Increase (decrease) in cash position	**4,341**	(94)
Cash position		
Beginning of year	**2,161**	2,255
End of year	**$ 6,502**	$ 2,161

See accompanying notes to the financial statements.

1. Nature of operations

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 Corporation 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.

2. 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. 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 percent for buildings, roadways and structures, 10 to 33 percent for equipment and furnishings and from 8 to 33 percent for vehicles.

Franchise fee

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

2. Significant accounting policies (continued)

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.

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.

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.

Use of estimates and measurement uncertainty

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

3. Fixed assets

	Cost	Accumulated Depreciation	**2010** Net Book Value	2009 Net Book Value
			(in thousands of dollars)	
Land	$ 14,359		**$ 14,359**	$ 14,359
Land improvements	17,135		**17,135**	17,135
Buildings, roadways and structures	191,385	$ 82,027	**109,358**	113,206
Equipment and furnishings	40,802	34,365	**6,437**	8,018
Vehicles	9,329	8,135	**1,194**	1,243
	273,010	124,527	**148,483**	153,961
Capital works in progress	1,969	-	**1,969**	530
	$ 274,979	$ 124,527	**$ 150,452**	$ 154,491
Equipment under capital lease included above	$ 69	$ 21	**$ 48**	$ 55

4. Deferred income

	2010	2009
	(in thousands of dollars)	
Defunct power stations funding (Note 9)	**$ 507**	$ 1,517
Peace Bridge Authority sale proceeds (Note 10)	**1,304**	1,351
Other	**474**	603
	$ 2,285	$ 3,471

5. Deferred Stimulus Funding

The Commission has secured stimulus grant funding to renovate its heritage sites in the amount of $ 8.9 million and as of October 31, 2010 approximately $ 1.4 million was spent on these projects. The deferred funding will be amortized to income at the same rate as the related capital assets are depreciated.

6. Long term financing	**2010**	2009
	(in thousands of dollars)	
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	**$ 29,700**	$ 30,783
Unsecured fixed rate term loan requiring blended first annual payment of $ 543,418 and then payments of $ 569,965 per annum thereafter, bearing interest at 5.07% through to April, 2027	**6,500**	
Unsecured fixed rate term loan requiring principal payments of $ 1,000,000 per annum, bearing interest at 4.01% through to December, 2009, repaid during the year		1,000
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 $ 31,574	**9**	22
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 $ 16,599	**5**	13
The Commission has an option to purchase land requiring annual payments of $ 7,300 until January, 2028 (Note 10)	**132**	139
	36,346	31,957
Less: portion due within one year	**1,390**	2,112
	$ 34,956	$ 29,845

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

2011	$ 1,390
2012	1,455
2013	1,529
2014	1,606
2015	1,687

7. Post-employment benefits

Defined termination benefits

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, 2010 is $ 3,759,218 (2009 - $ 3,600,464).

As a result of an actuarial valuation conducted in 2010 for the year ending October 31, 2010, it was determined that an actuarial gain of $ 140,884 existed. The actual obligation as at October 31, 2010 is $ 3,618,334 (2009 - $ 3,357,976). 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. This valuation was completed for the year ending October 31, 2010.

Defined benefit plan information	**2010**	2009
	(in thousands of dollars)	
Employee benefit plan assets	**$ Nil**	$ Nil
Employee benefit plan liabilities	**3,759**	3,600
Employee benefit plan deficit	**$ 3,759**	$ 3,600
Benefit obligation recognized on the balance sheet		
Benefit obligation, beginning of year	**$ 3,600**	$ 3,560
Expense for the year	**343**	369
Benefits paid during the year	**(184)**	(329)
Benefit obligation, end of year	**$ 3,759**	$ 3,600

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.

7. Post-employment benefits (continued)

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 $ 1,776,084 (2009 - $ 1,582,962), are included in the administrative and police expense on the Statement of Operations.

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

8. 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 which varies with the Canadian Imperial Bank of Commerce prime rate and there is a fixed rate operating loan facility available with a maximum term not to exceed 364 days at rates which are set relative to banker's acceptance rates. These credit facilities are unsecured and expire on October 31, 2014. As at October 31, 2010, $ Nil has been drawn upon for all credit facilities (2009 – $ Nil).

9. Transfer of defunct power stations

The Province of Ontario directed the Commission to 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. 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 Canadian Niagara Power Generating Station ("CNPGS") previously owned by Fortis Ontario was transferred April 30, 2009.

9. Transfer of defunct power stations (continued)

The Ministry of Tourism engaged the services of an architectural firm (The Ventin Group Inc.) to ensure that the original Government Directive governing the initial transfer was complied with and to identify work and related costs required to “stabilize and mothball” all the facilities until an ultimate use for the buildings can be determined. The Ventin Group identified the remaining lead paint at the TPGS and OPGS as a deficiency which OPG should have resealed or encapsulated after cleaning. The Ventin Group reported that there are substantial costs required to bring the three power stations to what would be considered a “mothball” state. Therefore, additional costs would be required to bring these 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 a significant infusion of funds that is beyond its capacity to meet. As at October 31, 2010, 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.

An asset retirement obligation of $ 25,146,000 as of October 31, 2009 was calculated. This value represented the Commission’s best estimate of the costs required to “stabilize and mothball” the three power stations based on the report received from the Ventin Group. The report also identified contingency costs of approximately $ 3,600,000 which was not accrued in the asset retirement obligation at that time. The Commission estimates that this work could take approximately three to four 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. 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 was 5.059% and 3%, respectively. This results in a net present value of $ 21,680,725 as at October 31, 2010. This is an increase of $ 437,400 from 2009 and has been recorded in the Statement of Operations.

Two additional studies were completed during the year ended October 31, 2010 which identified an additional liability involved with the “stabilization and mothball” process. The first report known as the Hatch group study identified an additional $ 6,305,000 for external/infrastructure work that is required. The second study was completed by the Quartek group which identified an additional $ 1,260,000 related to additional costs to stabilize the roofs of the buildings. Together these two reports equal an increase of $ 7,565,000. As previously mentioned it is estimated this work will not commence until 2016 and correspondingly another calculation for the net present value of this additional liability was performed using a cost of capital of 5.059% and inflation rate of 2% respectively. This equates to a present value of $ 6,159,189 as of October 31, 2010.

9. Transfer of defunct power stations (continued)

Current year increase in present value of original obligation	$	437,400
Present value of additional obligation related to additional studies		6,159,189
Actual work performed in 2010		(1,112,273)
Net increase in Power Plant stabilization obligation	$	5,484,316

A capital asset has not been recorded for these properties as there is an impairment in their value, which has been documented in the various studies carried out to date.

As at October 31, 2009, the Commission had received $ 1,550,000 in funding from the Ministry of Tourism to assist in the "stabilizing and mothball" process. Approximately $ 1,043,000 of the funding was utilized for this purpose during the current year.

In addition, the Commission has secured $ 425,000 funding from the Federal government to assist in the "stabilizing and mothball" process of the TPGS specifically. To date, approximately $ 202,000 of the funding has been received and utilized for this purpose during the current year.

The Commission has incurred annual costs related to maintenance and security for all sites and has recorded them in the statement of operations and are included in the maintenance expense.

10. Niagara Parks Commission and Peace Bridge Authority land transfer obligation

In fiscal 2009, 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.

The net proceeds were recorded as part of deferred income on the Balance Sheet. To date approximately $ 100,000 from these proceeds have been spent on the capital works project for the renovation of Historic Fort Erie and approximately $ 47,000 was spent from these proceeds on the Jarvis Street property maintenance. The $ 100,000 spent on the capital works project will be amortized to income at the same rate as the related capital assets are depreciated.

11. 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.

12. Commitments

The Commission has committed to approximately $ 8,150,000 in capital works projects in the next year, of which $ 7,500,000 is related to renovation of the heritage sites being funded by a Stimulus grant.

13. 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.

14. Interest expense

	2010	2009
	(in thousands of dollars)	
Interest income	**$ (44)**	$ (23)
Loan interest expense	**1,922**	1,742
	$ 1,878	$ 1,719

15. Depreciation

	2010	2009
	(in thousands of dollars)	
Depreciation of income producing assets	**$ 4,244**	$ 4,850
Depreciation of non-income producing assets	**3,257**	3,429
	$ 7,501	$ 8,279

16. Statement of cash flows

	2010	2009
	(in thousands of dollars)	
Changes in working capital components include:		
Accounts receivable	**$ (1,172)**	$ (36)
Inventories	**128**	(619)
Prepaid expenses	**(101)**	(83)
Accounts payable and accrued payroll	**477**	(689)
Deferred income	**(1,186)**	3,104
	$ (1,854)	$ 1,677

16. Statement of cash flows (continued)

Acquisition of fixed assets

During the year, fixed assets were acquired at an aggregate cost of $ 3,462,000 (2009 - $ 4,232,000) of which $ Nil (2009 - $ 146,000) was acquired by means of capital leases and other non-cash acquisitions. Cash payments of $ 3,462,000 (2009 - $ 4,086,000) were made to purchase fixed assets.

	2010	2009
	(in thousands of dollars)	
Interest received	**$ 44**	$ 23
Interest paid	**$ 1,721**	$ 1,820

17. 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 6 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 $ 489,657 that is denominated in U.S. dollars. These funds have been converted to the Canadian equivalent at the rate of $ 1 U.S. equals $ 1.02 Canadian. The Commission realizes approximately 13.26% (2009 – 10.89%) 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.

18. 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 $ 520,000.

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

	(in thousands of dollars)
2011	$ 301
2012	220

19. New reporting standards

For the 2011 fiscal year the Commission will be adopting the Public Sector Accounting Board standards (PSAB) or the International Financial Reporting Standards (IFRS). Currently the Commission is awaiting direction from the Province of Ontario as to which reporting framework will be adopted. The 2010 fiscal year amounts will be restated in accordance with the reporting framework adopted.

20. Comparative figures

Certain 2009 comparative figures have been reclassified to conform to the financial statement presentation adopted in 2010.