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 19, 2008

Robert J. McIlveen
Executive Director, Corporate Services
December 19, 2008

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, 2008 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, 2008 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 19, 2008

Balance Sheet ~ October 31, 2008

STATEMENT 1

	(In thousands of dollars)	
Assets	2008	2007
	$	$
Current Assets		
Cash	2,255	26,830
Accounts receivable	2,000	1,763
Inventories		
Saleable merchandise	4,551	3,330
Maintenance and other supplies	1,519	1,282
Prepaid expenses	303	400
	10,628	33,605
Fixed Assets - notes 2 and 3	158,558	142,542
Other Asset	63	
	169,249	**176,147**
Liabilities and Equity		
Current Liabilities		
Accounts payable	6,334	8,783
Accrued payroll	1,134	1,027
Current portion of long-term financing	2,055	1,190
	9,523	11,000
Long-Term Financing - note 3	31,818	33,818
Post-Employment Benefits - note 4	3,560	3,457
Commitments - notes 6 and 15		
Contingencies - notes 7 and 15		
Equity – Statement 2	124,348	127,872
	169,249	**176,147**

see accompanying notes

Signed on behalf of the Commission:

Chairman

Commissioner

Statement of Equity ~ for the year ended October 31, 2008

STATEMENT 2

	2008	2007
	(In thousands of dollars)	
	$	$
Equity, Beginning of Year	127,872	129,246
Net Loss for the Year - Statement 3	(3,524)	(1,374)
Equity, End of Year	124,348	**127,872**

see accompanying notes

Statement of Operations ~ for the year ended October 31, 2008

STATEMENT 3

	2008	2007
	(In thousands of dollars)	
	$	$
Income		
Gift shops, restaurants and attractions	65,857	68,813
Land rent	6,215	6,037
Commissions, rentals and fees	2,905	2,535
Premium (loss) on United States funds – net	1,071	(360)
Gain (loss) on disposal of fixed assets – net	(44)	40
Sundry income	576	464
	76,580	77,529
Expenses		
Gift shops, restaurants and attractions		
Cost of goods sold	11,526	12,518
Operating expenses	31,788	30,969
Maintenance	13,488	13,216
Administrative and police	9,588	9,681
Marketing and promotion	4,435	4,004
	70,825	70,388
Net Income for the Year before Undernoted Items	5,755	7,141
Other Items		
Interest expense - net - note 8	810	331
Depreciation - note 9	8,469	8,184
	9,279	8,515
Net Loss for the Year	**(3,524)**	**(1,374)**

see accompanying notes

Statement of Cash Flows ~ for the year ended October 31, 2008

STATEMENT 4

	2008	2007
	(In thousands of dollars)	
	$	$
Operating Activities		
Net loss for the year	(3,524)	(1,374)
Charges against income not requiring an outlay of funds		
- post-employment benefits	364	356
- depreciation	8,469	8,184
- amortization of franchise fee	6	
- loss (gain) on disposal of fixed assets - net	44	(5)
	5,359	7,161
Net change in non-cash working capital balances related to operations - note 11	(3,940)	2,919
Funds provided by operating activities	1,419	10,080
Investing Activities		
Fixed asset acquisitions - note 11	(24,123)	(17,799)
Proceeds on sale of fixed assets	32	83
Franchise fee payment	(69)	
Funds used by investing activities	(24,160)	(17,716)
Financing Activities		
Net increase (decrease) in long-term financing	(1,573)	30,891
Cash outlay related to post-employment benefits	(261)	(193)
Funds provided (used) by financing activities	(1,834)	30,698
Increase (Decrease) in Cash Position	(24,575)	23,062
Cash Position, Beginning of Year	26,830	3,768
Cash Position, End of Year	**2,255**	**26,830**

see accompanying notes

Organization

The Niagara Parks 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.

1. Significant Accounting Policies

Basis of accounting

The financial statements of The Niagara Parks Commission (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 33 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.

Financial instruments

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

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.

1. **Significant Accounting Policies** - continued

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	2008	2007
	$	$	$	$
Land	13,555	–	13,555	13,555
Land improvements	17,135	–	17,135	17,135
Buildings, roadways and structures	187,965	72,924	115,041	86,567
Equipment and furnishings	40,522	30,275	10,247	8,414
Vehicles	9,275	7,869	1,406	1,592
	268,452	111,068	157,384	127,263
Capital works in progress	1,174	–	1,174	15,279
	269,626	**111,068**	**158,558**	**142,542**

3. Long-Term Financing

(In thousands of dollars)

	2008	2007
	$	$
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	31,815	32,000
Unsecured fixed rate term loan requiring principal payments of $ 1,000,000 per annum, bearing interest at 4.01% through to December, 2009	2,000	3,000
The Commission has an obligation under capital lease, bearing interest of nil, requiring monthly payments of $ 463 to September, 2009, secured by equipment with a net book value of $ 9,168	3	8
The Commission has an obligation under capital lease, bearing interest of nil, requiring monthly payments of $ 659 to August, 2011, secured by equipment with a net book value of $ 34,853	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	20	-
	33,873	35,008
Less portion due within one year	2,055	1,190
	31,818	**33,818**

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

(In thousands of dollars)

	$
2009	2,055
2010	2,105
2011	1,154
2012	1,196
2013	1,257

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, 2008 is $ 3,560,461 (2007 - $ 3,456,833).

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, 2008 is $ 3,317,973 (2007 - $ 3,214,345). 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)*

	2008 $	2007 $
Employee benefit plan assets	–	–
Employee benefit plan liabilities	3,560	3,457
Employee benefit plan deficit	**3,560**	**3,457**
Benefit obligation recognized on the balance sheet		
Benefit obligation, beginning of year	3,457	3,294
Expense for the year	364	356
Benefits paid during the year	(261)	(193)
Benefit obligation, end of year	**3,560**	**3,457**

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 multi-employer plans established by the Province of Ontario. These plans are accounted for as defined contribution plans, as the Commission has insufficient information to apply defined benefit plan accounting to these pension plans.

The Commission's contributions related to the PSPF and OPSEU Pension Fund was $ 1,649,534 (2007 - $ 1,541,361) and are included in the administrative and general expenses 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 are set to expire on October 31, 2009. As at October 31, 2008, NIL has been drawn upon for all credit facilities.

6. Commitments

The Commission is committed to spending approximately $ 2,500,000 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)

	2008 $	2007 $
Interest income	(431)	(582)
Loan interest expense	1,241	913
	810	**331**

9. Depreciation

(In thousands of dollars)

	2008 $	2007 $
Depreciation of income producing assets	5,085	4,748
Depreciation of non-income producing assets	3,384	3,436
	8,469	**8,184**

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 $ 1,273,000.

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

(In thousands of dollars)

	$
2009	496
2010	391
2011	203
2012	183

11. Statement of Cash Flows

Changes in working capital components include:

(In thousands of dollars)

	2008 $	2007 $
Accounts receivable	(237)	494
Inventories	(1,458)	35
Prepaid expenses	97	80
Accounts payable and accrued payroll	(2,342)	2,310
	(3,940)	**2,919**

Acquisition of fixed assets

During the year, fixed assets were acquired at an aggregate cost of $ 24,561,000 (2007 - $ 17,799,000) of which 438,000 (2007 - nil) was acquired by means of capital leases and other non-cash acquisitions. Cash payments of $ 24,123,000 (2007 - $ 17,799,000) were made to purchase fixed assets.

(In thousands of dollars)

Interest

	2008 $	2007 $
Interest received	**431**	**523**
Interest paid	**2,714**	**306**

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 $ 458,379 that is denominated in US dollars. These funds have been converted to the Canadian equivalent at the rate of $ 1.1665 US equals $ 1 Canadian. The Commission realizes approximately 14.87% (2007 - 18.1%) of its sales in foreign currency. Consequently, some assets and revenues are exposed to foreign exchange fluctuations.

Cash Flow Risk

The Commission has a 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 $ 598,609 (2007 - $ 232,301) 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 is to be transferred no later than 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 "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. 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 has incurred annual costs related to maintenance and security for all sites.

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. Negotiations with the Province are ongoing to gain assurance that the Commission will not be responsible for any future costs. Once final negotiations with the Province have concluded, the Commission will be in a position to assess whether any potential asset retirement obligation or contingent liability may exist.

Subsequent to the year-end, the Ministry of Tourism provided preliminary funding in the amount of $ 1,000,000.