

*crawford
smith &
swallow*

**CORPORATION OF THE CITY OF
NIAGARA FALLS, ONTARIO**

Consolidated Financial Statements

December 31, 2011



CORPORATION OF THE CITY OF NIAGARA FALLS, ONTARIO

Consolidated Financial Statements

December 31, 2011

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INDEPENDENT AUDITORS' REPORT

To the Members of Council, Inhabitants and Ratepayers of
the Corporation of the City of Niagara Falls, Ontario

We have audited the accompanying consolidated financial statements of the Corporation of the City of Niagara Falls, Ontario which comprise the consolidated statement of financial position as at December 31, 2011, and the consolidated statements of operations and accumulated surplus, cash flows and change in net financial assets for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

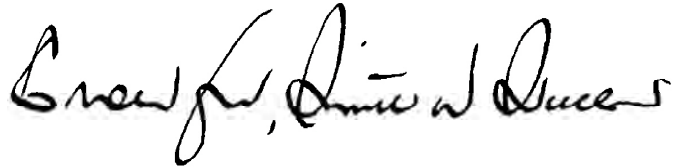
Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the consolidated 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 consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Corporation of the City of Niagara Falls, Ontario as at December 31, 2011, and the consolidated results of its operations, consolidated cash flows and consolidated changes in net financial assets for the year then ended in accordance with Canadian public sector accounting standards.

A handwritten signature in black ink, appearing to read "Crawford, Smith and Swallow". The signature is written in a cursive, flowing style.

Niagara Falls, Ontario
October 15, 2012

CRAWFORD, SMITH AND SWALLOW
CHARTERED ACCOUNTANTS LLP
LICENSED PUBLIC ACCOUNTANTS

CORPORATION OF THE CITY OF NIAGARA FALLS, ONTARIO

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

December 31, 2011

| | 2011 \$ | 2010 \$ |
|---|--------------------|--------------------|
| Financial Assets - note 7 | | |
| Cash | 48,979,466 | 38,786,223 |
| Investments - note 3 | 21,819,419 | 26,620,875 |
| Taxes receivable - note 4 | 16,739,758 | 18,113,208 |
| Accounts receivable | 9,227,061 | 8,291,224 |
| User charges receivable | 13,222,541 | 13,381,989 |
| Long-term receivables | 632,504 | 698,678 |
| Note receivable - note 5 | 22,000,000 | 22,000,000 |
| Long-term investment - note 5 | 72,366,201 | 70,239,385 |
| Long-term investment - note 6 | 41,730 | 300,040 |
| | 205,028,680 | 198,431,622 |
| Contingent Liabilities - note 15 | | |
| Liabilities | | |
| Temporary loan - note 7 | | 35,000,000 |
| Accounts payable and accrued liabilities | 22,389,461 | 31,167,646 |
| Deferred revenue - obligatory reserve funds - note 8 | 19,343,500 | 14,439,152 |
| Deferred revenue | 443,359 | 487,987 |
| Other current liabilities | 2,005,985 | 2,564,569 |
| Post-employment benefits - note 9 | 27,557,529 | 25,386,523 |
| Net long-term liabilities - note 10 | 74,557,698 | 42,665,832 |
| | 146,297,532 | 151,711,709 |
| Net Financial Assets | 58,731,148 | 46,719,913 |
| Non-Financial Assets | | |
| Tangible capital assets | 648,981,351 | 629,561,282 |
| Inventories and prepaid expenses | 1,604,836 | 923,223 |
| | 650,586,187 | 630,484,505 |
| Accumulated Surplus - note 11 | 709,317,335 | 677,204,418 |

Signed on behalf of the Municipality:

_____ Mayor

_____ Chief Administrative Officer

See accompanying notes

CORPORATION OF THE CITY OF NIAGARA FALLS, ONTARIO

CONSOLIDATED STATEMENT OF OPERATIONS AND ACCUMULATED SURPLUS

for the year ended December 31, 2011

| | Budget \$ | 2011 \$ | 2010 \$ |
|---|--------------------|--------------------|--------------------|
| Revenues | | | |
| Taxation - note 4 | 61,014,911 | 64,699,084 | 61,848,050 |
| User fees and charges | 49,385,151 | 50,249,379 | 47,787,268 |
| Government of Canada grants | 2,500 | 10,841,019 | 15,425,679 |
| Province of Ontario grants | 2,597,702 | 16,336,712 | 5,409,539 |
| Other municipal grants | | 1,922,079 | 374,042 |
| Provincial Offences Act | 180,000 | 319,927 | 273,554 |
| Interest and penalties | 3,146,000 | 2,723,963 | 2,758,471 |
| Investment income | 1,920,000 | 3,121,311 | 2,968,552 |
| Casino and gaming revenues | 3,000,000 | 3,000,000 | 2,633,333 |
| Change in Niagara Falls Hydro Holding Corporation net income - note 5 | | 2,126,816 | 2,305,047 |
| Niagara Convention & Civic Centre Inc. net loss - note 6 | | (258,310) | (1,053,214) |
| Contributions from Obligatory Reserve Funds | | 2,787,075 | 8,093,216 |
| Other | 2,095,424 | 8,912,860 | 3,606,583 |
| Gain (loss) on disposal of tangible capital assets | | (3,817,214) | 1,709,855 |
| | 123,341,688 | 162,964,701 | 154,139,975 |
| Expenses | | | |
| General government | 15,251,454 | 11,471,284 | 11,347,508 |
| Protection to persons and property | 18,448,564 | 20,315,681 | 19,922,190 |
| Transportation services | 21,713,453 | 32,420,013 | 32,287,904 |
| Environmental services | 31,902,625 | 39,390,882 | 37,782,553 |
| Health services | 1,349,550 | 1,384,202 | 1,411,723 |
| Social and family services | | 902,971 | 853,262 |
| Recreation and cultural services | 15,213,093 | 19,546,353 | 16,295,814 |
| Planning and development | 5,304,753 | 5,420,398 | 5,254,591 |
| | 109,183,492 | 130,851,784 | 125,155,545 |
| Annual Surplus | 14,158,196 | 32,112,917 | 28,984,430 |
| Accumulated Surplus, Beginning of Year | 677,204,418 | 677,204,418 | 648,219,988 |
| Accumulated Surplus, End of Year | 691,362,614 | 709,317,335 | 677,204,418 |

See accompanying notes

CORPORATION OF THE CITY OF NIAGARA FALLS, ONTARIO

CONSOLIDATED STATEMENT OF CASH FLOWS

for the year ended December 31, 2011

| | 2011 \$ | 2010 \$ |
|--|-------------------|-------------------|
| Operations | | |
| Annual surplus | 32,112,917 | 28,984,430 |
| Sources (Uses) | | |
| Change in investments | 4,801,456 | (72,980) |
| Change in taxes receivable | 1,373,450 | (1,352,414) |
| Change in accounts receivable | (935,837) | (2,044,208) |
| Change in user charges receivable | 159,448 | (500,688) |
| Change in long-term receivables | 66,174 | (176,300) |
| Change in inventories and prepaid expenses | (681,613) | 168,597 |
| Change in temporary loans | (35,000,000) | 6,522,574 |
| Change in accounts payable and accrued liabilities | (8,778,185) | 1,998,718 |
| Change in deferred revenue - obligatory reserve funds | 4,904,348 | 711,162 |
| Change in deferred revenue | (44,628) | 180,060 |
| Change in other current liabilities | (558,584) | 1,352,375 |
| Change in post-employment benefits | 2,171,006 | 1,553,407 |
| | (32,522,965) | 8,340,303 |
| Non-cash charges to operations | | |
| Amortization of tangible capital assets | 17,985,205 | 16,148,575 |
| Loss (gain) on disposal of tangible capital assets | 3,817,214 | (1,709,855) |
| | 21,802,419 | 14,438,720 |
| Net increase in cash from operations | 21,392,371 | 51,763,453 |
| Capital | | |
| Proceeds on disposal of tangible capital assets | 1,540,731 | 2,028,812 |
| Acquisition of tangible capital assets | (42,763,219) | (74,868,765) |
| Net decrease in cash from capital activities | (41,222,488) | (72,839,953) |
| Investing | | |
| Change in Niagara Falls Hydro Holding Corporation equity | (2,126,816) | (2,305,047) |
| Change in Niagara Convention & Civic Centre Inc. equity | 258,310 | 1,053,214 |
| Net decrease in cash from investing | (1,868,506) | (1,251,833) |
| Financing | | |
| Long-term debt issued | 36,588,755 | 15,929,441 |
| Long-term debt repaid | (4,696,889) | (3,363,023) |
| Net increase in cash from financing | 31,891,866 | 12,566,418 |
| Increase (Decrease) in Cash Position | 10,193,243 | (9,761,915) |
| Cash Position, Beginning of Year | 38,786,223 | 48,548,138 |
| Cash Position, End of Year | 48,979,466 | 38,786,223 |

See accompanying notes

CORPORATION OF THE CITY OF NIAGARA FALLS, ONTARIO
CONSOLIDATED STATEMENT OF CHANGE IN NET FINANCIAL
ASSETS

for the year ended December 31, 2011

| | 2011 \$ | 2010 \$ |
|---|-------------------|-------------------|
| Annual Surplus | 32,112,917 | 28,984,430 |
| Acquisition of Tangible Capital Assets | (42,763,219) | (74,868,765) |
| Amortization of Tangible Capital Assets | 17,985,205 | 16,148,575 |
| Proceeds on Disposal of Tangible Capital Assets | 1,540,731 | 2,028,812 |
| Loss (Gain) on Disposal of Tangible Capital Assets | 3,817,214 | (1,709,855) |
| Change in Inventories and Prepaid Expenses | (681,613) | 168,597 |
| Increase (Decrease) in Net Financial Assets | 12,011,235 | (29,248,206) |
| Net Financial Assets, Beginning of Year | 46,719,913 | 75,968,119 |
| Net Financial Assets, End of Year | 58,731,148 | 46,719,913 |

See accompanying notes

CORPORATION OF THE CITY OF NIAGARA FALLS, ONTARIO

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

for the year ended December 31, 2011

1. Significant Accounting Policies

The consolidated financial statements of the Corporation of the City of Niagara Falls, Ontario (the "Municipality") are the representations of management prepared in accordance with local government accounting standards established by the Public Sector Accounting Board ("PSAB") of the Canadian Institute of Chartered Accountants with the exception of providing budget figures (note 17).

(a) Basis of consolidation

- (i) These consolidated financial statements reflect the assets, liabilities, revenues and expenses of the operating fund, reserves, reserve funds and changes in investment in tangible capital assets. It includes the activities of all committees of council and the following boards, municipal enterprises and utilities which are under the control of council:

- Library Board
- Waterworks Operation
- Clifton Hill Business Improvement Area
- Downtown Board of Management
- Fallsview Business Improvement Area
- Lundy's Lane Business Improvement Area
- Main & Ferry Business Improvement Area
- Victoria & Centre Business Improvement Area
- Board of Museums - see note 18
- Niagara Chair-A-Van
- Niagara Falls Hydro Holding Corporation
- Niagara Convention & Civic Centre Inc.

The Niagara Falls Hydro Holding Corporation ("NFHHC") and Niagara Convention & Civic Centre Inc. ("NCCCI") are accounted for on a modified equity basis, consistent with the accounting treatment for government business enterprises. Under the modified equity basis, the business enterprise's accounting principles are not adjusted to conform with those of the Municipality, and inter-organizational transactions and balances are not eliminated. The Municipality recognizes its equity interest in the annual income or loss of NFHHC and NCCCI in its "Consolidated Statement of Operations and Accumulated Surplus" with a corresponding increase or decrease in its investment asset account. Any dividends that the Municipality may receive from NFHHC and NCCCI will be reflected as reductions in the investment asset account.

CORPORATION OF THE CITY OF NIAGARA FALLS, ONTARIO

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

for the year ended December 31, 2011

1. Significant Accounting Policies - continued

(a) Basis of consolidation - continued

(ii) Partial-consolidated entity

The following joint local board is proportionately consolidated. See note 14.

Niagara District Airport Commission (Joint Board)

(iii) Accounting for Region and School Board transactions

The taxation, other revenues, expenses, assets and liabilities with respect to the operations of the school boards and the Region of Niagara are not reflected in the municipal fund balances of these consolidated financial statements.

(iv) Trust funds

Trust funds and their related operations administered by the Municipality are not consolidated, but are reported separately on the "Trust Funds Statement of Financial Position and Statement of Financial Activities and Changes in Fund Balances".

(b) Basis of accounting

(i) Revenues and expenses are reported on the accrual basis of accounting.

(ii) The accrual basis of accounting recognizes revenues as they become available and measurable; expenses are recognized as they are incurred and measurable as a result of receipt of goods or services and the creation of a legal obligation to pay.

(iii) Investments

Investments consist of Government of Canada treasury bills and crown corporation bonds; provincial government bonds; and Canadian corporate bonds. Investments are recorded at the lower of cost plus accrued interest and market value.

(iv) Non-financial assets

Non-financial assets are not available to discharge existing liabilities and are held for use in the provision of services. They have useful lives extending beyond the current year, and are not intended for sale in the ordinary course of operations. The change in non-financial assets during the year, together with the excess of revenues over expenses, provides the change in net financial assets for the year.

(v) Tangible capital assets

Tangible capital assets are recorded at cost. Cost includes all directly attributable expenditures in the acquisition, construction, development and/or betterment of the asset required to install the asset at the location.

CORPORATION OF THE CITY OF NIAGARA FALLS, ONTARIO

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

for the year ended December 31, 2011

1. Significant Accounting Policies - continued

(b) Basis of accounting - continued

(v) Tangible capital assets - continued

Amortization is recorded to reflect the cost, net of anticipated residual value, associated with the use of the asset in providing government services on a straight-line basis over the estimated useful life of the asset. Assets under construction are not amortized until the asset is available for productive use, at which time they are capitalized. Gains and/or losses on the disposal of an asset is recorded on the "Consolidated Statement of Operations and Accumulated Surplus" as "gain/loss on disposal of assets".

| <u>Asset Class</u> | <u>Period</u> |
|-------------------------|----------------|
| General Assets | |
| Land | - NIL |
| Land improvements | - 10-60 years |
| Buildings | - 15-100 years |
| Furniture and equipment | - 10-25 years |
| Vehicles | - 6-25 years |
| Infrastructure | |
| Environmental | - 30-100 years |
| Roads | - 10-75 years |
| Water | - 15-100 years |

Tangible assets received as contributions are recorded at their fair market value at the date of receipt and are also recorded as revenue. Similarly, transfers of assets to third parties are recorded as an expense equal to the net book value of the asset as of the date of transfer.

The historical cost of works of art or historical treasures has not been assigned to these assets nor disclosed in the consolidated financial statements.

(vi) Inventories

Inventories are valued at average cost.

(vii) Deferred revenue

Funds received for specific purposes are accounted for as deferred revenue until the Municipality discharges the obligation which led to the receipt of the funds.

(viii) Government transfers

Government transfers are recognized in the period in which the events giving rise to the transfers occur, providing the transfers are authorized, eligibility criteria are met, and reasonable estimates of the amounts can be made.

CORPORATION OF THE CITY OF NIAGARA FALLS, ONTARIO

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

for the year ended December 31, 2011

1. Significant Accounting Policies - continued

(b) Basis of accounting - continued

(ix) Use of estimates

The preparation of the financial statements in conformity with Canadian public sector accounting standards 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 dates of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

2. Operations of School Boards and the Region of Niagara

Further to note 1(a)(iii), the taxation, other revenues, expenses and overlevies of the school boards and the Region of Niagara are comprised of the following:

| | School Boards | | Region | |
|---|---------------|------------|------------|------------|
| | 2011 | 2010 | 2011 | 2010 |
| | \$ | \$ | \$ | \$ |
| Taxation and user charges | 43,602,572 | 44,736,066 | 67,856,193 | 68,625,761 |
| Payments-in-lieu of taxes | 3,016 | 3,218 | 6,500,404 | 6,875,601 |
| Amounts received or receivable | 43,605,588 | 44,739,284 | 74,356,597 | 75,501,362 |
| Requisitions | 43,605,588 | 44,739,284 | 74,356,597 | 75,501,362 |
| Overlevies (Underlevies) at the end of year | | | | |

3. Investments

Investments have a book value of \$ 21,819,419 (\$ 26,620,875 - 2010) and a market value of \$ 22,184,440 (\$ 26,752,539 - 2010).

CORPORATION OF THE CITY OF NIAGARA FALLS, ONTARIO

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

for the year ended December 31, 2011

4. Tax Receivables and Revenues

Property tax billings are prepared by the Municipality based on an assessment roll prepared by the Municipal Property Assessment Corporation ("MPAC"). The property tax receivables and tax revenue of the Municipality are subject to measurement uncertainty as a significant number of appeals submitted by ratepayers have yet to be heard. The Municipality has established an allowance for doubtful accounts in the amount of \$ 920,000 (\$ 920,000 - 2010).

The Province of Ontario instituted a mandatory capping program through the provisions of Bill 79, which limited assessment related increases to 10% in 1998, and an additional 5% in each of 1999 and 2000. Multi-residential, commercial and industrial property owners experiencing decreases were also capped at appropriate levels to fund the phasing-in of increases. The Province has enacted Bill 140, which serves to extend the capping provisions of Bill 79 indefinitely. The legislation limits assessment related increases in property tax bills to 5%.

CORPORATION OF THE CITY OF NIAGARA FALLS, ONTARIO

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

for the year ended December 31, 2011

5. Investment in Niagara Falls Hydro Holding Corporation

| | 2011 \$ | 2010 \$ |
|--|--------------------|--------------------|
| Statement of Financial Position | | |
| Current assets | 42,756,369 | 41,256,479 |
| Capital assets | 118,142,647 | 118,189,002 |
| Other assets | 3,823,691 | 4,770,620 |
| Total Assets | 164,722,707 | 164,216,101 |
| Current liabilities | | |
| Other liabilities | 8,762,348 | 10,712,423 |
| Note payable | 22,000,000 | 22,000,000 |
| Long-term debt | 11,422,756 | 15,751,245 |
| Non-controlling interest - see below | 16,892,902 | 16,430,870 |
| Total Liabilities and Other | 92,356,506 | 93,976,716 |
| Net Assets | 72,366,201 | 70,239,385 |
| Statement of Financial Activities | | |
| Revenues | 144,907,374 | 135,653,360 |
| Operating expenses | 142,191,026 | 132,702,194 |
| Net income before non-controlling interest | 2,716,348 | 2,951,166 |
| Non-controlling interest - see below | 589,532 | 646,119 |
| Net Income | 2,126,816 | 2,305,047 |

On January 1, 2008, Niagara Falls Hydro Inc. ("NFHI") acquired Peninsula West Utilities Limited ("PWUL") by way of amalgamation pursuant to a Merger Agreement dated December 19, 2007 and continued on as Niagara Peninsula Energy Inc. ("NPEI"). Niagara Falls Hydro Holding Corporation received 74.5% of the issued and outstanding common shares of NPEI.

CORPORATION OF THE CITY OF NIAGARA FALLS, ONTARIO

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

for the year ended December 31, 2011

6. Investment in Niagara Convention & Civic Centre Inc.

| | 2011 \$ | 2010 \$ |
|-----------------------------------|------------------|--------------------|
| Statement of Financial Position | | |
| Current assets | 2,051,267 | 1,589,978 |
| Capital assets | 3,389,852 | 112,309 |
| Total assets | 5,441,119 | 1,702,287 |
| Current liabilities | 5,399,389 | 1,402,247 |
| Net Assets | 41,730 | 300,040 |
| Statement of Financial Activities | | |
| Revenues | 3,338,147 | 1,326,113 |
| Operating expenses | 3,596,457 | 2,379,327 |
| Net Loss | (258,310) | (1,053,214) |

The Niagara Convention & Civic Centre Inc. (operating as Scotiabank Convention Centre) (the "Centre") was incorporated in January, 2006 under the laws of the Province of Ontario. The Centre is owned 100% by the Corporation of the City of Niagara Falls, Ontario Fallsview Business Improvement Area. The Centre was organized to obtain financing for a convention and civic centre facility to be owned by the Corporation of the City of Niagara Falls, Ontario. The Centre operates the facility on a non-profit basis with any potential operating shortfalls or future capital requirements covered by a fund established primarily by the Corporation of the City of Niagara Falls, Ontario Fallsview Business Improvement Area, as well as the Corporation of the City of Niagara Falls, Ontario Victoria/Centre Business Improvement Area, the Niagara Parks Commission and the Niagara Falls Bridge Commission. The Centre opened on April 8, 2011.

CORPORATION OF THE CITY OF NIAGARA FALLS, ONTARIO

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

for the year ended December 31, 2011

6. Investment in Niagara Convention & Civic Centre Inc. - continued

The Corporation of the City of Niagara Falls, Ontario Fallsview Business Improvement Area is committed to funding the Centre \$ 15,000,000, the Corporation of the City of Niagara Falls, Ontario Victoria/Centre Business Improvement Area is committed to funding the Centre \$1,500,000, the Niagara Parks Commission is committed to funding the Centre \$ 375,000, subject to certain criteria being met on an annual basis and the Niagara Falls Bridge Commission is committed to funding the Centre \$ 125,000. All amounts are payable over fifteen years.

The construction of the Centre has a budget of \$ 84,600,000. This is to be funded through grants to be received from various sources. \$ 35,000,000 was committed and received from the Federal Government as at December 31, 2011 (2010 - \$ 28,938,025). \$ 35,000,000 was committed and received from the Province of Ontario and \$ 14,600,000 was received from Fallsview Management Corporation, both, as at December 31, 2009. See note 15.

7. Credit Facilities

The Municipality has an authorized operating loan due on demand of \$ 15,500,000 ("Facility #1") bearing interest at prime less 0.5% to assist with general operating requirements and to finance current expenditures. An authorized revolving term loan due on demand of \$ 35,000,000 ("Facility #2") bearing interest at 2.18% to assist in financing construction of a new four pad arena complex. A credit facility of \$ 2,000,000 ("Facility #3") related to commercial cards &/or Scotia VISA business cards whose availment and interest rate are per cardholder agreement. An authorized revolving term loan due on demand of \$ 1,000,000 ("Facility #4") bearing interest at prime less 0.25% to assist in financing the Community Improvement Program. As at December 31, 2011, \$ Nil has been drawn on Facility's #1, #2 and #4. All credit facilities are secured by a borrowing by-law/resolution(s) containing a pledge of revenues and a general security agreement.

8. Deferred Revenue - Obligatory Reserve Funds

The following balances are reflected as deferred revenue - obligatory reserve funds as provincial legislation restricts how these funds may be used and under certain circumstances these funds may be refunded.

| | 2011 | 2010 |
|-------------------------------------|-------------------|-------------------|
| | \$ | \$ |
| 2% Parkland dedication | 1,130,547 | 1,166,525 |
| Public purpose | 561,425 | 408,778 |
| Federal gas tax rebate - transit | 4,127,166 | 2,248,284 |
| Provincial gas tax rebate - transit | 947,387 | 347,923 |
| Discounted development charges | 2,449,109 | 2,133,978 |
| Non-discounted development charges | 10,127,866 | 8,133,664 |
| | 19,343,500 | 14,439,152 |

CORPORATION OF THE CITY OF NIAGARA FALLS, ONTARIO

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

for the year ended December 31, 2011

9. Post-Employment Benefits

| | 2011 \$ | 2010 \$ |
|-------------------------------------|-------------------|-------------------|
| Post-employment benefits | 17,317,460 | 16,270,617 |
| Accumulated sick leave | 4,456,464 | 4,340,859 |
| WSIB - Schedule II future liability | 4,262,884 | 3,309,257 |
| Vacation pay | 1,520,721 | 1,465,790 |
| | 27,557,529 | 25,386,523 |

Post-Employment Benefits and Accumulated Sick Leave

The Municipality pays certain medical, dental and life insurance benefits on behalf of its retired employees. The Municipality recognizes these post-retirement costs in the period in which the employees renders the services.

As a result of actuarial valuations on post-employment benefits, it was determined that actuarial loss of \$ 3,072,681 existed. This amount is being amortized over the expected average remaining service lives of several employee groups. The unamortized value is \$ 2,071,932. The actual obligation is \$ 19,389,392.

Under the Municipality's sick leave benefit plan, unused sick leave can accumulate and employees may become entitled to a cash payment when they leave the Municipality's employment.

As a result of actuarial valuations on the accumulated sick leave liability, it was determined that actuarial loss of \$ 264,175 existed. This amount is being amortized over the expected average remaining service lives of several employee groups. The unamortized value is \$ 237,218. The actual obligation is \$ 4,693,682.

A reserve fund has been established for the accumulated sick leave liability. The balance as at December 31, 2011 is \$ 1,282,574 (\$ 1,236,421 - 2010).

The liabilities for post-employment benefits and accumulated sick leave as reflected in these consolidated financial statements have been determined on an actuarial basis using a discount rate of 4.75% and an inflation rate of 3%.

Workplace Safety and Insurance Board - Schedule II Future Liability

The Municipality has elected to be treated as a Schedule II employer and as such, is required to remit payments to the Workplace Safety and Insurance Board ("WSIB") to fund disability payments. The liability as reflected in these consolidated financial statements has been determined on an actuarial basis using a discount rate of 4.75% and an inflation rate of 3%.

As a result of an actuarial valuation on the WSIB - Schedule II liability, it was determined that an actuarial loss of \$ 3,329,097 existed. This amount is being amortized over the expected average remaining service lives of several employee groups. The unamortized value is \$ 3,034,292. The actual obligation is \$ 7,297,176.

A reserve fund has been established for this liability. The balance as at December 31, 2011 is \$ 855,335 (\$ 786,217 - 2010).

The next valuation for all benefit groups is for the year ending December 31, 2014.

CORPORATION OF THE CITY OF NIAGARA FALLS, ONTARIO

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

for the year ended December 31, 2011

9. Post-Employment Benefits - continued

Vacation Pay

As at December 31, 2011, employees of the Municipality have accumulated vacation pay credits in the amount of \$ 1,520,721 (\$ 1,465,790 - 2010). Any unused credits may be carried forward to future years.

Pension Agreements

The Municipality makes contributions to the Ontario Municipal Employees Retirement System ("OMERS"), which is a multi-employer plan, on behalf of its staff. 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.

The amount contributed to OMERS for 2011 was \$ 3,134,758 (\$ 2,761,629 - 2010) for current services.

10. Net Long-Term Liabilities

- (a) The balance of net long-term liabilities reported on the "Consolidated Statement of Financial Position" is made up as follows:

| | 2011 \$ | 2010 \$ |
|---|-------------------|-------------------|
| Total long-term liabilities incurred by the Municipality including those incurred on behalf of school boards, other municipalities and municipal enterprises and outstanding during the year is | 74,557,698 | 42,665,832 |
| Net long-term liabilities, end of year | 74,557,698 | 42,665,832 |

- (b) Of the net long-term liabilities reported in (a) of this note, principal payments are due as follows:

| | \$ |
|------------|------------|
| 2012 | 5,171,113 |
| 2013 | 4,996,611 |
| 2014 | 4,718,011 |
| 2015 | 4,404,599 |
| 2016 | 4,403,284 |
| Thereafter | 50,864,080 |

CORPORATION OF THE CITY OF NIAGARA FALLS, ONTARIO

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

for the year ended December 31, 2011

10. Net Long-Term Liabilities - continued

- (c) The long-term liabilities in (a) issued in the name of the municipality have received approval of the Ontario Municipal Board for those approved on or before December 31, 1992. Those issued after January 1, 1993 have been approved by by-law. The annual principal and interest payments required to service these liabilities are within the annual debt repayment limit prescribed by the Ministry of Municipal Affairs and Housing.
- (d) Interest charges of \$ 3,340,260 (\$ 1,703,704 - 2010) are included on the "Consolidated Statement of Operations and Accumulated Surplus", classified under the appropriate functional expense heading.

11. Accumulated Surplus

| | 2011 \$ | 2010 \$ |
|--|----------------------|---------------------|
| Invested in tangible capital assets | 665,668,009 | 602,795,762 |
| Operating fund | 6,686,901 | 6,400,904 |
| Reserves and reserve funds | 44,669,721 | 43,520,682 |
| Niagara Falls Hydro Holding Corporation net equity | 94,366,201 | 92,239,385 |
| Niagara Convention & Civic Centre Inc. net equity | 41,730 | 300,040 |
| | 811,432,562 | 745,256,773 |
| Amount to be recovered - post-employment benefits | (27,557,529) | (25,386,523) |
| Amount to be recovered - net long-term liabilities | (74,557,698) | (42,665,832) |
| | (102,115,227) | (68,052,355) |
| | 709,317,335 | 677,204,418 |

CORPORATION OF THE CITY OF NIAGARA FALLS, ONTARIO

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

for the year ended December 31, 2011

11. Accumulated Surplus - continued

| (a) Operating fund balance | 2011 | 2010 |
|--|------------------|------------------|
| | \$ | \$ |
| For general reduction of taxation | 935,055 | 657,814 |
| For general reduction of user charges respecting waterworks | 848,829 | 886,485 |
| For general reduction of user charges respecting sewers | 1,757,101 | 1,669,442 |
| For general use by Library Board | 232,605 | 146,239 |
| For general use by the Business Improvement Areas | 2,831,846 | 2,577,337 |
| For general use by the Board of Museums | | 275,530 |
| For general use by Airport Commission | 81,465 | 188,057 |
| | 6,686,901 | 6,400,904 |

| (b) Reserves and reserve fund balances | 2011 | 2010 |
|---|------------|------------|
| | \$ | \$ |
| Reserves set aside by council for specific purposes: | | |
| Special purposes | 21,264,815 | 18,635,837 |
| Working capital | 265,000 | 265,000 |
| Water capital | 947,163 | 947,163 |
| Sewage capital | 6,306,587 | 2,568,532 |
| Total Reserves | 28,783,565 | 22,416,532 |

CORPORATION OF THE CITY OF NIAGARA FALLS, ONTARIO

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

for the year ended December 31, 2011

11. Accumulated Surplus - continued

(b) Reserves and reserve fund balances - continued

| | 2011 \$ | 2010 \$ |
|---|-------------------|-------------------|
| Reserve Funds set aside by council for specific purposes: | | |
| Licence agreements - 40 years | 31,916 | 35,312 |
| Sick leave liability | 1,282,574 | 1,236,421 |
| Lundy's Lane Battlefield debt retirement | | 15,947 |
| WSIB - Schedule II | 855,335 | 786,217 |
| Recreation trail development | 78,220 | 73,071 |
| Capital/Operations - see note 13 | 7,169,665 | 7,155,847 |
| Tree planting - developers | 29,712 | 1,285 |
| Park development | 239 | 17,483 |
| Sewer and water impost | 1,439,951 | 1,388,046 |
| Expansion and renewal | 249,906 | 238,902 |
| Drainage | 691,318 | 667,305 |
| Prepaid works projects contributions | 218,737 | 210,859 |
| Sidewalk construction | 56,881 | 344,073 |
| Future municipal works | 893,254 | 861,048 |
| Lot drainage | 175,115 | 168,861 |
| Library funds | 982,477 | 978,891 |
| Sanitary | 425,734 | 410,445 |
| Sports fund | 5,069 | 4,960 |
| Projects - special needs children | 16,170 | 15,642 |
| Parking | 524,835 | 585,705 |
| Collins/Toby debt retirement | | 11,020 |
| Coat of Arm's | 2,334 | 2,286 |
| Lundy's Lane business improvement purposes | 117,056 | 117,056 |
| Board of Museum purposes | 171,968 | 171,967 |
| Niagara Tunnel Community Improvement | 149,065 | 147,331 |
| Water patrol boat | 33,657 | 32,470 |
| Branscombe Family Grant | 3,817 | 3,734 |
| Convention Centre | | 5,161,887 |
| Fire department radios debenture | 42,131 | 48,479 |
| Fire department aerial firetruck debenture | 123,216 | 140,250 |
| Niagara Sports Foundation | 228 | 356 |
| Chippawa Arena debenture surplus | 34,250 | 38,306 |
| Kalar Park turf debenture surplus | 81,326 | 32,688 |
| Total Reserve Funds | 15,886,156 | 21,104,150 |
| Total Reserves and Reserve Funds | 44,669,721 | 43,520,682 |

CORPORATION OF THE CITY OF NIAGARA FALLS, ONTARIO

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

for the year ended December 31, 2011

11. Accumulated Surplus - continued

(c) Niagara Falls Hydro Holding Corporation net equity

| | 2011 \$ | 2010 \$ |
|--|-------------------|-------------------|
| Niagara Falls Hydro Holding Corporation net equity | 94,366,201 | 92,239,385 |

(d) Niagara Convention & Civic Centre Inc. net equity

| | 2011 \$ | 2010 \$ |
|---|---------------|----------------|
| Niagara Convention & Civic Centre Inc. net equity | 41,730 | 300,040 |

12. Trust Funds

Trust funds administered by the Municipality amounting to \$ 3,106,608 (\$ 3,017,949 - 2010) have not been included in the "Consolidated Statement of Financial Position" nor have their operations been included in the "Consolidated Statement of Operations and Accumulated Surplus".

13. Contractual Obligations and Commitments

Capital Expenditures

The estimated future capital expenditures based on projects in progress at December 31, 2011 is approximately \$ 79,008,479 (\$ 38,111,543 - 2010) after deducting the expenditures incurred as at December 31, 2011. These projects will be financed by grants, subsidies and long-term liabilities in future years.

International Railway Bridge

The Municipality, as a condition of the purchase of the CN/CP Railway Corridor, has the responsibility for the costs of demolition of the International Railway Bridge by December 2016. This condition is subject to being waived if the bridge is subsequently sold to a third party or if demolition procedures have not commenced by CN/CP prior to December 2016. The Municipality has set aside a reserve fund (Capital/Operations) amount of \$ 4,000,000 increasing each year by the amount of the Consumer Price Index for this purpose. In addition, the Municipality is committed to reimburse CN/CP the lesser of the actual maintenance costs incurred on the International Railway Bridge or \$ 100,000 on an annual basis until December 2016.

Loan Guarantee

In 2010, the Municipality guaranteed a \$ 400,000 line of credit for the Winter Festival of Lights. This credit is to be reduced by \$ 100,000 annually beginning in 2011 and each year thereafter. The line of credit as at December 31, 2011 is \$ 300,000.

CORPORATION OF THE CITY OF NIAGARA FALLS, ONTARIO

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

for the year ended December 31, 2011

14. Contributions to Joint Board

Further to note 1 (a)(ii) the following contributions were made by the Municipality to:

| | 2011 | 2010 |
|-------------------------------------|---------------|---------------|
| | \$ | \$ |
| Niagara District Airport Commission | 89,291 | 89,291 |

The Municipality's share of the net assets of the Niagara District Airport Commission is approximately 36%.

15. Contingent Liabilities

Legal

The Municipality has been named as one of several defendants in a legal action seeking \$ 20,000,000 for loss or damage to property and lost revenue. The Municipality's maximum insurance coverage per claim at the time of the suit was \$ 15,000,000. The Municipality is also being sued for aggravated and punitive damages in the amount of \$ 5,000,000. There is no insurance coverage for punitive damages. The Municipality's legal counsel is unable to assess the potential liability, if any, resulting from this action. Any settlement will be reflected as a charge to operations in the year incurred.

The Municipality has been named as one of several defendants in a legal action seeking \$ 21,200,000 for general and special damages. The Municipality's maximum insurance coverage per claim at the time of the suit was \$ 20,000,000. The Municipality's legal counsel is unable to assess the potential liability, if any, resulting from this action. Any settlement will be reflected as a charge to operations in the year incurred.

No provision for possible loss has been included in these consolidated financial statements.

As at December 31, 2011, the Municipality has certain other legal claims outstanding. It is management's assertion that adequate defences and insurance coverages are in effect for the settlement of these claims, if necessary.

Niagara Convention & Civic Centre Inc. ("Scotiabank Convention Centre")

The City must notify the Government of Canada and the Province of Ontario in writing, if at any time during a period of twenty five years from the date of completion of the Scotiabank Convention Centre, the City proposes to sell, lease, encumber or otherwise dispose directly or indirectly, of any part of the Scotiabank Convention Centre. The City is contingently liable for a proportionate amount of funds contributed by the Government of Canada and the Province of Ontario.

CORPORATION OF THE CITY OF NIAGARA FALLS, ONTARIO

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

for the year ended December 31, 2011

16. Segmented Reporting

The Municipality is a lower tier municipal government that provides a wide range of services to its citizens. Segmented information has been identified based on functional classification as categorized by the Financial Information Return. These classifications are as follows:

General Government

The mandate of this functional area is to provide political governance, administrative executive management and those expenses and revenues which are corporate in nature and cannot be easily apportioned to other departments. Reported in this functional area are departments such as Council, Clerks, CAO, Finance, Human Resources, Legal, Information Systems and Capital Assets.

Protection

Reported in this functional area are Fire and Building Services. The mandate of Fire Services is to provide emergency services through a range of services to protect the lives and property of the inhabitants of the Municipality. The mandate of Building Services is to inform and assist customers to ensure safe and orderly development and provide efficient delivery of building approvals, inspections and management systems.

Transportation

Reported in this functional area are Roads and Works and Transit Services. The mandate for Roads and Works is to provide quality road and traffic maintenance and operations to the residents and businesses of the Municipality. This area is also responsible for winter control. The mandate of the Transit is to provide a safe, reliable, convenient and efficient public transportation system within the urban area.

Environment

Reported in this functional area are Sanitary, Storm and Water Systems. The mandate is to provide a safe and reliable water resource system and is responsible for the maintenance and operation of the systems and monitoring and administering environmental programs.

Health

Reported in this area is Cemetery Services. The mandate is to ensure the benefit and protection of each citizen who has purchased or has an interest in internment rights within each cemetery.

Recreation and Culture

Reported in this functional area are Parks, Recreation and Culture. The Parks department is responsible for the maintenance, improvement and beautification of various parks as well as the planning and construction of new parkland and open space. The Recreation and Culture departments are responsible for the delivery of various related programs and the provision of facilities as well as the support of groups and organizations throughout the Municipality.

CORPORATION OF THE CITY OF NIAGARA FALLS, ONTARIO

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

for the year ended December 31, 2011

16. Segmented Reporting - continued

Planning and Development

The Planning department creates the policy framework and implementation tools required to shape the future of the Municipality. The Development department is responsible for ensuring that the Municipality's land development standards are achieved on all development applications.

For each reported segment, revenues and expenses represent both amounts that are directly attributable to the segment and amounts that are allocated on a reasonable basis. The accounting policies used in these segments are consistent with those followed in the preparation of the consolidated financial statements. See note 17 for a discussion on the budgeted figures provided.

17. Budget Figures

The approved operating budget for 2011 is reflected on the "Consolidated Statement of Operations and Accumulated Surplus". These numbers have not been audited but are presented for information purposes only. The budgets established for capital funds, reserves and reserve funds are on a project-oriented basis, the costs of which may be carried out over one or more years. As such, they are not directly comparable with current year actual amounts and have not been reflected. Budget figures have been reclassified to comply with PSAB reporting requirements.

18. City of Niagara Falls Board of Museums

Effective February 28, 2011, the City of Niagara Falls Board of Museums was dissolved. The operations were then taken over by the Municipality

CORPORATION OF THE CITY OF NIAGARA FALLS, ONTARIO

SCHEDULE OF SEGMENTED REPORTING

for the year ended December 31, 2011

| | General Government 2011 Budget \$ | General Government 2011 Actual \$ | General Government 2010 Actual \$ | Protection 2011 Budget \$ | Protection 2011 Actual \$ | Protection 2010 Actual \$ | Transportation 2011 Budget \$ | Transportation 2011 Actual \$ | Transportation 2010 Actual \$ | Environment 2011 Budget \$ | Environment 2011 Actual \$ | Environment 2010 Actual \$ |
|---|---|---|---|------------------------------------|------------------------------------|------------------------------------|--|--|--|-------------------------------------|-------------------------------------|-------------------------------------|
| Revenues | | | | | | | | | | | | |
| Taxation | 61,014,911 | 64,699,084 | 61,848,050 | - | - | - | - | - | - | - | - | - |
| User fees and charges | 610,110 | 829,190 | 878,048 | 1,584,732 | 1,371,569 | 1,273,188 | 4,413,440 | 4,955,253 | 4,146,227 | 40,383,097 | 40,490,773 | 38,990,901 |
| Government grants | 2,270,200 | 8,175,785 | 16,589,735 | - | - | - | 65,000 | 18,159,457 | 3,082,439 | - | 1,998 | 2,212 |
| Other | 8,200,500 | 11,571,529 | 9,431,519 | - | 54,825 | 70,051 | 1,400,667 | 3,064,961 | 7,035,186 | 3,000 | 4,770,941 | 958,522 |
| Government business enterprises | - | 1,868,506 | 1,251,833 | - | - | - | - | - | - | - | - | - |
| Gain (loss) on disposal of tangible capital assets | - | (4,256,668) | 483,106 | - | (129,488) | 7,731 | - | 741,607 | 959,140 | - | 3,100 | 74,251 |
| | 72,095,721 | 82,887,426 | 90,482,291 | 1,584,732 | 1,296,906 | 1,350,970 | 5,879,107 | 26,921,278 | 15,222,992 | 40,386,097 | 45,266,812 | 40,025,886 |
| Expenditures | | | | | | | | | | | | |
| Salaries and wages | 8,921,166 | 8,892,404 | 8,583,730 | 16,789,620 | 16,702,984 | 16,497,495 | 13,323,043 | 14,931,017 | 14,077,887 | 3,508,200 | 3,436,697 | 3,520,746 |
| Operating materials and supplies | 5,096,123 | 4,122,682 | 3,833,504 | 822,424 | 1,038,456 | 1,546,375 | 5,237,669 | 5,831,710 | 6,386,481 | 938,578 | 1,261,523 | 1,350,023 |
| Contracted services | 751,938 | 1,183,359 | 1,298,539 | 525,562 | 550,808 | 73,909 | 2,806,713 | 3,353,226 | 3,220,009 | 26,406,603 | 26,238,935 | 24,945,661 |
| Rents and financial expenses | 420,100 | 198,827 | 194,851 | 101,500 | 78,473 | 131,674 | 25,052 | 29,656 | 35,249 | 386,500 | 315,317 | 215,548 |
| Interfunctional transfer | - | (3,705,865) | (3,252,888) | - | 1,035,736 | 491,642 | - | 1,811,228 | 1,950,144 | - | 432,524 | 388,898 |
| External transfer | 8,000 | 500 | 4,365 | - | - | 452,542 | - | 22,323 | 103,296 | - | - | - |
| Amortization | - | 730,155 | 622,201 | - | 674,201 | 503,758 | - | 6,143,886 | 6,158,687 | - | 7,057,883 | 7,036,612 |
| Debt service | 54,127 | 49,222 | 63,206 | 209,458 | 235,023 | 224,795 | 320,976 | 296,967 | 356,151 | 662,744 | 648,003 | 325,065 |
| | 15,251,454 | 11,471,284 | 11,347,508 | 18,448,564 | 20,315,681 | 19,922,190 | 21,713,453 | 32,420,013 | 32,287,904 | 31,902,625 | 39,390,882 | 37,782,553 |
| Annual Surplus (Deficit) | 56,844,267 | 71,416,142 | 79,134,783 | (16,863,832) | (19,018,775) | (18,571,220) | (15,834,346) | (5,498,735) | (17,064,912) | 8,483,472 | 5,875,930 | 2,243,333 |

See accompanying notes

CORPORATION OF THE CITY OF NIAGARA FALLS, ONTARIO

SCHEDULE OF SEGMENTED REPORTING

for the year ended December 31, 2011

| | Health 2011 Budget \$ | Health 2011 Actual \$ | Health 2010 Actual \$ | Recreation/ Culture 2011 Budget \$ | Recreation/ Culture 2011 Actual \$ | Recreation/ Culture 2010 Actual \$ | Planning/ Development 2011 Budget \$ | Planning/ Development 2011 Actual \$ | Planning/ Development 2010 Actual \$ | Total 2011 Budget \$ | Total 2011 Actual \$ | Total 2010 Actual \$ |
|---|--------------------------------|--------------------------------|--------------------------------|--|--|--|--|--|--|-------------------------------|-------------------------------|-------------------------------|
| Revenues | | | | | | | | | | | | |
| Taxation | - | - | - | - | - | - | - | - | - | 61,014,911 | 64,699,084 | 61,848,050 |
| User fees and charges | - | 527,765 | 398,928 | 2,178,046 | 1,801,106 | 1,837,673 | 215,726 | 273,723 | 262,303 | 49,385,151 | 50,249,379 | 47,787,268 |
| Government grants | - | - | - | 205,002 | 2,934,849 | 1,521,716 | 60,000 | 147,648 | 13,158 | 2,600,202 | 29,419,737 | 21,209,260 |
| Other | - | 184,111 | 138,592 | 737,257 | 889,185 | 2,497,646 | - | 9,657 | 202,193 | 10,341,424 | 20,545,209 | 20,333,709 |
| Government business enterprises | - | - | - | - | - | - | - | - | - | - | 1,868,506 | 1,251,833 |
| Gain (loss) on disposal of tangible capital assets | - | 136,701 | 180,771 | - | (311,885) | 4,856 | - | (581) | - | - | (3,817,214) | 1,709,855 |
| | - | 848,577 | 718,291 | 3,120,305 | 5,313,255 | 5,861,891 | 275,726 | 430,447 | 477,654 | 123,341,688 | 162,964,701 | 154,139,975 |
| Expenditures | | | | | | | | | | | | |
| Salaries and wages | 1,037,050 | 1,316,267 | 1,328,598 | 8,885,067 | 8,454,668 | 8,091,144 | 1,730,675 | 1,842,928 | 1,713,960 | 54,194,821 | 55,576,965 | 53,813,560 |
| Operating materials and supplies | 150,900 | 256,985 | 223,303 | 3,006,289 | 4,697,715 | 4,808,669 | 128,010 | 88,742 | 82,679 | 15,379,993 | 17,297,813 | 18,231,034 |
| Contracted services | 97,900 | 101,983 | 90,640 | 498,843 | 498,474 | 220,069 | 763,050 | 767,099 | 73,373 | 31,850,609 | 32,693,884 | 29,922,200 |
| Rents and financial expenses | 13,700 | 30,831 | 22,192 | 114,139 | 104,902 | 97,313 | 39,000 | 213,978 | 358,265 | 1,099,991 | 971,984 | 1,055,092 |
| Interfunctional transfer | - | 109,586 | 99,434 | - | 301,251 | 318,333 | - | 15,540 | 4,437 | - | - | - |
| External transfer | 50,000 | 419,083 | 448,983 | 414,424 | 123,521 | 320,371 | 2,644,018 | 2,420,246 | 2,951,823 | 3,116,442 | 2,985,673 | 4,281,380 |
| Amortization | - | 52,438 | 51,835 | - | 3,254,777 | 1,705,428 | - | 71,865 | 70,054 | - | 17,985,205 | 16,148,575 |
| Debt service | - | - | - | 2,294,331 | 2,111,045 | 734,487 | - | - | - | 3,541,636 | 3,340,260 | 1,703,704 |
| | 1,349,550 | 2,287,173 | 2,264,985 | 15,213,093 | 19,546,353 | 16,295,814 | 5,304,753 | 5,420,398 | 5,254,591 | 109,183,492 | 130,851,784 | 125,155,545 |
| Annual Surplus (Deficit) | (1,349,550) | (1,438,596) | (1,546,694) | (12,092,788) | (14,233,098) | (10,433,923) | (5,029,027) | (4,989,951) | (4,776,937) | 14,158,196 | 32,112,917 | 28,984,430 |

See accompanying notes

CORPORATION OF THE CITY OF NIAGARA FALLS, ONTARIO

SCHEDULES OF TANGIBLE CAPITAL ASSETS

for the year ended December 31, 2011

| | Cost | | | Balance, End of Year | Balance, Beginning of Year | Accumulated Amortization | | Balance, End of Year | Net Book Value |
|--------------------------|----------------------------------|--------------------|--------------------|----------------------------|----------------------------------|--------------------------|------------------|----------------------------|----------------------|
| | Balance, Beginning of Year | Additions | Disposals | | | Amortization | Disposals | | |
| | \$ | \$ | \$ | \$ | \$ | \$ | \$ | \$ | \$ |
| General | | | | | | | | | |
| Land | 6,395,850 | 10,421,727 | 2 | 16,817,575 | | | | | 16,817,575 |
| Land improvements | 9,952,907 | 6,759,123 | 64,647 | 16,647,383 | 3,751,027 | 508,213 | 64,647 | 4,194,593 | 12,452,790 |
| Buildings | 74,348,850 | 71,422,158 | 1 | 145,771,007 | 16,955,557 | 2,260,289 | 1 | 19,215,845 | 126,555,162 |
| Furniture and equipment | 9,564,022 | 7,611,631 | 438,037 | 16,737,616 | 4,361,144 | 1,462,253 | 421,203 | 5,402,194 | 11,335,422 |
| Vehicles | 32,776,953 | 1,491,231 | 1,227,161 | 33,041,023 | 18,013,538 | 2,254,980 | 1,218,073 | 19,050,445 | 13,990,578 |
| | 133,038,582 | 97,705,870 | 1,729,848 | 229,014,604 | 43,081,266 | 6,485,735 | 1,703,924 | 47,863,077 | 181,151,527 |
| Infrastructure | | | | | | | | | |
| Environmental | 408,760,713 | 2,364,475 | 7,285 | 411,117,903 | 132,685,287 | 5,235,419 | 4,512 | 137,916,194 | 273,201,709 |
| Roads | 172,748,198 | 1,000,727 | 530,882 | 173,218,043 | 89,069,964 | 4,512,794 | 329,985 | 93,252,773 | 79,965,270 |
| Water | 107,752,194 | 2,020,160 | 164,784 | 109,607,570 | 38,739,775 | 1,751,257 | 152,953 | 40,338,079 | 69,269,491 |
| | 689,261,105 | 5,385,362 | 702,951 | 693,943,516 | 260,495,026 | 11,499,470 | 487,450 | 271,507,046 | 422,436,470 |
| Work in Progress | 110,837,887 | 37,495,070 | 102,939,603 | 45,393,354 | | | | | 45,393,354 |
| December 31, 2011 | 933,137,574 | 140,586,302 | 105,372,402 | 968,351,474 | 303,576,292 | 17,985,205 | 2,191,374 | 319,370,123 | 648,981,351 |

See accompanying notes

CORPORATION OF THE CITY OF NIAGARA FALLS, ONTARIO

SCHEDULES OF TANGIBLE CAPITAL ASSETS

for the year ended December 31, 2011

| | Cost | | | Balance, End of Year | Balance, Beginning of Year | Accumulated Amortization | | Balance, End of Year | Net Book Value |
|--------------------------|----------------------------------|-------------------|------------------|----------------------------|----------------------------------|--------------------------|------------------|----------------------------|----------------------|
| | Balance, Beginning of Year | Additions | Disposals | | | Amortization | Disposals | | |
| | \$ | \$ | \$ | \$ | \$ | \$ | \$ | \$ | \$ |
| General | | | | | | | | | |
| Land | 2,962,498 | 3,718,353 | 285,001 | 6,395,850 | | | | | 6,395,850 |
| Land improvements | 7,530,498 | 2,467,924 | 45,515 | 9,952,907 | 3,487,221 | 308,411 | 44,605 | 3,751,027 | 6,201,880 |
| Buildings | 40,407,376 | 33,941,474 | | 74,348,850 | 15,992,964 | 962,593 | | 16,955,557 | 57,393,293 |
| Furniture and equipment | 7,224,490 | 2,701,816 | 362,284 | 9,564,022 | 3,722,905 | 1,000,523 | 362,284 | 4,361,144 | 5,202,878 |
| Vehicles | 32,501,011 | 978,734 | 702,792 | 32,776,953 | 16,425,415 | 2,285,360 | 697,237 | 18,013,538 | 14,763,415 |
| | 90,625,873 | 43,808,301 | 1,395,592 | 133,038,582 | 39,628,505 | 4,556,887 | 1,104,126 | 43,081,266 | 89,957,316 |
| Infrastructure | | | | | | | | | |
| Environmental | 397,139,298 | 11,621,415 | | 408,760,713 | 127,469,454 | 5,215,833 | | 132,685,287 | 276,075,426 |
| Roads | 171,682,162 | 1,158,387 | 92,351 | 172,748,198 | 84,498,819 | 4,642,960 | 71,815 | 89,069,964 | 83,678,234 |
| Water | 106,925,710 | 840,646 | 14,162 | 107,752,194 | 37,014,087 | 1,732,895 | 7,207 | 38,739,775 | 69,012,419 |
| | 675,747,170 | 13,620,448 | 106,513 | 689,261,105 | 248,982,360 | 11,591,688 | 79,022 | 260,495,026 | 428,766,079 |
| Work in Progress | 93,397,871 | 17,440,016 | | 110,837,887 | | | | | 110,837,887 |
| December 31, 2010 | 859,770,914 | 74,868,765 | 1,502,105 | 933,137,574 | 288,610,865 | 16,148,575 | 1,183,148 | 303,576,292 | 629,561,282 |

See accompanying notes

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INDEPENDENT AUDITORS' REPORT - TRUST FUNDS

To the Members of Council, Inhabitants and Ratepayers
of the Corporation of the City of Niagara Falls, Ontario

We have audited the accompanying financial statements of the trust funds of the Corporation of the City of Niagara Falls, Ontario, which comprise the statement of financial position as at December 31, 2011 and the statement of financial activities and changes in fund balances for the year then ended and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian public sector accounting standards, 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.

Auditors' Responsibility

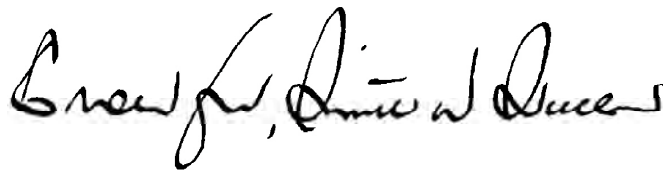
Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable 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 auditors' 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 auditors consider 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 have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the trust funds of the Corporation of the City of Niagara Falls, Ontario as at December 31, 2011 and the continuity of trust funds for the year then ended in accordance with Canadian public sector accounting standards.

A handwritten signature in black ink, appearing to read "Crawford, Smith and Swallow". The signature is written in a cursive, flowing style.

Niagara Falls, Ontario
October 15, 2012

CRAWFORD, SMITH AND SWALLOW
CHARTERED ACCOUNTANTS LLP
LICENSED PUBLIC ACCOUNTANTS

CORPORATION OF THE CITY OF NIAGARA FALLS, ONTARIO

STATEMENT OF FINANCIAL POSITION - TRUST FUNDS

December 31, 2011

| | Total \$ | Ontario Home Renewal Plan \$ | Cemetery Perpetual Care \$ | Other \$ |
|--|------------------|--|-------------------------------------|---------------|
| Assets | | | | |
| Cash | 542,476 | | 530,251 | 12,225 |
| Investments - note 2 | | | | |
| Federal | 690,701 | | 690,701 | |
| Provincial | 1,202,157 | | 1,202,157 | |
| Corporate | 823,583 | | 822,383 | 1,200 |
| | 2,716,441 | | 2,715,241 | 1,200 |
| | 3,258,917 | | 3,245,492 | 13,425 |
| Liabilities and Fund Balances | | | | |
| Due to operating fund | 152,309 | | 157,836 | (5,527) |
| Fund balances | 3,106,608 | | 3,087,656 | 18,952 |
| | 3,258,917 | | 3,245,492 | 13,425 |

See accompanying notes

CORPORATION OF THE CITY OF NIAGARA FALLS, ONTARIO

STATEMENT OF FINANCIAL ACTIVITIES AND CHANGES IN FUND BALANCES - TRUST FUNDS

for the year ended December 31, 2011

| | Total \$ | Ontario Home Renewal Plan \$ | Cemetery Perpetual Care \$ | Other \$ |
|-------------------------------------|------------------|--|-------------------------------------|---------------|
| Balance, Beginning of Year | 3,017,949 | 18,082 | 2,986,457 | 13,410 |
| Receipts | | | | |
| Brock University Students' Union | 5,757 | | | 5,757 |
| Cemetery lot receipts | 101,199 | | 101,199 | |
| Interest | 168,089 | 211 | 165,766 | 2,112 |
| | 275,045 | 211 | 266,965 | 7,869 |
| Expenditures | | | | |
| Bank charges | 2,111 | 1 | | 2,110 |
| Cemetery care | 165,766 | | 165,766 | |
| Transfer to operating fund | 18,509 | 18,292 | | 217 |
| | 186,386 | 18,293 | 165,766 | 2,327 |
| Balance, End of Year | 3,106,608 | | 3,087,656 | 18,952 |

See accompanying notes

CORPORATION OF THE CITY OF NIAGARA FALLS, ONTARIO

NOTES TO FINANCIAL STATEMENTS - TRUST FUNDS

for the year ended December 31, 2011

1. Significant Accounting Policies

The financial statements of the Municipality's trust funds are the representations of management prepared in accordance with local government accounting standards established by the Public Sector Accounting Board ("PSAB") of the Canadian Institute of Chartered Accountants.

Basis of accounting

Revenues and expenses are reported on the accrual basis of accounting.

2. Investments

Trust fund investments of \$ 2,716,441 (\$ 2,588,304 - 2010) are recorded on the "Statement of Financial Position" at the lower of cost or market. The market value as at December 31, 2011 is \$ 2,925,853 (\$ 2,719,791 - 2010).

3. Ontario Home Renewal Program

Per approval of the Ministry, the program was considered closed and remaining funds in the amount of \$ 18,292 were transferred to the City operating fund.

CORPORATION OF THE CITY OF NIAGARA FALLS, ONTARIO

NOTES TO FINANCIAL STATEMENTS - TRUST FUNDS

for the year ended December 31, 2011

4. Other Trust Funds

| | 2011 | 2010 |
|----------------------------------|---------------|---------------|
| | \$ | \$ |
| Trust for land sales | | 215 |
| Brock University Students' Union | 5,757 | |
| Rigg Estate | 500 | 500 |
| W. L. Doran Estate | 1,000 | 1,000 |
| Moore Estate | 1,200 | 1,200 |
| McNiven Estate | 500 | 500 |
| McDonald Estate | 400 | 400 |
| Woodruff Estate | 8,295 | 8,295 |
| Coulsen Estate | 300 | 300 |
| Wilson Estate | 500 | 500 |
| C. J. Doran Estate | 500 | 500 |
| | 18,952 | 13,410 |
