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 15, 2006

Neil McDougall, CMA
Executive Director, Corporate Services
December 15, 2006

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, 2006 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, 2006 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
December 15, 2006, Niagara Falls, Ontario

Balance Sheet ~ October 31, 2006

STATEMENT 1

	(In thousands of dollars)	
Assets	2006	2005
	$	$
Current Assets		
Cash	3,768	7,722
Accounts receivable	2,257	1,946
Inventories		
Saleable merchandise	3,432	3,531
Maintenance and other supplies	1,215	1,115
Prepaid expenses	480	529
	11,152	14,843
Fixed Assets - notes 2 and 3	133,005	131,828
	144,157	**146,671**
Liabilities and Equity		
Current Liabilities		
Accounts payable	5,646	6,496
Accrued payroll	1,854	1,800
Current portion of long-term financing	1,109	1,339
	8,609	9,635
Long-Term Financing - note 3	3,008	4,022
Post-Employment Benefits - note 4	3,294	3,116
Commitments - note 6		
Contingencies - note 7		
Equity – Statement 2	129,246	129,898
	144,157	**146,671**

see accompanying notes

Signed on behalf of the Commission:

Chairman

Commissioner

Statement of Equity ~ for the year ended October 31, 2006

STATEMENT 2

	(In thousands of dollars) 2006	2005
	$	$
Equity, Beginning of Year	129,898	126,817
Net Income (Loss) for the Year - Statement 3	(652)	3,081
Equity, End of Year	**129,246**	**129,898**

see accompanying notes

Statement of Operations ~ for the year ended October 31, 2006

STATEMENT 3

	(In thousands of dollars) 2006 $	2005 $
Income		
Gift shops, restaurants and attractions	68,113	69,871
Land rent	5,914	5,806
Commissions, rentals and fees	3,971	3,067
Premium on United States funds – net	460	472
Gain (loss) on disposal of fixed assets – net	(3)	33
Sundry income	202	43
	78,657	79,292
Expenses		
Gift shops, restaurants and attractions		
Cost of goods sold	12,733	13,497
Operating expenses	31,075	29,723
Maintenance	13,178	11,977
Administrative and police	9,819	10,140
Marketing and promotion	3,860	3,087
	70,665	68,424
Net Income for the Year before Undernoted Items	7,992	10,868
Other Items		
Interest expense - net - note 8	305	277
Depreciation - note 9	8,339	7,510
	8,644	7,787
Net Income (Loss) for the Year	**(652)**	**3,081**

see accompanying notes

Statement of Cash Flows ~ for the year ended October 31, 2006

STATEMENT 4

	2006	2005
	(In thousands of dollars)	
	$	$
Operating Activities		
Net income (loss) for the year	(652)	3,081
Charges against income not requiring an outlay of funds		
- post-employment benefits	376	345
- depreciation	8,339	7,510
- loss (gain) on disposal of fixed assets - net	216	(33)
	8,279	10,903
Net change in non-cash working capital balances related to operations - note 11	(1,059)	3,288
Funds provided by operating activities	7,220	14,191
Investing Activities		
Fixed asset acquisitions - note 11	(9,764)	(10,352)
Proceeds on sale of fixed assets	32	37
Funds used by investing activities	(9,732)	(10,315)
Financing Activities		
Net increase (decrease) in long-term financing	(1,244)	5,211
Cash outlay related to post-employment benefits	(198)	(205)
Funds provided (used) by financing activities	(1,442)	5,006
Increase (Decrease) in Cash Position	(3,954)	8,882
Cash Position (Deficiency), Beginning of Year	7,722	(1,160)
Cash Position (Deficiency), End of Year	**3,768**	**7,722**

see accompanying notes

Notes to Financial Statements ~ for the year ended October 31, 2006

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:

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.

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.

2. Fixed Assets

(In thousands of dollars)

	Cost	Accumulated Depreciation	2006	2005
	$	$	$	$
Land	13,555	–	13,555	13,555
Land improvements	17,135	–	17,135	17,091
Buildings, roadways and structures	152,178	63,531	88,647	89,966
Equipment and furnishings	34,174	24,241	9,933	9,625
Vehicles	9,478	7,561	1,917	730
	226,520	95,333	131,187	130,967
Capital works in progress	1,818	–	1,818	861
	228,338	**95,333**	**133,005**	**131,828**

3. Long-Term Financing

(In thousands of dollars)

	2006	2005
	$	$
Fixed rate term loan requiring principal payments of $1,000,000 per annum, bearing interest at 4.01% through to December, 2009	4,000	5,000
The Commission has an obligation under capital lease, bearing interest of nil, requiring one payment of $ 81,363 to November, 2006, secured by equipment with a net book value of $ 243,607	81	298
The Commission has an obligation under capital lease, bearing interest of nil, requiring monthly payments of $ 2,779 to March, 2007, secured by equipment with a net book value of $ 58,722	13	44
The Commission has an obligation under capital lease, bearing interest of nil, requiring monthly payments of $ 875 to September, 2007, secured by equipment with a net book value of $ 20,705	9	19
The Commission has an obligation under capital lease, bearing interest of nil, requiring monthly payments of $ 489 to October, 2009, secured by equipment with a net book value of $ 14,171	14	–
	4,117	5,361
Less portion due within one year	1,109	1,339
	3,008	**4,022**

The principal payments of the long-term financing obligations are due in the following fiscal periods:

(In thousands of dollars)

	$
2007	1,109
2008	1,006
2009	1,002
2010	1,000

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, 2006 is $ 3,294,058 (2005 - $ 3,115,931).

As a result of an actuarial valuation conducted in 2004 for the year ending October 31, 2004, it was determined that an actuarial loss of $ 65,577 existed. The actual obligation as at October 31, 2006 is $ 3,359,635 (2005 - $ 3,181,508). Since the actuarial loss 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, 2007.

4. Post-Employment Benefits cont'd.

Defined Benefit Plan Information

(In thousands of dollars)

	2006 $	2005 $
Employee benefit plan assets	–	–
Employee benefit plan liabilities	3,294	3,116
Employee benefit plan deficit	**3,294**	**3,116**
Benefit obligation recognized on the balance sheet		
Benefit obligation, beginning of year	3,116	2,976
Expense for the year	376	345
Benefits paid during the year	(198)	(205)
Benefit obligation, end of year	**3,294**	**3,116**

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 6%.

Salary Levels - Future salary and wage levels were assumed to increase at 4% per annum.

Pension Benefits

The Commission provides pension benefits for all its permanent employees (and to nonpermanent 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 obligations related to the PSPF and OPSEU Pension Fund was $ 1,522,827 (2005 - $ 1,404,290) 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.

6. Commitments

The Commission is committed to spending approximately $ 1,260,000 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)

	2006 $	2005 $
Interest income	(135)	(64)
Loan interest expense	440	341
	305	**277**

9. Depreciation

(In thousands of dollars)

	2006 $	2005 $
Depreciation of income producing assets	4,894	4,399
Depreciation of non-income producing assets	3,445	3,111
	8,339	**7,510**

10. Operating Leases

The Commission leases vehicles, equipment and premises under operating leases expiring in various years through 2010. The total obligation under operating leases amounts to approximately $ 749,941.

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

(In thousands of dollars)

	$
2007	305
2008	222
2009	143
2010	80

11. Statement of Cash Flows

Changes in working capital components include:

(In thousands of dollars)

	2006 $	2005 $
Accounts receivable	(311)	204
Inventories	(1)	641
Prepaid expenses	49	75
Accounts payable and accrued payroll	(796)	2,368
	(1,059)	**3,288**

Acquisition of fixed assets

During the year, fixed assets were acquired at an aggregate cost of $ 9,764,000 (2005 - $ 10,352,000) of which $ 17,000 (2005 - $ 487,000) was acquired by means of capital leases. Cash payments of $ 9,747,000 (2005 - $ 9,865,000) were made to purchase fixed assets.

11. Statement of Cash Flows cont'd.

Interest

	2006	2005
	(In thousands of dollars)	
	$	$
Interest received	**135**	**64**
Interest paid	**398**	**170**

12. Financial Instruments and Risk Management

Fair Value

The Commission's financial instruments include cash, accounts receivable, accounts payable and accrued payroll. The carrying value of these instruments approximates their fair value due to their immediate or short-term liquidity.

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

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 $ 1,151,987 that is denominated in US dollars. This account has been converted to the Canadian equivalent at the rate of $ 1 US equals $ 1.1270 Canadian. The Commission realizes approximately 14.4% (2005 - 17.3%) 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. 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.