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 14, 2007

Robert J. McIlveen
Executive Director, Corporate Services
December 14, 2007

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, 2007 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, 2007 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 14, 2007

Balance Sheet ~ October 31, 2007

STATEMENT 1

	(In thousands of dollars)	
Assets	2007	2006
	$	$
Current Assets		
Cash	26,830	3,768
Accounts receivable	1,763	2,257
Inventories		
Saleable merchandise	3,330	3,432
Maintenance and other supplies	1,282	1,215
Prepaid expenses	400	480
	33,605	11,152
Fixed Assets - notes 3 and 4	142,542	133,005
	176,147	**144,157**
Liabilities and Equity		
Current Liabilities		
Accounts payable	8,783	5,646
Accrued payroll	1,027	1,854
Current portion of long-term financing	1,190	1,109
	11,000	8,609
Long-Term Financing - note 4	33,818	3,008
Post-Employment Benefits - note 5	3,457	3,294
Commitments - note 7		
Contingencies - note 8		
Equity – Statement 2	127,872	129,246
	176,147	**144,157**

see accompanying notes

Signed on behalf of the Commission:

Chairman

Commissioner

Statement of Equity ~ for the year ended October 31, 2007

STATEMENT 2

	(In thousands of dollars)	
	2007	2006
	$	$
Equity, Beginning of Year	129,246	129,898
Net Loss for the Year - Statement 3	(1,374)	(652)
Equity, End of Year	**127,872**	**129,246**

see accompanying notes

Statement of Operations ~ for the year ended October 31, 2007

STATEMENT 3

	2007	2006
	(In thousands of dollars)	
	$	$
Income		
Gift shops, restaurants and attractions	68,813	68,659
Land rent	6,037	5,914
Commissions, rentals and fees	2,535	3,425
Premium (loss) on United States funds – net	(360)	460
Gain (loss) on disposal of fixed assets – net	40	(3)
Sundry income	464	202
	77,529	78,657
Expenses		
Gift shops, restaurants and attractions		
Cost of goods sold	12,518	12,733
Operating expenses	30,969	31,075
Maintenance	13,216	13,178
Administrative and police	9,681	9,819
Marketing and promotion	4,004	3,860
	70,388	70,665
Net Income for the Year before Undernoted Items	7,141	7,992
Other Items		
Interest expense - net - note 9	331	305
Depreciation - note 10	8,184	8,339
	8,515	8,644
Net Income Loss for the Year	**(1,374)**	**(652)**

see accompanying notes

Statement of Cash Flows ~ for the year ended October 31, 2007

STATEMENT 4

	2007	2006
	(In thousands of dollars)	
	$	$
Operating Activities		
Net loss for the year	(1,374)	(652)
Charges against income not requiring an outlay of funds		
- post-employment benefits	356	376
- depreciation	8,184	8,339
- loss (gain) on disposal of fixed assets - net	(5)	216
	7,161	8,279
Net change in non-cash working capital balances related to operations - note 12	2,919	(1,059)
Funds provided by operating activities	10,080	7,220
Investing Activities		
Fixed asset acquisitions - note 12	(17,799)	(9,764)
Proceeds on sale of fixed assets	83	32
Funds used by investing activities	(17,716)	(9,732)
Financing Activities		
Net increase (decrease) in long-term financing	30,891	(1,244)
Cash outlay related to post-employment benefits	(193)	(198)
Funds provided (used) by financing activities	30,698	(1,442)
Increase (Decrease) in Cash Position	23,062	(3,954)
Cash Position, Beginning of Year	3,768	7,722
Cash Position, End of Year	26,830	**3,768**

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.

Foreign currency translation

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

Capitalized interest

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

2. Accounting Changes

Financial Instruments - Recognition and Measurement and Financial Instruments - Disclosure and Presentation. These new standards prescribe when a financial instrument is to be recognized and derecognized from the balance sheet and at what amount these financial instruments should be recognized. It also specifies how financial instrument gains and losses are accounted for. Under these new standards, all financial assets are classified as held-for-trading, held-to-maturity, loans and receivables or available-for-sale and all financial liabilities must be classified as held-for-trading or other financial liabilities. In addition, an entity has the option to designate financial assets or liabilities as held-for-trading or financial assets as available-for-sale on initial recognition or upon adoption of those standards, even if the financial instrument was not acquired or incurred for the purpose of selling or repurchasing it in the near term.

All financial instruments are required to be measured at fair value on initial recognition except for certain related party transactions. After initial recognition, financial instruments should be measured at their fair values, except for financial assets classified as held-to-maturity or loans and receivables and other financial liabilities, which are measured at cost or amortized cost using the effective interest method. Financial assets classified as available-for-sale that do not have a quoted market price in an active market are measured at cost. Amortization related to financial assets classified as held-to-maturity or loans and receivables and other financial liabilities and unrealized gains and losses related to financial assets and liabilities classified as held-for-trading are recorded in net earnings for the period in which it arises. If a financial asset is classified as available-for-sale, the cumulative unrealized gain or loss is recognized in accumulated other comprehensive income and recognized in earnings upon the sale or other-than-temporary impairment.

The Commission has adopted the following classification for financial assets and financial liabilities:

-Cash and cash equivalents are classified as held-for-trading.
-Accounts and other receivables are classified as loans and receivables.
-Accounts payable and other accrued liabilities and long-term financing are classified as other financial liabilities.

The new standards require all derivative financial instruments to be measured at fair value on the balance sheet, even when they are part of an effective hedging relationship. An embedded derivative is a component of a hybrid instrument that also includes a non-derivative host contract, with the effect that some of the cash flows of the combined instrument vary in a way similar to a stand-alone derivative. If certain conditions are met, an embedded derivative is separated from the host contract and accounted for as a derivative in the balance sheet and measured at fair value. Upon adoption, entities have the option to recognize as an asset or liability all embedded derivative instruments that are required to be separated from their host contracts. As at October 31, 2007, the Commission does not have any material outstanding contracts or financial instruments with embedded derivatives that require bifurcation.

3. Fixed Assets

(In thousands of dollars)

	Cost	Accumulated Depreciation	2007	2006
	$	$	$	$
Land	13,555	–	13,555	13,555
Land improvements	17,135	–	17,135	17,135
Buildings, roadways and structures	154,661	68,094	86,567	88,647
Equipment and furnishings	35,536	27,122	8,414	9,933
Vehicles	9,164	7,572	1,592	1,917
	230,051	102,788	127,263	131,187
Capital works in progress	15,279	–	15,279	1,818
	245,330	**102,788**	**142,542**	**133,005**

4. Long-Term Financing

(In thousands of dollars)

	2007	2006
	$	$
Fixed rate term loan requiring principal payments of $2,640,907 per annum, bearing interest at 5.06% through to April, 2027	32,000	–
Fixed rate term loan requiring principal payments of $1,000,000 per annum, bearing interest at 4.01% through to December, 2009	3,000	4,000
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 $ 11,670	8	14
The Commission has an obligation under capital lease, bearing interest of nil, requiring one payment of $ 81,363 to November, 2006	–	81
The Commission has an obligation under capital lease, bearing interest of nil, requiring monthly payments of $ 2,779 to March, 2007	–	13
The Commission has an obligation under capital lease, bearing interest of nil, requiring monthly payments of $ 875 to September, 2007	–	9
	35,008	4,117
Less portion due within one year	1,190	1,109
	33,818	**3,008**

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

(In thousands of dollars)

	$
2008	1,190
2009	2,034
2010	2,084
2011	1,139
2012	1,196

5. 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, 2007 is $ 3,456,833 (2006 - $ 3,294,058).

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, 2007 is $ 3,214,345 (2006 - $ 3,359,635). 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)*

	2007 $	2006 $
Employee benefit plan assets	–	–
Employee benefit plan liabilities	3,457	3,294
Employee benefit plan deficit	**3,457**	**3,294**
Benefit obligation recognized on the balance sheet		
Benefit obligation, beginning of year	3,294	3,116
Expense for the year	356	376
Benefits paid during the year	(193)	(198)
Benefit obligation, end of year	**3,457**	**3,294**

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 obligations related to the PSPF and OPSEU Pension Fund was $ 1,541,361 (2006 - $ 1,522,827) 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.

6. 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.

7. Commitments

The Commission is committed to spending approximately $ 25,000,000 on capital projects in the next year.

8. 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.

9. Interest Expense

(In thousands of dollars)

	2007 $	2006 $
Interest income	(582)	(135)
Loan interest expense	913	440
	331	**305**

10. Depreciation

(In thousands of dollars)

	2007 $	2006 $
Depreciation of income producing assets	4,748	4,894
Depreciation of non-income producing assets	3,436	3,445
	8,184	**8,339**

11. Operating Leases

The Commission leases vehicles, equipment and premises under operating leases expiring in various years through 2011. The total obligation under operating leases amounts to approximately $ 846,691.

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

(In thousands of dollars)

	$
2008	370
2009	290
2010	186
2011	1

12. Statement of Cash Flows

Changes in working capital components include:

(In thousands of dollars)

	2007	2006
	$	$
Accounts receivable	494	(311)
Inventories	35	(1)
Prepaid expenses	80	49
Accounts payable and accrued payroll	2,310	(796)
	2,919	**(1,059)**

Acquisition of fixed assets

During the year, fixed assets were acquired at an aggregate cost of $ 17,799,000 (2006 - $ 9,764,000) of which nil (2006 - $ 17,000) was acquired by means of capital leases. Cash payments of $ 17,799,000 (2006 - $ 9,747,000) were made to purchase fixed assets.

(In thousands of dollars)

Interest

	2007	2006
	$	$
Interest received	**523**	**135**
Interest paid	**306**	**398**

13. Financial Instruments and Risk Management

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 $ 5,255,465 that is denominated in US dollars. This account has been converted to the Canadian equivalent at the rate of $ 0.9325 US equals $ 1 Canadian. The Commission realizes approximately 18.1% (2006 - 17.04%) 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.

14. Capitalized Interest

The Commission has capitalized $232,301 of interest related to the expansion of the Table Rock Complex which is likely to be completed in June 2008.

15. 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.

16. Comparative Figures

Certain comparative figures have been restated to conform with the current year's presentation.