THE NIAGARA PARKS COMMISSION

Financial Statements

October 31, 2004

Niagara Parks

An agency of the Government of Ontario since 1885

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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 policies. 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 Recreation and the Auditor General. Crawford, Smith and Swallow Chartered Accountants LLP has full and free access to the Commission.

John A. M. Kernahan
General Manager
December 17, 2004

Neil McDougall, CMA
Senior Director, Corporate Services
December 17, 2004

AUDITORS' REPORT

To The Niagara Parks Commission, the Minister of Tourism and Recreation 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, 2004 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, 2004 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 17, 2004, Niagara Falls, Ontario

Balance Sheet ~ as at October 31, 2004

STATEMENT 1

	(In thousands of dollars)	
Assets	2004	2003
	$	$
Current Assets		
Cash	890	1,589
Accounts receivable	2,150	2,755
Inventories		
Saleable merchandise	4,202	4,965
Maintenance and other supplies	1,085	1,326
Prepaid expenses	604	339
	8,931	10,974
Fixed Assets - note 2	128,990	134,326
	137,921	**145,300**

Liabilities and Equity		
Current Liabilities		
Bank overdraft - note 3	2,050	
Bank loan		13,000
Accounts payable	4,349	4,300
Accrued payroll	1,579	1,946
Current portion of long-term financing	86	59
	8,064	19,305
Long-Term Financing - note 4	64	45
Post-Employment Benefits - note 5	2,976	2,931
Commitments - note 9		
Contingencies - note 10		
Equity – Statement 2	126,817	123,019
	137,921	**145,300**

see accompanying notes

Signed on behalf of the Commission:

Chairman

Commissioner

Statement of Equity ~ for the year ended October 31, 2004

STATEMENT 2

	2004	2003
	(In thousands of dollars)	
	$	$
Equity, Beginning of Year	123,019	132,015
Net Income (Loss) for the Year - Statement 3	3,798	(8,996)
Equity, End of Year	**126,817**	**123,019**

see accompanying notes

Statement of Operations ~ for the year ended October 31, 2004

STATEMENT 3

	2004	2003
	(In thousands of dollars)	
	$	$
Income		
Gift shops, restaurants and attractions	69,397	57,796
Land rent	5,659	5,572
Commissions, rentals and fees	2,765	2,078
Premium on United States funds – net	460	396
Gain (loss) on disposal of fixed assets – net	(1,979)	22
Sundry income	51	28
	76,353	65,892
Expenses		
Gift shops, restaurants and attractions		
Cost of goods sold	13,446	11,453
Operating expenses	28,637	30,481
Maintenance	12,066	13,443
Administrative and police	7,879	7,922
Marketing and promotion	2,871	2,652
	64,899	65,951
Net Income (Loss) for the Year before Undernoted Items	11,454	(59)
Other Items		
Interest expense - net - note 6	471	587
Depreciation - note 7	7,185	6,936
	7,656	7,523
Net Income (Loss) before Non-Recurring Items	3,798	(7,582)
Non-Recurring Items - note 8		(1,414)
Net Income (Loss) for the Year	**3,798**	**(8,996)**

see accompanying notes

Statement of Cash Flows ~ for the year ended October 31, 2004

STATEMENT 4

	2004	2003
	(In thousands of dollars)	
	$	$
Operating Activities		
Net income (loss) for the year	3,798	(8,996)
Charges against income not requiring an outlay of funds		
- change in post employment benefits	45	151
- depreciation	7,185	7,150
- loss on disposal of fixed assets - net	1,979	655
	13,007	(1,040)
Net change in non-cash working capital balances related to operations - note 11	1,026	(714)
Funds provided (used) by operating activities	14,033	(1,754)
Investing Activities		
Fixed asset acquisitions	(3,850)	(5,055)
Proceeds on sale of fixed assets	22	31
Funds used by investing activities	(3,828)	(5,024)
Financing Activities		
Increase (decrease) in bank loan	(13,000)	7,000
Increase in long-term financing	46	104
Funds provided (used) by financing activities	(12,954)	7,104
Increase (Decrease) in Cash Position	(2,749)	326
Cash Position, Beginning of Year	1,589	1,263
Cash Position (Deficiency), End of Year	**(1,160)**	**1,589**
Cash Position (Deficiency)		
Cash	890	1,589
Bank overdraft	(2,050)	
	(1,160)	**1,589**

see accompanying notes

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 20 per cent for buildings, roadways and structures, 10 to 25 per cent for equipment and furnishings and from 8 to 40 per cent for vehicles.

2. Fixed Assets

(In thousands of dollars)

	Cost	Accumulated Depreciation	2004	2003
	$	$	$	$
Land	13,555	–	13,555	13,555
Land improvements	17,091	–	17,091	17,091
Buildings, roadways and structures	142,986	54,405	88,581	91,802
Equipment and furnishings	27,201	18,976	8,225	9,374
Vehicles	7,999	7,240	759	1,210
	208,832	80,621	128,211	133,032
Capital works in progress	779	–	779	1,294
	209,611	**80,621**	**128,990**	**134,326**

3. Bank Overdraft

The bank overdraft 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. As at October 31, 2004, all borrowings are under the variable rate arrangement.

4. Long-Term Financing

(In thousands of dollars)

	2004	2003
	$	$
The Commission has an obligation under capital lease, bearing interest of nil, requiring monthly payments of $ 5,279 to August, 2005, secured by equipment with a net book value of $ 95,188	44	104
The Commission has an obligation under capital lease, bearing interest of nil, requiring monthly payments of $ 2,779 to March, 2006, secured by equipment with a net book value of $ 83,911	76	–
The Commission has an obligation under capital lease, bearing interest of nil, requiring monthly payments of $ 875 to March, 2006, secured by equipment with a net book value of $ 29,579	30	–
	150	104
Less portion due within one year	86	59
	64	**45**

The principal payments of the obligation under capital lease is due as follows:

(In thousands of dollars)

	$
2005	86
2006	41
2007	23

5. Post-Employment Benefits

The Commission provides a defined employee future benefit, payable on termination to certain full-time employees with a minimum of five years of service. The benefit is calculated on the basis of one week's remuneration, at the time of termination, for every year of full-time service provided to the Commission to a maximum of 26 weeks. The accrued benefit liability as at October 31, 2004 is $ 2,955,587 (2003 - $ 2,930,715).

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, 2004 is $ 3,021,164 (2003 - $ 2,930,715). Since the actuarial loss is less than 10% of the actual obligation, no minimum amortization has been recorded for the year.

In addition, certain employees of the Commission are provided with life insurance upon retirement of one times salary provided the employee retires with an unreduced pension OPSEU or PSPP pension which expires on the members 65th birthday. The accrued benefit liability is $ 20,956 (2003 - NIL)

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 $ 165,883 existed. The actual obligation as at October 31, 2004 is $ 174,991 (2003 - NIL). The actuarial loss is being amortized over the expected average remaining service lives of the employee group which has been actuarially determined to be 14 years. The unamortized loss as at October 31, 2004 is $ 154,035.
See note 13 for other post-employment benefits.

5. Post-Employment Benefits cont'd.

Defined Benefit Plan Information *(In thousands of dollars)*

	2004 $	2003 $
Employee benefit plan assets	–	–
Employee benefit plan liabilities	2,976	2,931
Employee benefit plan deficit	**2,976**	**2,931**
Benefit obligation recognized on the balance sheet		
Benefit obligation, beginning of year	2,931	2,780
Expense for the year	388	352
Benefits paid during the year	(343)	(201)
Benefit obligation, end of year	**2,976**	**2,931**

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.

6. Interest Expense *(In thousands of dollars)*

	2004 $	2003 $
Interest income	(56)	(46)
Loan interest expense	527	633
	471	**587**

7. Depreciation *(In thousands of dollars)*

	2004 $	2003 $
Depreciation of income producing assets	4,003	3,857
Depreciation of non-income producing assets	3,182	3,079
	7,185	**6,936**

8. Non-Recurring Items

The Commission undertook a significant organizational restructuring that resulted in the elimination of several positions in 2003. Termination and salary continuance costs related to this matter amounted to $ 550,000.

A comprehensive study for the future direction of the Commission was completed during 2003 rendering certain capital works in progress redundant. The write-off of these capital works in progress and other assets which were obsolete but not fully depreciated amounted to $ 730,000.

The resolution of a disputed water usage and billing matter was finalized during 2003 at a cost of $ 134,000.

9. Commitments

The Commission is committed to spending approximately $ 1,930,000 on capital projects in the next year.

10. 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.

The Commission has an authorized letter of credit in the amount of US $ 161,712.

11. Statement of Cash Flows

Changes in working capital components include:

(In thousands of dollars)

	2004	2003
	$	$
Accounts receivable	605	604
Inventories	1,004	(723)
Prepaid expenses	(265)	(48)
Accounts payable and accrued payroll	(318)	(547)
	1,026	**(714)**

Acquisition of fixed assets

During the year, fixed assets were acquired at an aggregate cost of $ 3,848,929 of which $ 124,535 was acquired by means of capital leases. Cash payments of $ 3,724,394 were made to purchase fixed assets.

(In thousands of dollars)

Interest

	2004	2003
	$	$
Interest received	**61**	**46**
Interest paid	**511**	**633**

12. Operating Leases

The Commission leases vehicles, equipment and premises under operating leases expiring in various years through 2008. The total obligation under operating leases amounts to approximately $ 1,093,313.

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

(In thousands of dollars)

	$
2005	690
2006	170
2007	156
2008	77

13. Other Post-Employment 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 $ 1,368,059 (2003 - $ 1,505,751) and is 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.

See note 5 for details on the Commission's post employment benefits.

14. Financial Instruments and Risk Management

Fair Value

The Commission's financial instruments include cash, accounts receivable, bank borrowings, 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 it 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 realizes approximately 17.56% (2003 - 16.0%) 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.

15. Related Party Transactions

The Commission exercises significant influence over the Niagara Parks Foundation (the "Foundation") by virtue of its ability to appoint some of the Foundation's Board of Directors. The Foundation is incorporated under the Ontario Corporations Act and is a registered charity under the Income Tax Act. The purpose of the Foundation is to promote conservation, environmental, historical, performing arts, and musical initiatives within the lands of the Commission. Net resources of the Foundation amounted to $ 54,541 (2003 - $ 44,391). During the year, the Commission expended $ 1,827 (2003 - $ 6,631) on behalf of the Foundation. These amounts expended included computer software, professional fees, and telephone.

The net assets and results of operations of the Foundation are not included in the statements of the Commission. Separate financial statements of the Foundation are available upon request.

16. 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.

17. Comparative Figures

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

Public Sector Salary Disclosures

Employees Paid $100,000 or more in 2003

Prepared in accordance with the Public Sector Salary Disclosure Act, 1996

Record of Employees' 2003 Salaries and Benefits

Name	**Position**	**Salary Paid**	**Taxable Benefits**
John Kernahan	General Manager	$137,748.53	$ 8,633.93
Neil McDougall	Senior Director – Corporate Services	$105,673.93	$ 233.67
Robert McIlveen	Senior Director – Administration	$106,002.07	$ 239.09
Nicholas Murphy	Senior Director – Technical Services	$108,039.66	$ 239.09
Joel Noden	Senior Director – Retail, Attractions, Marketing & Business Development	$108,039.66	$ 239.09
Alois Poltl	Senior Director – Food Services	$108,039.66	$ 934.59
Murray Mold	Senior Director	$106,002.07	$ 239.09