

# **Canadian Tourism Commission**

**Quarterly Financial Report for the quarter ending  
September 30, 2018**

**Canadian Tourism Commission  
Narrative Discussion  
September 30, 2018**

**Introduction**

The Canadian Tourism Commission (the “CTC”) is Canada’s national tourism marketing organization. A Crown corporation wholly owned by the Government of Canada, we lead the Canadian tourism industry in marketing Canada as a premier four-season tourism destination. Reporting to Parliament through the Minister of Tourism, Official Languages and la Francophonie, our legislation requirements are outlined in the Canadian Tourism Commission Act.

The CTC runs marketing campaigns in international markets such as the U.K., Germany, France, Mexico, Japan, Australia, South Korea, China, India and the U.S., targeting leisure travellers and those travelling for business events.

**Narrative Discussion**

The Narrative Discussion contained herein applies to the quarter.

**Canadian Tourism Commission  
Narrative Discussion  
September 30, 2018**

**Quarterly Results**  
(in thousands)

	<b>Three months ended September 30, 2018</b>	<b>Three months ended September 30, 2017</b>	<b>Variance</b>
<b>Partner revenues</b>	<b>\$ 6,666</b>	<b>\$ 5,394</b>	<b>\$ 1,271</b>

The CTC is continuing to expand partnerships with provincial and territorial marketing organizations, national, regional and local companies, destination marketers and tourism associations. The increase in our Q3 2018 partnership revenues over the same quarter last year mainly relates to an increase in the CTC's core leisure markets including the UK, Germany, Australia and France markets (\$436K), the China leisure market (\$280K), and the CTC's emerging markets, specifically the Mexico market (\$645K).

<b>Other revenue</b>	<b>485</b>	<b>546</b>	<b>(61)</b>
----------------------	------------	------------	-------------

Other revenue, which includes operational recoveries within the China office, interest revenue and credit card rebates, remains fairly consistent when comparing Q3 2018 with Q3 2017.

<b>Marketing and sales expenses</b>	<b>29,057</b>	<b>33,105</b>	<b>(4,048)</b>
-------------------------------------	---------------	---------------	----------------

We are showing a lower investment in the third quarter, mainly due to timing of marketing and sales activities. We saw an increase in our marketing and sales investment for the first half of 2018, with a slow down in the third quarter, and an expectation to finish the year off with a higher overall investment compared to the prior year.

The slow down in the third quarter mainly relates to the timing of following campaigns and initiatives: the US Connecting America campaign (\$1.6M) and the Core Markets initiatives (UK, Germany and France) (\$1.2M) which had higher activity in the first half of the year and a delay in the US Connecting America spend to Q4 (\$1.5M). In addition to the timing difference, the remaining decrease in spend is due to the completion of the Millennial Travel Program 2017 (\$390K) and the fact the CTC has withdrawn from the Brazil market (\$690K).

This lower investment is offset by a Business Events Canada one-time special event (\$1.2M) and the China leisure market due to the Canada-China Year of Tourism (\$189K).

<b>Corporate services</b>	<b>1,753</b>	<b>1,631</b>	<b>122</b>
---------------------------	--------------	--------------	------------

The CTC is dedicated to delivering efficient operations to maximize investment in our programs. The Corporate Services spend remains relatively consistent when comparing Q3 2018 to the same quarter last year.

<b>Strategy and planning</b>	<b>29</b>	<b>298</b>	<b>(269)</b>
------------------------------	-----------	------------	--------------

Strategy and planning spend includes consulting fees, office rent and travel expenses.

<b>Parliamentary appropriations</b>	<b>23,914</b>	<b>26,449</b>	<b>(2,535)</b>
-------------------------------------	---------------	---------------	----------------

The decrease in parliamentary appropriation of \$2.5M compared to Q3 2017 is the result of timing differences in scheduled drawdowns on the main estimates.

**Canadian Tourism Commission  
Narrative Discussion  
September 30, 2018**

**Year to Date Results**  
(in thousands)

	<b>Nine months ended September 30, 2018</b>	<b>Nine months ended September 30, 2017</b>	<b>Variance</b>
<b>Partner revenues</b>	<b>\$ 15,908</b>	<b>\$ 14,264</b>	<b>\$ 1,644</b>

The CTC is continuing to expand partnerships with provincial and territorial marketing organizations, national, regional and local companies, destination marketers and tourism associations.

The increase in our YTD partnership revenues mainly relates to an increase in the CTC's core leisure markets including the UK, Germany, Australia and France markets (\$2.3M), the China leisure market (\$1.3M), and the CTC's emerging markets, specifically the Mexico market (\$1.1K). The increase in partnership revenue is offset by the completion of the Millennial Travel Program (MTP) in 2017 (\$2.3M) and a decrease in revenue: US Connecting America program (\$600K) and Research (\$200K).

<b>Other revenue</b>	<b>1,184</b>	<b>1,104</b>	<b>80</b>
----------------------	--------------	--------------	-----------

Other revenue, which includes operational recoveries within the China office and interest revenue, remains fairly consistent when comparing YTD 2018 to the prior year.

<b>Marketing and sales expenses</b>	<b>67,446</b>	<b>69,666</b>	<b>(2,220)</b>
-------------------------------------	---------------	---------------	----------------

We are showing a lower investment, when comparing the YTD spend to the prior year. This is mainly due to the timing of marketing and sales activities. We expect to finish the year off with a higher overall investment compared to the prior year.

The slow down in 2018 compared to 2017 mainly relates to the timing of the following campaigns and initiatives where spend has been delayed to Q4: US Connecting America program (\$1.5M), CTC's emerging leisure markets (India, Korea, and Mexico) (\$557K), the Core Markets initiatives (Australia) (\$170K). In addition to the timing difference, the remaining decrease in spend is due to the completion of the Millennial Travel Program 2017 (\$3.3M) and the fact the CTC has withdrawn from the Brazil market (\$1.0M).

This lower investment is offset by a Business Events Canada one-time special event (\$2.6M) and the China leisure market due to the Canada-China Year of Tourism (\$1.7M).

<b>Corporate services</b>	<b>5,282</b>	<b>5,191</b>	<b>91</b>
---------------------------	--------------	--------------	-----------

The CTC is dedicated to delivering efficient operations to maximize investment in our programs. The Corporate Services spend remains relatively consistent when comparing YTD 2018 to the prior year.

<b>Strategy and planning</b>	<b>674</b>	<b>875</b>	<b>(201)</b>
------------------------------	------------	------------	--------------

Strategy and planning spend includes consulting fees, office rent and travel expenses.

<b>Parliamentary appropriations</b>	<b>50,902</b>	<b>72,067</b>	<b>(21,165)</b>
-------------------------------------	---------------	---------------	-----------------

The decrease in parliamentary appropriation of \$21M from 2017 is the result of timing differences in scheduled drawdowns on the main estimates. Additional drawdowns will be made in Q4.

## **Risks and uncertainties**

As part of our strategic management process, we conduct an enterprise risk assessment and use the results of that assessment in the development of our five-year strategic plan, risk mitigation strategy and internal audit plan. Risk mitigation action plans are developed and implemented accordingly.

The risks outlined in the 2018-2022 Corporate Plan which could potentially impact our organizational objectives are highlighted below.

- **Marketing effectiveness**

There is a risk that we are not effective at promoting Canada as a premier tourism destination. While the impact of this risk materializing would be significant, the mitigation activities in place contribute to a low likelihood of occurrence.

*Mitigation activities:* We will maintain a strong brand; employ marketing that is innovative and aligned with a consumer's path to purchase; assess the effectiveness of our marketing; use insights to inform decisions; communicate our value and impact to the tourism industry; and apply human and financial resources optimally.

- **Performance measurement**

There is a risk that we will be unable to measure the impact, effectiveness and attributable results of our marketing efforts, including the use of new marketing communications technologies in a manner that is meaningful to our stakeholders. Both the impact and likelihood of this risk are assessed as moderate, given the weight placed on the ability to measure results and the complexity of measuring them.

*Mitigation activities:* We will utilize the latest technology to measure the results of our marketing efforts and we will continue working with our partners to standardize performance measurement approaches.

- **Privacy**

The deployment of technologies based on identifying and marketing to the interests and passions of travellers requires the collection, assessment and action of travellers' consumer data. There is a risk that our activities will not meet or exceed regulatory requirements or consumer expectations around privacy. The impact of this risk is assessed as low, since we do not hold sensitive traveler information. The likelihood of the risk materializing is also assessed as low given the mitigations in place.

*Mitigation activities:* We will continue to use best practices to proactively assess privacy risk and to protect privacy. We will implement the recommendations resulting from a thorough privacy impact assessment of our current and planned activities. We will regularly review, assess and update our privacy processes and policies.

- **Currency**

There is a risk that the impact of a lower valuation of the Canadian dollar and the resulting decreased purchasing power will result in diminished reach and reduced impact of our marketing efforts in highly competitive international marketplaces. Both the impact of currency devaluation and the likelihood of it taking place are assessed as moderately likely to occur.

*Mitigation activities:* We employ a balanced portfolio approach where investments are spread across a diversified set of leisure and business markets to balance risk and maximize return.

o **Global economic and geo-political**

There is a risk that global economies of the markets where we invest could experience a significant slowdown in growth, changes in the political landscape or changes in security which would impact international travel to Canada. Although the likelihood that global economic and geo-political events occurring is high, those that specifically would impact travel to Canada are assessed as moderate. The impact of these events is mitigated to moderate given our balanced portfolio approach.

*Mitigation activities:* We will maintain a balanced investment approach across our portfolio of markets, and ensure that country budgets are flexible to allow reallocations if necessary. We will offer support, tools, assets and sales opportunities to the industry to help withstand these issues, facilitate their export readiness and help grow their businesses.

o **Change and talent management**

There is a risk that our dynamic and changing needs for skills and talent to support our business will negatively affect the recruitment of key talent, employee engagement and succession planning, impacting our organization's efficiency and effectiveness. These market dynamics potentially impact our ability to recruit, maintain employee engagement and ultimately retain staff due to the competition in the marketplace for these skills, which are new and in demand. The mitigations in place for this risk contribute to a low impact on operations should the risk materialize, and the desirability of employment at Destination Canada, demonstrated by our continued success in attracting these employees, has resulted in a low likelihood that this would occur.

*Mitigation activities:* We will focus on training, job enrichment opportunities and enhancing employee communications. We will implement a modernized staffing approach and roll out succession plans at the management level to ensure the seamless continuity of business when key leadership positions are vacated.

**Significant changes to programs, personnel and operations**

There are no significant changes to programs, personnel or operations that have not been discussed in the prior Annual Report or Corporate Plan.

**Statement of Management Responsibility by Senior Officials**

Management is responsible for the preparation and fair presentation of these quarterly financial statements in accordance with the Treasury Board of Canada Standard on Quarterly Financial Reports for Crown Corporations, and for such internal controls as management determines is necessary to enable the preparation of quarterly financial statements that are free from material misstatement. Management is also responsible for ensuring all other information in this quarterly financial report is consistent, where appropriate, with the quarterly financial statements.

Based on our knowledge, these unaudited quarterly financial statements present fairly, in all material respects, the financial position, results of operations and cash flows of the corporation, as at the date of and for the periods presented in the quarterly financial statements.



---

David F. Goldstein

*President and CEO  
Vancouver, Canada  
November 29, 2018*

---

Anwar Chaudhry

*SVP Finance and Risk Management, and CFO  
Vancouver, Canada  
November 29, 2018*

**Canadian Tourism Commission**  
**Statement of Financial Position**

As at September 30, 2018  
*(in thousands)*

	September 30, 2018	December 31, 2017
<b>Financial assets</b>		
Cash and cash equivalents	\$ 24,138	\$ 22,830
Accounts receivable		
Partnership contributions	3,541	5,603
Government of Canada	1,970	4,007
Other	23	23
Accrued benefit asset	12,114	12,114
Portfolio investments	381	372
	<u>42,167</u>	<u>44,949</u>
<b>Liabilities</b>		
Accounts payable and accrued liabilities		
Trade	20,204	18,766
Employee compensation	1,361	1,394
Government of Canada	0	188
Accrued benefit liability	5,582	5,978
Deferred revenue	2,895	122
Deferred lease inducements	713	807
Asset retirement obligation	164	164
	<u>30,919</u>	<u>27,419</u>
<b>Net financial assets</b>	<u>11,248</u>	<u>17,530</u>
<b>Non-financial assets</b>		
Prepaid expenses and other assets	3,080	2,163
Tangible capital assets	1,475	1,687
	<u>4,555</u>	<u>3,850</u>
<b>Accumulated surplus</b>	<u>\$ 15,803</u>	<u>\$ 21,380</u>



**Canadian Tourism Commission**

**Statement of Operations**

For the three and nine months ended September 30  
(in thousands)

	Three months ended September 30		Nine months ended September 30	
	2018	2017	2018	2017
<b>Revenues</b>				
Partner revenues	\$ 6,666	\$ 5,394	\$ 15,908	\$ 14,264
Other	485	546	1,184	1,104
	<u>7,151</u>	<u>5,940</u>	<u>17,092</u>	<u>15,368</u>
<b>Expenses</b>				
Marketing and sales	29,057	33,105	67,446	69,666
Corporate services	1,753	1,631	5,282	5,191
Strategy and planning	29	298	674	875
Amortization of tangible capital assets	93	93	283	272
	<u>30,932</u>	<u>35,127</u>	<u>73,685</u>	<u>76,004</u>
Net cost of operations before funding from the Government of Canada	(23,781)	(29,187)	(56,593)	(60,636)
Parliamentary appropriations	23,914	26,449	50,902	72,067
<b>Surplus/ (deficit) for the period</b>	<u>133</u>	<u>(2,738)</u>	<u>(5,691)</u>	<u>11,431</u>
<b>Accumulated operating surplus, beginning of period</b>	15,591	33,978	21,415	19,809
<b>Accumulated operating surplus, end of period</b>	<u>\$ 15,724</u>	<u>\$ 31,240</u>	<u>\$ 15,724</u>	<u>\$ 31,240</u>

**Canadian Tourism Commission****Statement of Remeasurement Gains and Losses**

For the three and nine months ended September 30  
(in thousands)

	Three months ended September 30		Nine months ended September 30	
	2018	2017	2018	2017
<b>Accumulated remeasurement gain/ (loss), beginning of period</b>	\$ 225	\$ 63	\$ (35)	\$ (53)
Unrealized gain/ (loss) attributable to foreign exchange	(146)	(158)	79	(95)
Amounts reclassified to the statement of operations	-	-	35	53
Net remeasurement gain/ (loss) for the period	(146)	(158)	114	(42)
<b>Accumulated remeasurement gain/ (loss), end of period</b>	<b>\$ 79</b>	<b>\$ (95)</b>	<b>\$ 79</b>	<b>\$ (95)</b>

Canadian Tourism Commission

**Statement of Change in Net Financial Assets**

For the three and nine months ended September 30  
(in thousands)

	Three months ended September 30		Nine months ended September 30	
	2018	2017	2018	2017
<b>Surplus/ (deficit) for the period</b>	\$ 133	\$ (2,738)	\$ (5,691)	\$ 11,431
Acquisition of tangible capital assets	(18)	(12)	(71)	(76)
Amortization of tangible capital assets	93	93	283	272
	75	81	212	196
<b>Effect of change in other non-financial assets</b>				
Increase/ (decrease) in prepaid expenses	205	(183)	(917)	(4,198)
	205	(183)	(917)	(4,198)
Net remeasurement gain/ (loss)	(146)	(158)	114	(42)
Increase/ (decrease) in net financial assets	267	(2,998)	(6,282)	7,387
<b>Net financial assets, beginning of period</b>	10,981	26,765	17,530	16,380
<b>Net financial assets, end of period</b>	\$ 11,248	\$ 23,767	\$ 11,248	\$ 23,767

**Canadian Tourism Commission**

**Statement of Cash Flows**

For the three and nine months ended September 30  
(in thousands)

	Three months ended September 30		Nine months ended September 30	
	2018	2017	2018	2017
<b>Operating transactions:</b>				
Cash received from:				
Parliamentary appropriations used to fund operating and capital transactions	\$ 23,914	\$ 26,449	\$ 50,902	\$ 72,067
Partners	4,371	4,804	20,743	16,879
Other	357	461	784	841
Interest	97	54	306	170
	28,739	31,768	72,735	89,957
Cash paid for:				
Cash payments to suppliers	(16,440)	(22,931)	(60,614)	(65,366)
Cash payments to and on behalf of employees	(3,263)	(2,828)	(10,847)	(9,561)
Cash provided by operating transactions	9,036	6,009	1,274	15,030
<b>Capital transactions:</b>				
Acquisition of tangible capital assets	(18)	(12)	(71)	(76)
Cash used in capital transactions	(18)	(12)	(71)	(76)
<b>Investing transactions:</b>				
Increase in portfolio investments	(4)	(4)	(9)	(11)
Cash provided by investment transactions	(4)	(4)	(9)	(11)
<b>Net remeasurement gain/ (loss) for the period</b>	<b>(146)</b>	<b>(158)</b>	<b>114</b>	<b>(42)</b>
<b>Net increase in cash during the period</b>	<b>8,868</b>	<b>5,835</b>	<b>1,308</b>	<b>14,901</b>
<b>Cash and cash equivalents, beginning of period</b>	<b>15,270</b>	<b>30,354</b>	<b>22,830</b>	<b>21,288</b>
<b>Cash and cash equivalents, end of period</b>	<b>\$ 24,138</b>	<b>\$ 36,189</b>	<b>\$ 24,138</b>	<b>\$ 36,189</b>

**Canadian Tourism Commission**  
**Notes to the Quarterly Financial Statements**  
**September 30, 2018**

**1. Authority, objectives and directives**

The Canadian Tourism Commission (the “CTC”) was established on January 2, 2001 under the Canadian Tourism Commission Act (the “Act”) and is a Crown corporation named in Part I of Schedule III to the Financial Administration Act. The CTC is for all purposes an agent of her Majesty in right of Canada. As a result, all obligations of the CTC are obligations of Canada. The CTC is not subject to income taxes.

As stated in section 5 of the Act, the CTC’s mandate is to:

- sustain a vibrant and profitable Canadian tourism industry;
- market Canada as a desirable tourist destination;
- support a cooperative relationship between the private sector and the governments of Canada, the provinces and the territories with respect to Canadian tourism; and
- provide information about Canadian tourism to the private sector and the governments of Canada, the provinces and the territories.

In December 2014, the CTC was issued directive PC 2014-1378 pursuant to section 89 of the Financial Administration Act directing the CTC to implement pension plan reforms. These reforms are to ensure that pension plans of Crown corporations provide a 50:50 current service cost-sharing ratio between employee and employer for pension contributions by December 31, 2017. The 50:50 cost-sharing ratio has been fully implemented as of December 31, 2017.

In July 2015, the CTC was issued directive PC 2015-1109 pursuant to section 89 of the Financial Administration Act to align its travel, hospitality, conference and event expenditure policies, guidelines and practices with Treasury Board policies, directives and related instruments on travel, hospitality, conference and event expenditures in a manner that is consistent with its legal obligations, and to report on the implementation of this directive in the CTC’s next corporate plan. The CTC implemented its new Travel, Hospitality, Conference, and Event Expenditures Policy on August 21, 2015 which complied with the requirements of the directive.

**2. Significant accounting policies**

These financial statements have been prepared in accordance with Canadian public sector accounting standards (“PSAS”). Significant accounting policies are as follows:

**a) Parliamentary appropriations**

The CTC is mainly financed by the Government of Canada through parliamentary appropriations. Parliamentary appropriations used to fund core operations and capital expenditures are considered unrestricted and recognized as revenues when the appropriations are authorized and any eligibility criteria are met. Parliamentary appropriations used to fund one-time activities, such as Connecting America, are considered restricted. Restricted appropriations have eligibility criteria and stipulations that give rise to an obligation that meets the definition of a liability. Restricted appropriations are recognized as deferred revenue when the stipulation gives rise to a liability. Restricted appropriation revenue is recognized as the stipulation liabilities are settled.

As a result of the CTC’s year-end date (December 31) being different than the Government of Canada’s year end date (March 31), the CTC is funded by portions of appropriations from two Government fiscal years.

The CTC will have a deferred parliamentary appropriations balance at year-end when the restricted funding received for the period exceeds the restricted appropriations recognized for the related fiscal period. The CTC will have a parliamentary appropriations receivable balance when restricted appropriations recognized exceed the restricted funding received.

**Canadian Tourism Commission  
Notes to the Quarterly Financial Statements  
September 30, 2018**

The CTC does not have the authority to exceed approved appropriations.

**b) Partnership contributions**

The CTC conducts marketing activities in partnership with a variety of Canadian and foreign organizations. Where the CTC assumes the financial risks of conducting a marketing activity, contributions received from a partnering organization are recognized in income when the related marketing activity takes place. Partnership contributions received for which the related marketing activity has not yet taken place are recognized as deferred revenue.

**c) Other revenues**

Other revenues consist of cost recoveries from co-location partners, interest revenues, capital asset sales and other miscellaneous revenues. These items are recognized as revenue in the period in which the transaction or event occurred that gives rise to the revenue.

**d) Foreign currency translation**

Monetary assets and monetary liabilities denominated in foreign currencies are translated into Canadian dollars at the applicable year-end exchange rate. Non-monetary assets and non-monetary liabilities denominated in foreign currencies are translated into Canadian dollars at historical exchange rates. Revenue and expense items are translated during the year at the exchange rate in effect on the date of the transaction. Amortization expenses of tangible capital assets are translated at historical rates to which the assets relate. Realized gains and losses are considered Operating Expenses and are included in the Statement of Operations as Corporate Services. Unrealized gains and losses are reported on the Statement of Remeasurement Gains and Losses and in the Statement of Change in Net Financial Assets. The CTC does not hedge against the risk of foreign currency fluctuations.

**e) Cash and cash equivalents**

Cash and cash equivalents include cash in bank and a money market term deposit. These items are readily convertible to a known amount of cash and are subject to an insignificant risk of change in value.

**f) Portfolio investments**

Portfolio investments are measured at amortized cost. Interest income related to these investments is calculated based on the effective interest method.

**g) Prepaid expenses**

Payments made prior to the related services being rendered are recorded as a prepaid expense. Prepaid expenses are recognized as an expense as the related services are rendered. Prepaid expenses consist of program and operating expenses such as subscriptions and tradeshow expenditure.

**h) Tangible capital assets**

Tangible capital assets are recorded at cost less accumulated amortization and the amount of any write-downs or disposals. Tangible capital assets are written down when conditions indicate they no longer contribute to the ability to provide services and are accounted for as expenses in the Statement of Operations.

Tangible capital assets are amortized on a straight-line basis over the estimated useful life of the assets as follows:

Leasehold improvements	remaining term of lease
Office furniture	5 years
Computer hardware	3 years

**Canadian Tourism Commission**  
**Notes to the Quarterly Financial Statements**  
**September 30, 2018**

Computer software 5 years

Intangible assets are not recognized in these financial statements.

**i) Deferred revenue**

Deferred revenue consists of contributions from partnering organizations and restricted appropriations received from the Government of Canada. When contributions are received from partnering organizations, it is recognized as deferred revenue until the related marketing activity or event has taken place. When restricted appropriations are received from the Government of Canada, it is recognized as deferred revenue until the criteria and stipulations are met that gave rise to the liability. As at June 30, 2018 and December 31, 2017, the deferred revenue balance is solely made up of deferred contributions from partnering organizations.

**j) Deferred lease inducements**

Deferred lease inducements consist of various office lease inducements including reimbursement of leasehold improvement costs and free rent periods. These inducements are deferred and recognized as a straight-line reduction to office lease expenses over the term of the lease.

**k) Asset retirement obligation**

Asset retirement obligation consists of decommissioning costs for various office leases. The CTC recognizes asset retirement obligations as a result of legal obligations to restore leased office spaces back to their original states at the end of the lease term. Asset retirement obligations are measured initially at fair value, based on management's best estimates, with the resulting amount capitalized into the carrying amount of the related asset. The capitalized asset retirement cost is amortized on a straight-line basis over the term of the lease. The amortization expense is included in corporate services in determining the net cost of operations.

**l) Employee future benefits**

The CTC offers a number of funded, partly funded and unfunded defined benefit pension plans, other unfunded defined benefit plans (which include post-employment benefits, post-retirement benefits and non-vested sick leave), as well as defined contribution pension plans. The pension plans include a statutory plan, a supplemental plan and a plan to cover certain employees working outside of Canada. Other benefit plans include post-employment severance benefits and post-retirement health, dental and life insurance benefits and non-vested sick leave. The defined benefit pension plans provide benefits based on years of service and average pensionable earnings at retirement. The defined benefit component of the statutory plan and the supplemental plan has been closed effective December 30, 2017 and benefits and service of plan participants are frozen as of that date. The CTC funds certain pension plans annually based on actuarially determined amounts needed to satisfy employee future benefit entitlements under current benefit regulations. Cost of living adjustments are automatically provided for retirees in accordance with Consumer Price Index increases.

The costs and obligations of the defined benefit plans are actuarially determined using the projected benefit method prorated on service that incorporates management's best estimates of the rate of employee turnover, the average retirement age, the average cost of claims per person, future salary and benefit levels, expected return on plan assets, future medical costs, and other actuarial factors. For the purposes of calculating the expected return on plan assets, those plan assets are based on the market value of plan assets.

Past service costs arising from plan amendments are recognized in the years of which the plan amendment occurred.

Actuarial gains and losses are amortized over expected average remaining service lifetime ("EARSL") of active employees. If no active employees are remaining, actuarial gains and losses are amortized fully in the next fiscal year. For 2017, EARSL has been determined to be 7.6 years (8.6 years - 2016) for the Registered Pension Plan for Employees of the CTC ("RPP"), 0.0 years (0.0 years - 2016) for the Supplementary

**Canadian Tourism Commission**  
**Notes to the Quarterly Financial Statements**  
**September 30, 2018**

Retirement Plan for certain employees of the CTC ("SRP"), 11.2 years (12.2 years - 2016) for the Pension Plan for Employees of the CTC in Japan, South Korea and China ("WWP"), 7 years (7 years - 2016) for non-pension post-retirement benefits, 13 years (13 years - 2016) for severance benefits and 13 years (13 years - 2016) for sick leave benefits.

Employees working in the United Kingdom and the United States participate in the Department of Foreign Affairs defined benefit pension plans administered by the Government of Canada. The assets of these plans cannot be allocated among participating employers, and as such, these plans are deemed "multi-employer" plans and accounted for as defined contribution plans. The CTC's contributions to these plans reflect the full benefit cost of the employer. These amounts vary depending upon the plan and are based on a percentage of the employee's gross earnings. Contributions may change over time depending on the experience of the plans since the CTC is required under present legislation to make adjustments for the rate of contributions to cover any actuarial deficiencies of these plans. Contributions represent the total pension obligations of the CTC for these employees and are charged to operations during the year in which the services are rendered.

**m) Financial instruments**

Financial assets consist of cash and cash equivalents, accounts receivable, and portfolio investments, while financial liabilities consist of accounts payable and accrued liabilities. Financial assets and financial liabilities are measured at amortized cost, which approximates their fair value.

**n) Measurement uncertainty**

The preparation of financial statements in accordance with Canadian PSAS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the amounts of income and expense during the reporting periods. Actual results could differ significantly from those estimates. The most significant estimates involve the determination of the employee future benefits liability and related accrued benefit asset, the useful lives for amortization of tangible capital assets, the fair value of the asset retirement obligation and contingencies.

**o) Related party transactions**

Through common ownership, the CTC is related to all Government of Canada created departments, agencies and Crown corporations. The CTC's transactions with these entities are in the normal course of operations and are measured at the exchange amount.

**p) Services provided without charge and partnership contributions in-kind**

Audit services are provided without charge from the Office of the Auditor General of Canada to the CTC for the annual audit of the financial statements. In the normal course of business, the CTC receives in-kind contributions from its partners including the transfer of various types of goods and services to assist in the delivery of programs. The audit services and the in-kind contributions from partners are not recognized in the financial statements.

**3. Financial statement presentation**

These unaudited interim financial statements should be read in conjunction with the annual financial statements of the Canadian Tourism Commission (the "Commission") as at and for the year ended December 31, 2017 and the narrative discussion included in the quarterly financial report. Amounts in these interim financial statements as at September 30, 2018 are unaudited and are presented in Canadian dollars.



**Canadian Tourism Commission**  
**Notes to the Quarterly Financial Statements**  
**September 30, 2018**

**4. Parliamentary appropriations**

Parliamentary appropriations approved for the Government fiscal period April 1, 2018 to March 31, 2019 are \$95.7M (April 1, 2017 to March 31, 2018 \$95.5M). The Commission does not have the authority to exceed approved appropriations.

**5. Accumulated surplus (000s)**

The accumulated surplus is comprised of:

	September 30, 2018	December 31, 2017
Accumulated operating surplus	\$ 15,724	\$ 21,415
Accumulated remeasurement gain/ (loss)	79	(35)
Accumulated surplus	<u>\$ 15,803</u>	<u>\$ 21,380</u>

**Canadian Tourism Commission**  
**Notes to the Quarterly Financial Statements**  
**September 30, 2018**

**6. Tangible capital assets (000s)**

(in thousands)	Computer Hardware	Computer Software	Leasehold Improvements	Office Furniture	Q3 2018
Cost of tangible capital assets, opening	\$ 619	\$ 19	\$ 1,989	\$ 275	\$ 2,902
Acquisitions	71	-	-	-	71
Disposals	(150)	-	(9)	(20)	(179)
Cost of tangible capital assets, closing	540	19	1,980	255	2,794
Accumulated amortization, opening	440	17	595	163	1,215
Amortization expense	91	1	157	34	283
Disposals	(150)	-	(9)	(20)	(179)
Accumulated amortization, closing	381	18	743	177	1,319
Net book value	\$ 159	\$ 1	\$ 1,237	\$ 78	\$ 1,475

(in thousands)	Computer Hardware	Computer Software	Leasehold Improvements	Office Furniture	December 31, 2017
Cost of tangible capital assets, opening	\$ 550	\$ 19	\$ 1,980	\$ 275	\$ 2,824
Acquisitions	69	-	9	-	78
Cost of tangible capital assets, closing	619	19	1,989	275	2,902
Accumulated amortization, opening	330	16	386	118	850
Amortization expense	110	1	209	45	365
Accumulated amortization, closing	440	17	595	163	1,215
Net book value	\$ 179	\$ 2	\$ 1,394	\$ 112	\$ 1,687