Canadian Tourism Commission

Quarterly Financial Report for the quarter ending March 31, 2019

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 Small Business and Tourism, 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.

Quarterly and Year to Date Results

(in thousands)

	Three months ended March 31, 2019	Three months ended March 31, 2018	Variance
Partner revenues	$ 3,110	$ 3,016	$ 94

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 Q1 partnership revenues over Q1 of last year mainly relates to increased revenues in CTC's China leisure market $282K and Research $133K which were offset by a decrease in funding of ($312K) due to the end of the three-year Connecting America program which ran from 2016 to 2018.

Other revenue	464	327	137

Other revenue, includes operational recoveries within the China office and interest revenues. The increase in Q1 was higher mainly due to receiving $89K in interest payments from the CRA for GST/HST returns that were under audit.

Marketing and sales expenses	18,204	13,043	5,161

Marketing and sales spend is $5M higher in Q1 compared to the same quarter last year due to better planning. The CTC is ahead of schedule on campaigns related to the following markets: $1.4M Europe and India, $1.9M Asia Pacific (China, Japan, Australia, Korea), and $1.8M North America (US leisure market and Mexico).

Corporate services	1,773	1,817	(44)

The CTC is dedicated to delivering efficient operations to maximize investment in our programs. The Corporate Services spend remains relatively consistent when comparing Q1 2019 to the prior year.

Strategy and planning	162	334	(172)

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

Parliamentary appropriations	22,444	26,988	(4,544)

The decline in parliamentary appropriation of $4.5M from 2018 is the result of timing differences in scheduled drawdowns on the main estimates.

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.

- **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.

- **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
May 27, 2019

Anwar Chaudhry

SVP Finance and Risk Management, and CFO
Vancouver, Canada
May 27, 2019

Canadian Tourism Commission

Statement of Financial Position

As at March 31, 2019

(in thousands)

	March 31, 2019	December 31, 2018
Financial assets		
Cash and cash equivalents	$ 29,577	$ 33,624
Accounts receivable		
Partnership contributions	1,967	4,121
Government of Canada	1,889	2,017
Other	15	19
Accrued benefit asset	11,070	11,070
Portfolio investments	388	384
	44,906	51,235
Liabilities		
Accounts payable and accrued liabilities		
Trade	9,172	24,945
Employee compensation	1,731	1,462
Government of Canada	67	71
Accrued benefit liability	5,479	5,517
Deferred revenue	2,668	386
Deferred lease inducements	654	682
Asset retirement obligation	164	164
	19,935	33,227
Net financial assets	24,971	18,008
Non-financial assets		
Prepaid expenses and other assets	1,432	2,715
Tangible capital assets	1,305	1,382
	2,737	4,097
Accumulated surplus	$ 27,708	$ 22,105

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Statement of Operations

For the three months ended March 31

(in thousands)

	2019	2018
Revenues		
Partner revenues	$ 3,110	$ 3,016
Other	464	327
	3,574	3,343
Expenses		
Marketing and sales	18,204	13,043
Corporate services	1,773	1,817
Strategy and planning	162	334
Amortization of tangible capital assets	92	94
	20,231	15,288
Net cost of operations before funding from the Government of Canada	(16,657)	(11,945)
Parliamentary appropriations	22,444	26,988
Surplus for the period	5,787	15,043
Accumulated operating surplus, beginning of period	21,951	21,415
Accumulated operating surplus, end of period	$ 27,738	$ 36,458

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Statement of Remeasurement Gains and Losses

For the three months ended March 31

(in thousands)

	2019	2018
Accumulated remeasurement gain/ (loss), beginning of period	$ 154	$ (35)
Unrealized gain/ (loss) attributable to foreign exchange	(30)	287
Amounts reclassified to the statement of operations	(154)	35
Net remeasurement gain/ (loss) for the period	(184)	322
Accumulated remeasurement gain/ (loss), end of period	$ (30)	$ 287

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Statement of Change in Net Financial Assets

For the three months ended March 31

(in thousands)

	2019	2018
Surplus for the period	$ 5,787	$ 15,043
Acquisition of tangible capital assets	(15)	(27)
Amortization of tangible capital assets	92	94
	77	67
Effect of change in other non-financial assets		
Decrease/ (increase) in prepaid expenses	1,283	(151)
	1,283	(151)
Net remeasurement gain/ (loss)	(184)	322
Increase in net financial assets	6,963	15,281
Net financial assets, beginning of period	18,008	17,530
Net financial assets, end of period	$ 24,971	$ 32,811

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Statement of Cash Flows

For the three months ended March 31
(in thousands)

	2019	2018
Operating transactions:		
Cash received from:		
Parliamentary appropriations used to fund operating and capital transactions	$ 22,444	$ 26,988
Partners	7,547	6,636
Other	189	214
Interest	246	82
	30,426	33,920
Cash paid for:		
Cash payments to suppliers	(30,785)	(26,192)
Cash payments to and on behalf of employees	(3,485)	(3,264)
Cash provided by operating transactions	(3,844)	4,464
Capital transactions:		
Acquisition of tangible capital assets	(15)	(27)
Cash used in capital transactions	(15)	(27)
Investing transactions:		
Increase in portfolio investments	(4)	(3)
Cash provided by investment transactions	(4)	(3)
Net remeasurement gain/ (loss) for the period	(184)	322
Net increase/ (decrease) in cash during the period	(4,047)	4,756
Cash and cash equivalents, beginning of period	33,624	22,830
Cash and cash equivalents, end of period	$ 29,577	$ 27,586

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 was 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. The Treasury Board issued revised directives and guidelines in 2017. On November 29, 2018, the CTC approved an updated policy to align with the new requirements.

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.

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
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 March 31, 2019 and December 31, 2018, 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 2018, EARSL has been determined to be 6.6 years (7.6 years - 2017) for the Registered Pension Plan for Employees of the CTC ("RPP"), 0.0 years (0.0 years - 2017) for the Supplementary Retirement Plan for certain employees of the CTC ("SRP"), 15.4 years (11.2 years - 2017) for the Pension Plan for Employees of the CTC in Japan, South Korea and China ("WWP"), 21 years (7 years - 2017) for non-pension post-retirement benefits, 12 years (13 years - 2017) for severance benefits and 14 years (13 years - 2017) 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.

Related parties also include key management personnel (KMP) having authority for planning, controlling, and directing the activities of the CTC, as well as their close family members. The CTC has defined its KMP to be members of the Board of Directors and management employees at the Senior Vice-President level and above.

p) 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.

q) Inter-entity transactions

Inter-entity transactions are transactions between commonly controlled entities. The CTC records inter-entity transactions at the exchange amount except the following:

- Audit services received without charge between commonly controlled entities.
- In-kind contributions received from commonly controlled entities.

The value of the audit services is considered insignificant in the context of the financial statements as a whole and inter-entity in-kind contributions 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, 2018 and the narrative discussion included in the quarterly financial report. Amounts in these interim financial statements as at March 31, 2019 are unaudited and are presented in Canadian dollars.

4. PARLIAMENTARY APPROPRIATIONS

Parliamentary appropriations approved for the Government fiscal period April 1, 2019 to March 31, 2020 are $103.7M which is comprised of $95.7M base funding and $8.0M one-time funding (April 1, 2018 to March 31, 2019 $95.7M). The Commission does not have the authority to exceed approved appropriations.

5. ACCUMULATED SURPLUS (000S)

The accumulated surplus is comprised of:

	March 31, 2019	December 31, 2018
Accumulated operating surplus	$ 27,738	$ 21,951
Accumulated remeasurement gain/ (loss)	(30)	154
Accumulated surplus	$ 27,708	$ 22,105

6. TANGIBLE CAPITAL ASSETS (000S)

(in thousands)	Computer Hardware	Computer Software	Leasehold Improvements	Office Furniture	Q1 2019
Cost of tangible capital assets, opening	$ 690	$ 19	$ 1,989	$ 275	$ 2,973
Acquisitions	14	-	9	-	23
Disposals	(8)	-	-	-	(8)
Cost of tangible capital assets, closing	696	19	1,998	275	2,988
Accumulated amortization, opening	560	18	805	208	1,591
Amortization expense	30	-	51	11	92
Accumulated amortization, closing	590	18	856	219	1,683
Net book value	$ 106	$ 1	$ 1,142	$ 56	$ 1,305

(in thousands)	Computer Hardware	Computer Software	Leasehold Improvements	Office Furniture	Dec 31, 2018
Cost of tangible capital assets, opening	$ 619	$ 19	$ 1,989	$ 275	$ 2,902
Acquisitions	71	-	-	-	71
Cost of tangible capital assets, closing	690	19	1,989	275	2,973
Accumulated amortization, opening	440	17	595	163	1,215
Amortization expense	120	1	210	45	376
Accumulated amortization, closing	560	18	805	208	1,591
Net book value	$ 130	$ 1	$ 1,184	$ 67	$ 1,382