Canadian Tourism Commission

Quarterly Financial Report for the quarter ending March 31, 2015

Canadian Tourism Commission
Narrative Discussion
March 31, 2015

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 premiere four-season tourism destination. Reporting to Parliament through the Minister of Industry, 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, Brazil 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, 2015	Three months ended March 31, 2014	Variance
Partner revenues	$ 2,428	$ 3,482	$ (1,054)

The partner revenues in Q1 of 2015 have decreased by ($1.05M) over Q1 2014 due to:
- o Decrease in TED revenue over Q1 2014 ($800K);
- o International marketing and sales partner revenue decreasing by ($500K) as a result of fewer partner initiatives in Core Markets (UK, France, Germany and Australia);
- o Timing of partner invoicing in Japan and Korea led to a decrease of ($230K) and ($100K), respectively; offset by
- o Increased partner participation in BEC events $400K; and
- o Increased Global Communications and Global Marketing partner revenue from new Parks Canada collaboration $220K.

Other revenue	183	187	(4)

Other revenues consist of interest, recoveries of commodity taxes, co-location recoveries, and credit card rebates and are consistent with Q1 2014.

Marketing and sales expenses	8,450	12,260	(3,810)

Marketing and sales expenses in Q1 2015 have decreased by ($3.81M) over Q1 2014 due to:
- o Business Events Canada expenses decreased by ($1.1M) including ($575K) due to timing of expenses and ($625K) due to reduced expenditures around TED and other initiatives;
- o International marketing and sales spending declined most notably in Core Markets (UK, France, Germany and Australia) by ($980K) and in Emerging Markets (China, India, Brazil, Japan, South Korea and Mexico) by ($980K);
- o Corporate marketing spend decreased by ($893K) in CTC divisions such as Global Marketing, Global Communications and Research due to the timing of invoices vs Q1 2014; offset by
- o An overall increase in spending in Research of $115K.

Corporate services	1,825	2,006	(181)

Corporate services expenses in Q1 2015 have decreased by ($181K) over Q1 2014 due to:
- o Savings related to staff departures and organizational changes; and
- o Savings related to on-going cost-reduction and efficiency improvement initiatives which yielded reductions in areas such as training, professional services, travel, systems maintenance and licensing costs.

Strategy and planning	150	132	18

Variance is not significant.

Risks and uncertainties

As part of its strategic management process, the CTC conducts an enterprise risk assessment and uses the results of that assessment in the development of its five-year strategic plan and risk mitigation strategy. Risk mitigation action plans are developed and implemented accordingly.

The latest assessment was completed in the summer of 2014. The resulting risk register, framed in theoretical terms is presented below. Only those risks that fall under the direct control of CTC management to mitigate are included.

Since the risk assessment presented in the 2014-2018 Corporate Plan Summary, four new risks have been identified, two risks have been merged and renamed (Strategic Talent Management Development and Retention renamed Key Talent Management) and one risk has been removed or effectively mitigated (Special Examination Readiness). In 2014, the risk of Special Examination Readiness was effectively mitigated by completing Internal Audit Special Examination Preparedness and ensuring any deficiencies were remedied prior to the OAG Special Examination.

- **Maintain corporate services ratio of 15%**
  This risk was introduced as new in 2014.

  Mitigation activities: CTC will continue to review costs and identify areas where discretionary spending could be reallocated to marketing and demonstrate how planned future reductions will impact the ratio.

- **Retention & recruitment of key talent during a period of transition**
  This risk was introduced as new in 2014.

  Mitigation activities: Continue to develop interesting and innovative projects and initiatives, fully involve and empower staff and make them part of finding solutions to continue to excel and deliver results with less budget, Human Resources team will map CTC's current talent against future needs to develop 2015 training needs or short/long term, temporary staffing, staff vacant positions with the right talent on a short or long term basis, and keep the lines of communication open.

- **Ensuring effective performance measurement of new marketing technologies**
  This risk was introduced as new in 2014.

  Mitigation activities: The CTC will explore new approaches to measuring the impact of our activities and marketing in 2015.

- **Ensuring marketing effectiveness**
  This risk increased due to a portion of CTC program funding being re-assigned to an innovative pilot project (Follow the Global Customer) in 2015 to 2017, and an increase in uncertainty related to the CTC continuing to receive partner investment in foreign markets.

  Mitigation activities: Maintain strong brand and agency, use of advanced path to purchase model, use of key balanced scorecard metrics (campaign return on investment, partner survey), recruit, develop and retain the right talent, focus on opportunities for integrating innovation (core value) into our core business and measure against it, perform evaluations on results of conversion studies, better communicate the CTC's value and impact to the tourism industry by explicitly stating this as a Strategic Objective and measuring its impact in the balanced scorecard, use insights to inform decisions, and focus efforts and resources.

- **Continuing critical operations in the event of a disaster or other emergencies**
  This risk decreased due to the update of the Business Continuity and Disaster Recovery Plans.

  Mitigation activities: Maintain current crisis communication plan, business continuity plan and disaster recovery plan and test the plans from time to time.

- **New contracting process in financial system**

  Mitigation activities: Further training to be provided by the Procurement unit. Ensure that budget owners are running and reviewing the relevant reports (i.e. Contract Detail Report) on a monthly basis.

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	Alastair Nimmons
President and CEO *Vancouver, Canada* *May 21, 2015*	*Acting Chief Financial Officer* *Vancouver, Canada* *May 21, 2015*

Canadian Tourism Commission

Statement of Financial Position

As at March 31

(in thousands)

	March 31, 2015	December 31, 2014
Financial assets		
Cash and cash equivalents	$ 13,800	$ 14,748
Accounts receivable		
Partnership contributions	1,253	1,412
Government of Canada	130	169
Other	21	31
Accrued benefit asset	8,005	7,585
Portfolio investments	551	546
	23,760	24,491
Liabilities		
Accounts payable and accrued liabilities		
Trade	$ 1,734	$ 5,186
Employee compensation	1,149	1,943
Government of Canada	33	789
Accrued benefit liability	5,956	5,991
Deferred revenue	784	260
Asset retirement obligation	515	515
	10,171	14,684
Net financial assets	13,589	9,807
Non-financial assets		
Prepaid expenses and other assets	3,282	1,789
Tangible capital assets	257	326
	3,539	2,115
Accumulated surplus	$ 17,128	$ 11,922

Canadian Tourism Commission

Statement of Operations

For the 3 months ended March 31
(in thousands)

	2015	2014
Revenues		
Partner revenues	$ 2,428	$ 3,482
Other	183	187
	2,611	3,669
Expenses		
Marketing and sales	8,450	12,260
Corporate services	1,825	2,006
Strategy and planning	150	132
Amortization of tangible capital assets	88	104
	10,513	14,502
Net cost of operations before funding from the Government of Canada	(7,902)	(10,833)
Parliamentary appropriations	12,885	12,882
Surplus for the period	4,983	2,049
Accumulated operating surplus, beginning of period	11,684	6,630
Accumulated operating surplus, end of period	$ 16,667	$ 8,679

Canadian Tourism Commission

Statement of Remeasurement Gains and Losses

For the 3 months ended March 31
(in thousands)

	2015	2014
Accumulated remeasurement gain, beginning of period	$ 238	$ 178
Unrealized gains attributable to foreign exchange	461	278
Amounts reclassified to the statement of operations	(238)	(178)
Net remeasurement gain for the period	223	100
Accumulated remeasurement gain, end of period	$ 461	$ 278

Canadian Tourism Commission

Statement of Change in Net Financial Assets

For the 3 months ended March 31
(in thousands)

	2015	2014
Surplus for the period	$ 4,983	$ 2,049
Acquisition of tangible capital assets	(23)	-
Amortization of tangible capital assets	88	104
Net disposition of tangible capital assets	4	-
	69	104
Effect of change in other non-financial assets		
Increase in prepaid expenses	(1,493)	(1,738)
	(1,493)	(1,738)
Net remeasurement gain	223	100
Increase in net financial assets	3,782	515
Net financial assets, beginning of period	9,807	5,112
Net financial assets, end of period	$ 13,589	$ 5,627

Canadian Tourism Commission

Statement of Cash Flows

For the 3 months ended March 31
(in thousands)

	2015	2014
Operating transactions:		
Cash received from:		
Parliamentary appropriations used to fund operating and capital transactions	$ 12,885	$ 12,882
Partner revenues	3,111	2,542
Other revenues	143	145
Interest on cash	41	42
	16,180	15,611
Cash paid for:		
Cash payments to suppliers	(13,335)	(15,486)
Cash payments to and on behalf of employees	(3,992)	(3,578)
Cash used in operating transactions	(1,147)	(3,453)
Capital transactions:		
Acquisition of tangible capital assets	(23)	-
Disposition of tangible capital assets	4	-
Cash used in capital transactions	(19)	-
Investing transactions:		
Acquisition of portfolio investments	(5)	(5)
Cash used in investment transactions	(5)	(5)
Net remeasurement gain for the period	223	100
Increase in cash and cash equivalents during the period	(948)	(3,358)
Cash and cash equivalents, beginning of period	14,748	11,918
Cash and cash equivalents, end of period	$ 13,800	$ 8,560

Canadian Tourism Commission
Notes to the Quarterly Financial Statements
March 31, 2015

1. Authority and objectives

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 intended to ensure that pension plans of Crown corporations provide a 50:50 current service cost-sharing ratio between employee and employer for pension contributions, to be phased in for all members by December 31, 2017. The CTC's implementation strategy will be outlined in its corporate plans until commitments under this directive are fully implemented.

2. Significant accounting policies

These financial statements have been prepared in accordance with Canadian public sector accounting standards. 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 Olympics or Stimulus, 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 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

Prepaid expenses consists of program and operating expenses recognized as an expense based on the term of usage for items such as subscriptions or based on the event date of tradeshows.

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 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 deferred revenues from partnering organizations and deferred lease inducements. Deferred revenues from partnering organizations are recognized as revenues based on an event's date or a license period. Deferred revenues relating to lease inducements are recognized as a reduction of lease expense over the term of the lease.

j) Asset retirement obligation

Asset retirement obligations consist 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 included in leasehold improvements and amortized on the same basis as the related asset. The amortization expense is included in determining the net cost of operations.

k) 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 statutory plans and a supplemental plan. 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 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. For 2014, EARSL has been determined to be 8.7 years (8.7 years - 2013) for the Registered Pension Plan for Employees of the CTC ("RPP"), 8 years (8 years - 2013) for the Supplementary Retirement Plan for certain employees of the CTC ("SRP"), 14.3 years (15.3 years - 2013) for the Pension Plan for Employees of the CTC in Japan, South Korea and China ("WWP"), 7 years (17 years - 2013) for non-pension post-retirement benefits, 13 years (13 years - 2013) for severance benefits and 13 years (13 years - 2013) 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.

l) Financial instruments

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

m) Measurement uncertainty

The preparation of financial statements in accordance with Canadian public sector accounting standards 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 employee future benefits, the useful lives for amortization of tangible capital assets and the fair value of the asset retirement obligation.

n) Related party transactions

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

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, 2014 and the narrative discussion included in the quarterly financial report. Amounts in these interim financial statements as at March 31, 2015 are unaudited and are presented in Canadian dollars.

4. Parliamentary appropriations

Parliamentary appropriations approved for the Government fiscal period April 1, 2015 to March 31, 2016 are $58.0M (April 1, 2014 to March 31, 2015 $58.0M). The Commission does not have the authority to exceed approved appropriations.

5. Accumulated surplus (000s)

The accumulated surplus is comprised of:

	March 31, 2015	December 31, 2014
Accumulated operating surplus	$ 16,667	$ 11,684
Accumulated remeasurement gain	461	238
Accumulated surplus	$ 17,128	$ 11,922

Canadian Tourism Commission
Notes to the Quarterly Financial Statements
March 31, 2015

6. Tangible capital assets (000s)

	Computer Hardware	Computer Software	Leasehold Improvements	Office Furniture	Decom- Leaseholds	Q1 2015 Total
Cost of tangible capital assets, opening	$ 283	$ 13	$ 2,516	$ 531	$ 515	$ 3,858
Acquisitions	23	-	-	-	-	23
Disposals	(12)	-	-	-	-	(12)
Cost of tangible capital assets, closing	294	13	2,516	531	515	3,869
Accumulated amortization, opening	258	13	2,274	516	471	3,532
Amortization expense	7	-	66	3	12	88
Disposals	(8)	-	-	-	-	(8)
Accumulated amortization, closing	257	13	2,340	519	483	3,612
Net book value	$ 37	$ -	$ 176	$ 12	$ 32	$ 257

	Computer Hardware	Computer Software	Leasehold Improvements	Office Furniture	Decom- Leaseholds	2014 Total
Cost of tangible capital assets, opening	$ 265	$ 13	$ 2,516	$ 529	$ 515	$ 3,838
Acquisitions	18	-	-	2	-	20
Disposals	-	-	-	-	-	-
Cost of tangible capital assets, closing	283	13	2,516	531	515	3,858
Accumulated amortization, opening	204	10	2,010	502	424	3,150
Amortization expense	54	3	264	14	47	382
Disposals	-	-	-	-	-	-
Accumulated amortization, closing	258	13	2,274	516	471	3,532
Net book value	$ 25	$ -	$ 242	$ 15	$ 44	$ 326