Canadian Tourism Commission

Quarterly Financial Report for the quarter ending June 30, 2014

Canadian Tourism Commission
Narrative Discussion
June 30, 2014

Introduction

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

Information discussed in the Management Discussion and Analysis applies to the quarter.

Quarterly Results
(in thousands)

	Three months ended June 30, 2014	Three months ended June 30, 2013	Variance
Partner revenues	$ 1,659	$ 1,372	$ 287

The partner revenues in Q2 of 2014 have increased by $287K over Q2 2013 due to:
- o Increased revenues of $250K in China due to timing of partner payments;
- o Increased revenues of $100K related to new Global Marketing partnerships in 2014;
- o Increase in BEC National Partnerships and Trade Shows participation of $45K;
- o Favourable USD FX rates resulted in an increase over Q2 2013 of $60K; offset by
- o International marketing and sales partner revenue decreasing by a net $130K as a result of fewer partner initiatives in Emerging Markets (India, Brazil, Japan, South Korea and Mexico) and in Core Markets (UK, France, Germany and Australia); and
- o Decrease in Research revenues due to lower EQ license revenues.

Other revenue	234	178	56

Other revenues consist of interest, recoveries of commodity taxes, co-location recoveries, and credit card rebates. Increase relates primarily to timing of VAT refunds received in 2014 and an increase in credit card rebates.

Marketing and sales expenses	15,122	14,820	302

Marketing and sales expenses in Q2 2014 have increased by $302K over Q2 2013 due to:
- o Increase in spend in China of $1.2M as a result of timing of invoices related to You Can be A Star;
- o Increase in UK spending of $1.1M as a result of the timing of invoices related to the Spring Campaign;
- o The Youth Travel program was initiated in Q3 2013, resulting in an increase in spending of $188K; offset by
- o Marketing and sales spending decrease of $700K across all other international markets most notably in Core Markets (France, Germany and Australia) by $506K and in Emerging Markets (India, Brazil, Japan, South Korea and Mexico) by $194K;
- o Corporate marketing activities decreased by $1.2M in CTC divisions such as Global Marketing, Global Communications and Research due to planned reductions in brand and marketing initiatives and research activities as well as the timing of invoices;
- o Business Events initiatives decreased by $210K, mainly due to completion of the TED conference.

Corporate services	1,781	1,998	(217)

Corporate services expenses in Q2 2014 have decreased by $217K over Q2 2013 due to:
- o Savings related to staff departures and organizational changes of $195K;
- 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 of $82K; offset by
- o Increased legal fees of $60K.

Strategy and planning	111	153	(42)

Strategy and planning expenses in Q2 2014 have decreased by $42K over Q2 2013 due to timing of spend and reduced travel costs.

Canadian Tourism Commission
Narrative Discussion
June 30, 2014

Year to Date Results
(in thousands)

	Six months ended June 30, 2014	Six months ended June 30, 2013	Variance
Partner revenues	$ 5,141	$ 4,759	$ 382

The partner revenues YTD in 2014 have increased by $382K over YTD in 2013 due to:
- o Increased revenues of $250K in China due to timing of partner payments;
- o Increased revenues of $236K related to TED conference with 2014 being its first year in Canada and additional National Partnerships and Trade Shows participation;
- o $169K increase in Global Communications and Global Marketing revenue from increased partner participation and new partnerships at industry events in 2014; offset by
- o International marketing and sales partner revenue decreasing by $190K as a result of fewer partner initiatives in Core Markets (UK, France, Germany and Australia) and in Emerging Markets (China, India, Brazil, Japan, South Korea and Mexico); and
- o Decrease in Research revenues due to lower EQ license revenues.

Other revenue	421	389	32

Other revenues consist of interest, recoveries of commodity taxes, co-location recoveries, and credit card rebates.

Marketing and sales expenses	27,382	28,699	(1,317)

Marketing and sales expenses YTD 2014 have decreased by $1.3M over YTD 2013 due to:
- o Corporate marketing activities decreased by $1.5M in CTC divisions such as Global Marketing, Global Communications and Research due to planned reductions in brand and marketing initiatives and research activities as well as the timing of invoices;
- o Business Events initiatives decreased by $170K, mainly due to the completion of the TED conference in 2014;
- o International marketing and sales spending declined most notably in Core Markets (UK, France, Germany and Australia) by $305K and in Emerging Markets (India, Brazil, Japan, South Korea and Mexico) by $370K; these declines were offset by increases in
- o Increase in spend in China of $797K as a result of timing of invoices related to You Can be A Star;
- o The Youth Travel program was initiated in Q3 2013, resulting in an increase in spending of $277K.

Corporate services	3,787	4,450	(663)

Corporate services expenses YTD 2014 have decreased by $663K over YTD 2013 due to:
- o Efficiencies achieved in a number of areas resulting in a net reduction of corporate services of $357K;
- o Savings related to staff departures and organizational changes of $280K
- 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; offset by
- o Increased spend related to professional and legal services of $100K.

Strategy and planning	243	298	(55)

Strategy and planning expenses YTD 2014 have decreased by $55K over YTD 2013 due to timing of spend and reduced travel costs.

Risks and uncertainties

The CTC conducts an enterprise risk management assessment on an annual basis. The primary objectives are to identify risks, to assess the impact, likelihood of occurrence of those risks (to determine inherent risk) and to assess the effectiveness of risk mitigation responses currently in place (to determine residual risk). From this, management prepares a risk mitigation action plan which is monitored and updated on a regular basis. The latest assessment was completed in 2013. The resulting risk register, framed in theoretical terms are presented below. Only those risks that fall under the direct control of the CTC management to mitigate have been included below.

- **Strategic Talent Management Development and Retention**
  Lack of talent management and retention strategy may result in managers lacking the skills to be effective at their jobs and/or loss of key talent

  Mitigation activities: Develop behavioral interviewing tools to address “fit”; implement individual action plans developed from previous 360s; continue succession program; focus on retention of high performing staff and successors; improve discipline around conducting exit interviews; refine and implement HR strategy; continue development programs to improve leadership skills and competencies.

- **Disaster recovery planning / business continuity planning**
  Inability to continue critical operations in the event of an emergency or disaster

  Mitigation activities: Maintain current crisis communication plan; review and update the current disaster recovery plan and business continuity plan.

- **Marketing effectiveness**
  Marketing effort is not effective / relevant and has no impact on the tourism industry

  Mitigation activities: Maintain strong brand and agency; use advance path to purchase model; use key balanced scorecard metrics (campaign return on investment, partner brand alignment and partner satisfaction); 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; use insights to inform decisions and focus efforts and resources optimally.

- **New contracting process in new financial system**
  Staff may not fully understand the new process in the system which could result in poor financial management

  Mitigation activities: Procurement to provide further training; ensure that budget owners are running and reviewing the relevant reports on a monthly basis.

- **Special Exam readiness**
  That the Office of the Auditor General (OAG) concludes that the CTC has not corrected its previous significant deficiencies, or that new significant deficiencies are identified

  Mitigation activities: Complete Internal Audit Special Exam Preparedness; ensure any deficiencies are remedied prior to OAG Special Exam.

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.

Greg Klassen
President and Chief Executive Officer
(Interim)
Vancouver, Canada
August 21, 2014

Lena Bullock
Vice-President, Finance
and Chief Financial Officer
Vancouver, Canada
August 21, 2014

Canadian Tourism Commission

Statement of Financial Position

As at June 30, 2014

(in thousands)

	June 30, 2014	December 31, 2013
Financial assets		
Cash and cash equivalents	$ 8,634	$ 11,918
Accounts receivable		
Partnership contributions	1,244	768
Government of Canada	74	474
Other	45	48
Accrued benefit asset	5,677	5,677
Portfolio investments	599	590
	16,273	19,475
Liabilities		
Accounts payable and accrued liabilities		
Trade	2,346	5,160
Employee compensation	1,301	1,787
Accrued benefit liability	6,111	6,144
Deferred revenue	971	751
Asset retirement obligation	521	521
	11,250	14,363
Net financial assets	5,023	5,112
Non-financial assets		
Prepaid expenses and other assets	2,622	1,008
Tangible capital assets	500	688
	3,122	1,696
Accumulated surplus	$ 8,145	$ 6,808

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Statement of Operations

For the three and six months ended June 30
(in thousands)

	Three months ended June 30		Six months ended June 30	
	2014	2013	2014	2013
Revenues				
Partner revenues	$ 1,659	$ 1,372	$ 5,141	$ 4,759
Other	234	178	421	389
	1,893	1,550	5,562	5,148
Expenses				
Marketing and sales	15,122	14,820	27,382	28,699
Corporate services	1,781	1,998	3,787	4,450
Strategy and planning	111	153	243	298
Amortization of tangible capital assets	103	115	207	228
	17,117	17,086	31,619	33,675
Net cost of operations before funding from the Government of Canada	(15,224)	(15,536)	(26,057)	(28,527)
Parliamentary appropriations	14,496	14,458	27,378	32,332
Surplus/(deficit) for the period	(728)	(1,078)	1,321	3,805
Accumulated operating surplus, beginning of period	8,679	10,230	6,630	5,347
Accumulated operating surplus, end of period	$ 7,951	$ 9,152	$ 7,951	$ 9,152

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Statement of Remeasurement Gains and Losses

For the three and six months ended June 30

(in thousands)

	Three months ended June 30		Six months ended June 30	
	2014	2013	2014	2013
Accumulated remeasurement gain, beginning of period	$ 278	$ 50	$ 178	$ -
Unrealized gain/(loss) attributable to foreign exchange	(84)	56	194	106
Amounts reclassified to the statement of operations	-	-	(178)	-
Net remeasurement gain/(loss) for the period	(84)	56	16	106
Accumulated remeasurement gain/(loss), end of period	$ 194	$ 106	$ 194	$ 106

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Statement of Change in Net Financial Assets

For the three and six months ended June 30

(in thousands)

	Three months ended June 30		Six months ended June 30	
	2014	2013	2014	2013
Surplus for the period	$ (728)	$ (1,078)	$ 1,321	$ 3,805
Acquisition of tangible capital assets	(19)	(8)	(19)	(8)
Amortization of tangible capital assets	103	115	207	228
Net disposition of tangible capital assets	-	-	-	-
	84	107	188	220
Effect of change in other non-financial assets				
Increase/(decrease) in prepaid expenses	124	244	(1,614)	(129)
	124	244	(1,614)	(129)
Net remeasurement gain/(loss)	(84)	56	16	106
Increase/(decrease) in net financial assets	(604)	(671)	(89)	4,002
Net financial assets, beginning of period	5,627	6,783	5,112	2,110
Net financial assets, end of period	$ 5,023	$ 6,112	$ 5,023	$ 6,112

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Statement of Cash Flows

For the three and six months ended June 30

(in thousands)

	Three months ended June 30		Six months ended June 30	
	2014	2013	2014	2013
Operating transactions:				
Cash received from:				
Parliamentary appropriations used to fund operating and capital transactions	$ 14,496	$ 14,458	$ 27,378	$ 30,723
Partner revenues	2,401	3,727	4,943	5,828
Other revenues	189	87	334	298
Interest on cash	45	91	87	91
	17,131	18,363	32,742	36,940
Cash paid for:				
Cash payments to suppliers	(13,720)	(14,773)	(29,206)	(31,836)
Cash payments to and on behalf of employees	(3,230)	(2,434)	(6,808)	(6,244)
Cash applied to/(used in) operating transactions	181	1,156	(3,272)	(1,140)
Capital transactions:				
Acquisition of tangible capital assets	(19)	(8)	(19)	(8)
Cash used in capital transactions	(19)	(8)	(19)	(8)
Investing transactions:				
Acquisition of portfolio investments	(4)	(5)	(9)	(10)
Cash used in investment transactions	(4)	(5)	(9)	(10)
Net remeasurement gain/(loss) for the period	(84)	56	16	106
Net increase/(decrease) in cash during the period	74	1,199	(3,284)	(1,052)
Cash and cash equivalents, beginning of period	8,560	9,424	11,918	11,675
Cash and cash equivalents, end of period	$ 8,634	$ 10,623	$ 8,634	$ 10,623

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.

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. On the other hand, 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. The deferred revenues relating to partnering organizations are recognized as revenues based on the event's date or over the license period. The 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 obligation consists of decommissioning costs for various office leases. The CTC recognized 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.

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.

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, 2013 and the narrative discussion included in the quarterly financial report. Amounts in these interim financial statements as at June 30, 2014 are unaudited and are presented in Canadian dollars.

4. Parliamentary appropriations

Parliamentary appropriations approved for the Government fiscal period April 1, 2014 to March 31, 2015 are $58.0M (April 1, 2013 to March 31, 2014 $58.0M). The Commission does not have the authority to exceed approved appropriations.

5. Accumulated surplus

The accumulated surplus is comprised of:

	June 30, 2014	December 31, 2013
Accumulated operating surplus	$ 7,951	$ 6,630
Accumulated remeasurement gain	194	178
Accumulated surplus	$ 8,145	$ 6,808

6. Tangible capital assets

	Computer Hardware	Computer Software	Leasehold Improvements	Office Furniture	Decom- Leaseholds	Q2 2014 Total
Cost of tangible capital assets, opening	$ 265	$ 13	$ 2,516	$ 529	$ 515	$ 3,838
Acquisitions	17	-	-	2	-	19
Disposals	-	-	-	-	-	-
Cost of tangible capital assets, closing	282	13	2,516	531	515	3,857
Accumulated amortization, opening	204	10	2,010	502	424	3,150
Amortization expense	41	1	133	8	24	207
Disposals	-	-	-	-	-	-
Accumulated amortization, closing	245	11	2,143	510	448	3,357
Net book value	$ 37	$ 2	$ 373	$ 21	$ 67	$ 500

	Computer Hardware	Computer Software	Leasehold Improvements	Office Furniture	Decom- Leaseholds	2013 Total
Cost of tangible capital assets, opening	$ 310	$ 157	$ 3,625	$ 529	$ 833	$ 5,454
Acquisitions	4	-	5	-	-	9
Disposals	(49)	(144)	(1,114)	-	(318)	(1,625)
Cost of tangible capital assets, closing	265	13	2,516	529	515	3,838
Accumulated amortization, opening	161	151	2,853	479	695	4,339
Amortization expense	92	3	271	23	47	436
Disposals	(49)	(144)	(1,114)	-	(318)	(1,625)
Accumulated amortization, closing	204	10	2,010	502	424	3,150
Net book value	$ 61	$ 3	$ 506	$ 27	$ 91	$ 688