Canadian Tourism Commission

Quarterly Financial Report for the quarter ending September 30, 2014

Canadian Tourism Commission
Narrative Discussion
September 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 September 30, 2014	Three months ended September 30, 2013	Variance
Partner revenues	$ 1,224	$ 1,617	$ (393)

The partner revenues in Q3 of 2014 have decreased by $393K over Q3 2013 due to:
- o Decreased revenues of $88K in China due to timing of partner payments;
- o Decreased revenues of $90K related reduction of International and Global Marketing initiatives in Q3 2014;
- o International marketing and sales partner revenue decreasing by a net $230K 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);
- o Decrease in Research revenues of $60K due to lower EQ license revenues; offset by
- o Increase in BEC National Partnerships and Trade Shows participation of $77K.

Other revenue	541	203	338

Other revenues consist of interest, recoveries of commodity taxes, prior year event surplus, co-location recoveries, and credit card rebates. The increase is due mainly to the recovery of prior years' surpluses for a trade event.

Marketing and sales expenses	9,501	13,517	(4,016)

Marketing and sales expenses in Q3 2014 have decreased by $4.0M over Q3 2013 due to:
- o Decrease in spend in China of $1.4M as a result of timing of invoices;
- o Marketing and sales spending decrease of $1.5M across all other international markets most notably in Core Markets (UK, France, Germany and Australia) by $300K and in Emerging Markets (India, Brazil, Japan, South Korea and Mexico) by $1.2M due to less partnered activities, timing of invoices and a planned reduction of spend;
- o Corporate marketing activities decreased by $1.0M 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 $300K, mainly due to completion of the TED conference; offset by
- o The Youth Travel program was initiated in Q3 2013, resulting in an increase in spending of $108K.

Corporate services	1,725	2,155	(430)

Corporate services expenses in Q3 2014 have decreased by $430K over Q3 2013 due to:
- o Efficiencies achieved in a number of areas resulting in a net reduction of corporate services of $178K;
- o Savings related to staff departures and organizational changes of $80K;
- 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; offset by
- o Increased legal fees of $60K.

Strategy and planning	132	117	15

Strategy and planning expenses in Q3 2014 have increased by $15K over Q3 2013 due to timing of spend.

Year to Date Results

(in thousands)

	Nine months ended September 30, 2014	Nine months ended September 30, 2013	Variance
Partner revenues	$ 6,365	$ 6,376	$ (11)

The partner revenues YTD in 2014 have decreased by $11K over YTD in 2013 due to:

- o Increased revenues of $84K in China due to additional funding related to CTCTV and increased partner revenue around Showcase Asia;
- o Increased revenues of $386K related to TED conference with 2014 being its first year in Canada and additional National Partnerships and Trade Shows participation;
- o Core market partner revenue increased by $312K mainly due to increased partner support for UK initiatives;
- o $105K increase in Global Communications and Global Marketing revenue mainly related to AFAR partnership; offset by
- o International and emerging marketing and sales partner revenue decreasing by $692K as a result of fewer partnered initiatives (India, Brazil, Japan, South Korea and Mexico); and
- o Decrease in Research revenues of $206K mainly due to lower EQ license revenues.

Other revenue	962	592	370

Other revenues consist of interest, recoveries of commodity taxes, prior year event surplus, co-location recoveries, and credit card rebates. The increase is due mainly to the recovery of prior years' surpluses for a trade event.

Marketing and sales expenses	36,883	42,216	(5,333)

Marketing and sales expenses YTD 2014 have decreased by $5.3M over YTD 2013 due to:

- o Corporate marketing activities decreased by $2.25M in CTC divisions such as Global Marketing, Global Communications and Research due to planned reductions in brand and marketing initiatives and research activities;
- o International marketing and sales spending declined most notably in China $560K due to timing of invoices, Core Markets (UK, France, Germany and Australia) by $1.75M due to timing of invoices and deferral of initiatives and in Emerging Markets (India, Brazil, Japan, South Korea and Mexico) by $1.85M due to decrease in partner revenues and planned reductions in marketing initiatives;
- o offset by increases in Business Events initiatives increased by $880K, as a result of increased partner revenues and the timing of invoices;
- o The Youth Travel program was initiated in Q3 2013, resulting in an increase in 2014 YTD spending of $385K.

Corporate services	5,512	6,605	(1,093)

Corporate services expenses YTD 2014 have decreased by $1.1M over YTD 2013 due to:

- o Efficiencies achieved in a number of areas resulting in a net reduction of corporate services of $335K;
- o Savings related to staff departures and organizational changes of $350K;
- 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 $75K.

Strategy and planning	375	415	(40)

Strategy and planning expenses YTD 2014 have decreased by $40K 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 2014. 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.

- **Performance measurement**
  Inability to measure the attributable results of efforts using new marketing communications technologies. This risk has emerged as travellers move from traditional sources for travel information and inspiration, such as newspapers and billboards, to digital content such as blogs and websites. The CTC's increased focus on content marketing and the pilot "Follow the Global Customer" initiative will seek to respond to these data-driven, digital, content-focused customers. Techniques to appropriately measure the CTC's impact with these new methods will evolve with the initiative.

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

- **Marketing effectiveness**
  Marketing effort is not effective / relevant and has no impact on the tourism industry. This risk has increased from low to a medium risk since last year due to the shifts in global marketing as outlined in the new Performance Measurement risk above.

  Mitigation activities: Maintain strong brand and agency; use 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; 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 and focus efforts and resources optimally.

- **Global economic issues**
  Global economies (where the CTC invests) suffer significant halts in growth or experience geo-political issues which could impact international travel and the Canadian tourism industry.

  Mitigation activities: Maintain a balanced country investment portfolio; ensure country budgets are flexible to allow reallocations if necessary. Offer support, tools, assets and sales opportunities to industry to withstand economic issues, facilitate their export readiness and help grow their business.

- **Staff retention**
  Loss of key talent because of the CTC's financial situation and leadership instability and uncertainty.

  Mitigation activities: Continue to develop interesting 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. Keep the line of communication open.

- **Key talent**
  Lack of some specific key talent and skills to meet needs in the future.

  Mitigation activities: Human Resources team will map the 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.

- **Disaster recovery planning / business continuity planning**
  Inability to continue critical operations in the event of an emergency or disaster. This risk has decreased due to the update of the Business Continuity and Disaster Recovery Plans.

  Mitigation activities: Maintain current crisis communication plan; review and update the current disaster recovery plan and business continuity plan. Test the plans from time to time.

- **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.

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
November 20, 2014

Lena Bullock
Vice-President, Finance
and Chief Financial Officer
Vancouver, Canada
November 20, 2014

Canadian Tourism Commission

Statement of Financial Position

As at September 30, 2014

(in thousands)

	September 30, 2014	December 31, 2013
Financial assets		
Cash and cash equivalents	$ 15,521	$ 11,918
Accounts receivable		
Partnership contributions	511	768
Government of Canada	56	474
Other	51	48
Accrued benefit asset	5,938	5,677
Portfolio investments	604	590
	22,681	19,475
Liabilities		
Accounts payable and accrued liabilities		
Trade	1,885	5,160
Employee compensation	1,376	1,787
Accrued benefit liability	6,071	6,144
Deferred revenue	884	751
Asset retirement obligation	521	521
	10,737	14,363
Net financial assets	11,944	5,112
Non-financial assets		
Prepaid expenses and other assets	2,194	1,008
Tangible capital assets	414	688
	2,608	1,696
Accumulated surplus	$ 14,552	$ 6,808

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Statement of Operations

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

	Three months ended September 30		Nine months ended September 30	
	2014	2013	2014	2013
Revenues				
Partner revenues	$ 1,224	$ 1,617	$ 6,365	$ 6,376
Other	541	203	962	592
	1,765	1,820	7,327	6,968
Expenses				
Marketing and sales	9,501	13,517	36,883	42,216
Corporate services	1,725	2,155	5,512	6,605
Strategy and planning	132	117	375	415
Amortization of tangible capital assets	87	104	294	332
	11,445	15,893	43,064	49,568
Net cost of operations before funding from the Government of Canada	(9,680)	(14,073)	(35,737)	(42,600)
Parliamentary appropriations	16,059	15,200	43,437	47,532
Surplus/(deficit) for the period	6,379	1,127	7,700	4,932
Accumulated operating surplus, beginning of period	7,951	9,152	6,630	5,347
Accumulated operating surplus, end of period	$ 14,330	$ 10,279	$ 14,330	$ 10,279

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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	
	2014	2013	2014	2013
Accumulated remeasurement gain, beginning of period	$ 194	$ 106	$ 178	$ -
Unrealized gain/(loss) attributable to foreign exchange	28	3	222	109
Amounts reclassified to the statement of operations	-	-	(178)	-
Net remeasurement gain/(loss) for the period	28	3	44	109
Accumulated remeasurement gain/(loss), end of period	$ 222	$ 109	$ 222	$ 109

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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	
	2014	2013	2014	2013
Surplus for the period	$ 6,379	$ 1,127	$ 7,700	$ 4,932
Acquisition of tangible capital assets	(1)	(1)	(20)	(9)
Amortization of tangible capital assets	87	104	294	332
Net disposition of tangible capital assets	-	-	-	-
	86	103	274	323
Effect of change in other non-financial assets				
Increase/(decrease) in prepaid expenses	428	(163)	(1,186)	(292)
	428	(163)	(1,186)	(292)
Net remeasurement gain/(loss)	28	3	44	109
Increase/(decrease) in net financial assets	6,921	1,070	6,832	5,072
Net financial assets, beginning of period	5,023	6,112	5,112	2,110
Net financial assets, end of period	$ 11,944	$ 7,182	$ 11,944	$ 7,182

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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	
	2014	2013	2014	2013
Operating transactions:				
Cash received from:				
Parliamentary appropriations used to fund operating and capital transactions	$ 16,059	$ 15,200	$ 43,437	$ 45,923
Partner revenues	1,898	2,230	6,841	8,058
Other revenues	509	185	843	441
Interest on cash	32	18	119	151
	18,498	17,633	51,240	54,573
Cash paid for:				
Cash payments to suppliers	(8,307)	(12,527)	(37,513)	(44,363)
Cash payments to and on behalf of employees	(3,326)	(3,959)	(10,134)	(10,203)
Cash applied to/(used in) operating transactions	6,865	1,147	3,593	7
Capital transactions:				
Acquisition of tangible capital assets	(1)	(1)	(20)	(9)
Cash used in capital transactions	(1)	(1)	(20)	(9)
Investing transactions:				
Acquisition of portfolio investments	(5)	(5)	(14)	(15)
Cash used in investment transactions	(5)	(5)	(14)	(15)
Net remeasurement gain/(loss) for the period	28	3	44	109
Net increase/(decrease) in cash during the period	6,887	1,144	3,603	92
Cash and cash equivalents, beginning of period	8,634	10,623	11,918	11,675
Cash and cash equivalents, end of period	$ 15,521	$ 11,767	$ 15,521	$ 11,767

Canadian Tourism Commission
Notes to the Quarterly Financial Statements
September 30, 2014

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 September 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:

	September 30, 2014	December 31, 2013
Accumulated operating surplus	$ 14,330	$ 6,630
Accumulated remeasurement gain	222	178
Accumulated surplus	$ 14,552	$ 6,808

6. Tangible capital assets

	Computer Hardware	Computer Software	Leasehold Improvements	Office Furniture	Decom- Leaseholds	Q3 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	47	2	198	11	35	293
Disposals	-	-	-	-	-	-
Accumulated amortization, closing	251	12	2,208	513	459	3,443
Net book value	$ 31	$ 1	$ 308	$ 18	$ 56	$ 414

	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