TOFINO DESTINATION
MANAGEMENT ASSOCIATION

Financial Statements
December 31, 2018

Smythe CPA

INDEPENDENT AUDITORS' REPORT

TO THE BOARD OF DIRECTORS OF TOFINO DESTINATION MANAGEMENT ASSOCIATION

Opinion
We have audited the financial statements of Tofino Destination Management Association (the "Society"), which comprise the statement of financial position as at December 31, 2018, and the statements of operations, changes in net assets and cash flows, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the management as at December 31, 2018, and its results of its operations and its cash flows in accordance with Canadian accounting standards for not-for-profit organizations.

Basis for Opinion
We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the management in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and Those Charged with Governance for the Financial Statements
Management is responsible for the preparation and fair presentation of the financial statements in accordance with Canadian accounting standards for not-for-profit organizations, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the management's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the management or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the management's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements. As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

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- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Report on Other Legal and Regulatory Requirements
As required by the BC *Societies Act*, we report that, in our opinion, the accounting principles in Canadian accounting standards for not-for-profit organizations have been applied on a basis consistent with that of the preceding year.

Smythe LLP

Chartered Professional Accountants

Vancouver, British Columbia
March 12, 2019

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TOFINO DESTINATION MANAGEMENT ASSOCIATION
Statement of Financial Position
December 31

		2018		2017
Assets (note 4)				
Current				
Cash	$	510,068	$	379,900
Accounts receivable (note 5)		110,390		154,030
GST receivable		65,845		23,836
Prepaids and deposits		21,628		18,425
Inventory (note 6)		7,683		3,941
		715,614		580,132
Restricted Cash (note 7)		100,909		100,444
New Visitor Centre Project (note 8)		572,318		0
Property and Equipment (note 9)		61,397		60,367
	$	1,450,238	$	740,943
Liabilities				
Current				
Accounts payable and accrued liabilities	$	330,797	$	116,107
MRDT Deferred for New Visitor Centre (note 10)		152,048		271,682
Deferred Capital Contributions (note 10)		572,318		0
		1,055,163		387,789
Net Assets				
Operating Fund		232,769		192,343
Invested in Property and Equipment		61,397		60,367
Operating Contingency Fund		100,909		100,444
		395,075		353,154
	$	1,450,238	$	740,943

Approved by the Board:

_______________ Director

_______________ Director

See notes to financial statements.

TOFINO DESTINATION MANAGEMENT ASSOCIATION
Statement of Operations
Year Ended December 31

	2018	2017
Revenues		
Municipal and Regional District Tax	$ 1,131,708	$ 1,091,804
Advertising	41,046	155,758
Provincial and federal government grants	39,382	80,404
Retail sales	24,681	12,601
Other	12,722	12,866
Interest	469	389
	1,250,008	1,353,822
Expenses		
Wages and benefits	458,465	385,421
Advertising, promotion and programs	385,618	610,494
General and administrative	85,565	89,879
Professional fees	84,355	166,538
Research	83,402	8,916
Rent	40,524	37,119
Repairs and maintenance	18,225	21,938
Training and development	14,050	12,746
Retail cost of goods sold	12,361	12,328
Bank and interest charges	3,378	4,281
Amortization	22,144	8,565
	1,208,087	1,358,225
Excess of Revenues over Expenses	41,921	(4,403)
Contribution from Tofino - Long Beach Chamber of Commerce	0	357,557
Excess of Revenues over Expenses for Year	$ 41,921	$ 353,154

TOFINO DESTINATION MANAGEMENT ASSOCIATION
Statement of Changes in Net Assets
Year Ended December 31

	Operating Fund	Invested in Property and Equipment	Operating Contingency Fund	**2018**	**2017**
Net Assets, Beginning of Year	$ 192,343	$ 60,367	$ 100,444	$ 353,154	$ 0
Excess of revenues over expenses for the year	41,456	0	465	41,921	353,154
Purchase of property and equipment	(23,174)	23,174	0	0	0
Amortization	22,144	(22,144)	0	0	0
	40,426	1,030	465	41,921	353,154
Net Assets, End of Year	$ 232,769	$ 61,397	$ 100,909	$ 395,075	$ 353,154

TOFINO DESTINATION MANAGEMENT ASSOCIATION
Statement of Cash Flows
Year Ended December 31

	2018	2017
Operating Activities		
Excess of revenues over expenses	$ 41,921	$ 353,154
Item not involving cash		
Amortization	22,144	8,565
	64,065	361,719
Changes in non-cash working capital		
Accounts receivable	43,640	(154,030)
GST receivable	(42,009)	(23,836)
Prepaids and deposits	(3,203)	(18,425)
Inventory	(3,742)	(3,941)
Accounts payable and accrued liabilities	214,690	116,107
	209,376	(84,125)
Cash Provided by Operating Activities	273,441	277,594
Investing Activities		
Construction of new visitor centre project	(572,318)	(68,932)
Purchase of property and equipment	(23,174)	0
Increase in deferred capital contributions	572,318	0
Increase in restricted cash	(465)	(100,444)
Decrease in MRDT Deferred for New Visitor Centre	(119,634)	271,682
Cash Provided by (Used in) Investing Activities	(143,273)	102,306
Inflow of Cash	130,168	379,900
Cash, Beginning of Year	379,900	0
Cash, End of Year	$ 510,068	$ 379,900

See notes to financial statements.

1. NATURE OF OPERATIONS

Tofino Destination Management Association (the "Society") is a not-for-profit organization incorporated under the *Societies Act* (British Columbia). The principal business of the Society is to market and promote and manage responsible tourism in Tofino with the goal of increasing tourism-related visitation and revenues (primarily in non peak seasons), managing visitor information, supporting events and festivals and conducting destination management initiatives that enhance the visitor experience.

2. SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Society were prepared in accordance with Canadian generally accepted accounting principles using Canadian accounting standards for not-for-profit organizations (“ASNPO”)and include the following significant accounting policies.

(a) Net assets

The Association internally segregates its net assets into the following funds:

i) Operating Fund – Contains the operating costs related to the Society.

ii) Invested in Property and Equipment – Contains the Society’s property and equipment and incurs the expenses related to amortization.

iii) Operating Contingency Fund – Contains internally restricted funds allocated to the continuation of the Society in the event of an unexpected reduction in revenues.

(b) Inventory

Inventories are measured at the lower of cost and net realizable value, with cost being determined using the first-in first-out method. Net realizable value is the estimated selling price in the ordinary course of business, less any applicable variable selling costs.

(c) Amortization

Purchased property and equipment are recorded at cost. Contributed capital assets are recorded at fair value at the date of contribution if fair value can be reasonably determined.

Amortization is provided using the following methods at rates intended to amortize the cost of the assets over their useful lives:

Vehicle	- 5 years	straight-line
Computer equipment	- 55%	declining-balance
Furniture and equipment	- 20%	declining-balance
Computer Software	- 100%	declining-balance
Leasehold improvements	- 5 years	straight-line

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(d) Impairment of long-lived assets

Property and equipment are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable.

An impairment loss is recognized when the carrying amount of the asset exceeds the sum of the undiscounted cash flows resulting from its use and eventual disposition. The impairment loss is measured as the amount by which the carrying amount of the property and equipment exceeds its fair value.

(e) Revenue recognition

The Society follows the deferral method of accounting for contributions.

Unrestricted contributions are recognized as revenue in the year received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured.

The Society recognizes funds from the District of Tofino (the "District") for the Municipal and Regional District Tax ("MRDT") in the year the District recognizes it as revenue from the provincial government. As a result there is a delay between the collection from the local resorts and recognition of revenue.

Grant income is recognized as revenue when received and grant conditions have been fulfilled.

Revenues with external restrictions are recognized as revenue in the year in which the related expenses are incurred.

Contributions for capital are deferred until the assets are purchased and are then amortized on the same basis as the assets.

Revenues from the sale of goods and services are recognized when the service has been provided or at the point of sale.

(f) Income taxes

The Society is a not-for-profit organization and is exempt from the income tax pursuant to section 149(1)(l) of the *Income Tax Act* (Canada).

(g) Use of estimates

The preparation of these financial statements in conformity with ASNPO requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Significant estimates include the recoverability of accounts receivable, useful lives of property and equipment and the balance of accrued liabilities. While management believes these estimates are reasonable, actual results could differ from those estimates and could impact future results of operations and cash flows.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(h) Contributions

Contributions of materials and services are recognized both as contributions and expenses in the statement of operations when a fair value can be reasonably estimated and when the materials and services are used in the normal course of the Society's operations and would otherwise have been purchased.

3. FINANCIAL INSTRUMENTS

(a) Liquidity risk

Liquidity risk is the risk that the Society will encounter difficulty in meeting obligations associated with financial liabilities.

The Society is exposed to this risk mainly in respect of its accounts payable. Cash flow from operations provides a substantial portion of the Society’s cash requirements. Additional cash requirements are met with the use of the available operating line of credit.

(b) Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

The Society is exposed to credit risk with respect to its unrestricted and internally restricted cash. The Society has mitigated this risk by holding its cash with major financial institutions.

(c) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market interest rates.

The Society is not exposed to significant interest rate risk due to the short-term nature of its financial instruments.

4. LINE OF CREDIT

Bank indebtedness consists of the following:

The Society has an available non-revolving term construction loan of $1,500,000 (2017- $nil) bearing interest at the banks prime plus 0.87% per annum and an operating line of credit of $200,000 (2017 - $200,000) bearing interest at the banks prime plus 1.25% per annum. The aggregate funds drawn on the above facilities shall not exceed $1,500,000. The facilities are secured by a general security agreement over the assets of the Society. As at December 31, 2018, the Society has not drawn on these facilities.

The Society also has a Visa credit card authorized to $30,000. As at December 31, 2018 the Society has drawn $4,643 (2017 - $2,961).

5. ACCOUNTS RECEIVABLE

Included in accounts receivable are MRDT grants receivable of $107,690 (2017 - $153,375) and trade accounts receivable of $2,700 (2017 - $655).

6. INVENTORY

During the year, $12,361 (2017 - $12,328) of inventory was recorded in expenses as retail cost of sales.

7. INTERNALLY RESTRICTED FUND

As at December 31, 2018, $100,909 (2017 - $100,444) of cash was restricted by the Board for the purpose of an operating contingency.

8. NEW VISITOR CENTRE PROJECT

	Cost	Accumulated Amortization	**2018**	**2017**
New Visitor Centre	$ 572,318	$ 0	$ 572,318	$ 0

The Society is in the process of constructing a Visitor Centre which is currently not available for use. Accordingly no amortization has been recorded on this asset.

9. PROPERTY AND EQUIPMENT

	Cost	Accumulated Amortization	**2018**	**2017**
Vehicle	$ 38,026	$ 10,808	$ 27,218	$ 34,423
Computer equipment	30,217	12,574	17,643	7,753
Furniture and equipment	18,614	5,122	13,492	16,303
Computer software	3,151	1,576	1,575	0
Leasehold improvements	2,098	629	1,469	1,888
	$ 92,106	$ 30,709	$ 61,397	$ 60,367

10. MRDT DEFERRED FOR NEW VISITOR CENTRE

The deferred capital contribution consists of 0.8% of the total MRDT revenues that is restricted for the purpose of building a new visitor center in Tofino. When the building of the new visitor centre is completed the deferred revenue will be recognized as revenue at the rate the visitor centre is being amortized.

As of December 31, 2018, the total deferred MRDT revenues are $724,366 of which $572,318 have been used for the construction of the new Visitor Centre. The remaining balance of unspent deferred MRDT revenues is $152,048.

11. ECONOMIC DEPENDENCE

The Society is economically dependent on the MRDT revenue received from the provincial government. The Society receives 90.5% (2017 - 80.6%) of its total operating revenues and 100% of the MRDT deferred for the new visitor centre from the MRDT revenue.

12. DESTINATION MARKETING AND TOURISM DEVELOPMENT AGREEMENT WITH THE DISTRICT OF TOFINO

An agreement was signed May 15, 2017 with the District requiring the District to forward the hotel room tax (MRDT) funds collected from June 1, 2017 up to and including May 31, 2022 to the Society. In return, the Society will provide tourism marketing, programs and projects on behalf of the District. Under the terms of the Agreement, the Society is to expend all of the funds by May 31, 2022. Any funds unspent at that time will be remitted to the District, except in the event the Agreement is renewed.

13. SALARIES, HONORARIA AND BENEFITS

The *Societies Act* (British Columbia) requires certain information to be reported with regards to remuneration of employees, contractors and directors.

During the year, the Society had one employee earning more than $75,000 for a total of approximately $120,000 (2017 - $nil). The Society does not provide remuneration to its Board of Directors.