Smythe
CPA

TOFINO DESTINATION MANAGEMENT ASSOCIATION

Financial Statements
December 31, 2017

INDEPENDENT AUDITORS' REPORT

TO THE DIRECTORS OF TOFINO DESTINATION MANAGEMENT ASSOCIATION

We have audited the accompanying financial statements of Tofino Destination Management Association, which comprise the statement of financial position as at December 31, 2017 and the statements of operations, changes in net assets, and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements
Management is responsible for the preparation and fair presentation of these 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.

Auditors' Responsibility
Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the financial statements present fairly, in all material respects, the financial position of Tofino Destination Management Association as at December 31, 2017, and the results of its operations and its cash flows for the year then ended in accordance with Canadian accounting standards for not-for-profit organizations.

Smythe LLP

Chartered Professional Accountants

Vancouver, British Columbia
March 13, 2018

Vancouver
7th Floor 355 Burrard St
Vancouver, BC V6C 2G8
T: 604 687 1231
F: 604 688 4675

Langley
305 – 9440 202 St
Langley, BC V1M 4A6
T: 604 282 3600
F: 604 357 1376

Nanaimo
201 – 1825 Bowen Rd
Nanaimo, BC V9S 1H1
T: 250 755 2111
F: 250 984 0886

Smythe LLP | **smythecpa.com**

TOFINO DESTINATION MANAGEMENT ASSOCIATION
Statement of Financial Position
December 31

		2017
Assets (note 3)		
Current		
Cash	$	379,900
Accounts receivable (note 4)		154,030
GST receivable		23,836
Prepaids and deposits		18,425
Inventory (note 5)		3,941
		580,132
Restricted Cash (note 6)		100,444
Property and Equipment (note 7)		60,367
	$	740,943
Liabilities		
Current		
Accounts payable and accrued liabilities	$	116,107
MRDT Deferred for New Visitor Centre (note 8)		271,682
		387,789
Net Assets		
Operating Fund		192,343
Invested in Property and Equipment		60,367
Operating Contingency Fund		100,444
		353,154
	$	740,943

Approved by the Board:

_______________ Director _______________ Director

See notes to financial statements.

TOFINO DESTINATION MANAGEMENT ASSOCIATION
Statement of Operations
Year Ended December 31

		2017
Revenues		
Municipal and Regional District Tax	$	1,091,804
Advertising		155,758
Provincial and federal government grants		80,404
Other		12,866
Retail sales		12,601
Interest		389
		1,353,822
Expenses		
Advertising, promotion and programs		610,494
Wages and benefits		385,421
Professional fees		166,538
General and administrative		89,879
Rent		37,119
Repairs and maintenance		21,938
Training and development		12,746
Retail cost of goods sold		12,328
Research		8,916
Bank and interest charges		4,281
Amortization		8,565
		1,358,225
Deficiency of Revenues over Expenses		(4,403)
Contribution from Tofino - Long Beach Chamber of Commerce		357,557
Excess of Revenues over Expenses for Year	$	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	**2017**
Net Assets, Beginning of Year	$ 0	$ 0	$ 0	$ 0
Excess of revenues over expenses for the year	352,765	0	389	353,154
Transfer to operating contingency fund	(100,055)	0	100,055	0
Purchase of property and equipment	(68,932)	68,932	0	0
Amortization	8,565	(8,565)	0	0
	192,343	60,367	100,444	353,154
Net Assets, End of Year	$ 192,343	$ 60,367	$ 100,444	$ 353,154

See notes to financial statements.

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

		2017
Operating Activities		
Excess of revenues over expenses	$	353,154
Item not involving cash		
Amortization		8,565
		361,719
Changes in non-cash working capital		
Accounts receivable		(154,030)
GST receivable		(23,836)
Prepaids and deposits		(18,425)
Inventory		(3,941)
Accounts payable and accrued liabilities		116,107
		(84,125)
Cash Provided by Operating Activities		277,594
Investing Activities		
Purchase of property and equipment		(68,932)
Increase in deferred contributions		271,682
Increase in restricted cash		(100,444)
Cash Provided by Investing Activities		102,306
Inflow of Cash		379,900
Cash, Beginning of Year		0
Cash, End of Year	$	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 tourism in Tofino with the goal of increasing tourism-related visitation and revenues, 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 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) Operating Contingency Reserve – Contains internally restricted funds allocated to the continuation of the Society in the event of an unexpected reduction in revenues.

(iii) Capital Fund – Contains the Society’s property and equipment and incurs the expenses related to amortization.

(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) Property and equipment

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

Additions during the year are amortized at one-half the annual rates.

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. LINE OF CREDIT

The Society has an available line of credit of $200,000 with interest charged at prime plus 1.25%. The facility is secured by a general security agreement over the assets of the Society. The current balance is $nil.

4. ACCOUNTS RECEIVABLE

Included in accounts receivable are grants receivable of $153,375 and trade accounts receivable of $655.

5. INVENTORY

During the year, $12,328 of inventory was recorded in expenses as retail cost of sales.

6. INTERNALLY RESTRICTED FUND

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

7. PROPERTY AND EQUIPMENT

	Cost	Accumulated Amortization	**2017**
Vehicle	$ 38,026	$ 3,603	$ 34,423
Furniture and equipment	18,114	1,811	16,303
Computer equipment	10,694	2,941	7,753
Leasehold improvements	2,098	210	1,888
	$ 68,932	$ 8,565	$ 60,367

8. 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 visitors center in Tofino. When the building of the new visitors centre is completed the deferred revenue will be recognized as revenue at the rate the visitors centre is being amortized.

9. ECONOMIC DEPENDENCE

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

10. 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.

11. SALARIES, HONORARIA AND BENEFITS

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

There are no employees included in salaries and benefits with remuneration over $75,000. No honoraria were paid to members of the Board of Directors in 2017.

12. 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.