



TOFINO DESTINATION MANAGEMENT ASSOCIATION

**Financial Statements
December 31, 2019**

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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, 2019;
- the statement of operations for the year then ended;
- the statement of changes in net assets for the year then ended;
- the statement of cash flows for the year then ended; and
- the 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 Society as at December 31, 2019, and its results of operations and its cash flows for the year then ended 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 Society 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 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 Society'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 Society or to cease operations, or has no realistic alternative but to do so.

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:

- ♦ 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 Society'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 Society'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 Society 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
February 27, 2020

TOFINO DESTINATION MANAGEMENT ASSOCIATION
Statement of Financial Position
December 31

	2019	2018
Assets (note 4)		
Current		
Cash	\$ 419,979	\$ 510,068
Accounts receivable (note 5)	107,573	110,390
GST receivable	59,824	65,845
Prepays and deposits	17,737	21,628
Inventory (note 6)	31,554	7,683
	636,667	715,614
Restricted cash (note 7)	131,645	100,909
New visitors centre (note 8)	2,076,754	572,318
Property and equipment (note 9)	62,623	61,397
	\$ 2,907,689	\$ 1,450,238
Liabilities		
Current		
Accounts payable and accrued liabilities (note 4)	\$ 198,609	\$ 330,797
Loan payable (note 4)	1,125,000	-
	1,323,609	330,797
MRDT deferred for new visitors centre (note 10)	186,843	152,048
Deferred capital contributions (note 10)	951,753	572,318
	2,462,205	1,055,163
Net Assets		
Operating fund	251,216	232,769
Invested in property and equipment	62,623	61,397
Internally restricted operating contingency fund	101,645	100,909
Internally restricted building maintenance fund	30,000	-
	445,484	395,075
	\$ 2,907,689	\$ 1,450,238

Approved by the Board:


 _____ Director

 _____ Director

See notes to financial statements

TOFINO DESTINATION MANAGEMENT ASSOCIATION
Statement of Operations
Year Ended December 31

	2019	2018
Revenues		
Municipal and Regional District Tax	\$ 1,305,230	\$ 1,131,708
Advertising	2,000	41,046
Provincial and federal government grants	43,282	39,382
Retail sales (note 6)	80,903	24,681
Other	4,303	12,722
Interest	1,293	469
	1,437,011	1,250,008
Expenses		
Advertising, promotion and programs	493,277	385,618
Wages and benefits	481,676	458,465
General and administrative	111,241	85,565
Professional fees	79,127	84,355
Retail cost of goods sold (note 6)	41,961	12,361
Loan interest	28,980	-
Training and development	22,110	14,050
Rent	17,434	40,524
Repairs and maintenance	16,907	18,225
Research	12,815	83,402
Bank and interest charges	6,201	3,378
Amortization on new visitors centre	48,065	-
Amortization on property and equipment	26,808	22,144
	1,386,602	1,208,087
Excess of revenues over expenses for year	\$ 50,409	\$ 41,921

TOFINO DESTINATION MANAGEMENT ASSOCIATION

Statement of Changes in Net Assets

Year Ended December 31

	Operating Fund	Invested in Property and Equipment	Operating Contingency Fund	Internally Restricted Building Maintenance Fund	Total 2019	Total 2018
Balance, beginning of year	\$ 232,769	\$ 61,397	\$ 100,909	\$ -	\$ 395,075	\$ 353,154
Excess of revenues over expenses	49,673	-	736	-	50,409	41,921
Transfer	(30,000)	-	-	30,000	-	-
Construction of new visitors centre	(2,124,819)	2,124,819	-	-	-	-
Purchases of property and equipment	(28,033)	28,033	-	-	-	-
Utilization of MRDT deferred for new visitors centre	951,753	(951,753)	-	-	-	-
Loan payable	1,125,000	(1,125,000)	-	-	-	-
Amortization	74,873	(74,873)	-	-	-	-
Balance, end of year	\$ 251,216	\$ 62,623	\$ 101,645	\$ 30,000	\$ 445,484	\$ 395,075

See notes to financial statements

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

	2019	2018
Operating activities		
Excess of revenues over expenses	\$ 50,409	\$ 41,921
Items not involving cash		
Amortization on new visitors centre	48,065	-
Amortization on property and equipment	26,808	22,144
	<u>125,282</u>	<u>64,065</u>
Changes in non-cash working capital		
Accounts receivable	2,817	43,640
GST receivable	6,021	(42,009)
Prepays and deposits	3,891	(3,203)
Inventory	(23,871)	(3,742)
Accounts payable and accrued liabilities	(132,188)	214,690
	<u>(143,330)</u>	<u>209,376</u>
Cash provided by (used in) operating activities	<u>(18,048)</u>	<u>273,441</u>
Investing activities		
Construction of new visitors centre	(1,552,501)	(572,318)
Purchase of property and equipment	(28,034)	(23,174)
Increase in deferred capital contributions	379,447	572,318
Increase in restricted cash	(30,736)	(465)
Increase (decrease) in MRDT deferred revenue for new visitors centre	34,783	(119,634)
Cash used in investing activities	<u>(1,197,041)</u>	<u>(143,273)</u>
Financing activities		
Advances from loan payable	1,500,000	-
Repayments of loan payable	(375,000)	-
Cash provided by financing activities	<u>1,125,000</u>	<u>-</u>
Inflow (outflow) of cash	<u>(90,089)</u>	<u>130,168</u>
Cash, beginning of year	<u>510,068</u>	<u>379,900</u>
Cash, end of year	<u>\$ 419,979</u>	<u>\$ 510,068</u>

See notes to financial statements

TOFINO DESTINATION MANAGEMENT ASSOCIATION

Notes to Financial Statements

Year Ended December 31, 2019

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) Internally restricted operating contingency fund – Contains internally restricted funds allocated to the continuation of the Society in the event of an unexpected reduction in revenues.
- (iv) Internally restricted building maintenance fund - Contains internally restricted funds allocated to the repairs and maintenance of the new visitors centre.

(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 and new visitors centre are recorded at cost. Contributed capital assets are recorded at fair value at the date of contribution if the 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.

New visitors centre	25 years straight-line
Furniture and equipment	20% declining balance
Vehicle	5 years straight-line
Computer equipment	55% declining balance
Computer software	100% declining balance
Leasehold improvement	5 years straight-line

TOFINO DESTINATION MANAGEMENT ASSOCIATION

Notes to Financial Statements

Year Ended December 31, 2019

2. SIGNIFICANT ACCOUNTING POLICIES — continued

(d) Impairment of long-lived assets

Long-lived assets 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 long-lived assets 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) Accounting 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, valuation of inventory, useful life of the new visitors centre and the balance of the related obligations', 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.

TOFINO DESTINATION MANAGEMENT ASSOCIATION
Notes to Financial Statements
Year Ended December 31, 2019

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.

(i) Financial instruments

The Society initially measures its financial assets and liabilities at fair value, except for certain non-arm's length transactions. The Society subsequently measures all its financial assets and financial liabilities at amortized cost, except for investments in equity instruments that are quoted in an active market, which are measured at fair value. Changes in fair value are recognized in net income.

Financial assets measured at amortized cost include unrestricted and internally restricted cash and accounts receivable.

Financial liabilities measured at amortized cost include accounts payable and loan payable.

The Society has not designated any financial asset or financial liability to be measured at fair value.

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 and loan 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 and accounts receivable. Credit risk related to cash and restricted cash is mitigated as the amounts are held with major Canadian financial institutions. Credit risk related to accounts receivable is mitigated as the Society enters into credit agreements with credit worthy counterparts including the District.

TOFINO DESTINATION MANAGEMENT ASSOCIATION
Notes to Financial Statements
Year Ended December 31, 2019

3. FINANCIAL INSTRUMENTS — continued

(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.

Interest rate risk consist of two components:

- (i) To the extent that prevailing market interest rates differ from the interest rate on the Society's monetary assets and liabilities, the Society is not exposed to interest rate price risk.
- (ii) To the extent that payments made or received on the Society's monetary assets and liabilities are affected by changes in prevailing market interest rates, the Society is exposed to interest rate cashflow risk.

The Society is exposed to interest rate cash flow risk on its variable rate loan payable and overdraft facility which is subject to a floating interest rate linked to the lenders prime rate.

4. CREDIT FACILITIES

The Society has an available non-revolving one-year term loan of \$1,500,000 (2018- \$1,500,000) bearing interest at the bank's prime plus 0.87% (2018 - prime plus 0.87%) per annum and an operating line of credit of \$200,000 (2018 - \$200,000) bearing interest at the bank's prime plus 1.25% (2018 - 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, 2019, the Society has drawn \$1,125,000 (2018 - \$nil) on the non-revolving term construction loan and \$nil (2018 - \$nil) on the operating line of credit.

The Society also has a Visa credit card authorized to \$30,000. As at December 31, 2019 the Society has drawn \$8,036 (2018 - \$4,643). This balance is included in accounts payable and accrued liabilities.

5. ACCOUNTS RECEIVABLE

Included in accounts receivable are MRDT grants receivable of \$107,443 (2018 - \$107,690) and trade accounts receivable of \$130 (2018 - \$2,700).

6. INVENTORY

During the year, \$41,961 (2018 - \$12,361) of inventory was recorded in expenses as retail cost of sales.

7. INTERNALLY RESTRICTED FUND

As at December 31, 2019, \$131,645 (2018 - \$100,909) of cash was restricted by the Board. Of that balance, \$101,645 (2018 - \$100,909) was restricted for the purpose of an operating contingency and \$30,000 (2018 - \$nil) was restricted for the purpose of a building maintenance fund.

The internally restricted building maintenance fund will not include any MRDT funds.

TOFINO DESTINATION MANAGEMENT ASSOCIATION

Notes to Financial Statements

Year Ended December 31, 2019

8. NEW VISITORS CENTRE

	2019		2018	
	Cost	Accumulated amortization	Net	Net
New visitors centre	\$ 2,124,819	\$ 48,065	\$ 2,076,754	\$ 572,318

9. PROPERTY AND EQUIPMENT

	2019		2018	
	Cost	Accumulated amortization	Net	Net
Furniture and equipment	\$ 38,914	\$ 9,850	\$ 29,064	\$ 13,492
Vehicle	38,026	18,013	20,013	27,218
Computer equipment	37,950	24,404	13,546	17,643
Computer software	3,151	3,151	-	1,575
Leasehold improvements	2,098	2,098	-	1,469
	\$ 120,139	\$ 57,516	\$ 62,623	\$ 61,397

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 centre in Tofino.

The total MRDT revenue was \$951,753 (2018 - \$572,318) which was used for the construction of the new visitor centre, completed during the year. The amount was transferred to deferred capital contributions. The amount is being recognized as revenue at the same rate as the new visitor centre is being amortized.

*Of the 3% MRDT collected from the guests of fixed roof accommodations, the Society receives 2.8% and the Province of BC retains 0.2% to fund the provincial Tourism Events Program. MRDT generated by online accommodation platforms, such as Airbnb, flows to the District of Tofino for affordable housing initiatives and is not included in these financial statements.

11. COMMITMENT

During the year the Society entered into a 25-year land lease with the District beginning June 1, 2019 ending on May 30, 2044. The annual rents in the first year is \$20,000 and is adjusted in subsequent years by the previous year's rent multiplied by the cumulative increase in Core Consumer Price Index of the previous 12 months. Rent payable in the first year is reduced by 50% of the amount spent to developing the new visitors centre.

Annual rent in subsequent years may be reduced proportionately should the Society request the leased area be reduced and District of Tofino agrees to the reduction. The Society can request the reduction once the site has been operational for 24 months.

TOFINO DESTINATION MANAGEMENT ASSOCIATION

Notes to Financial Statements

Year Ended December 31, 2019

12. ECONOMIC DEPENDENCE

The Society is economically dependent on the MRDT revenue received from the provincial government. The Society receives 90.8% (2018 - 90.5%) of its total operating revenues and 100% of the MRDT deferred for the new visitor centre from the MRDT revenue.

13. 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.

14. 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 (2018 - \$120,000). The Society does not provide remuneration to its Board of Directors.