

FRONTIER DUTY FREE ASSOCIATION
AUDITED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016

Independent Auditor's Report
Statement of Financial Position
Statement of Revenue and Expenses
Statement of Changes in Unrestricted Net Assets
Statement of Cash Flows
Notes to Financial Statements

FROUIN
GROUP
INDEPENDENT AUDITOR'S REPORT

To the Members of:
Frontier Duty Free Association

Report on the Financial Statements

We have audited the accompanying financial statements of Frontier Duty Free Association, which comprise the statement of financial position as at December 31, 2016, and the statement 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits 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 misstatements.

An audit involves performing procedures to obtain audit evidence about the amount and disclosures in the financial statements. The procedures selected depend on the auditor's 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 in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Basis for Qualified Opinion

In common with many non-profit organizations, Frontier Duty Free Association derives revenue from social activities, the completeness of which is not susceptible to satisfactory audit verification. Accordingly, our verification of these revenues was limited to amounts recorded in the records of the organization and we were not able to determine whether any adjustments might be necessary to revenue, net revenue (expenditure) for the year, assets and net assets.

Qualified Opinion

In our qualified opinion, except for the effects of the matter described in the Basis for Qualified Opinion paragraph, the financial statements present fairly, in all material respects, the financial position of Frontier Duty Free Association as at December 31, 2016, 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.



Frouin Group Professional Corporation
Ottawa, ON
June 26, 2017

Authorized to practice public accounting by the Chartered Professional Accountants of Ontario

FRONTIER DUTY FREE ASSOCIATION
AUDITED STATEMENT OF FINANCIAL POSITION
AS AT DECEMBER 31, 2016

| | 2016 | 2015 |
|--|--------------------------|--------------------------|
| ASSETS | | |
| CURRENT ASSETS | | |
| Cash | \$ 72,332 | \$ 48,898 |
| Short-term investments (Note 3) | 75,000 | 75,000 |
| Accounts receivable | 47,421 | 73,552 |
| HST receivable | 13,291 | 11,535 |
| Prepaid expenses | <u>14,859</u> | <u>39,442</u> |
| | \$ <u>222,903</u> | \$ <u>248,427</u> |
| LIABILITIES AND NET ASSETS | | |
| CURRENT LIABILITIES | | |
| Accounts payable and accrued liabilities | \$ 45,541 | \$ 59,568 |
| NET ASSETS | | |
| Unrestricted | <u>177,362</u> | <u>188,859</u> |
| TOTAL LIABILITIES AND NET ASSETS | \$ <u>222,903</u> | \$ <u>248,427</u> |

APPROVED ON BEHALF OF THE BOARD :

Director



Director _____

(See accompanying Notes to Financial Statements)

FRONTIER DUTY FREE ASSOCIATION
AUDITED STATEMENT OF REVENUE AND EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2016

| | 2016 | 2015 |
|---|---------------------------|---------------------------|
| REVENUE | | |
| Membership dues | \$ 152,692 | \$ 154,917 |
| Annual convention | 335,449 | 345,106 |
| Sales to operator members (Note 4) | 137,795 | 109,875 |
| Interest and miscellaneous income | 4,400 | 3,309 |
| Foreign exchange gain | <u>0</u> | <u>3,200</u> |
| | <u>630,336</u> | <u>616,407</u> |
| EXPENSES | | |
| Annual convention | 140,783 | 139,938 |
| FDFA programs (Note 5) | 242,435 | 192,944 |
| Salaries and benefits | 174,814 | 166,142 |
| Office | 38,475 | 32,508 |
| Office rent | 14,405 | 19,278 |
| Professional fees | 5,798 | 3,912 |
| National marketing | 17,012 | 103,588 |
| Interest and bank charges | 2,251 | 1,826 |
| Travel | 5,299 | 5,651 |
| Foreign exchange loss | <u>561</u> | <u>0</u> |
| | <u>641,833</u> | <u>665,787</u> |
| EXCESS (DEFICIENCY) OF REVENUES OVER EXPENSES FOR THE YEAR | <u>\$ (11,497)</u> | <u>\$ (49,380)</u> |

(See accompanying Notes to Financial Statements)

FRONTIER DUTY FREE ASSOCIATION
AUDITED STATEMENT OF CHANGES IN UNRESTRICTED NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2016

| | 2016 | 2015 |
|---|--------------------------|--------------------------|
| UNRESTRICTED NET ASSETS | | |
| Balance, beginning of the year | 188,859 | 238,239 |
| Excess (deficiency) of revenues over expenses for the year | <u>(11,497)</u> | <u>(49,380)</u> |
| UNRESTRICTED NET ASSETS, END OF YEAR | <u>\$ 177,362</u> | <u>\$ 188,859</u> |

(See accompanying Notes to Financial Statements)

FRONTIER DUTY FREE ASSOCIATION
AUDITED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2016

| | 2016 | 2015 |
|--|------------------------------|--------------------------|
| CASH FROM OPERATING ACTIVITIES | | |
| Excess (deficiency) of revenue over expenses for the year | \$ (11,497) | \$ (49,380) |
| Net change in non-cash working capital | <u>34,931</u> | <u>(43,584)</u> |
| Cash flows from current operating items | <u>23,434</u> | <u>(92,964)</u> |
| NET CHANGE IN CASH AND EQUIVALENTS | 23,434 | (92,964) |
| CASH AND EQUIVALENTS, beginning of year | <u>123,898</u> | <u>216,862</u> |
| CASH AND EQUIVALENTS, end of year | <u>\$ 147,332</u> | <u>\$ 123,898</u> |
| REPRESENTED BY | | |
| Cash | \$ 72,332 | \$ 48,898 |
| Short-term investments | <u>75,000</u> | <u>75,000</u> |
| | <u>\$ 147,332</u> | <u>\$ 123,898</u> |

(See accompanying Notes to Financial Statements)

FRONTIER DUTY FREE ASSOCIATION
NOTES TO AUDITED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016

1. PURPOSE OF THE ORGANIZATION

The Frontier Duty Free Association (FDFA) was incorporated as a non-profit organization without share capital under the Canada Corporations Act and as such is exempt from income taxes. The membership of the Frontier Duty Free Association consists of operators of duty free stores and their suppliers. The objectives of the Association are to promote duty free business, to act as a lobby on behalf of its members and to promote interaction between duty free stores and their suppliers.

2. SIGNIFICANT ACCOUNTING POLICIES

The financial statements were prepared in accordance with Canadian accounting standards for not-for-profit organizations and include the following significant accounting policies:

a. Estimates and assumptions

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of income and expenditure during the reporting period. Actual results may differ from those estimates.

b. Revenue recognition

The Association follows the deferral method of revenue recognition. Membership fees are recorded in the fiscal year to which they relate. Sales of goods are recorded when they are shipped to the operator member. Convention registration fees received prior to the year end which represent fees for an event occurring in the following fiscal year are deferred and recorded in revenue in the year the event is held.

c. Contributed services and materials

Because of the difficulty in determining the fair value of volunteers' services, contributed services are not recognized in the financial statements. Contributed materials, if any, are also not recognized in these financial statements.

d. Contributions in-kind

Contributions received in the form of materials and services are recorded at fair value at the date of the contribution when the fair value can be reasonably estimated and when the materials and services are used in the normal course of operations.

e. Financial instruments

The FDFA's financial instruments consist of cash and term deposits at a Canadian chartered bank, accounts receivable from its operator and associate members and accounts payable and accrued liabilities owing to creditors. The FDFA's financial instruments' carrying values approximate their fair market value due to the relatively short periods of maturity of these instruments.

FRONTIER DUTY FREE ASSOCIATION
NOTES TO AUDITED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016

3. SHORT-TERM INVESTMENTS

The short-term investment is a Guaranteed Investment Certificate earning interest at 0.5% per annum. It is recorded at fair value and matures on August 31, 2017.

4. SALES TO OPERATOR MEMBERS

The sales to operator members as presented on the Statement of Revenue and Expenses consists of the following:

| | 2016 | 2015 |
|---------------------|-------------------|-------------------|
| Semi-Annual Meeting | \$ 6,085 | \$ 7,799 |
| Store Bag Program | <u>131,710</u> | <u>102,076</u> |
| | <u>\$ 137,795</u> | <u>\$ 109,875</u> |

5. FDFA Programs

The FDFA programs as presented on the Statement of Revenue and Expenses consists of the following:

| | 2016 | 2015 |
|---------------------------------------|-------------------|-------------------|
| Awareness / Marketing | \$ 7,593 | \$ 1,931 |
| Board of Directors | 23,492 | 10,588 |
| Convention Committee | 2,948 | 2,846 |
| Charitable Donations | 477 | 520 |
| Gold Standards | 4,221 | 4,925 |
| Government Relations | 57,520 | 30,005 |
| Semi-Annual Meeting | 14,855 | 34,667 |
| Business and Professional Development | 1,013 | 0 |
| Store Bags | 130,316 | 101,865 |
| Certification program | <u>0</u> | <u>5,597</u> |
| | <u>\$ 242,435</u> | <u>\$ 192,944</u> |

6. COMMITMENTS

FDFA is required to provide 180 days written notice of termination in order to discontinue a lease agreement. The term runs through to December 31, 2018 at monthly rental payments of \$1,200.38.

FRONTIER DUTY FREE ASSOCIATION
NOTES TO AUDITED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016

6. COMMITMENTS (con't)

FDFA has a contract with Le Westin Montreal for the next convention dated November 8-17, 2017. The estimated minimum charges of the contract total \$202,444; This includes the charges for hotel rooms that will be paid by the individual guests attending the event. If FDFA were to cancel this contract to hold the annual convention in another location the following cancellation fees would apply:

| | |
|-----------------------------------|--------------|
| 4-12 months before the convention | \$131,588.00 |
| 3-4 months before the convention | \$151,833.00 |
| 0-3 months before the convention | \$202,444.00 |

7. FINANCIAL RISK MANAGEMENT POLICY

Frontier Duty Free Association is exposed to various risks through its financial instruments. The following analysis provides a measure of the risks at December 31, 2016

a) Credit risk

Credit risk associated with short-term investments is minimized by investing these assets in GICs. An ongoing review is performed to evaluate changes in the status of investments under the organization's investment policy.

b) Currency risk

The organization's functional currency is the Canadian dollar. The organization does not enter into foreign currency transactions and does not use foreign exchange forward contracts.

c) Liquidity risk

The organization manages its liquidity risk by regularly monitoring forecasted and actual cash flow and financial liability maturities, and by holding assets that can be readily converted into cash. Accounts payable are normally paid within 30 days.

d) Interest rate risk

The organization is exposed to interest rate risk with regards to its cash and short-term investments. The organization has no interest-bearing liability. Fluctuations in market rates of interest on cash do not have a significant impact on the organization's results of operations. GICs have a low interest rate risk due to their short-term nature. Therefore, this risk does not have a significant impact.