

Combined Financial Statements of

**TRUE NORTH HOSTELLING ASSOCIATION  
O/A HOSTELLING INTERNATIONAL - CANADA  
- PACIFIC MOUNTAIN REGION**

Year ended March 31, 2010



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## AUDITORS' REPORT

To the Members of the True North Hostelling Association

We have audited the combined statement of financial position of the True North Hostelling Association, the Canadian Hostelling Association - British Columbia Region, 1025 Granville Street Trust, the Canadian Hostelling Association - Southern Alberta Region, the Canadian Hostelling Association – Northern Alberta District, and The Travel Shop Ltd. (collectively referred to as Hostelling International – Canada – Pacific Mountain Region or the “Association”) as at March 31, 2010 and the combined statements of operations and changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the Association's management. 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 plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these combined financial statements present fairly, in all material respects, the financial position of the Association as at March 31, 2010 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles. As required by the Canada Corporations Act, we report that, in our opinion, these principles have been applied, after giving retrospective effect to the adoption of new accounting standards as explained in note 2(h) to the financial statements, on a basis consistent with that of the preceding year.

Chartered Accountants

Vancouver, Canada

May 13, 2010

# TRUE NORTH HOSTELLING ASSOCIATION O/A HOSTELLING INTERNATIONAL - CANADA - PACIFIC MOUNTAIN REGION

Combined Statement of Financial Position

March 31, 2010, with comparative figures for 2009

	2010	2009
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 1,119,452	\$ 2,518,581
Short-term investments (note 3)	1,992,072	1,869,896
Accounts receivable	276,441	113,081
Inventory	200,569	165,179
Prepaid expenses	182,764	196,188
	3,771,298	4,862,925
Restricted cash (note 9(d))	5,000	50,000
Capital assets (note 4)	17,089,923	16,488,105
	<u>\$ 20,866,221</u>	<u>\$ 21,401,030</u>

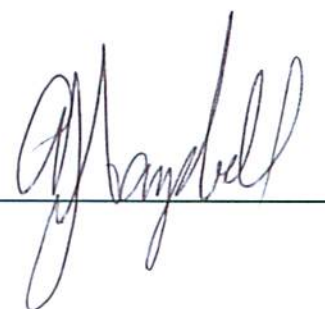
## Liabilities and Net Assets

Current liabilities:		
Accounts payable and accrued liabilities	\$ 1,076,233	\$ 1,341,686
Unearned revenue and deposits	130,861	352,583
Loans payable (note 5)	2,262,156	2,454,085
	3,469,250	4,148,354
Deferred contributions (note 6)	-	77,054
Deferred capital contributions (note 7)	946,272	1,010,118
Net assets	16,450,699	16,165,504
Commitments and contingencies (note 9)		
	<u>\$ 20,866,221</u>	<u>\$ 21,401,030</u>

See accompanying notes to combined financial statements.

Approved on behalf of the Board:

  
Director

  
Director

# TRUE NORTH HOSTELLING ASSOCIATION O/A HOSTELLING INTERNATIONAL - CANADA - PACIFIC MOUNTAIN REGION

Combined Statement of Operations and Changes in Net Assets

Year ended March 31, 2010, with comparative figures for 2009

	2010	2009
Revenue:		
Overnights	\$ 9,220,130	\$ 9,726,933
Memberships	514,492	521,376
Other, including food, beverage and merchandise	2,941,070	3,086,836
	12,675,692	13,335,145
Expenses:		
Hostels	9,791,916	9,534,212
Administration and membership	1,623,069	1,672,936
Amortization of capital assets	869,654	819,431
	12,284,639	12,026,579
Excess of revenue over expenses from operations	391,053	1,308,566
Other expenses:		
Interest	88,358	46,187
Reorganization costs	17,500	144,454
	105,858	190,641
Excess of revenue over expenses	285,195	1,117,925
Net assets, beginning of year	16,165,504	15,047,579
Net assets, end of year	\$ 16,450,699	\$ 16,165,504

See accompanying notes to combined financial statements.

# TRUE NORTH HOSTELLING ASSOCIATION O/A HOSTELLING INTERNATIONAL - CANADA - PACIFIC MOUNTAIN REGION

## Combined Statement of Cash Flows

Year ended March 31, 2010, with comparative figures for 2009

	2010	2009
Cash provided by (used in):		
Operations:		
Excess of revenue over expenses	\$ 285,195	\$ 1,117,925
Items not involving cash:		
Amortization of capital assets	869,654	819,431
Amortization of deferred capital contributions	(63,846)	(63,255)
	1,091,003	1,874,101
Changes in non-cash operating working capital:		
Accounts receivable	(163,360)	222,721
Inventory	(35,390)	(20,670)
Prepaid expenses	13,424	16,800
Accounts payable and accrued liabilities	(265,453)	32,322
Unearned revenue and deposits	(221,722)	199,750
Deferred contributions	(77,054)	(18,971)
	341,448	2,306,053
Financing:		
Repayment of loans payable	(191,929)	(260,668)
Investments:		
Purchase of short-term investments	(122,176)	(280,325)
Decrease in restricted cash	45,000	-
Expenditures on capital assets	(1,471,472)	(1,171,937)
	(1,548,648)	(1,452,262)
Increase (decrease) in cash and cash equivalents	(1,399,129)	593,123
Cash and cash equivalents, beginning of year	2,518,581	1,925,458
Cash and cash equivalents, end of year	\$ 1,119,452	\$ 2,518,581
Supplementary information:		
Interest paid, net of interest received	\$ 24,333	\$ 46,137

See accompanying notes to combined financial statements.

# **TRUE NORTH HOSTELLING ASSOCIATION O/A HOSTELLING INTERNATIONAL - CANADA - PACIFIC MOUNTAIN REGION**

Notes to Combined Financial Statements

Year ended March 31, 2010

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## **1. Operations:**

The True North Hostelling Association, o/a Hostelling International – Canada – Pacific Mountain Region (the Association) is a group of not-for-profit organizations whose mission is to “help all, especially the young, gain greater understanding of people, places and cultures through hostelling”. The Association is a not-for-profit organization under the Income Tax Act and accordingly is exempt from income taxes. The Association’s investments in 1025 Granville Street Trust and The Travel Shop Ltd. are not tax exempt entities. However, these entities have not generated taxable income.

## **2. Significant accounting policies:**

### **(a) Basis of presentation:**

The combined financial statements of the Association are the representation of management prepared in accordance with Canadian generally accepted accounting principles for not-for-profit entities as prescribed by the Canadian Institute of Chartered Accountants (“CICA”). The combined financial statements include the combined accounts of the True North Hostelling Association, the Canadian Hostelling Association - British Columbia Region, 1025 Granville Street Trust, the Canadian Hostelling Association - Southern Alberta Region, the Canadian Hostelling Association – Northern Alberta District, and The Travel Shop Ltd. Transactions between these entities have been eliminated upon combination.

The Association accounts for its investment in a 69.57% owned joint venture, which operates as the Canadian Alpine Center and International Hostel at Lake Louise (CAC), by the proportionate consolidation method whereby the Association's proportionate share of the assets, liabilities and the related revenue and expenses of the CAC joint venture are included in the combined financial statements (note 11).

### **(b) Cash and cash equivalents:**

The Association considers deposits in banks, certificates of deposit and short-term investments with original maturity of three months or less as cash and cash equivalents.

### **(c) Short-term investments:**

Short-term investments consist of government and corporate bonds, mutual funds, and guaranteed investment certificates and term deposits which can be realizable within one year and are classified as held for trading and measured at fair value.

# TRUE NORTH HOSTELLING ASSOCIATION O/A HOSTELLING INTERNATIONAL - CANADA - PACIFIC MOUNTAIN REGION

Notes to Combined Financial Statements (continued)

Year ended March 31, 2010

## 2. Significant accounting policies (continued):

### (d) Inventory:

Inventory is stated at the lower of cost, on a first-in, first-out basis, and net realizable value. Cost includes all costs of purchase and net realizable value is the estimated selling price in the ordinary course of operations less the estimated costs necessary to make the sale.

### (e) Capital assets:

Capital assets are stated at cost less accumulated amortization. Except as described below for the Calgary Hostel, amortization is provided over their estimated useful lives using the declining balance method at the following rates:

Asset	Rate
Buildings	5%
Automobiles	30%
Computer equipment and software	30% - 50%
Furniture and equipment	20%

Buildings include certain properties located on Federal, Provincial or Municipal lands whereby the Association has Licenses of Occupancy. These licenses are typically for a term of 10 years, with a nominal annual fee and historically have been renewed without issue. Therefore, the Association amortizes these buildings over the estimated useful life instead of the underlying land license. The Association reviews its properties annually, and if the useful life is determined to be shorter, will adjust the amortization prospectively.

The Association has received notice that Calgary Hostel license will be terminated by the City of Calgary, effective September 30, 2015. The Association has prospectively adjusted the amortization for this building to a straight-line basis over the remaining life of the hostel. The Association is currently investigating alternative sites in Calgary, Alberta.

### (f) Revenue recognition:

The Association follows the deferral method of accounting for contributions. Unrestricted contributions, including government grants, are recorded as revenue when received or receivable if the amounts can be estimated and collection is reasonably assured. Other unrestricted revenue, including revenue from hostel operations, is reported as revenue at the time the services are provided or the products are delivered. Revenue from the sale of memberships is recognized in the year to which it relates. Investment income is recognized as revenue when it is earned.

# TRUE NORTH HOSTELLING ASSOCIATION O/A HOSTELLING INTERNATIONAL - CANADA - PACIFIC MOUNTAIN REGION

Notes to Combined Financial Statements (continued)

Year ended March 31, 2010

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## 2. Significant accounting policies (continued):

### (f) Revenue recognition (continued):

Externally restricted contributions are reported as revenue when the restrictions imposed by the contributors on the use of the monies are satisfied as follows:

- (i) Non-capital contributions for specific purposes are recognized as revenue in the year in which the related expense is incurred.
- (ii) Contributions of or for the purchase of capital assets having a limited life are recognized as revenue on the same basis as the amortization expense related to the capital asset purchased is recorded. Where the capital asset involved is land to be held-for-use by the Association, the contribution is reported as a direct increase in net assets invested in capital assets rather than as revenue.
- (iii) Some of the contributions received by the Association are restricted for certain activities without the contributor specifying which portion is to be used to acquire capital assets. These contributions are recognized as revenue when spent for the particular purpose covered by the restriction, regardless of the fact that some of the expenses may relate to the purchase of capital assets.

Volunteers contribute a significant amount of time each year to assist the Association in carrying out its programs and services. Because of the difficulty of determining their fair value, contributed services are not recognized in these combined financial statements.

### (g) Financial instruments:

The Association designated its cash and cash equivalents and short-term investments as held for trading and therefore are measured at fair value. Accounts receivable are classified as loans and receivables, which are measured at amortized cost. Accounts payable and accrued liabilities and loans payable are classified as other financial liabilities and are measured at amortized cost.

The Association has elected to continue to apply the financial instrument disclosure and presentation standards in accordance with Section 3861, *Financial Instruments – Disclosure and Presentation*.



# TRUE NORTH HOSTELLING ASSOCIATION O/A HOSTELLING INTERNATIONAL - CANADA - PACIFIC MOUNTAIN REGION

Notes to Combined Financial Statements (continued)

Year ended March 31, 2010

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## 2. Significant accounting policies (continued):

### (h) Adoption of new accounting standards:

Revisions to Not-for-Profit accounting standards:

Effective April 1, 2009, the CICA issued amendments to Handbook Sections 4400, *Financial Statement Presentation by Not-for-Profit Organizations*, and 4470, *Disclosure of Allocated Expenses by Not-for-Profit Organizations*. The amendments eliminated the requirement to separately present net assets invested in capital assets, clarify capital asset recognition criteria and amortization, requires disclosure of the allocation of general support expenses by not-for-profit organizations, and includes the requirement to follow Handbook Section 1540, *Cash Flow Statements*. The Association has therefore eliminated the details about the amount of net assets invested in capital assets from the combined financial statements. As a result, the Association has eliminated the prior year presentation in the financial statements of the amount of net assets invested in capital assets as at March 31, 2009 of \$13,023,902.

### (i) Changes in accounting framework:

The CICA has decided to transition Canadian GAAP for publicly accountable entities to International Financial Reporting Standards ("IFRS") effective January 1, 2011. The Association is classified as a not-for-profit organization. The Accounting Standards Board and Public Sector Accounting Board have released an exposure draft in 2010 relating to the future of financial reporting by not-for-profit organizations. Under the proposed standards, the Association would prepare its financial statement in accordance with IFRS, or with the new Canadian Private Enterprise reporting framework, with specific not-for-profit standards to supplement. The Association is in the process of reviewing the potential impact of the proposals on its reporting framework and financial statements.

### (j) Use of estimates:

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Significant areas of estimate include valuation of accounts receivable, useful lives of capital assets and contingent liabilities. Actual results could differ from those estimates.

# TRUE NORTH HOSTELLING ASSOCIATION O/A HOSTELLING INTERNATIONAL - CANADA - PACIFIC MOUNTAIN REGION

Notes to Combined Financial Statements (continued)

Year ended March 31, 2010

## 3. Short-term investments:

	2010	2009
Corporate bonds and fixed income	\$ 418,267	\$ 535,202
Mutual funds	161,471	179,280
Guaranteed investment certificates and term deposits	1,412,334	1,155,414
	<u>\$ 1,992,072</u>	<u>\$ 1,869,896</u>

## 4. Capital assets:

			2010	2009
	Cost	Accumulated amortization	Net book value	Net book value
Land	\$ 4,462,863	\$ -	\$ 4,462,863	\$ 4,462,863
Buildings	20,109,468	8,751,114	11,358,354	10,977,362
Automobiles	221,803	135,154	86,649	78,388
Computer equipment and software	798,494	618,958	179,536	194,063
Furniture and equipment	3,323,147	2,579,659	743,488	746,986
	<u>28,915,775</u>	<u>12,084,885</u>	<u>16,830,890</u>	<u>16,459,662</u>
Assets under construction	259,033	-	259,033	28,443
	<u>\$ 29,174,808</u>	<u>\$ 12,084,885</u>	<u>\$ 17,089,923</u>	<u>\$ 16,488,105</u>

The assets under construction relate to a new hostel in Whistler, British Columbia (note 9(b)) and will be amortized once the hostel is available for use.

# TRUE NORTH HOSTELLING ASSOCIATION O/A HOSTELLING INTERNATIONAL - CANADA - PACIFIC MOUNTAIN REGION

Notes to Combined Financial Statements (continued)

Year ended March 31, 2010

## 5. Loans payable:

	2010	2009
Demand term loan (a)	\$ 228,486	\$ 298,281
Loan payable (b)	2,033,670	2,155,804
	<b>\$ 2,262,156</b>	<b>\$ 2,454,085</b>

- (a) The demand term loan represents the Association's share of the CAC loan payable. The demand term loan bears interest at prime plus 0.75% per annum, matures July 31, 2014 with blended bi-weekly payments of \$2,991. Also, through its investment in CAC, the Association has an unused line of credit, its share being a maximum of \$139,130, bearing interest at prime plus 1% per annum. This demand term loan and line of credit are secured by the Lake Louise Hostel assets, and a debenture covering a fixed charge on the leases for land.
- (b) The loan payable bears interest at 2.75% per annum, matures October 19, 2010 with blended monthly payments of \$16,697. The Association also has an unused line of credit, with a maximum of \$500,000, bearing interest at prime plus 0.75% per annum. The loan payable and line of credit are secured by the following:
- (i) General security agreement covering a first ranking security interest in all personal property of the Association;
  - (ii) Guarantee and postponement of claims in the amount of \$2,675,000 each provided by the Canadian Hostelling Association - British Columbia Region, Northern Alberta District and Southern Alberta Region, supported by a general security agreement covering all present and after-acquired personal property and a floating charge on land;
  - (iii) Certificate of insurance on the 1025 Granville St. Hostel showing the bank as a first mortgagee; and
  - (iv) Collateral mortgage in the amount of \$2,675,000 constituting a first fixed charge on the lands and improvements on the 1025 Granville St. Hostel.

# TRUE NORTH HOSTELLING ASSOCIATION O/A HOSTELLING INTERNATIONAL - CANADA - PACIFIC MOUNTAIN REGION

Notes to Combined Financial Statements (continued)

Year ended March 31, 2010

## 5. Loan payable (continued):

Notwithstanding certain of the loans are repayable on demand and/or maturing in the next twelve months, the Association is currently scheduled under the above debt agreements to make periodic payments over a period beyond one year. Principal repayments required on loans payable over each of the next five fiscal years, assuming renewal at similar terms and conditions, are estimated as follows:

2011	\$	210,812
2012		215,335
2013		219,983
2014		193,690
2015		163,620
Thereafter		1,258,716
	\$	2,262,156

## 6. Deferred contributions:

	2010	2009
Balance, beginning of year	\$ 77,054	\$ 96,025
Contributions utilized for operating expenses	(77,054)	(18,971)
Balance, end of year	\$ -	\$ 77,054

## 7. Deferred capital contributions:

	2010	2009
Balance, beginning of year	\$ 1,010,118	\$ 1,073,373
Amortization during the year	(63,846)	(63,255)
Balance, end of year	\$ 946,272	\$ 1,010,118

## 8. Capital management:

The Association defines capital to be its net assets and loans payable. In carrying out its purpose, the Association uses its capital to fund the annual capital upgrades to current facilities, fund future expansion projects and to meet its "End Statements". The Association is not subject to any other external capital requirements or restrictions other than those described in note 5.

# TRUE NORTH HOSTELLING ASSOCIATION O/A HOSTELLING INTERNATIONAL - CANADA - PACIFIC MOUNTAIN REGION

Notes to Combined Financial Statements (continued)

Year ended March 31, 2010

## 9. Commitments and contingencies:

### (a) Operating leases:

The Association leases certain premises under operating leases that will expire in fiscal 2013. Minimum annual rental payments under these premises leases are approximately as follows:

2011	\$	64,094
2012		53,268
2013		53,268

### (b) Purchase and sale of Whistler Hostel:

The Association entered into a purchase and sale agreement with Whistler 2020 Development Corp ("Whistler 2020"), a corporation formed and controlled by the Resort Municipality of Whistler ("RMOW"), dated December 13, 2007, and amended March 25, 2008, for the future purchase of a property, consisting of land and building, in Whistler, BC to be used as the Association's new 180 bed Whistler hostel (herein referred to as the "new hostel"). The anticipated completion of the purchase is expected to take place in June 2010. The purchase price for the land and building has been agreed to be \$8,900,000, plus \$750,000 for the purchase of staff housing.

Concurrently, the Association entered into a sales agreement with the RMOW for the sale and lease-back of the Association's existing Whistler hostel (herein referred to as the "existing hostel") which completed November 18, 2008. A sale price of \$2,700,000 for the existing hostel has been applied directly as a deposit for the new hostel. The Association has been allowed the full use of the existing hostel, at an annual rental cost of \$1, to the date of move to the new hostel. Under the terms of the agreement, if the purchase of the new hostel does not complete, the Association will be able to reacquire the existing hotel at no charge and the Resort Municipality of Whistler will be responsible for recovering the proceeds from Whistler 2020. The disposition of the existing hostel and acquisition of the new hostel will be recorded at the date the transactions complete and the conditions for recognition are met.

The Association will not record the disposal of the existing hostel until the date of completion for the new hostel and will continue to record amortization expense until the conditions for recognition of the sale has been met. The anticipated completion of the purchase and possession of the new hostel is expected to take place in June 2010.

# TRUE NORTH HOSTELLING ASSOCIATION O/A HOSTELLING INTERNATIONAL - CANADA - PACIFIC MOUNTAIN REGION

Notes to Combined Financial Statements (continued)

Year ended March 31, 2010

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## 9. Commitments and contingencies (continued):

### (c) National levy:

The Association pays a levy to the Canadian Hostelling Association based on membership sales and overnights recorded for the last completed fiscal year. The levy paid in 2010 totaled \$416,512 (2009 - \$451,835) and is recorded in Hostels' expenses.

### (d) Letter of credit:

A letter of guarantee of \$5,000 has been issued by the Association's bank for the Association's line of credit. The security for the letter of guarantee has been provided by \$5,000 restricted cash on deposit with the bank.

### (e) Jasper Hostel:

The Association may be required to restore the site of a hostel in Jasper National Park under certain conditions. The extent of the restoration and the related cost is not reasonably determinable at this time and the Association has not accrued the potential cost in these combined financial statements.

### (f) Litigation:

From time to time, in connection with its operations, the Association is named as defendant in actions for damages and costs allegedly sustained by the plaintiffs, usually related to employment matters. As the outcome is indeterminable, no provision has been made. Similar actions in the past have generally been resolved with minimal damages or expenses in excess of amounts covered by insurance. Settlements of claims, in excess of those provided, are accounted for as current period transactions.

## 10. Financial instruments:

### (a) Credit risk:

Due to the nature of the hostel business, the Association does not face any significant concentrations of credit risk. The Association mitigates its exposure to credit risk by only dealing with reputable third parties.

### (b) Interest rate risk:

The Association is exposed to interest rate risk as the demand term loan bears interest at variable rates and fluctuates with movements in the prime lending rate and as the loan payable rate is fixed annually upon renewal and fluctuates with the prevailing rates at the time of renewal.

# TRUE NORTH HOSTELLING ASSOCIATION O/A HOSTELLING INTERNATIONAL - CANADA - PACIFIC MOUNTAIN REGION

Notes to Combined Financial Statements (continued)

Year ended March 31, 2010

## 10. Financial instruments (continued):

(c) Fair value:

The carrying values of accounts receivable, accounts payable and accrued liabilities and demand term loan payable approximate fair values due to the relatively short periods to maturity of these items. The carrying values of the revolving line of credit and the loan payable approximate their fair values as the loans bear interest at floating rate or are set annually based on the current market rates..

## 11. Investment in joint ventures:

The combined financial statements include the Association's proportionate share of the revenue, expenses, assets and liabilities of the CAC joint venture as follows.

	2010	2009
Assets:		
Current assets	\$ 102,351	\$ 156,593
Capital assets	2,311,891	2,383,215
	<b>\$ 2,414,242</b>	<b>\$ 2,539,808</b>
Liabilities and Net Assets:		
Accounts payable and other current liabilities, excluding current portion of loans payable	\$ 136,290	\$ 110,044
Loan payable (note 5(a))	228,486	298,281
Deferred contributions	466,206	490,743
Net assets	1,583,260	1,640,740
	<b>\$ 2,414,242</b>	<b>\$ 2,539,808</b>
Revenue	\$ 1,281,885	\$ 1,442,093
Excess of revenue over expenses	\$ 12,086	\$ 130,978
Cash flow from operations	\$ 145,241	\$ 260,875
Cash flow from financing	(137,310)	(204,657)
Cash flow from investing	(69,672)	(122,147)

## 12. Comparative figures:

Certain 2009 comparative figures have been reclassified to conform with the financial statement presentation adopted for the current year.