

**True North Hostelling Association
O/A Hostelling International -
Canada - Pacific Mountain Region**

Combined Financial Statements
**March 31, 2013, March 31, 2012 and
April 1, 2011**



May 27, 2013

Independent Auditor's Report

**To the Directors of
True North Hostelling Association O/A Hostelling International - Canada - Pacific
Mountain Region**

We have audited the accompanying combined financial statements of True North Hostelling Association O/A Hostelling International - Canada - Pacific Mountain Region, which comprise the combined statements of financial position as at March 31, 2013, March 31, 2012 and April 1, 2011, and the combined statements of operations and changes in net assets and cash flows for the years ended March 31, 2013 and March 31, 2012, and the related notes including a summary of significant accounting policies and other explanatory information.

Management's responsibility for the combined financial statements

Management is responsible for the preparation and fair presentation of these combined 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 combined 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 combined 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 combined financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combined financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the combined 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 combined 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 combined financial statements.

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PwC refers to PricewaterhouseCoopers LLP, an Ontario limited liability partnership.



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

Opinion

In our opinion, the combined financial statements present fairly, in all material respects, the financial position of True North Hostelling Association O/A Hostelling International - Canada - Pacific Mountain Region as at March 31, 2013, March 31, 2012 and April 1, 2011 and the results of its operations and its cash flows for the years ended March 31, 2013 and March 31, 2012 in accordance with Canadian accounting standards for not-for-profit organizations.

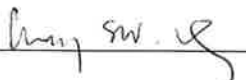

PricewaterhouseCoopers LLP

Chartered Accountants

**True North Hostelling Association O/A Hostelling International -
Canada - Pacific Mountain Region**
Combined Statements of Financial Position

	March 31, 2013 \$	March 31, 2012 \$	April 1, 2011 \$ (note 2)
Assets			
Current assets			
Cash and cash equivalents	1,117,937	742,512	406,425
Short-term investments	1,433,365	1,827,476	2,239,283
Accounts receivable	215,021	266,282	316,783
Inventory	129,563	123,468	143,211
Prepaid expenses	203,587	192,097	190,046
	<u>3,099,473</u>	<u>3,151,835</u>	<u>3,295,748</u>
Restricted cash (note 10(c))	5,000	5,000	5,000
Long-term investments	201,678	-	-
Capital assets (note 5)	<u>26,074,967</u>	<u>26,696,283</u>	<u>27,635,991</u>
	<u>29,381,118</u>	<u>29,853,118</u>	<u>30,936,739</u>
Liabilities and Net Assets			
Current liabilities			
Accounts payable and accrued liabilities (note 9)	1,138,639	920,662	948,865
Unearned revenue and deposits	285,275	252,364	150,842
Loans payable (note 6)	7,142,113	7,701,044	8,308,815
	<u>8,566,027</u>	<u>8,874,070</u>	<u>9,408,522</u>
Deferred contributions (note 7)	42,902	105,852	66,104
Deferred capital contributions (note 8)	<u>824,796</u>	<u>826,260</u>	<u>852,251</u>
	9,433,725	9,806,182	10,326,877
Net assets	<u>19,947,393</u>	<u>20,046,936</u>	<u>20,609,862</u>
	<u>29,381,118</u>	<u>29,853,118</u>	<u>30,936,739</u>
Commitments and contingencies (note 10)			

Approved by the Board of Directors

 Director
  Director

The accompanying notes are an integral part of these combined financial statements.

**True North Hostelling Association O/A Hostelling International -
Canada - Pacific Mountain Region**

Combined Statements of Operations and Changes in Net Assets

For the years ended March 31

	2013 \$	2012 \$
Revenue		
Overnights	9,967,462	9,415,249
Memberships	465,931	547,034
Other, including food, beverage and merchandise	2,273,793	2,490,471
	<u>12,707,186</u>	<u>12,452,754</u>
Expenses		
Hostel	10,027,746	10,100,616
Administration and membership	1,290,859	1,289,571
Amortization of capital assets	1,335,964	1,411,707
	<u>12,654,569</u>	<u>12,801,894</u>
Excess (deficiency) of revenue over expenses from operations	<u>52,617</u>	<u>(349,140)</u>
Other expenses (income)		
Interest	(40,436)	(35,425)
Interest expense	248,511	249,111
Loss on extraordinary items	-	100
Recovery on settlement of gas claim	(55,915)	-
	<u>152,160</u>	<u>213,786</u>
Deficiency of revenue over expenses for the year	<u>(99,543)</u>	<u>(562,926)</u>
Net assets - Beginning of year	<u>20,046,936</u>	<u>20,609,862</u>
Net assets - End of year	<u>19,947,393</u>	<u>20,046,936</u>

The accompanying notes are an integral part of these combined financial statements.

**True North Hostelling Association O/A Hostelling International -
Canada - Pacific Mountain Region**

Combined Statements of Cash Flows

For the years ended March 31

	2013 \$	2012 \$
Cash provided by (used in)		
Operating activities		
Deficiency of revenue over expenses for the year	(99,543)	(562,926)
Items not involving cash		
Amortization of capital assets	1,335,964	1,411,707
Amortization of deferred capital contributions	(51,464)	(50,991)
Net recovery on settlement of gas claim	(32,524)	-
Deferred contributions used	(130,971)	(32,978)
	1,021,462	764,812
Changes in non-cash working capital		
Accounts receivable	51,261	50,501
Inventory	(6,095)	19,743
Prepaid expenses	21,035	(2,051)
Accounts payable and accrued liabilities	217,977	(28,203)
Unearned revenue and deposits	32,911	101,522
	1,338,551	906,324
Financing activities		
Repayment of loans payable	(558,931)	(607,771)
Investing activities		
Sale of investments	192,433	411,806
Purchase of capital assets	(714,649)	(471,998)
Deferred contributions received	68,021	72,726
Deferred capital contributions received	50,000	25,000
	(404,195)	37,534
Increase in cash and cash equivalents	375,425	336,087
Cash and cash equivalents - Beginning of year	742,512	406,425
Cash and cash equivalents - End of year	1,117,937	742,512
Supplementary information		
Interest paid - net of interest received	208,075	213,686

The accompanying notes are an integral part of these combined financial statements.

True North Hostelling Association O/A Hostelling International - Canada - Pacific Mountain Region

Notes to Combined Financial Statements

March 31, 2013 and 2012

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 has an investment in 1025 Granville Street Trust which is not a tax exempt entity. However, this entity has not generated taxable income.

2 Adoption of accounting standards for not-for-profit organizations

Effective April 1, 2012, the Association elected to adopt Canadian accounting standards for not-for-profit organizations ("ASNPO") as issued by the Canadian Accounting Standards Board. The accounting policies selected under this framework have been applied consistently and retrospectively as if these policies had always been in effect. The Association has not utilized any transitional exemptions on the adoption of ASNPO. There were no adjustments to the statements of financial position or the statements of operations and changes in net assets and cash flows as a result of adopting ASNPO.

3 Significant accounting policies

Basis of presentation

The combined financial statements of the Association are the representation of management prepared in accordance with ASNPO. 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, and the Canadian Hostelling Association - Northern Alberta District. 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 12).

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.

Investments

Short-term investments consist of guaranteed investment certificates and term deposits which can be realizable within one year. Investments with maturities over a year are classified as long-term investments. All investments are measured at fair value.

True North Hostelling Association O/A Hostelling International - Canada - Pacific Mountain Region

Notes to Combined Financial Statements

March 31, 2013 and 2012

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.

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:

Buildings and leasehold improvements	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 lives instead of the underlying land license. The Association reviews its properties annually, and if the useful lives are determined to be shorter, will adjust the amortization prospectively.

The Association has received notice that the Calgary Hostel license will be terminated by the City of Calgary, effective December 31, 2015. In the prior year, 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.

The Association reviews its capital assets for impairment whenever circumstances indicate that the carrying value may not be recoverable. In the event of an impairment loss the assets carrying value will be reduced and charged through the statements of operations and changes in net assets.

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 the memberships are purchased. 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

March 31, 2013 and 2012

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

- a) Non-capital contributions for specific purposes are recognized as revenue in the year in which the related expense is incurred.
- b) 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 rather than as revenue.
- c) 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.

Financial instruments

The Association's financial instruments consist of cash and cash equivalents, investments, accounts receivable, accounts payable and accrued liabilities and loans payable.

Cash and cash equivalents and investments are measured at fair value.

Accounts receivable, accounts payable and accrued liabilities and loans payable are initially measured at fair value and subsequently carried at amortized cost.

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 year. Significant areas of estimate include 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

March 31, 2013 and 2012

4 Internally restricted net assets

The Association has certain balances which are internally restricted for New Jasper Hostel. These amounts are included in the combined statements of financial position accounts as follows:

	March 31, 2013 \$	March 31, 2012 \$	April 1, 2011 \$
Cash and cash equivalents	300,000	-	-
Short-term investments	1,197,012	1,668,143	1,408,462
Long-term investments	201,678	-	-
	<u>1,698,690</u>	<u>1,668,143</u>	<u>1,408,462</u>

5 Capital assets

			March 31, 2013	March 31, 2012	April 1, 2011
	Cost \$	Accumulated amortization \$	Net \$	Net \$	Net \$
Land	5,713,574	-	5,713,574	5,713,574	5,713,574
Buildings and leasehold improvements	30,449,391	11,206,011	19,243,380	19,708,351	20,391,888
Automobiles	229,735	191,481	38,254	55,725	79,605
Computer equipment and software	979,159	792,688	186,471	157,502	166,319
Furniture and equipment	4,086,407	3,203,997	882,410	1,050,253	1,273,727
	<u>41,458,266</u>	<u>15,394,177</u>	<u>26,064,089</u>	<u>26,685,405</u>	<u>27,625,113</u>
Hostel development planning and assets under construction *	10,878	-	10,878	10,878	10,878
	<u>41,469,144</u>	<u>15,394,177</u>	<u>26,074,967</u>	<u>26,696,283</u>	<u>27,635,991</u>

* Relates to the future hostel development planning in Jasper, Alberta.

True North Hostelling Association O/A Hostelling International - Canada - Pacific Mountain Region

Notes to Combined Financial Statements

March 31, 2013 and 2012

6 Loans payable

	March 31, 2013 \$	March 31, 2012 \$	April 1, 2011 \$
Line of credit (a)	-	5,000	20,000
CAC loan payable (b)	8,285	84,265	157,458
Whistler mortgage (c)	5,519,243	5,875,695	6,243,087
1025 Granville Street Trust loan (d)	1,614,585	1,736,084	1,888,270
	<u>7,142,113</u>	<u>7,701,044</u>	<u>8,308,815</u>

- a) The Association has a line of credit with a maximum limit of \$500,000, bearing interest at prime plus 0.75% per annum.
- b) This demand term loan represents the Association's share of the CAC loan payable. It bears interest at prime plus 0.75% per annum, and matures July 31, 2014 with blended bi-weekly payments of \$4,300. Both this loan and the line of credit in a) are secured by the Lake Louise Hostel assets, and a debenture covering a fixed charge on the leases for land.
- c) This demand term loan was obtained to finance the acquisition of the Whistler property. It bears interest at 3.35% per annum with blended monthly payments of \$45,775.
- d) The demand term loan bears interest at 3.30% per annum, with blended monthly payments of \$15,100.

The loans a, c and d are secured by the following:

- i) General security agreement covering a first ranking security interest in all property of the Association;
- ii) Guarantee and postponement of claims in full amount 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 property and a floating charge on land;
- iii) Certificate of insurance on the 1025 Granville Street Hostel, New Whistler Hostel and Downtown Hostel showing the bank as a first mortgagee; and
- iv) Collateral mortgage in full amount constituting a first fixed charge on the lands and improvements on the above three hostels.

True North Hostelling Association O/A Hostelling International - Canada - Pacific Mountain Region

Notes to Combined Financial Statements

March 31, 2013 and 2012

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 four fiscal years and thereafter, assuming renewal at similar terms and conditions, are estimated as follows:

	\$
2014	472,196
2015	521,959
2016	539,429
2017	557,485
Thereafter	<u>5,051,044</u>
	<u>7,142,113</u>

7 Deferred contributions

	March 31, 2013 \$	March 31, 2012 \$	April 1, 2011 \$
Balance - Beginning of year	105,852	66,104	-
Contributions received during the year	68,021	72,726	66,104
Contributions utilized to offset expenses incurred during the year	<u>(130,971)</u>	<u>(32,978)</u>	-
Balance - End of year	<u>42,902</u>	<u>105,852</u>	<u>66,104</u>

8 Deferred capital contributions

	March 31, 2013 \$	March 31, 2012 \$	April 1, 2011 \$
Balance - Beginning of year	826,260	852,251	946,272
Addition	50,000	25,000	-
Amortization during the year	<u>(51,464)</u>	<u>(50,991)</u>	<u>(94,021)</u>
Balance - End of year	<u>824,796</u>	<u>826,260</u>	<u>852,251</u>

True North Hostelling Association O/A Hostelling International - Canada - Pacific Mountain Region

Notes to Combined Financial Statements

March 31, 2013 and 2012

9 Government remittances

Government remittances consist of amounts (such as property taxes, sales taxes, payroll withholding taxes and workers' compensation premiums) required to be paid to government authorities and are recognized when the amounts become due. At March 31, 2013, \$91,095 (March 31, 2012 - \$67,392; April 1, 2011 - \$149,486) is included within accounts payable and accrued liabilities.

10 Commitments and contingencies

a) Operating leases

The Association leases certain premises under operating leases that will expire in various periods up to fiscal 2028. Minimum annual rental payments under these premises leases are as follows:

	\$
2014	93,747
2015	93,747
2016	93,747
2017	93,747
Thereafter	358,409

b) 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 2013 totalled \$428,039 (2012 - \$426,497; 2011 - \$433,717) and is recorded in Hostels' expenses.

c) 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.

d) 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.

True North Hostelling Association O/A Hostelling International - Canada - Pacific Mountain Region

Notes to Combined Financial Statements

March 31, 2013 and 2012

e) **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.

11 Financial instruments

Credit risk

Due to the nature of the hostel business, the Association does not face any significant concentrations of credit risk.

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.

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 loans payable approximate their fair values as the loans bear interest at floating rates or are set annually based on the current market rates.

True North Hostelling Association O/A Hostelling International - Canada - Pacific Mountain Region

Notes to Combined Financial Statements

March 31, 2013 and 2012

12 Investment in joint venture

The combined financial statements include the Association's 69.57% proportionate share of the revenue, expenses, assets and liabilities of the CAC joint venture as follows:

	March 31, 2013 \$	March 31, 2012 \$	April 1, 2011 \$
Assets			
Current assets	264,372	98,240	156,016
Capital assets	1,975,702	2,075,570	2,181,163
	<u>2,240,074</u>	<u>2,173,810</u>	<u>2,337,179</u>
Liabilities and Net Assets			
Accounts payable and other current liabilities, excluding current portion of loans payable	68,486	57,397	55,321
Loan payable	8,285	84,265	157,458
Deferred contributions	399,713	420,751	442,895
Net assets	1,763,590	1,611,397	1,681,505
	<u>2,240,074</u>	<u>2,173,810</u>	<u>2,337,179</u>
Revenue	<u>1,360,209</u>	<u>1,303,142</u>	<u>1,285,665</u>
Excess of revenue over expenses	<u>145,794</u>	<u>54,204</u>	<u>8,707</u>
Cash flow from operating	281,202	141,253	79,432
Cash flow from financing	(110,763)	(197,513)	(17,742)
Cash flow from investing	(18,852)	(20,516)	(5,166)