

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

Combined Financial Statements
March 31, 2019



Independent auditor's report

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

Our opinion

In our opinion, the accompanying 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 and its subsidiaries (together, the Association) as at March 31, 2019 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.

What we have audited

The Association's combined financial statements comprise:

- the combined statement of financial position as at March 31, 2019;
- the combined statement of operations and changes in net assets for the year then ended;
- the combined statement of cash flows for the year then ended; and
- the notes to the combined financial statements, which include a summary of significant accounting policies.

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 *Auditor's responsibilities for the audit of the combined financial statements* section of our report.

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

Independence

We are independent of the Association in accordance with the ethical requirements that are relevant to our audit of the combined financial statements in Canada. We have fulfilled our other ethical responsibilities in accordance with these requirements.

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



Responsibilities of management and those charged with governance for the combined financial statements

Management is responsible for the preparation and fair presentation of the 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.

In preparing the combined financial statements, management is responsible for assessing the Association'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 Association or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Association's financial reporting process.

Auditor's responsibilities for the audit of the combined financial statements

Our objectives are to obtain reasonable assurance about whether the combined financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's 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 combined 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 combined 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 Association'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 Association's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the combined 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 auditor's report. However, future events or conditions may cause the Association to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the combined financial statements, including the disclosures, and whether the combined financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Association to express an opinion on the combined financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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.

PricewaterhouseCoopers LLP

Chartered Professional Accountants

Vancouver, British Columbia
June 5, 2019

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

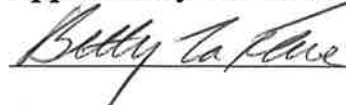
Combined Statement of Financial Position

As at March 31, 2019

	2019 \$	2018 \$
Assets		
Current assets		
Cash and cash equivalents	2,948,878	5,048,867
Short-term investments (note 4)	601,007	1,938,724
Accounts receivable	441,203	163,344
Inventory	87,627	80,955
Prepaid expenses	314,616	262,126
	<u>4,393,331</u>	<u>7,494,016</u>
Restricted cash	5,000	5,000
Long-term investments (note 4)	863,106	55,855
Capital assets (note 5)	<u>29,414,756</u>	<u>25,877,823</u>
	<u>34,676,193</u>	<u>33,432,694</u>
Liabilities and Net Assets		
Current liabilities		
Accounts payable and accrued liabilities (note 9)	1,439,464	1,379,372
Unearned revenue and deposits	438,175	394,543
Loans payable (note 6)	3,948,299	4,508,468
	<u>5,825,938</u>	<u>6,282,383</u>
Deferred contributions (note 7)	69,152	5,559
Deferred capital contributions (note 8)	<u>748,243</u>	<u>797,316</u>
	6,643,333	7,085,258
Net assets	<u>28,032,860</u>	<u>26,347,436</u>
	<u>34,676,193</u>	<u>33,432,694</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 Statement of Operations and Changes in Net Assets
For the year ended March 31, 2019

	2019 \$	2018 \$
Revenue		
Overnights	14,371,408	14,268,151
Memberships	388,926	445,924
Other, including food, beverage and merchandise	2,189,613	2,291,508
	<u>16,949,947</u>	<u>17,005,583</u>
Expenses		
Hostel	12,205,406	11,392,374
Administration and membership	1,578,030	1,545,873
Amortization of capital assets	1,368,437	1,376,411
	<u>15,151,873</u>	<u>14,314,658</u>
Excess of revenue over expenses from operations	<u>1,798,074</u>	<u>2,690,925</u>
Other expenses (income)		
Investment income	(43,058)	(90,398)
Interest expense	155,708	118,025
Loss on extraordinary items	-	421
	<u>112,650</u>	<u>28,048</u>
Excess of revenue over expenses for the year	1,685,424	2,662,877
Net assets – Beginning of year	<u>26,347,436</u>	<u>23,684,559</u>
Net assets – End of year	<u>28,032,860</u>	<u>26,347,436</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 Statement of Cash Flows

For the year ended March 31, 2019

	2019 \$	2018 \$
Cash provided by (used in)		
Operating activities		
Excess of revenue over expenses for the year	1,685,424	2,662,877
Items not involving cash		
Amortization of capital assets	1,368,437	1,376,411
Amortization of deferred capital contributions	(56,326)	(57,782)
Deferred contributions used	(3,723)	(137,275)
	<u>2,993,812</u>	<u>3,844,231</u>
Changes in non-cash working capital		
Accounts receivable	(277,859)	531
Inventory	(6,672)	(3,316)
Prepaid expenses	(52,490)	(29,745)
Accounts payable and accrued liabilities	60,092	156,993
Unearned revenue and deposits	43,632	50,367
	<u>2,760,515</u>	<u>4,019,061</u>
Financing activities		
Repayment of loans payable	(560,169)	(483,151)
Deferred contributions received	67,316	141,109
Deferred capital contributions received	7,253	-
	<u>(485,600)</u>	<u>(342,042)</u>
Investing activities		
Change in investments	530,466	(574,978)
Purchase of capital assets	(4,905,370)	(1,400,705)
	<u>(4,374,904)</u>	<u>(1,975,683)</u>
(Decrease) increase in cash and cash equivalents	<u>(2,099,989)</u>	<u>1,701,336</u>
Cash and cash equivalents – Beginning of year	<u>5,048,867</u>	<u>3,347,531</u>
Cash and cash equivalents – End of year	<u>2,948,878</u>	<u>5,048,867</u>
Supplementary information		
Interest paid – net of interest received	112,652	27,627

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, 2019

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 Significant accounting policies

Basis of presentation

The combined financial statements of the Association are the representation of management prepared in accordance with Canadian accounting standards for not-for-profit organizations (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, the Canadian Hostelling Association - Northern Alberta District and the Canadian Hostelling Association - Prairie Region Inc. 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 Centre 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 maturities of three months or less as cash and cash equivalents.

Investments

Short-term investments consist of guaranteed investment certificates, term deposits, and mutual funds 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, 2019

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. Amortization is provided for using the declining balance method at the following annual 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 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 combined statement of operations and changes in net assets.

Assets under construction are recorded at cost and include direct cost during development and construction included cost that are directly attributable to the construction to or development activity and other carrying cost. When construction is substantially complete or the asset is ready for use, it is subsequently amortized over its estimated useful life.

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, 2019

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 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. 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 combined 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, 2019

3 Internally restricted net assets

The Association has \$nil (2018 – \$1,857,760) balances which are internally restricted for the new Jasper Hostel. These amounts are included in cash and cash equivalents.

4 Investments

	2019 \$	2018 \$
Term deposits GIC's	430,251	44,240
Fixed income fund	56,087	1,000,840
Canadian equities fund	863,106	636,418
Foreign equities fund	114,669	313,081
	<u>1,464,113</u>	<u>1,994,579</u>
Short-term investments —maturing in less than one year	601,007	1,938,724
Long-term investments – maturing in greater than one year	863,106	55,855
	<u>1,464,113</u>	<u>1,994,579</u>

5 Capital assets

	2019		2018	
	Cost \$	Accumulated amortization \$	Net \$	Net \$
Land	5,811,031	-	5,811,031	5,811,031
Buildings and leasehold improvements	35,937,911	17,803,793	18,134,118	18,663,482
Automobiles	264,418	234,165	30,253	43,219
Computer equipment and software	1,391,397	1,219,379	172,018	163,581
Furniture and equipment	5,019,448	4,251,528	767,920	787,834
	<u>48,424,205</u>	<u>23,508,865</u>	<u>24,915,340</u>	<u>25,469,147</u>
Hostel development planning and assets under construction *	4,499,416	-	4,499,416	408,676
	<u>52,923,621</u>	<u>23,508,865</u>	<u>29,414,756</u>	<u>25,877,823</u>

* The Association has commenced construction of a new 157 bed hostel and staff accommodation in the Jasper, Alberta townsite for approximately \$11.5 million with a planned opening in the Summer of 2019.

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

Notes to Combined Financial Statements

March 31, 2019

6 Loans payable

	2019 \$	2018 \$
Whistler mortgage (c)	3,184,671	3,582,340
1025 Granville Street Trust loan (d)	763,628	926,128
	<u>3,948,299</u>	<u>4,508,468</u>

- a) The Association has a revolving line of credit of \$500,000 (going up to a maximum limit of \$1,000,000 from November 1 to May 30), bearing interest at prime rate plus 0.75% per annum.
- b) The Association's joint venture with the CAC has a revolving line of credit of \$100,000, bearing interest at prime rate plus 1.00% per annum.
- c) This mortgage includes two demand term loans that were obtained to finance the acquisition of the Whistler property. These loans with blended monthly payments of \$42,174 bear interest at 3.58% and 3.76%, respectively.
- d) The demand term loan for 1025 Granville Street Trust bears interest at 3.76% per annum, with blended monthly payments of \$15,153.

The above two loans noted in (c) and (d) are secured by the following:

- i) a general security agreement covering a first ranking security interest in all property of the Association;
- ii) a 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) a certificate of insurance on the 1025 Granville Street Hostel, New Whistler Hostel and Downtown Hostel showing the bank as a first mortgagee; and
- iv) a 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, 2019

Notwithstanding that certain of the loans are repayable on demand and/or maturing in the next 12 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:

	\$
2020	550,723
2021	571,414
2022	592,883
2023	615,161
Thereafter	1,618,118
	<u>3,948,299</u>

7 Deferred contributions

	2019 \$	2018 \$
Balance – Beginning of year	5,559	1,725
Contributions received during the year	67,316	141,109
Contributions transferred to revenue	(3,723)	(137,275)
Balance – End of year	<u>69,152</u>	<u>5,559</u>

8 Deferred capital contributions

	2019 \$	2018 \$
Balance – Beginning of year	797,316	855,098
Contributions received during the year	7,253	-
Amortization during the year	(56,326)	(57,782)
Balance – End of year	<u>748,243</u>	<u>797,316</u>

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, 2019, \$103,089 (2018 – \$127,365) is included within accounts payable and accrued liabilities.

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

Notes to Combined Financial Statements

March 31, 2019

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:

	\$
2020	99,371
2021	99,371
2022	99,371
2023	70,364
Thereafter	19,715

b) National levy

The Association pays a levy to Hostelling International Canada based on membership sales and overnights recorded for the last completed fiscal year. The levy paid in 2019 totalled \$440,361 (2018 – \$444,113) and is recorded in hostel expenses.

c) 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.

d) Capital commitments

The Association has a commitment of approximately \$11.5m for the construction of a hostel and staff accommodation in Jasper, Alberta. As at March 31, 2019, the remaining commitment is \$6.7 million which will be funded by a bank arrangement and due to be paid once construction is completed. Subsequent to the year end, a non-revolving term facility of up to \$8 million has been arranged to fund this remaining commitment.

11 Financial instruments

Credit risk

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

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

Notes to Combined Financial Statements

March 31, 2019

Interest rate risk

The Association is exposed to interest rate risk as the lines of credit bear interest at variable rates and fluctuate 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 cash and cash equivalents, accounts receivable, and accounts payable and accrued liabilities approximate fair values due to the relatively short periods to maturity of these items. The carrying values of 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.

12 Investment in joint venture

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

	2019 \$	2018 \$
Assets		
Current assets	913,292	936,398
Capital assets	2,068,773	2,004,022
	<u>2,982,065</u>	<u>2,940,420</u>
Liabilities and Net Assets		
Accounts payable and other current liabilities	176,627	135,483
Deferred contributions	293,826	309,290
Net assets	2,511,612	2,495,647
	<u>2,982,065</u>	<u>2,940,420</u>
Revenue	<u>2,028,366</u>	<u>1,981,559</u>
Excess of revenue over expenses	<u>328,979</u>	<u>368,986</u>
Cash flows provided by operating activities	470,062	500,789
Cash flows used in financing activities	(313,044)	(104,348)
Cash flows (used in) provided by investing activities	(187,617)	192,066