True North Hostelling Association

(operating as Hostelling International – Canada –
Pacific Mountain Region)

Combined Financial Statements
March 31, 2020

Independent auditor's report

To the Directors of True North Hostelling Association (operating as 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 (operating as Hostelling International - Canada - Pacific Mountain Region) and entities referred to in note 2 to the combined financial statements (together, the Association) as at March 31, 2020 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, 2020;
- 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.

Restriction on distribution and use

Our report is intended solely for the Directors of the Association, in accordance with the terms of our engagement, and should not be distributed to or used by parties other than the Directors of the Association.

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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
July 2, 2020

True North Hostelling Association

(operating as Hostelling International – Canada – Pacific Mountain Region)

Combined Statement of Financial Position

As at March 31, 2020

	2020 $	2019 $
Assets		
Current assets		
Cash and cash equivalents	1,772,425	2,948,878
Short-term investments (note 3)	355,956	601,007
Accounts and other receivables	445,642	441,203
Inventory	99,186	87,627
Prepaid expenses	332,521	314,616
	3,005,730	4,393,331
Restricted cash	5,000	5,000
Long-term investments (note 3)	802,031	863,106
Capital assets (note 4)	37,264,782	29,414,756
	41,077,543	34,676,193
Liabilities and Net Assets		
Current liabilities		
Accounts payable and accrued liabilities (note 8)	1,347,816	1,439,464
Unearned revenue and deposits	423,401	438,175
Loans payable (notes 5 and 5(f))	563,341	550,723
	2,334,558	2,428,362
Deferred contributions (note 6)	45,043	69,152
Deferred capital contributions (note 7)	693,300	748,243
Loans payable (note 5)	9,653,688	3,397,576
	12,726,589	6,643,333
Net assets	28,350,954	28,032,860
	41,077,543	34,676,193

Commitments and contingencies (note 9)

COVID-19 (note 12)

Approved by the Board of Directors

DocuSigned by:
Victoria Oppenlander
1B9A165DCAB74EF... Director

DocuSigned by:
Dave Bentley
5F88FEDEDFFD406... Director

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

True North Hostelling Association

(operating as Hostelling International – Canada – Pacific Mountain Region)

Combined Statement of Operations and Changes in Net Assets

For the year ended March 31, 2020

	2020 $	2019 $
Revenue		
Overnights	14,269,414	14,371,408
Memberships	207,599	388,926
Other, including food, beverage and merchandise	2,347,792	2,189,613
	16,824,805	16,949,947
Expenses		
Hostel	12,490,130	12,205,406
Administration and membership	1,679,100	1,578,030
Amortization of capital assets	1,793,069	1,368,437
	15,962,299	15,151,873
Excess of revenue over expenses from operations	862,506	1,798,074
Other expense (income)		
Investment income	(27,623)	(43,058)
Interest expense	327,839	155,708
Loss on extraordinary items	31,983	-
Loss on disposal capital assets	212,213	-
	544,412	112,650
Excess of revenue over expenses for the year	318,094	1,685,424
Net assets – Beginning of year	28,032,860	26,347,436
Net assets – End of year	28,350,954	28,032,860

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

True North Hostelling Association

(operating as Hostelling International – Canada – Pacific Mountain Region)

Combined Statement of Cash Flows

For the year ended March 31, 2020

	2020 $	2019 $
Cash provided by (used in)		
Operating activities		
Excess of revenue over expenses for the year	318,094	1,685,424
Items not involving cash		
Amortization of capital assets	1,793,069	1,368,437
Amortization of deferred capital contributions	(54,943)	(56,326)
Deferred contributions used	(99,243)	(3,723)
Loss on sale of capital assets	212,213	-
	2,169,190	2,993,812
Changes in non-cash working capital		
Accounts and other receivables	(4,439)	(277,859)
Inventory	(11,559)	(6,672)
Prepaid expenses	(17,905)	(52,490)
Accounts payable and accrued liabilities	(91,648)	60,092
Unearned revenue and deposits	(14,774)	43,632
	2,028,865	2,760,515
Financing activities		
Proceeds from loan issuance	7,000,000	-
Deferred contributions received	75,134	67,316
Deferred capital contributions received	-	7,253
Repayment of loans payable	(731,270)	(560,169)
	6,343,864	(485,600)
Investing activities		
Change in investments	306,126	530,466
Purchase of capital assets	(9,855,308)	(4,905,370)
	(9,549,182)	(4,374,904)
Decrease in cash and cash equivalents	(1,176,453)	(2,099,989)
Cash and cash equivalents – Beginning of year	2,948,878	5,048,867
Cash and cash equivalents – End of year	1,772,425	2,948,878
Supplementary information		
Interest paid – net of interest received	300,216	112,652

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

1 Operations

The True North Hostelling Association (operating as 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, to 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 that 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 prepared by management 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 joint venture), 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).

The combined financial statements are prepared for the Board of Directors of Hostelling International-Canada solely for their information purposes. As a result, the combined financial statements may not be suitable for another purpose. The businesses included in the combined financial statements have not operated as a single entity. These combined financial statements are, therefore, not necessarily indicative of results that would have occurred if the businesses had operated as a single business during the year presented or of future results of the combined businesses. Transactions between the entities, balances and unrealized gains/losses on transactions between the entities are eliminated in these combined financial statements.

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 that 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.

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 will adjust the amortization prospectively if the useful lives are determined to be shorter.

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 costs during development and construction included cost that are directly attributable to the construction or to the development activity and other carrying costs. 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.

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 and other receivables, 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 combined 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.

3 Investments

	2020 $	2019 $
Term deposits GIC's	162,767	430,251
Fixed income fund	57,302	56,087
Canadian equities fund	802,030	863,106
Foreign equities fund	135,888	114,669
	1,157,987	1,464,113
Short-term investments –-maturing in less than one year	355,956	601,007
Long-term investments – maturing in greater than one year	802,031	863,106
	1,157,987	1,464,113

4 Capital assets

	2020			2019
	Cost $	Accumulated amortization $	Net $	Net $
Land	5,811,031	-	5,811,031	5,811,031
Buildings and leasehold improvements	49,211,037	19,121,556	30,089,481	18,134,118
Automobiles	264,418	243,975	20,443	30,253
Computer equipment and software	1,535,117	1,251,154	283,963	172,018
Furniture and equipment	5,426,424	4,366,840	1,059,584	767,920
	62,248,027	24,983,525	37,264,502	24,915,340
Hostel development planning and assets under construction *	280	-	280	4,499,416
	62,248,307	24,983,525	37,264,782	29,414,756

5 Loans payable

	2020 $	2019 $
Whistler mortgage (c)	2,789,092	3,184,671
1025 Granville Street Trust loan (d)	607,937	763,628
Jasper mortgage (e)	6,820,000	-
	10,217,029	3,948,299
Less: Current portion (f)	563,341	550,723
	9,653,688	3,397,576

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 joint venture 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.

e) The swap loan for New Jasper bears swap rate of 2.12% for 15 years plus stamping fee of 1.41% renew in five years.

f) As at March 31, 2019, loans payable amounting to $3,397,576 have been reclassified as a non-current liability to amend the presentation so that it is consistent with maturity profile of the loans.

The above three loans noted in (c), (d) and (e) 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.

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:

	$
2021	563,341
2022	970,883
2023	1,007,160
2024	1,049,237
Thereafter	6,626,408
	10,217,029

6 Deferred contributions

	2020 $	2019 $
Balance – Beginning of year	69,152	5,559
Contributions received during the year	75,134	67,316
Contributions transferred to revenue	(99,243)	(3,723)
Balance – End of year	45,043	69,152

7 Deferred capital contributions

	2020 $	2019 $
Balance – Beginning of year	748,243	797,316
Contributions received during the year	-	7,253
Amortization during the year	(54,943)	(56,326)
Balance – End of year	693,300	748,243

8 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, 2020, $77,141 (2019 – $103,089) is included within accounts payable and accrued liabilities.

9 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:

	$
2021	99,571
2022	99,571
2023	70,564
2024	6,223
Thereafter	17,092

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 2020 totalled $245,377 (2019 – $440,361) and is recorded in hostel expenses.

c) Litigation

From time to time, in connection with its operations, the Association is named as the 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

Credit risk

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

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 and other receivables, 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.

11 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:

	2020 $	2019 $
Assets		
Current assets	1,145,988	913,292
Capital assets	1,992,553	2,068,773
	3,138,541	2,982,065
Liabilities and Net Assets		
Accounts payable and other current liabilities	88,691	176,627
Deferred contributions	279,134	293,826
Net assets	2,770,716	2,511,612
	3,138,541	2,982,065
Revenue	1,972,052	2,028,366
Excess of revenue over expenses	328,670	328,979
Cash flows provided by operating activities	344,940	470,062
Cash flows provided by (used in) financing activities	69,565	(313,044)
Cash flows provided by (used in) investing activities	470,012	(187,617)

12 COVID-19

In March 2020, the World Health Organization declared a global pandemic related to the virus known as novel coronavirus, which causes the disease COVID-19. The impact on global commerce has been far reaching and will continue to evolve over time. The rapid development of COVID-19 makes it difficult to predict or quantify what the ultimate impact will be on the Association. Management believes that the Association has sufficient sources of financing to continue its operations without significant negative impacts into the summer of 2021.

As a result of the pandemic, the Association's hostels were temporarily closed starting from March 20, 2020 and remain closed as of the issuance date of these combined financial statements. However, five affiliate hostels have reopened already and there are plans to reopen 13 owned hostels on June 29, 2020 in BC and Alberta. The Association is utilizing the wage subsidy program initiated by the federal government in order to recover some costs and reduce its operating costs.