Combined Financial Statements of

TRUE NORTH HOSTELLING ASSOCIATION

(Operating as Hostelling International - Canada - Pacific Mountain Region)

And Independent Auditors' Report thereon

Year ended March 31, 2021

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INDEPENDENT AUDITORS' REPORT

To the Directors of True North Hostelling Association
(Operating as Hostelling International - Canada - Pacific Mountain Region)

Opinion

We have audited the accompanying combined financial statements of True North Hostelling Association (Operating as Hostelling International – Canada – Pacific Mountain Region) (the "Entity"), which comprise:

- the combined statement of financial position as at March 31, 2021
- the combined statement of operations for the year then ended
- the combined statement of changes net assets for the year then ended
- the combined statement of cash flows for the year then ended
- and notes to the combined financial statements, including a summary of significant accounting policies

(hereinafter referred to as the "financial statements").

In our opinion, the accompanying combined financial statements present fairly, in all material respects, the combined financial position of the Entity as at March 31, 2021 and its combined results of operations and its combined cash flows for the year then ended in accordance with Canadian accounting standards for not-for-profit organizations.

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 ***"Auditors' Responsibilities for the Audit of the Financial Statements"*** section of our auditors' report.

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

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

Other Matter – Comparative Information

The combined financial statements for the year ended March 31, 2020 were audited by another auditor who expressed an unmodified opinion on those combined financial statements on July 2, 2020.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with Canadian accounting standards for not-for-profit organizations, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' 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 the 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 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 Entity'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 Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the 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 auditors' report. However, future events or conditions may cause the Entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- 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.

KPMG LLP

Chartered Professional Accountants

Vancouver, Canada
July 12, 2021

TRUE NORTH HOSTELLING ASSOCIATION

(Operating as Hostelling International - Canada - Pacific Mountain Region)

Combined Statement of Financial Position

March 31, 2021, with comparative information for 2020

	2021	2020
Assets		
Current assets:		
Cash and cash equivalents	$ 16,600,920	$ 1,772,425
Short-term investments (note 3)	-	355,956
Accounts and other receivables	413,387	445,642
Inventory	86,168	99,186
Prepaid expenses	216,175	332,521
	17,316,650	3,005,730
Restricted cash	-	5,000
Long-term investments (note 3)	-	802,031
Capital assets (note 4)	32,039,632	37,264,782
	$ 49,356,282	$ 41,077,543
Liabilities and Net Assets		
Current liabilities:		
Accounts payable and accrued liabilities (note 5)	$ 761,399	$ 1,347,816
Unearned revenue and deposits	288,328	423,401
Loans payable (note 6)	970,883	563,341
	2,020,610	2,334,558
Deferred contributions (note 7)	75,455	45,043
Deferred capital contributions (note 8)	639,852	693,300
Loans payable (note 5)	8,707,904	9,653,688
	11,443,821	12,726,589
Net assets	37,912,461	28,350,954
Commitments and contingencies (note 9)		
Related party transaction (note 10)		
	$ 49,356,282	$ 41,077,543

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

Approved on behalf of the Board of Directors:

Dave Bentley Director

Victoria Oppenlander Director

TRUE NORTH HOSTELLING ASSOCIATION

(Operating as Hostelling International - Canada - Pacific Mountain Region)

Combined Statement of Operations and Changes in Net Assets

Year ended March 31, 2021, with comparative information for 2020

	2021	2020
Revenue:		
Overnights	$ 1,729,808	$ 14,269,414
Membership	24,712	207,599
Other, including food, beverage and merchandise	3,310,707	2,347,792
	5,065,227	16,824,805
Expenses:		
Hostels	3,134,229	12,490,130
Administration	1,018,239	1,679,100
Amortization of capital assets	2,065,031	1,793,069
	6,217,499	15,962,299
Excess (deficiency) before the undernoted	(1,152,272)	862,506
Other (income) expense:		
Interest income	(5,700)	(27,623)
Interest expenses	334,175	327,839
Loss on non-recurring items	44,802	31,983
(Gain) loss on disposal capital assets	(11,087,056)	212,213
	(10,713,779)	544,412
Excess of revenue over expenses	9,561,507	318,094
Net assets, beginning of year	28,350,954	28,032,860
Net assets, end of year	$ 37,912,461	$ 28,350,954

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

Year ended March 31, 2021, with comparative information for 2020

	2021	2020
Cash provided by (used in):		
Operations:		
Excess of revenue over expenses	$ 9,561,507	$ 318,094
Items not involving cash:		
Amortization of capital assets	2,065,031	1,793,069
Amortization of deferred capital contributions	(53,448)	(54,943)
Deferred contributions used	(25,906)	(99,243)
(Gain) loss on sale of capital assets	(11,087,056)	212,213
Forgiveness of loan (note 5)	(6,957)	-
	453,171	2,169,190
Changes in non-cash operating working capital:		
Accounts receivable	32,255	(4,439)
Inventory	13,018	(11,559)
Prepaid expenses	116,346	(17,905)
Accounts payable and accrued liabilities	(586,417)	(91,648)
Unearned revenue and deposits	(135,074)	(14,774)
	(106,701)	2,028,865
Financing:		
Proceeds from loan issuance	27,826	7,000,000
Deferred contributions received	56,318	75,134
Repayment of loans payable	(559,111)	(731,270)
	(474,967)	6,343,864
Investments:		
Change in investments	1,157,987	306,126
Decrease in restricted cash	5,000	-
Purchase of capital assets	(254,000)	(9,855,308)
Proceeds on sale of capital assets	14,501,176	-
	15,410,163	(9,549,182)
Increase (decrease) in cash and cash equivalents	14,828,495	(1,176,453)
Cash and cash equivalents, beginning of year	1,772,425	2,948,878
Cash and cash equivalents, end of year	$ 16,600,920	$ 1,772,425
Supplemental cash flow information:		
Interest paid - net of interest received	$ 328,475	$ 300,216

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 the 1025 Granville Street Trust (the “Trust”), which is not a tax-exempt entity. However, its beneficiary, the Canadian Hostelling Association - British Columbia Region, to which the Trust allocates its income, is a tax exempt entity.

In March 2020, the COVID-19 outbreak was declared a pandemic by the World Health Organization. This resulted in governments worldwide, including the Canadian federal and provincial governments, enacting emergency measures to combat the spread of the virus. The economic conditions and the Association’s response to the pandemic had a material impact on the Association’s operating results and financial position in 2020 through the impact of the pandemic of the operations of the regional associations. The Association claimed $2,338,037 (2020 - nil) in relation to the Canadian Emergency Wage Subsidy (“CEWS”), which was introduced by the Canadian government to assist organizations who had lost a certain percentage of their eligible revenue. The Association also applied for and received the Canadian Emergency Business Account loan (note 6). An estimate of the financial effect on the Association is not predictable at this time. The Association continues to closely monitor the impact on its financial implications and continuing operations.

2. Significant accounting policies:

(a) Basis of presentation:

These 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 (“LLAC” or “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 these combined financial statements (note 12).

2. Significant accounting policies (continued):

(a) Basis of presentation (continued):

These 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 these 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.

(b) 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.

(c) Supplies:

Supplies consist of food, beverages and other supplies and is measured at the lower of cost and net realizable value. Cost is determined using the first-in, first-out method and includes the price of purchase and related taxes. Supplies are written down to its net realizable value when the cost of inventory is not estimated to be recoverable due to obsolescence, damage or declining selling prices.

(e) Capital assets:

Capital assets are stated at cost less accumulated amortization. Capital assets are reviewed for impairment whenever events or changes in circumstances indicate that either the full or partial amount of the asset no longer has long-term service potential to the Association. If such conditions exist, an impairment loss is measured at the amount by which the carrying amount of the asset exceeds its fair value or replacement cost.

Capital assets are amortized on a declining balance basis over their estimated useful lives as follows:

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

2. Significant accounting policies (continued):

(e) Capital assets (continued):

Buildings consist of the hostel located on federal lands whereby the Association has license of occupancy for a term ending in 2028 and does not expect any renewal issue. Therefore, the Association amortizes the building over the estimated useful life instead of the underlying land license. The Association reviews its property annually, and if the remaining useful life is determined to be shorter, will adjust the amortization prospectively.

Leasehold improvements are amortized on a declining balance basis over the shorter of their useful lives or the term of the lease. The building under construction is amortized once it is available for use.

(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. 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:

(*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. 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.

(*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.

2. Significant accounting policies (continued):

(g) Financial instruments:

Financial instruments are recorded at fair value on initial recognition. Financial instruments are subsequently recorded at cost or amortized cost, unless management has elected to carry the instruments at fair value.

Financial assets are assessed for impairment on an annual basis at the end of the fiscal year if there are indicators of impairment. If there is an indicator of impairment, the Association determines if there is a significant adverse change in the expected amount or timing of future cash flows from the financial asset. If there is a significant adverse change in the expected cash flows, the carrying value of the financial asset is reduced to the highest of the present value of the expected cash flows, the amount that could be realized from selling the financial asset or the amount the Association expects to realize by exercising its right to any collateral. If events and circumstances reverse in a future period, an impairment loss will be reversed to the extent of the improvement, not exceeding the initial carrying value.

(h) Measurement uncertainty:

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. Actual results could differ from those estimates.

3. Investments:

	2021	2020
Term deposits GIC's	$ -	$ 162,767
Fixed income fund	-	57,302
Canadian equities fund	-	802,030
Foreign equities fund	-	135,888
	-	1,157,987
Less: short-term investments	-	355,956
Long-term investments	$ -	$ 802,031

4. Capital assets:

	Cost	Accumulated amortization	2021 Net book value	2020 Net book value
Land	$ 4,311,031	$ -	$ 4,311,031	$ 5,811,031
Buildings and leasehold improvements	45,335,421	(18,631,583)	26,703,838	30,089,481
Automobiles	208,661	(208,661)	-	20,443
Computer equipment and software	1,413,796	(1,228,917)	184,879	283,963
Furniture and equipment	4,998,512	(4,168,359)	830,153	1,059,584
	56,267,421	(24,237,520)	32,029,901	37,264,502
Hostel development planning and assets under construction	9,731	-	9,731	280
	$ 56,277,152	$(24,237,520)	$ 32,039,632	$ 37,264,782

5. Government remittances:

Included in accounts payable and accrued liabilities are government remittances payable of $32,329 (2020 - $77,141) relating to goods and services tax, tourism levies and Workers' Compensation Board.

6. Loans payable and credit facilities:

	2021	2020
Whistler mortgage (c)	$ 2,585,172	$ 2,789,092
1025 Granville Street Trust loan (d)	527,746	607,937
Jasper mortgage (e)	6,545,000	6,820,000
LLAC Canadian Emergency Business Account (f)	20,869	-
	9,678,787	10,217,029
Less: Current portion	970,883	563,341
	$ 8,707,904	$ 9,653,688

(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. As at March 31, 2021, the Organization has not utilized this facility.

6. Loans payable and credit facilities (continued):

(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. As at March 31, 2021, the joint venture has not utilized this facility.

(c) This mortgage includes two 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, maturing in 2023.

(d) The term loan for 1025 Granville Street Trust bears interest at 3.76% per annum, with blended monthly payments of $15,153, maturing in 2023.

(e) The swap loan for New Jasper bears swap rate of 2.12% for 15 years plus stamping fee of 1.41%, maturing on December 29, 2034.

(f) During the year ended March 31, 2021, the Association applied for and received $27,828 from the Government of Canada in relation to the Canadian Emergency Business Account ("CEBA"), which was intended to provide capital to organizations to assist during COVID-19. The loan is unsecured and bears no interest to December 31, 2022. If the loan is repaid by December 31, 2022, $6,957 of the loan will be forgiven. If the loan is not repaid by December 31, 2022, the loan will bear interest at 5% per annum, with interest payments being payable until the full principal is repaid, with the loan maturing on December 31, 2025.

The forgivable portion of the loan of $6,957 (2020 - nil) is recognised against hostel expenses in the combined statement of operations and changes in net assets.

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 above three loans noted in (c) (d) and (e) are subject to certain restrictive financial and non-financial covenants. As at March 31, 2021, the Association was in compliance with these covenants.

6. Loans payable and credit facilities (continued):

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:

2022	$ 970,883
2023	1,028,030
2024	1,050,414
2025	893,930
Thereafter	5,735,530
	$ 9,678,787

7. Deferred contributions:

	2021	2020
Balance, beginning of year	$ 45,043	$ 69,152
Contributions received during the year	56,318	75,134
Contributions utilized for capital projects during the year	(25,906)	(99,243)
Balance, end of year	$ 75,455	$ 45,043

8. Deferred capital contributions:

	2021	2020
Balance, beginning of year	$ 693,300	$ 748,243
Amortization during the year	(53,448)	(54,943)
Balance, end of year	$ 639,852	$ 693,300

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:

2022	$ 99,900
2023	70,893
2024	6,552
2025	6,552
Thereafter	15,156
	$ 199,053

(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 Association paid $137,172 (2020 - $245,377) in respect of the levy 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. Related party transaction:

During the year, the Association provided management services for $78,750 (2020 - $78,750) to the CAC joint venture.

These transactions have been measured at the exchange amount as agreed to by the related parties and are in the normal course of operations. The Association's proportionate share of the management services fee provided to the CAC joint venture has been eliminated in the preparation of these combined financial statements.

11. Financial risks:

(a) Credit risk:

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. The Association's main credit risks relate to its accounts receivable.

The Association continuously reviews the financial situation of its members. The Association establishes allowances for doubtful accounts while keeping in mind the specific credit risk of clients, their historic tendencies and economic situation.

(b) Interest rate risk:

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Association is exposed to interest rate risk on its fixed and floating interest rate financial instruments. Fixed-rate instruments subject the Association to a fair value risk while the floating-rate instruments subject it to a cash flow risk. The Association does not use derivative financial instruments to alter the effects of this risk.

(c) Currency risk:

The Association realizes some of its revenues and purchases in foreign currencies. Consequently, it is exposed to fluctuations of these currencies. As at March 31, 2021, assets include a cash balance of $142,390 (2020 - $524,772) in US dollars.

12. Investment in joint ventures:

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:

	2021	2020
Assets:		
Current assets	$ 732,649	$ 1,145,988
Capital assets	1,981,621	1,992,553
	$ 2,714,270	$ 3,138,541
Liabilities and Net Assets:		
Accounts payable and other current liabilities	$ 121,717	$ 88,691
Deferred contributions	265,178	279,134
Net assets	2,327,375	2,770,716
	$ 2,714,270	$ 3,138,541

12. Investment in joint ventures (continued):

	2021	2020
Revenue	$ 634,222	$ 1,972,052
Excess (deficiency) of revenue over expenses	$ (53,780)	$ 328,670
Cash flows provided by operating	$ 50,161	$ 344,940
Cash flows used in financing	(354,807)	(69,565)
Cash flows used in investing	(107,444)	(47,012)

12. Subsequent event:

Subsequent to year-end, the Association listed its Regina hostel for sale for a value in excess of its carrying value. The Association has not reclassified the asset as held for sale as a formal plan of sale did not exist at March 31, 2021.