Fairmont Vacation Villas at Mountainside

Financial Statements

December 31, 2016

Contents

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Independent Auditor's Report

To the Leaseholders of
Fairmont Vacation Villas at Mountainside

We have audited the accompanying financial statements of Fairmont Vacation Villas at Mountainside, which comprise the statement of financial position as at December 31, 2016, and the statements of operations and changes in fund balances, and cash flows for the year then ended, and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Basis For Qualified Opinion

The organization has modified the basis on which they calculate the allowance for doubtful accounts from the method that they have employed in prior years. Management has not provided for an allowance on current accounts receivable from leaseholders that have been assessed in the current year and not yet collected at the report date. Because these amounts remain unpaid at the report date, we were unable to obtain sufficient appropriate audit evidence about the valuation of the accounts receivable from leaseholders. Consequently we were unable to determine whether any adjustments might be necessary to bad debt expense and excess of revenue over expense for the year ended December 31, 2016 and to accounts receivable and net assets as of December 31, 2016.

Opinion

In our opinion, except for the possible effects of the matter described in the Basis for Qualified Opinion paragraph, the financial statements present fairly, in all material respects, the financial position of Fairmont Vacation Villas at Mountainside as at December 31, 2016 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.

BDO Canada LLP

Chartered Professional Accountants

Cranbrook, BC
May 16, 2017

Fairmont Vacation Villas at Mountainside
Statement of Financial Position

December 31	2016	2015
Assets		
Current		
Cash (Note 2)	**$ 187,474**	$ 321,550
Accounts receivable (Note 3)	**328,787**	229,509
Inventory	**125,435**	125,315
Prepaid expenses	**64,617**	75,681
Replacement reserve investments (Note 4)	**610,683**	591,343
	1,316,996	1,343,398
Capital assets (Note 5)	**66,226**	30,565
	$ 1,383,222	$ 1,373,963
Liabilities and Net Deficit		
Liabilities		
Accounts payable and accrued liabilities (Note 6)	**$ 299,808**	$ 309,479
Deposits	**13,290**	12,299
Prepaid leaseholders' fees	**644,289**	557,426
Replacement reserve (Note 7)	**567,589**	618,122
	1,524,976	1,497,326
Net deficit	**(141,754)**	(123,363)
	$ 1,383,222	$ 1,373,963

Approved on behalf of the Manager:

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

Fairmont Vacation Villas at Mountainside
Statement of Operations and Changes in Fund Balances

For the year ended December 31	2016	2015
Revenues		
Operating and management fees	**$ 3,240,808**	$ 3,144,472
Replacement reserve contributions (Note 7)	**733,266**	659,812
Interest	**61,226**	71,245
Rental commissions	**81,199**	53,375
Recreation centre	**10,222**	13,262
Other	**130,225**	89,654
Gain on sale of assets	**1,000**	-
	4,257,946	4,031,820
Expenses		
Salaries and wages	**1,569,932**	1,515,873
Replacement reserve expenses (Note 7)	**733,266**	659,812
Electricity	**325,954**	282,941
Repairs and maintenance	**170,561**	133,345
Supplies and cleaning services	**148,704**	138,958
Waste disposal and water	**141,842**	111,148
Provision for doubtful accounts	**143,144**	165,629
Insurance	**91,895**	93,292
Bank charges and interest	**75,161**	69,555
Propane and fireplace wood	**67,236**	77,891
Property taxes	**55,473**	62,398
Office and data processing support	**47,471**	41,714
Automotive	**44,171**	29,323
Miscellaneous	**38,095**	72,721
Trustee fees	**32,559**	12,780
Audit and legal	**30,500**	21,334
Cable television	**28,072**	22,179
Amortization	**10,800**	10,370
Postage	**7,793**	5,328
Telephone	**4,514**	3,773
Communications with leaseholders	**445**	3,396
	3,767,588	3,533,760
Management fees	**508,749**	496,175
	4,276,337	4,029,935
Excess (deficiency) of revenues over expenses (Note 8)	**(18,391)**	1,885
Net deficit, beginning of year	**(123,363)**	(125,248)
Net deficit, end of year	**$ (141,754)**	$ (123,363)

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

Fairmont Vacation Villas at Mountainside
Statement of Cash Flows

For the year ended December 31	2016	2015
Cash flows from operating activities		
Cash receipts from leaseholders	**$ 4,123,608**	$ 4,161,119
Interest received	**82,175**	88,594
Cash paid to employees and suppliers	**(4,278,260)**	(4,093,865)
	(72,477)	155,848
Cash flows from investing activities		
Purchase of long-term investments (Note 4)	**(17,139)**	(15,921)
Purchase of property, plant and equipment	**(45,460)**	(1,926)
Proceeds from disposal of capital assets	**1,000**	-
	(61,599)	(17,847)
Net increase in cash	**(134,076)**	138,001
Cash, beginning of year	**321,550**	183,549
Cash, end of year	**$ 187,474**	$ 321,550

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

1. Summary of Significant Accounting Policies

Nature Organization

Fairmont Vacation Villas at Mountainside is a not-for-profit entity, with the excess of revenue (expenses) for the year being credited to (recoverable from) leaseholders for inclusion in the next year's revenue (expenses). The Organization's principal business is the management of the leased villas.

Basis of Accounting

The financial statements have been prepared using Canadian accounting standards for not-for-profit organizations (ASNPO).

Fund Accounting

The Organization follows the deferral method of accounting for contributions.

The General Fund accounts for the Organization's management and administrative activities. This fund reports unrestricted resources in addition to capital assets.

The Replacement Reserve reports only restricted resources that have been designated for specific purposes or programs.

Financial Instruments

Financial instruments are recorded at fair value when acquired or issued. In subsequent periods, equities traded in an active market and derivatives are reported at fair value, with any unrealized gains and losses reported in operations. All bonds have been designated to be in the fair value category, with gains and losses reported in the replacement reserve. All other financial assets are tested for impairment when changes in circumstances indicate the asset could be impaired. Transaction costs on the acquisition, sale or issue of financial instruments are expensed for those items remeasured at fair value at each statement of financial position date.

Capital Assets

Purchased capital assets are stated at cost less accumulated amortization. Amortization is provided under the straight-line basis at the following rates:

Office equipment	20%
Maintenance equipment	20%
Recreation equipment	20%
Automotive equipment	20%
Maintenance building	5%

December 31, 2016

1. Summary of Significant Accounting Policies (continued)

Revenue Recognition

Fees are invoiced to the leaseholders yearly and are recognized as revenue on a calendar-year basis. Interest income is recognized on an accrual basis, and other revenue is recognized as rental commissions are earned, goods are sold, or services are provided.

Replacement reserve revenue is recognized as the related expenses are incurred.

Income Taxes

Fairmont Vacation Villas at Mountainside is a not-for-profit organization under the Income Tax Act and therefore is not subject to either federal or provincial income taxes.

Use of Estimates

The preparation of financial statements in accordance with Canadian generally accepted accounting principles for not-for-profit organizations requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from management's best estimates as additional information becomes available in the future.

2. Cash

The Organization maintains its cash balances in several financial institutions in British Columbia. The Canada Deposit Insurance Corporation (CDIC) insures each of these accounts up to $100,000. The aggregate funds held in each institution may exceed the CDIC insured limit from time to time and specific funds held by each institution may not be covered by CDIC insurance. Management does not anticipate any material effect on the financial position of the Organization as a result of these concentrations.

3. Accounts Receivable

	2016	2015
Related parties (Note 9)	**$ -**	$ 1,291
Due from leaseholders	**304,053**	252,353
Provision for doubtful accounts	**-**	(50,000)
GST receivable	**13,833**	9,276
Other receivables	**10,900**	16,589
	$ 328,786	$ 229,509

4. Replacement Reserve Investments

During the year the Organization's investment cashed in all federal, provincial and corporate bonds and invested the proceeds in a mutual fund with RBC Investments.

During the year a fair value adjustment of $2,201 was recorded. This non-cash transaction resulted in a increase to the replacement reserve investments and the replacement reserve.

5. Capital Assets

	2016		2015	
	Cost	**Accumulated Amortization**	Cost	Accumulated Amortization
Office equipment	**$ 117,238**	**$ 86,111**	$ 107,403	$ 84,298
Maintenance equipment	**106,762**	**104,586**	106,762	99,302
Recreation equipment	**30,560**	**28,643**	28,431	28,431
Automotive equipment	**103,575**	**72,569**	94,185	94,185
Maintenance building	**12,545**	**12,545**	12,545	12,545
	$ 370,680	**$ 304,454**	$ 349,326	$ 318,761
Net book value		**$ 66,226**		$ 30,565

6. Accounts Payable and Accrued Liabilities

Included in accounts payable and accrued liabilities is $22,068 (2015 - $11,482) in government remittances payable.

7. Replacement Revenue

	2016	2015
Revenues		
Annual fees transferred	**$ 659,583**	$ 659,583
Income earned	**20,949**	17,349
Unrealized gain (loss)	**2,201**	(1,123)
	682,733	675,809
Expenses		
Appliances/BBQ's/electronics	**37,172**	74,098
Beds/linens/window coverings	**20,291**	30,363
Renovations/flooring/furniture	**355,439**	248,533
Roofing and decking	**83,650**	102,458
Painting	**115,682**	80,450
Recreation centre	**2,481**	733
Labour	**118,372**	121,821
Interest and management fees	**179**	1,356
	733,266	659,812
Excess (deficiency) of revenues over expenses	**(50,533)**	15,997
Replacement reserve, beginning of year	**618,122**	602,125
Replacement reserve, end of year	**$ 567,589**	$ 618,122

The replacement reserve is funded through the funds received from leaseholders and income earned on investments.

8. Excess (Deficiency) of Revenues Over Expenses

The excess (deficiency) of revenues over expenses for the year is credited to (recoverable from) leaseholders for inclusion in the next year's revenues (expenses).

9. Related Party Transactions

The Organization is related to Fairmont Financial Services Ltd., the manager of the villas, and to Fairmont Hot Springs Resort Ltd., the developer and lessor of the villas.

a) At the end of the year, amounts due from and to related parties included in accounts receivable and accounts payable are as follows:

	2016	2015
Due (to)/from related parties		
Fairmont Hot Springs Resort Ltd.	**$ (1,871)**	$ (74)

Management has concluded that it is not practical to determine the fair value of related party loans as there is no comparable market data.

b) The following table summarized the Organization's transactions with related parties:

	2016	2015
Amounts paid to related parties		
Fairmont Financial Services Ltd. - management fees	**$ 508,749**	$ 496,175
Amounts received from related parties		
Fairmont Hot Springs Resort Ltd. - leaseholder fees	**$ 16,611**	$ 35,978

These transactions are in the normal course of operations and are measured at the exchange amount (the amount of consideration established and agreed to by the related parties).

10. Financial Instruments

Credit Risk

The Organization is exposed to normal credit risk resulting from the possibility that a customer or counterparty to a financial instrument defaults on their financial obligations; if there is a concentration of transactions carried out with the same counterparty; or of financial obligations which have similar economic characteristics such that they could be similarly affected by changes in economic conditions. The Organization's financial instruments that are exposed to concentrations of credit risk relate primarily to accounts receivable.

11. Measurement Uncertainty and Estimates

The preparation of financial statements in conformity with ASNPO requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

The measurement uncertainties and assumptions which may be material are the adequacy of the provision of doubtful accounts and the classification of leaseholders' fees receivable as a current asset, which is dependent upon the timing of collection of those receivables.

Don S

W.H. Dupont.