Fairmont Vacation Villas at Mountainside

Financial Statements

December 31, 2015

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, 2015, 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 audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Fairmont Vacation Villas at Mountainside as at December 31, 2015 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
March 25, 2016

Fairmont Vacation Villas at Mountainside
Statement of Financial Position

December 31		2015		2014
Assets				
Current				
Cash (Note 2)	$	321,650	$	183,549
Accounts receivable (Note 3)		229,609		397,086
Inventory		125,316		122,071
Prepaid expenses		75,681		88,097
Replacement reserve investments (Note 4)		591,343		576,545
		1,343,398		1,367,348
Capital assets (Note 5)		30,565		39,010
	$	1,373,963	$	1,406,358

Liabilities and Net Deficit				
Liabilities				
Accounts payable and accrued liabilities (Note 6)	$	309,479	$	376,559
Deposits		12,299		-
Prepaid leaseholders' fees		557,426		552,922
Replacement reserve (Note 7)		618,122		602,125
		1,497,326		1,531,606
Net deficit		(123,363)		(125,248)
	$	1,373,963	$	1,406,358

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	2015	2014
Revenues		
Operating and management fees	$ 3,144,472	$ 3,067,307
Replacement reserve contributions (Note 7)	659,812	614,066
Interest	71,245	82,801
Rental commissions	53,375	46,896
Recreation centre	13,262	6,288
Other	89,654	69,500
	4,031,820	3,886,858
Expenses		
Salaries and wages	1,515,873	1,432,474
Replacement reserve expenses (Note 7)	659,812	614,066
Electricity	282,941	315,834
Provision for doubtful accounts	165,629	172,000
Supplies and cleaning services	138,958	128,449
Repairs and maintenance	133,345	149,838
Waste disposal and water	111,148	112,089
Insurance	93,292	89,612
Propane and fireplace wood	77,891	95,624
Miscellaneous	72,721	21,302
Bank charges and interest	69,555	63,430
Property taxes	62,398	63,075
Office and data processing support	41,714	37,582
Automotive	29,323	37,985
Cable television	22,179	18,020
Audit and legal	21,334	17,396
Trustee fees	12,780	16,089
Amortization	10,370	13,293
Postage	5,328	8,151
Communications with leaseholders	3,396	5,152
Telephone	3,773	3,596
	3,533,760	3,415,057
Management fees	496,175	486,114
	4,029,935	3,901,171
Excess (deficiency) of revenues over expenses (Note 8)	1,885	(14,313)
Net deficit, beginning of year	(125,248)	(110,935)
Net deficit, end of year	$ (123,363)	$ (125,248)

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	2015	2014
Cash flows from operating activities		
Cash receipts from leaseholders	$ 4,161,119	$ 3,767,365
Interest received	88,594	101,467
Cash paid to employees and suppliers	(4,093,865)	(3,792,708)
	155,848	76,124
Cash flows from investing activities		
Purchase of long-term investments (Note 4)	(15,921)	(13,950)
Purchase of property, plant and equipment	(1,926)	(30,553)
	(17,847)	(44,503)
Net increase in cash	138,001	31,621
Cash, beginning of year	183,549	151,928
Cash, end of year	$ 321,550	$ 183,549

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

December 31, 2015

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%

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

	2015	2014
Related parties (Note 9)	$ 1,291	$ 22,182
Due from leaseholders	252,353	730,494
Provision for doubtful accounts	(50,000)	(484,862)
GST receivable	9,276	6,056
Other receivables	16,589	123,216
	$ 229,509	$ 397,086

4. Replacement Reserve Investments

The Organization's investment in bonds is comprised of a variety of federal, provincial and corporate bonds with stated interest rates ranging from 2.65% to 5.96% (2014 - 2.65% to 5.96%) and maturity dates ranging from 2016 to 2024.

During the year a fair value adjustment of $(1,123) was recorded. This non-cash transaction resulted in a decrease to the replacement reserve investments and the replacement reserve.

5. Capital Assets

	2015		2014	
	Cost	Accumulated Amortization	Cost	Accumulated Amortization
Office equipment	$ 107,403	$ 84,298	$ 105,477	$ 80,758
Maintenance equipment	106,762	99,302	106,762	92,471
Recreation equipment	28,431	28,431	28,431	28,431
Automotive equipment	94,185	94,185	94,185	94,185
Maintenance building	12,545	12,545	12,545	12,545
	$ 349,326	$ 318,761	$ 347,400	$ 308,390
Net book value		$ 30,565		$ 39,010

6. Accounts Payable and Accrued Liabilities

Included in accounts payable and accrued liabilities is $2,634 (2014 - $29,619) in government remittances payable.

7. Replacement Revenue

	2015	2014
Revenues		
Annual fees transferred	$ 659,583	$ 659,742
Interest earned	17,349	18,666
Unrealized gain (loss)	(1,123)	14,587
	675,809	692,995
Expenses		
Appliances/BBQ's/electronics	74,098	31,900
Beds/linens/window coverings	30,363	32,367
Renovations/flooring/furniture	248,533	236,405
Roofing and decking	102,458	37,636
Painting	80,450	75,265
Recreation centre	733	74,154
Labour	121,821	121,962
Interest and management fees	1,356	4,377
	659,812	614,066
Excess (deficiency) of revenues over expenses	15,997	78,929
Replacement reserve, beginning of year	602,125	523,196
Replacement reserve, end of year	$ 618,122	$ 602,125

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:

	2015	2014
Due from related parties		
Fairmont Hot Springs Resort Ltd.	$ 1,291	$ 22,182

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:

	2015	2014
Amounts paid to related parties		
Fairmont Financial Services Ltd. - management fees	$ 496,175	$ 486,114
Amounts received from related parties		
Fairmont Hot Springs Resort Ltd. - leaseholder fees	$ 35,978	$ 39,475

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.