

Fairmont Vacation Villas at Mountainside
Financial Statements
December 31, 2017

Contents

Independent Auditor's Report	2
Financial Statements	
Statement of Financial Position	3
Statement of Operations and Changes in Fund Balances	4
Statement of Cash Flows	5
Notes to Financial Statements	6 - 11



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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, 2017, 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

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, 2017 and to accounts receivable and net assets as of December 31, 2017.

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, 2017 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 7, 2018


**Fairmont Vacation Villas at Mountainside
Statement of Financial Position**


December 31	2017	2016
Assets		
Current		
Cash (Note 2)	\$ 197,773	\$ 187,474
Accounts receivable (Note 3)	475,845	328,787
Inventory	138,283	125,435
Prepaid expenses	26,990	64,617
Replacement reserve investments (Note 4)	635,125	610,683
	1,474,016	1,316,996
Capital assets (Note 5)	86,767	66,226
	\$ 1,560,783	\$ 1,383,222

Liabilities and Net Deficit

Liabilities		
Accounts payable and accrued liabilities (Note 6)	\$ 333,293	\$ 299,808
Deposits	31,516	13,290
Prepaid leaseholders' fees	663,936	644,289
Replacement reserve (Note 7)	608,068	567,589
	1,636,813	1,524,976
Net deficit	(76,030)	(141,754)
	\$ 1,560,783	\$ 1,383,222

Approved on behalf of the Manager:





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

For the year ended December 31	2017	2016
Revenues		
Operating and management fees	\$ 3,380,385	\$ 3,240,808
Replacement reserve contributions (Note 7)	659,509	733,266
Interest	64,203	61,226
Rental commissions	86,101	81,199
Recreation centre	5,803	10,222
Other	113,896	130,225
Gain on sale of assets	-	1,000
	4,309,897	4,257,946
Expenses		
Salaries and wages	1,625,186	1,569,932
Replacement reserve expenses (Note 7)	659,509	733,266
Electricity	366,630	325,954
Waste disposal and water	158,590	141,842
Supplies and cleaning services	142,078	148,704
Repairs and maintenance	128,926	170,561
Provision for doubtful accounts	126,075	143,144
Insurance	87,974	91,895
Bank charges and interest	79,915	75,161
Propane and fireplace wood	70,676	67,236
Office and data processing support	66,802	47,471
Property taxes	52,778	55,473
Automotive	33,681	44,171
Cable television	29,472	28,072
Trustee fees	26,276	32,559
Audit and legal	17,500	30,500
Amortization	17,008	10,800
Miscellaneous	15,513	38,095
Postage	7,980	7,793
Telephone	4,407	4,514
Communications with leaseholders	-	445
	3,716,976	3,767,588
Management fees	527,197	508,749
	4,244,173	4,276,337
Excess (deficiency) of revenues over expenses (Note 8)	65,724	(18,391)
Net deficit, beginning of year	(141,754)	(123,363)
Net deficit, end of year	\$ (76,030)	\$ (141,754)

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	2017	2016
Cash flows from operating activities		
Cash receipts from leaseholders	\$ 4,144,098	\$ 4,123,608
Interest received	74,007	82,175
Cash paid to employees and suppliers	(4,160,453)	(4,278,260)
	<u>57,652</u>	<u>(72,477)</u>
Cash flows from investing activities		
Purchase of long-term investments (Note 4)	(9,804)	(17,139)
Purchase of property, plant and equipment	(37,549)	(45,460)
Proceeds from disposal of capital assets	-	1,000
	<u>(47,353)</u>	<u>(61,599)</u>
Net increase (decrease) in cash	10,299	(134,076)
Cash, beginning of year	187,474	321,550
Cash, end of year	\$ 197,773	\$ 187,474

Fairmont Vacation Villas at Mountainside Notes to Financial Statements

December 31, 2017

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	<p>The Organization follows the deferral method of accounting for contributions.</p> <p>The General Fund accounts for the Organization's management and administrative activities. This fund reports unrestricted resources in addition to capital assets.</p> <p>The Replacement Reserve reports only restricted resources that have been designated for specific purposes or programs.</p>										
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	<p>Purchased capital assets are stated at cost less accumulated amortization. Amortization is provided under the straight-line basis at the following rates:</p> <table><tr><td>Office equipment</td><td style="text-align: right;">20%</td></tr><tr><td>Maintenance equipment</td><td style="text-align: right;">20%</td></tr><tr><td>Recreation equipment</td><td style="text-align: right;">20%</td></tr><tr><td>Automotive equipment</td><td style="text-align: right;">20%</td></tr><tr><td>Maintenance building</td><td style="text-align: right;">5%</td></tr></table>	Office equipment	20%	Maintenance equipment	20%	Recreation equipment	20%	Automotive equipment	20%	Maintenance building	5%
Office equipment	20%										
Maintenance equipment	20%										
Recreation equipment	20%										
Automotive equipment	20%										
Maintenance building	5%										
Inventory	Inventory of retail centre and supplies inventory for housekeeping and maintenance are stated at the lower of cost and net realizable value.										

Fairmont Vacation Villas at Mountainside Notes to Financial Statements

December 31, 2017

1. Summary of Significant Accounting Policies (continued)

Revenue Recognition	<p>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.</p> <p>Replacement reserve revenue is recognized as the related expenses are incurred.</p>
Income Taxes	<p>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.</p>
Use of Estimates	<p>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.</p>

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

	<u>2017</u>	<u>2016</u>
Due from leaseholders	\$ 469,296	\$ 304,053
GST receivable	-	13,833
Other receivables	<u>6,549</u>	<u>10,901</u>
	<u>\$ 475,845</u>	<u>\$ 328,787</u>

Fairmont Vacation Villas at Mountainside Notes to Financial Statements

December 31, 2017

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 \$14,638 (2016 - \$2,201) was recorded. This non-cash transaction resulted in a increase to the replacement reserve investments and the replacement reserve.

5. Capital Assets

	2017		2016	
	Cost	Accumulated Amortization	Cost	Accumulated Amortization
Office equipment	\$ 129,952	\$ 89,815	\$ 117,238	\$ 86,111
Maintenance equipment	114,619	109,640	106,762	104,586
Recreation equipment	30,560	29,027	30,560	28,643
Automotive equipment	120,554	80,436	103,575	72,569
Maintenance building	12,545	12,545	12,545	12,545
	\$ 408,230	\$ 321,463	\$ 370,680	\$ 304,454
Net book value		\$ 86,767		\$ 66,226

6. Accounts Payable and Accrued Liabilities

Included in accounts payable and accrued liabilities is \$40,693 (2016 - \$22,068) in government remittances payable.

Fairmont Vacation Villas at Mountainside Notes to Financial Statements

December 31, 2017

7. Replacement Revenue

	2017	2016
Revenues		
Annual fees transferred	\$ 675,546	\$ 659,583
Income earned	9,804	20,949
Unrealized gain (loss)	14,638	2,201
	699,988	682,733
Expenses		
Appliances/BBQ's/electronics	17,912	37,172
Beds/linens/window coverings	32,352	20,291
Renovations/flooring/furniture	234,513	355,439
Roofing and decking	115,047	83,650
Painting	109,000	115,682
Recreation centre	19,873	2,481
Labour	130,812	118,372
Interest and management fees	-	179
	659,509	733,266
Excess (deficiency) of revenues over expenses	40,479	(50,533)
Replacement reserve, beginning of year	567,589	618,122
Replacement reserve, end of year	\$ 608,068	\$ 567,589

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).

Fairmont Vacation Villas at Mountainside Notes to Financial Statements

December 31, 2017

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:

	2017	2016
Due (to)/from related parties		
Fairmont Hot Springs Resort Ltd.	\$ (5,402)	\$ (1,871)

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:

	2017	2016
Amounts paid to related parties		
Fairmont Financial Services Ltd. - management fees	\$ 527,197	\$ 508,749
Amounts received from related parties		
Fairmont Hot Springs Resort Ltd. - leaseholder fees	\$ 46,790	\$ 16,661

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).

Fairmont Vacation Villas at Mountainside Notes to Financial Statements

December 31, 2017

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.