

Fairmont Vacation Villas at Mountainside
Financial Statements
December 31, 2018

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Independent Auditor's Report

To the Leaseholders of
Fairmont Vacation Villas at Mountainside

Qualified Opinion

We have audited the accompanying financial statements of Fairmont Vacation Villas at Mountainside (the Entity), which comprise the statement of financial position as at December 31, 2018, and the statements of operations, change in net assets and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, except for the possible effects of the matter described in the *Basis for Qualified Opinion* section of our report, the accompanying financial statements present fairly, in all material respects, the financial position of the Entity as at December 31, 2018, and its results of operations and its cash flows for the year then ended in accordance with Canadian accounting standards for not-for-profit organizations.

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, 2018 and to accounts receivable and net assets as of December 31, 2018.

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 Financial Statements* section of our 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 ethical 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 qualified audit opinion.

Responsibilities of Management and Those Charged with Governance 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.

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.

Independent Auditor's Report (continued)

Auditor's 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 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 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 auditor's 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 auditor's 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.

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.

BDO Canada LLP

Chartered Professional Accountants

Cranbrook, BC
April 25, 2019

Fairmont Vacation Villas at Mountainside Statement of Financial Position

December 31 2018 2017

Assets

Current

Cash (Note 2)	\$ 217,131	\$ 197,773
Accounts receivable (Note 3)	694,550	475,845
Inventory	113,297	138,283
Prepaid expenses	25,069	26,990
Replacement reserve investments (Note 4)	431,687	635,125
	<u>1,481,734</u>	<u>1,474,016</u>

Capital assets (Note 5)

84,353	86,767
<u>\$ 1,566,087</u>	<u>\$ 1,560,783</u>

Liabilities and Net Deficit


Liabilities

Accounts payable and accrued liabilities (Note 6)	\$ 327,296	\$ 333,293
Deposits	36,449	31,516
Prepaid leaseholders' fees	615,099	663,936
Replacement reserve (Note 7)	628,114	608,068
	<u>1,606,958</u>	<u>1,636,813</u>

Net deficit

(40,871)	(76,030)
<u>\$ 1,566,087</u>	<u>\$ 1,560,783</u>

Approved on behalf of the Manager:



Kathy Gruve

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

For the year ended December 31	2018	2017
Revenues		
Operating and management fees	\$ 3,504,221	\$ 3,380,385
Replacement reserve contributions (Note 7)	660,459	659,509
Interest	71,031	64,203
Rental commissions	89,428	86,101
Recreation centre	4,958	5,803
Other	154,409	113,896
	4,484,506	4,309,897
Expenses		
Salaries and wages	1,693,092	1,625,186
Replacement reserve expenses (Note 7)	660,459	659,509
Electricity	374,855	366,630
Waste disposal and water	180,325	158,590
Repairs and maintenance	178,142	128,926
Provision for doubtful accounts	154,966	126,075
Supplies and cleaning services	131,582	142,078
Bank charges and interest	79,316	79,915
Propane and fireplace wood	76,433	70,676
Insurance	73,976	87,974
Office and data processing support	66,255	66,802
Property taxes	60,013	52,778
Automotive	45,309	33,681
Trustee fees	27,533	26,276
Cable television	27,063	29,472
Miscellaneous	23,721	15,513
Audit and legal	21,020	17,500
Amortization	19,022	17,008
Postage	6,290	7,980
Telephone	4,776	4,407
	3,904,148	3,716,976
Management fees	545,199	527,197
	4,449,347	4,244,173
Excess (deficiency) of revenues over expenses (Note 8)	35,159	65,724
Net deficit, beginning of year	(76,030)	(141,754)
Net deficit, end of year	\$ (40,871)	\$ (76,030)

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	2018	2017
Cash flows from operating activities		
Cash receipts from leaseholders	\$ 4,227,615	\$ 4,144,098
Interest received	83,948	74,007
Cash paid to employees and suppliers	(4,471,079)	(4,160,453)
	<u>(159,516)</u>	<u>57,652</u>
Cash flows from investing activities		
Proceeds from sale (purchases) of long-term investments (Note 4)	195,480	(9,804)
Purchase of property, plant and equipment	(16,606)	(37,549)
	<u>178,874</u>	<u>(47,353)</u>
Net increase (decrease) in cash	19,358	10,299
Cash, beginning of year	197,773	187,474
Cash, end of year	\$ 217,131	\$ 197,773

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

Fairmont Vacation Villas at Mountainside Notes to Financial Statements

December 31, 2018

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>20%</td></tr><tr><td>Maintenance equipment</td><td>20%</td></tr><tr><td>Recreation equipment</td><td>20%</td></tr><tr><td>Automotive equipment</td><td>20%</td></tr><tr><td>Maintenance building</td><td>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, 2018

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>2018</u>	<u>2017</u>
Due from leaseholders	\$ 655,640	\$ 469,083
GST receivable	30,589	-
Other receivables	8,321	6,762
	<u>\$ 694,550</u>	<u>\$ 475,845</u>

Fairmont Vacation Villas at Mountainside Notes to Financial Statements

December 31, 2018

4. Replacement Reserve Investments

The organization's is invested in a mutual fund with RBC Investments. During the year the organization withdrew \$200,000 from the investment

During the year a fair value adjustment of \$7,958 (2017 - \$14,638) was recorded. This non-cash transaction resulted in a decrease to the replacement reserve investments and the replacement reserve.

5. Capital Assets

	2018		2017	
	Cost	Accumulated Amortization	Cost	Accumulated Amortization
Office equipment	\$ 130,850	\$ 113,140	\$ 129,952	\$ 108,815
Maintenance equipment	129,914	96,964	114,619	90,640
Recreation equipment	30,973	29,375	30,560	29,027
Automotive equipment	120,554	88,459	120,554	80,436
Maintenance building	12,545	12,545	12,545	12,545
	\$ 424,836	\$ 340,483	\$ 408,230	\$ 321,463
Net book value		\$ 84,353		\$ 86,767

6. Accounts Payable and Accrued Liabilities

Included in accounts payable and accrued liabilities is \$8,303 (2017 - \$40,693) in government remittances payable.

Fairmont Vacation Villas at Mountainside Notes to Financial Statements

December 31, 2018

7. Replacement Revenue

	<u>2018</u>	<u>2017</u>
Revenues		
Annual fees transferred	\$ 675,546	\$ 675,546
Income earned	12,917	9,804
Unrealized gain (loss)	<u>(7,958)</u>	<u>14,638</u>
	680,505	699,988
Expenses		
Appliances/BBQ's/electronics	10,271	17,912
Beds/linens/window coverings	13,646	32,352
Renovations/flooring/furniture	326,105	234,513
Roofing and decking	89,335	115,047
Painting	94,310	109,000
Recreation centre	5,506	19,873
Labour	<u>121,286</u>	<u>130,812</u>
	660,459	659,509
Excess of revenues over expenses	20,046	40,479
Replacement reserve, beginning of year	<u>608,068</u>	<u>567,589</u>
Replacement reserve, end of year	<u>\$ 628,114</u>	<u>\$ 608,068</u>

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, 2018

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:

	<u>2018</u>	<u>2017</u>
Due (to)/from related parties		
Fairmont Hot Springs Resort Ltd.	\$ (13,779)	\$ (5,402)

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:

	<u>2018</u>	<u>2017</u>
Amounts paid to related parties		
Fairmont Financial Services Ltd. - management fees	\$ 545,199	\$ 527,197
Amounts received from related parties		
Fairmont Hot Springs Resort Ltd. - leaseholder fees	\$ 80,899	\$ 46,790

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, 2018

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.