Fairmont Vacation Villas at Mountainside

Financial Statements

December 31, 2020

Contents

Tel: 250 426 4285
Fax: 250 426 8886
Toll-Free: 800 993 9913
www.bdo.ca

BDO Canada LLP
35 10th Avenue South
Cranbrook, BC V1C 2M9 Canada

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, 2020, 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, 2020 , 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, 2020 and to accounts receivable and net assets as of December 31, 2020.

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
May 5, 2021

Fairmont Vacation Villas at Mountainside
Statement of Financial Position

December 31		2020		2019
Assets				
Current				
Cash (Note 2)	**$**	**214,247**	$	74,679
Accounts receivable (Note 3)		**1,310,203**		1,039,517
Inventory		**85,158**		111,711
Prepaid expenses		**26,107**		25,914
Replacement reserve investments (Note 4)		**703,827**		365,574
		2,339,542		1,617,395
Capital assets (Note 5)		**93,436**		90,386
	$	**2,432,978**	$	1,707,781

Liabilities and Net Surplus				
Liabilities				
Accounts payable and accrued liabilities (Note 6)	**$**	**224,696**	$	295,134
Deposits		**22,292**		27,408
Prepaid leaseholders' fees		**385,248**		593,190
Replacement reserve (Note 7)		**983,741**		786,839
		1,615,977		1,702,571
Net surplus		**817,001**		5,210
	$	**2,432,978**	$	1,707,781

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	2020	2019
Revenues		
Operating and management fees	$ 3,865,279	$ 3,725,601
Replacement reserve contributions (Note 7)	459,217	500,429
Interest	40,963	87,870
Rental commissions	60,594	86,558
Recreation centre	3,598	5,614
Other	197,746	139,346
Subsidy income	468,259	-
Loss on sale of assets	-	(494)
	5,095,656	4,544,924
Expenses		
Salaries and wages	1,686,440	1,823,053
Replacement reserve expenses (Note 7)	459,217	500,429
Electricity	338,958	377,511
Provision for doubtful accounts	310,913	217,899
Waste disposal and water	167,538	162,438
Insurance	100,802	100,802
Supplies and cleaning services	95,088	148,110
Bank charges and interest	85,479	83,369
Repairs and maintenance	66,253	117,275
Office and data processing support	64,194	46,799
Property taxes	63,977	60,609
Propane and fireplace wood	59,283	89,289
Trustee fees	57,407	27,939
Automotive	44,223	43,358
Cable television	27,929	29,456
Amortization	20,429	19,414
Audit and legal	18,973	50,717
Miscellaneous	13,958	19,579
Telephone	9,627	6,320
Postage	8,629	8,145
	3,699,317	3,932,511
Management fees	584,548	566,332
	4,283,865	4,498,843
Excess of revenues over expenses (Note 8)	811,791	46,081
Net surplus (deficit), beginning of year	5,210	(40,871)
Net surplus, end of year	$ 817,001	$ 5,210

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	2020	2019
Cash flows from operating activities		
Cash receipts from leaseholders	**$ 4,747,911**	$ 4,153,019
Interest received	**48,653**	105,386
Cash paid to employees and suppliers	**(4,333,557)**	(4,475,763)
	463,007	(217,358)
Cash flows from investing activities		
Purchase (purchases) of long-term investments (Note 4)	**(300,000)**	100,000
Purchase of property, plant and equipment	**(23,439)**	(25,394)
Proceeds from disposal of capital assets	**-**	300
	(323,439)	74,906
Net increase (decrease) in cash	**139,568**	(142,452)
Cash, beginning of year	**74,679**	217,131
Cash, end of year	**$ 214,247**	$ 74,679

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%

Inventory

Inventory of retail centre and supplies inventory for housekeeping and maintenance are stated at the lower of cost and net realizable value.

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, unconditional subisdies are received, 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

	2020	2019
Due from leaseholders	**$ 1,426,110**	$ 1,176,856
Provision for doubtful accounts	**(197,492)**	(197,492)
GST receivable	**63,329**	36,506
Other receivables	**18,256**	23,647
	$ 1,310,203	$ 1,039,517

4. Replacement Reserve Investments

The organization is invested in a mutual fund with RBC Investments. During the year the organization deposited $300,000 (2019 - $300,000) and withdrew nil (2019 - $200,000) from the investment.

During the year a fair value adjustment of $30,563 (2019 - $25,252) was recorded. This non-cash transaction resulted in a increase to the replacement reserve investments and the replacement reserve.

5. Capital Assets

		2020		2019
	Cost	**Accumulated Amortization**	Cost	Accumulated Amortization
Office equipment	**$ 131,699**	**$ 119,728**	$ 131,699	$ 116,776
Maintenance equipment	**155,779**	**114,422**	147,026	105,177
Recreation equipment	**38,372**	**32,022**	38,372	30,434
Automotive equipment	**135,240**	**101,482**	120,554	94,878
Maintenance building	**12,545**	**12,545**	12,545	12,545
	$ 473,635	**$ 380,199**	$ 450,196	$ 359,810
Net book value		**$ 93,436**		$ 90,386

6. Accounts Payable and Accrued Liabilities

Included in accounts payable and accrued liabilities is $3,533 (2019 - $8,649) in government remittances payable.

December 31, 2020

7. Replacement Revenue

		2020	2019
Revenues			
Annual fees transferred		$ **616,386**	$ 616,386
Income earned		**9,170**	17,516
Unrealized gain		**30,563**	25,252
		656,119	659,154
Expenses			
Appliances/BBQ's/electronics		**23,006**	24,903
Beds/linens/window coverings		**4,800**	22,286
Renovations/flooring/furniture		**185,968**	134,807
Roofing and decking		**60,073**	110,398
Painting		**46,693**	36,634
Recreation centre		**11,519**	47,439
Labour		**127,158**	123,962
		459,217	500,429
Excess of revenues over expenses		**196,902**	158,725
Replacement reserve, beginning of year		**786,839**	628,114
Replacement reserve, end of year		$ **983,741**	$ 786,839

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). Given the uncertainty relating to the current pandemic (Note 12), management is intending to utilize the surplus resulting from the Canadian Emergency Wage Subsidy to fund any lost revenues or increased expenses.

December 31, 2020

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:

	2020	2019
Due (to)/from related parties		
Fairmont Hot Springs Resort Ltd.	**$ 88,138**	$ (2,686)
Fairmont Financial Services Ltd.	**(38,271)**	-
	$ 49,867	$ (2,686)

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:

	2020	2019
Amounts paid to related parties		
Fairmont Financial Services Ltd. - management fees	**$ 584,548**	$ 566,332
Amounts received from related parties		
Fairmont Hot Springs Resort Ltd. - leaseholder fees	**$ 391,387**	$ 123,578

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.

12. Uncertainty Due to COVID-19

As the impact of COVID-19 in Canada and on the global economy continues, there could be further impact on the Organization, that could impact the timing and amounts realized on the Organization's assets and future ability to deliver services. At this time, the full potential impact of COVID-19 on the Organization is not known.

Although the disruption from the virus is expected to be temporary, given the dynamic nature of these circumstances, the duration of disruption and the related financial impact cannot be reasonably estimated at this time. The Organization will continue to focus on collecting owners' fees, managing expenditures, and leveraging existing operations to ensure it is able to continue to provide its services.

13. Comparative Figures

Certain comparative figures have been restated to conform to current year's presentation.