BDO

Tel: 250 426 4285
Fax: 250 426 8886
www.bdo.ca

BDO Canada LLP
35 - 10th Avenue S
Cranbrook BC V1C 2M9 Canada

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, 2013, and the statements of operations and changes in fund balances, and cash flows for the year then ended, and a summary of significant accounting policies 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, 2013 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 Accountants

Cranbrook, BC
February 14, 2014

Fairmont Vacation Villas at Mountainside
Statement of Financial Position

December 31	2013	2012
Assets		
Current		
Cash (Note 2)	**$ 151,928**	$ 81,949
Accounts receivable (Note 3)	**295,364**	253,523
Inventory	**129,581**	108,657
Prepaid expenses	**87,315**	62,370
Replacement reserve investments (Note 4)	**548,008**	548,655
	1,212,196	1,055,154
Capital assets (Note 5)	**21,750**	30,569
	$ 1,233,946	$ 1,085,723
Liabilities and Net Deficit		
Liabilities		
Accounts payable and accrued liabilities (Note 6)	**$ 399,025**	$ 478,837
Bank advances	**-**	200,331
Prepaid leaseholders' fees	**422,660**	86,557
Replacement reserve (Note 7)	**523,196**	527,187
	1,344,881	1,292,912
Net deficit	**(110,935)**	(207,189)
	$ 1,233,946	$ 1,085,723

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	2013	2012
Revenues		
Operating and management fees	$ 2,998,631	$ 2,790,007
Replacement reserve contributions (Note 7)	520,444	421,368
Interest	90,654	75,006
Rental commissions	50,469	43,940
Recreation centre	286	7,523
Other	57,505	53,005
Loss on sale of assets	-	(648)
	3,717,989	3,390,201
Expenses		
Salaries and wages	1,444,166	1,383,193
Replacement reserve expenses (Note 7)	520,444	421,368
Electricity	296,601	261,219
Repairs and maintenance	139,279	117,262
Supplies and cleaning services	129,319	112,960
Waste disposal and water	111,469	108,959
Provision for doubtful accounts	88,917	66,207
Propane and fireplace wood	80,690	62,651
Property taxes	65,519	64,062
Bank charges and interest	63,414	66,855
Insurance	62,572	64,735
Automotive	32,916	31,943
Office and data processing support	32,022	29,818
Trustee fees	18,217	15,675
Audit and legal	16,385	25,658
Cable television	15,982	14,606
Amortization	15,073	17,286
Miscellaneous	14,255	15,360
Postage	7,744	4,221
Communications with leaseholders	6,423	13,110
Telephone	2,461	5,731
	3,163,868	2,902,879
Management fees	457,867	430,624
	3,621,735	3,333,503
Excess of revenues over expenses (Note 8)	96,254	56,698
Net deficit, beginning of year	(207,189)	(263,887)
Net deficit, end of year	$ (110,935)	$ (207,189)

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

Fairmont Villa Management
MOUNTAINSIDE

5247 Fairmont Creek Road
Fairmont Hot Springs, B.C. V0B 1L1
Phone: (250) 345-6341
Fax: (250) 345-6299
Email: info@mountainsidevillas.com
Website: www.mountainsidevillas.com

INTERVAL INTERNATIONAL
PREMIER
MEMBER RESORT

Dear Villa Owner,

March 1, 2014

Financial Statements for 2013

I am pleased to enclose our audited annual financial statements for the year ending December 31, 2013.
We will finish and close the year over budget and carry forward a deficit into the 2013 operating expenses. The budget was sent to all owners last November and is available on our website in the fall newsletter. We were pleased to be able to hold our maintenance fees approximately equal to 2013 for 2014.
Expenditures over budget were repairs and maintenance at the recreation centre ($26,195.00). In the spring of 2013 we installed a new energy efficient boiler system to heat the hot tubs and the showers in the change rooms. The next items are our utilities ($41,394.00). BC Hydro announced a new rate structure that will increase hydro by 15% over the next 3 years and the price of propane has steadily increased by 70% since January of 2013. It seems like our consumption savings are swallowed up by the rate increases. The last item is the reserve for bad debts ($63,916.00). Although this is an increase in our operating expenses the amount currently ($304,000.00) is held in a reserve account for future use.
We did manage to sell another 52 weeks to one owner as an investment. The proceeds from that sale was credited to our accounts receivable. We think that this is a good way to reduce receivables and provide a unique lifestyle for the owner. These Villas can be used for a permanent residence or as an investment. If you have any interest please call David at 1-855-345-6341 or e mail at info@mountainsidevillas.com. We still have a number of leases available in single weeks. Fairmont Hot Springs Resort, the developer, is continuing to sell Interval points and leases to perpetuity. They are about to announce a new program that I am sure will have some appeal to a great number of owners.
Replacement / refurbishment expenditure in 2013 were less than collections and we now have an accumulated reserve of $548,077.00. We are pleased to report that after 36 years of management, we have never had to present a special assessment to our members for additional funds to cover refurbishing costs, and plan to be able to continue this excellent record. Another notable item is that the Mountainside Villa maintenance fees are one of the lowest in the Rocky Mountain Region of Interval International.
I trust that you find the financial results for 2013 satisfactory.
Again, I wish to extend my thanks and appreciation to your Villa Management team for doing an outstanding job of retaining the highest quality rating in the industry at a moderate cost. We would welcome any suggestions you may have to control costs and improve your vacation experience at Mountainside.

Wishing you the very best in the coming year, I remain,

Yours truly,

Don Seable
President

Fairmont Vacation Villas at Mountainside
Statement of Cash Flows

For the year ended December 31	2013	2012
Cash flows from operating activities		
Cash receipts from leaseholders	$ 3,628,787	$ 3,372,473
Interest received	110,490	96,067
Cash paid to employees and suppliers	(3,448,249)	(3,339,481)
Interest paid	-	(1,446)
	291,028	127,613
Cash flows from investing activities		
Purchase of long-term investments (Note 4)	(14,464)	(14,206)
Purchase of property, plant and equipment	(6,254)	(10,990)
	(20,718)	(25,196)
Cash flows from financing activities		
Repayment of bank advances	(200,331)	(75,417)
Net increase in cash	69,979	27,000
Cash, beginning of period	81,949	54,949
Cash, end of period	$ 151,928	$ 81,949

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

	2013	2012
Related parties (Note 9)	$ 8,308	$ 105,967
Due from leaseholders	565,501	308,951
Provision for doubtful accounts	(300,567)	(200,055)
GST receivable	10,192	32,853
Other receivables	11,930	5,807
	$ 295,364	$ 253,523

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% (2012 - 2.65% to 6.28%) and maturity dates ranging from 2014 to 2023.

During the year a fair value adjustment of $15,111 was recorded. This non-cash transaction resulted in a decrease to the replacement reserve investments and the replacement reserve.

5. Capital Assets

	2013		2012	
	Cost	Accumulated Amortization	Cost	Accumulated Amortization
Office equipment	$ 115,368	$ 103,057	$ 112,434	$ 98,504
Maintenance equipment	81,087	73,688	81,087	70,567
Recreation equipment	28,431	28,431	28,431	28,431
Automotive equipment	94,185	92,145	99,538	93,419
Maintenance building	12,545	12,545	12,545	12,545
	$ 331,616	$ 309,866	$ 334,035	$ 303,466
Net book value		$ 21,750		$ 30,569

6. Accounts Payable and Accrued Liabilities

Included in accounts payable and accrued liabilities is $30,005 (2012 - $23,755) in government remittances payable.

7. Replacement Revenue

	2013	2012
Revenues		
Annual fees transferred	$ 511,728	$ 511,683
Interest earned	19,836	21,061
Unrealized gain (loss)	(15,111)	26,703
	516,453	559,447
Expenses		
Appliances/BBQ's/electronics	34,086	48,819
Beds/linens/window coverings	47,108	32,898
Renovations/flooring/furniture	194,147	148,826
Roofing and decking	85,057	33,978
Painting	55,840	43,650
Recreation centre	425	14,421
Labour	98,593	92,245
Interest and management fees	5,188	6,531
	520,444	421,368
Excess (deficiency) of revenues over expenses	(3,991)	138,079
Replacement reserve, beginning of year	527,187	389,108
Replacement reserve, end of year	$ 523,196	$ 527,187

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:

	2013	2012
Due from related parties		
Fairmont Hot Springs Resort Ltd.	$ 8,308	$ 7,709
Fairmont Financial Services Ltd.	-	98,258
	$ 8,308	$ 105,967
Due to related parties		
Fairmont Financial Services Ltd.	$ -	$ 33,774

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 related party transactions with related parties:

	2013	2012
Amounts paid to related parties		
Fairmont Financial Services Ltd. - management fees	$ 457,867	$ 430,624
Amounts received from related parties		
Fairmont Hot Springs Resort Ltd. - leaseholder fees	$ 32,115	$ 48,199
Fairmont Financial Services Ltd. - leaseholder fees	25,000	98,258
	$ 57,115	$ 146,457

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.