Fairmont Vacation Villas at Mountainside

Financial Statements

December 31, 2014

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, 2014, 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.

Basis For Qualified Opinion

The organization has modified the basis on which they calculate the allowance for doubtful accounts from the method that they have employed in prior years. Management has not provided for an allowance on current owners accounts receivable that have been assessed in the current year and not yet collected at the yearend date. If management had followed an allowance methodology similar to that of prior years, they have estimated that they would have provided for an additional bad debt allowance in an approximate amount of $75,000. Accordingly accounts receivable would have been reduced by $75,000, allowance for doubtful accounts, excess (deficiency) of revenues over expenses and net deficit would have all increased by $75,000.

Qualified Opinion

In our opinion, except for the 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, 2014 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 18, 2015

Fairmont Vacation Villas at Mountainside
Statement of Financial Position

December 31		2014		2013
Assets				
Current				
Cash (Note 2)	$	183,549	$	151,928
Accounts receivable (Note 3)		397,086		295,364
Inventory		122,071		129,581
Prepaid expenses		88,097		87,315
Replacement reserve investments (Note 4)		576,545		548,008
		1,367,348		1,212,196
Capital assets (Note 5)		39,010		21,750
	$	1,406,358	$	1,233,946

Liabilities and Net Deficit				
Liabilities				
Accounts payable and accrued liabilities (Note 6)	$	376,559	$	399,025
Prepaid leaseholders' fees		552,922		422,660
Replacement reserve (Note 7)		602,125		523,196
		1,531,606		1,344,881
Net deficit		(125,248)		(110,935)
	$	1,406,358	$	1,233,946

Approved on behalf of the Manager:

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D. A. Dupont

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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		2014		2013
Revenues				
Operating and management fees	**$**	**3,067,307**	$	2,998,631
Replacement reserve contributions (Note 7)		**614,066**		520,444
Interest		**82,801**		90,654
Rental commissions		**46,896**		50,469
Recreation centre		**6,288**		286
Other		**69,500**		57,505
		3,886,858		3,717,989
Expenses				
Salaries and wages		**1,432,474**		1,444,166
Replacement reserve expenses (Note 7)		**614,066**		520,444
Electricity		**315,834**		296,601
Provision for doubtful accounts		**172,000**		88,917
Repairs and maintenance		**149,838**		139,279
Supplies and cleaning services		**128,449**		129,319
Waste disposal and water		**112,089**		111,469
Propane and fireplace wood		**95,624**		80,690
Insurance		**89,612**		62,572
Bank charges and interest		**63,430**		63,414
Property taxes		**63,075**		65,519
Automotive		**37,985**		32,916
Office and data processing support		**37,582**		32,022
Miscellaneous		**21,302**		14,255
Cable television		**18,020**		15,982
Audit and legal		**17,396**		16,385
Trustee fees		**16,089**		18,217
Amortization		**13,293**		15,073
Postage		**8,151**		7,744
Communications with leaseholders		**5,152**		6,423
Telephone		**3,596**		2,461
		3,415,057		3,163,868
Management fees		**486,114**		457,867
		3,901,171		3,621,735
Excess (deficiency) of revenues over expenses (Note 8)		**(14,313)**		96,254
Net deficit, beginning of year		**(110,935)**		(207,189)
Net deficit, end of year	**$**	**(125,248)**	$	(110,935)

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	2014	2013
Cash flows from operating activities		
Cash receipts from leaseholders	**$ 3,767,365**	$ 3,608,660
Interest received	**101,467**	110,490
Cash paid to employees and suppliers	**(3,792,708)**	(3,428,122)
	76,124	291,028
Cash flows from investing activities		
Purchase of long-term investments (Note 4)	**(13,950)**	(14,464)
Purchase of property, plant and equipment	**(30,553)**	(6,254)
	(44,503)	(20,718)
Cash flows from financing activities		
Repayment of bank advances	**-**	(200,331)
Net increase in cash	**31,621**	69,979
Cash, beginning of year	**151,928**	81,949
Cash, end of year	**$ 183,549**	$ 151,928

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

Fairmont Vacation Villas at Mountainside
Notes to Financial Statements

December 31, 2014

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%

December 31, 2014

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

	2014	2013
Related parties (Note 9)	**$ 22,182**	$ 8,308
Due from leaseholders	**730,494**	565,501
Provision for doubtful accounts	**(484,862)**	(300,567)
GST receivable	**6,056**	10,192
Other receivables	**123,216**	11,930
	$ 397,086	$ 295,364

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% (2013 - 2.65% to 5.96%) and maturity dates ranging from 2015 to 2023.

During the year a fair value adjustment of $14,587 was recorded. This non-cash transaction resulted in a increase to the replacement reserve investments and the replacement reserve.

5. Capital Assets

	2014		**2013**	
	Cost	**Accumulated Amortization**	Cost	Accumulated Amortization
Office equipment	**$ 105,477**	**$ 80,758**	$ 115,368	$ 103,057
Maintenance equipment	**106,762**	**92,471**	81,087	73,688
Recreation equipment	**28,431**	**28,431**	28,431	28,431
Automotive equipment	**94,185**	**94,185**	94,185	92,145
Maintenance building	**12,545**	**12,545**	12,545	12,545
	$ 347,400	**$ 308,390**	$ 331,616	$ 309,866
Net book value		**$ 39,010**		$ 21,750

6. Accounts Payable and Accrued Liabilities

Included in accounts payable and accrued liabilities is $29,619 (2013 - $30,005) in government remittances payable.

7. Replacement Revenue

	2014	2013
Revenues		
Annual fees transferred	**$ 659,742**	$ 511,728
Interest earned	**18,666**	19,836
Unrealized gain (loss)	**14,587**	(15,111)
	692,995	516,453
Expenses		
Appliances/BBQ's/electronics	**31,900**	34,086
Beds/linens/window coverings	**32,367**	47,108
Renovations/flooring/furniture	**236,405**	194,147
Roofing and decking	**37,636**	85,057
Painting	**75,265**	55,840
Recreation centre	**74,154**	425
Labour	**121,962**	98,593
Interest and management fees	**4,377**	5,188
	614,066	520,444
Excess (deficiency) of revenues over expenses	**78,929**	(3,991)
Replacement reserve, beginning of year	**523,196**	527,187
Replacement reserve, end of year	**$ 602,125**	$ 523,196

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:

	2014	2013
Due from related parties		
Fairmont Hot Springs Resort Ltd.	**$ 22,182**	$ 8,308

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:

	2014	2013
Amounts paid to related parties		
Fairmont Financial Services Ltd. - management fees	**$ 486,114**	$ 457,867
Amounts received from related parties		
Fairmont Hot Springs Resort Ltd. - leaseholder fees	**$ 39,475**	$ 32,115
Fairmont Financial Services Ltd. - leaseholder fees	**-**	25,000
	$ 39,475	$ 57,115

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.