

# **Club Intrawest**

Consolidated Financial Statements  
**December 31, 2015**



April 28, 2016

## **Independent Auditor's Report**

### **To the Members of Club Intrawest**

We have audited the accompanying consolidated financial statements of Club Intrawest and its subsidiaries, which comprise the consolidated balance sheet as at December 31, 2015 and the consolidated statements of revenue and expenses and changes in fund balances and cash flows for the year then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

#### **Management's responsibility for the consolidated financial statements**

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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**Opinion**

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Club Intrawest and its subsidiaries as at December 31, 2015 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.

*PricewaterhouseCoopers LLP*

**Chartered Professional Accountants**

**Club Intrawest**  
Consolidated Balance Sheet  
As at December 31, 2015

	2015 \$	2014 \$
<b>Assets</b>		
<b>Current assets</b>		
Cash and cash equivalents	28,658,098	31,976,700
Restricted cash	20,606,741	10,235,659
Investments	771,248	5,650,628
Accounts receivable	4,657,907	4,778,988
Other receivables	89,161	120,408
Income taxes receivable	-	349,176
Prepaid expenses	416,592	786,480
	<u>55,199,747</u>	<u>53,898,039</u>
<b>Deposits</b>	74,778	62,680
<b>Future income tax asset</b>	110,229	72,907
<b>Long-term investments</b>	<u>12,031,364</u>	<u>6,291,971</u>
	<u>67,416,118</u>	<u>60,325,597</u>
<b>Liabilities</b>		
<b>Current liabilities</b>		
Unearned resort fees (note 4)	33,807,289	32,050,541
Accounts payable and accrued liabilities	12,541,525	11,325,163
Due to related party (note 5)	1,107,718	1,117,715
	<u>47,456,532</u>	<u>44,493,419</u>
<b>Long-term unearned resort fees</b>	<u>159,958</u>	<u>122,884</u>
	<u>47,616,490</u>	<u>44,616,303</u>
<b>Members' Equity</b>		
<b>Operating Fund</b>	1,905,581	717,088
<b>Capital Fund</b>	<u>17,894,047</u>	<u>14,992,206</u>
	<u>19,799,628</u>	<u>15,709,294</u>
	<u>67,416,118</u>	<u>60,325,597</u>
<b>Contingencies</b> (note 8)		
<b>Subsequent event</b> (note 9)		

**Approved by the Board of Directors**



Director



Director

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

# Club Intrawest

## Consolidated Statement of Revenue and Expenses and Changes in Fund Balances For the year ended December 31, 2015

	2015			2014
	Operating Fund \$	Capital Fund \$	Total \$	Total \$
<b>Revenue</b>				
Resort fees paid by members	26,770,846	5,119,289	31,890,135	30,730,306
Getaway fees	543,026	-	543,026	499,759
Other revenue	889,513	-	889,513	575,796
Developer resort fee	1,182,602	226,214	1,408,816	1,353,688
Interest income	471,519	351,701	823,220	706,623
Unrealized loss on holding of investments	(9,144)	(148,987)	(158,131)	(83,182)
Realized loss on sale of investments	(1,105)	(20,225)	(21,330)	(32,700)
Foreign exchange gain	1,753,950	2,873,185	4,627,135	1,904,041
	31,601,207	8,401,177	40,002,384	35,654,331
<b>Expenses</b>				
Capital expenditures	-	4,936,737	4,936,737	4,395,085
Cleaning and security	611,702	-	611,702	546,788
Front desk and concierge	2,691,827	-	2,691,827	2,496,566
General and administration	10,684,963	-	10,684,963	10,689,783
Housekeeping	5,759,705	-	5,759,705	5,414,681
Income tax recovery	(40,385)	-	(40,385)	(265,717)
Maintenance	3,527,689	-	3,527,689	3,576,240
Management fee (note 5)	3,438,011	562,599	4,000,610	3,913,962
Property taxes	1,347,652	-	1,347,652	1,219,335
Utilities	2,391,550	-	2,391,550	2,518,167
	30,412,714	5,499,336	35,912,050	34,504,890
<b>Excess of revenue over expenses for the year</b>	1,188,493	2,901,841	4,090,334	1,149,441
<b>Fund balances - Beginning of year</b>	717,088	14,992,206	15,709,294	14,559,853
<b>Fund balances - End of year</b>	1,905,581	17,894,047	19,799,628	15,709,294

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

# Club Intrawest

## Consolidated Statement of Cash Flows

For the year ended December 31, 2015

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	2015 \$	2014 \$
<b>Cash flows from operating activities</b>		
Excess of revenue over expenses for the year	4,090,334	1,149,441
Items not affecting cash		
Unrealized foreign exchange	(3,919,801)	1,215,731
Unrealized loss on holding of investments	158,131	(83,182)
Income tax recovery	349,176	-
Future income taxes	(37,322)	(72,907)
Realized loss on sale of investments	(21,330)	(32,700)
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	619,188	2,176,383
Changes in non-cash working capital items		
Accounts receivable	276,771	(391,950)
Other receivables	31,249	(64,376)
Income taxes receivable	-	710,856
Prepaid expenses and other assets/liabilities	357,789	(268,822)
Unearned resort fees	1,693,414	1,639,677
Accounts payable and accrued liabilities	1,216,361	1,149,474
Due from/to related party	(15,709)	(808,191)
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	4,179,063	4,143,051
<b>Cash flows from financing activities</b>		
Net increase in restricted cash	(9,388,173)	(224,414)
<b>Cash flows from investing activities</b>		
Net increase (decrease) in investments	1,890,508	(1,865,932)
<b>(Decrease) increase in cash and cash equivalents</b>	(3,318,602)	2,052,705
<b>Cash and cash equivalents - Beginning of year</b>	31,976,700	29,923,995
<b>Cash and cash equivalents - End of year</b>	<hr/>	<hr/>
	28,658,098	31,976,700

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

# Club Intrawest

## Notes to Consolidated Financial Statements

December 31, 2015

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### 1 Nature of operations

Club Intrawest (the Club) is a non-stock, non-profit company organized and existing under the laws of the State of Delaware, United States of America. The Club issues points to Intrawest ULC in return for whole or partial interest in real estate units that are directly transferred to a trust and held for the sole beneficial interest of the members who purchase points. The Club was established to provide a vacation program for the benefit of persons owning resort points sold by Intrawest ULC entitling them to reserve the occupancy of certain resort accommodation.

As agent of the members, the Club reimburses the manager (Intrawest ULC) for expenses incurred. These costs are proportionately recovered from members as resort fees. The Club, as agent of the members, also earns incidental revenue in the form of getaway fees and other revenue. These financial statements include the operating assets and liabilities and operating revenue and expenses of the Club.

The members' assets, including real estate and equipment at Club locations, are held in trust by Computershare Trust Company of Canada, FNTC American Holding Corp., FNTC America Ltd., City National Bank, N.A., and Deutsche Bank Mexico, S.A. for the Club members who are the beneficial owners of the assets. Accordingly, the cost of the real estate and equipment at Club locations is not included in these financial statements.

At certain Club locations, the Club's facilities and those adjacent properties owned by Intrawest ULC are operated on a common management basis. Accordingly, certain costs and revenues must be allocated between the Club and Intrawest ULC.

At December 31, 2015, the trusts held the following real estate and related equipment and fixtures:

Location	Number of units	
	2015	2014
Whistler	114	114
Tremblant	53	53
Panorama	22	22
Blue Mountain	62	62
Vancouver	29	29
Palm Desert	66	66
Sandestin	59	59
Mexico		
Whole units	54	54
728 weeks in 15 units (equivalent)	15	15
Ucluelet	10	10
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	484	484

# Club Intrawest

## Notes to Consolidated Financial Statements

December 31, 2015

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### 2 Significant accounting policies

#### **Basis of presentation**

The consolidated financial statements have been prepared in Canadian dollars in accordance with Canadian accounting standards for not-for-profit organizations (ASNPO) as issued by the Canadian Accounting Standards Board.

#### **Principles of consolidation**

These consolidated financial statements include the accounts of the Club and its wholly owned subsidiaries, Club Intrawest Mexico SRL and Club Intrawest Mexico LLC. These companies were formed for the purpose of carrying on business in Mexico.

#### **Revenue recognition**

##### *Operating Fund*

The Club follows the deferral method of accounting for fees in the Operating Fund. Fees received in advance for services are accounted for using the deferral method, whereby such amounts are deferred and recorded as income in the period in which the service is provided.

##### *Capital Fund*

The Club follows the restricted fund method of accounting for fees in the Capital Fund. Resort fees for capital activities are recorded as income in the period in which the fee is assessed. Capital fees received prior to the assessment year are deferred.

#### **Cash and cash equivalents**

Cash and cash equivalents comprise cash in the bank and highly liquid investments having maturities of three months or less at the acquisition date.

#### **Restricted cash**

The balance is subject to internally and externally imposed restrictions. Internal restrictions relate to the Investment Reserve accounts. The Club holds bonds with maturities of less than one year from the balance sheet date that carry cash balances which cannot be withdrawn for operating purposes. Investments are held with custodian National Financial Services LLC, a single member limited liability company wholly owned by Fidelity Global Brokerage Group, Inc., a wholly owned subsidiary of FMR LLC, and managed by The Rainier Group Inc.



# **Club Intrawest**

## **Notes to Consolidated Financial Statements**

**December 31, 2015**

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### **Current investments**

Current investments comprise highly liquid investments with maturities of less than one year from the balance sheet date, as well as bond securities.

### **Foreign currency translation**

The Club's foreign operations are considered to be integrated. Accordingly, monetary items are translated at the rates of exchange in effect at the balance sheet date, and non-monetary items are translated at historical exchange rates. Revenues and expenses are translated at the average rate of exchange in effect during the period in which they occur. Gains and losses on translation of monetary items are included in the consolidated statement of revenue and expenses and changes in fund balances.

### **Use of estimates**

The preparation of consolidated financial statements in accordance with ASNPO requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those reported.

### **Income taxes**

Future income taxes are provided for using the future income taxes liability method. Under this method, future income taxes are recognized for all significant temporary differences between tax and financial statement bases of assets, liabilities and certain carry-forward items. Future income tax assets are recognized only to the extent that, in the opinion of management, it is more likely than not that they will be realized. Future income tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment or substantive enactment.

### **Financial instruments**

Cash and cash equivalents are valued at fair value at each year-end based on the most recent bid prices, and transaction costs are expensed as incurred.

Investments are measured at fair value on the consolidated balance sheet with changes in fair value recorded in the consolidated statement of revenue and expenses.

Accounts receivable and other receivables are classified as loans and receivables, and are measured at amortized cost.

Financial assets are tested for impairment at the end of each reporting period when there are indications that the assets may be impaired.

Liabilities are classified as other financial liabilities and measured at amortized cost.

# Club Intrawest

## Notes to Consolidated Financial Statements

December 31, 2015

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### 3 Change in estimate

During 2011, the Club changed its tax treatment of accruals for goods and services tax (GST)/harmonized sales tax (HST). The revenues collected and the expenses accrued related to GST/HST are now treated as capital items for tax as any excess of revenue over expense upon settlement will remain in the Capital Fund.

### 4 Unearned resort fees

Included in the total unearned resort fees for 2015 is \$5,281,262 of capital resort fees that pertain to 2015 fee assessments (2014 - \$5,131,292).

### 5 Related party balances and transactions

Intrawest ULC, the developer of the resort properties, provides management services to the Club. A management fee is charged at 15% (Whistler, Tremblant) and 10% (Palm Desert, Blue Mountain, Panorama, Vancouver, Sandestin, Mexico and Ucluelet) of expenses and incidental revenues, excluding revenues and expenses for third party services, and revenue from getaway fees. Revenue and expenses recorded by the Vancouver Office are charged at 15%. Revenue and expenses from third party services are subject to a 5% management fee. The management fee for the current year is \$4,000,610 (2014 - \$3,913,962).

At December 31, 2015, 155,251 of 4,151,643 points (2014 - 162,859 of 4,306,894) were held by Intrawest ULC for future sale. During the year, resort fees of \$1,408,816 (2014 - \$1,353,687) related to points held by Intrawest ULC were charged to Intrawest ULC, of which \$226,214 related to contributions to the Capital Fund (2014 - \$219,839).

At December 31, 2015, \$107,718 (2014 - \$1,117,715) was due to Intrawest ULC and its subsidiaries.

Traner Smith & Company, PLLC, a certified public accountant firm, provides tax services to the Club. Kenneth Smith, a shareholder of Traner Smith & Company, PLLC, is also a current director on the Club's Board of Directors. The tax services fee for the current year occurred in the normal course of business and is recorded at the exchange amount of \$19,519 (2014 - \$16,846).

# Club Intrawest

## Notes to Consolidated Financial Statements

December 31, 2015

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### 6 Financial instruments

#### Fair values

The Club's financial instruments consist of cash and cash equivalents, accounts receivable, other receivables and accounts payable and accrued liabilities. The estimated fair values of these financial instruments approximate their carrying values due to the short-term nature of the accounts. Investments are measured at fair market value.

#### Interest rate, credit and currency risks

The Club is exposed to currency risk on certain balances, including accounts payable and accrued liabilities and accounts receivable, which are denominated in US dollars and Mexican pesos. The Club manages currency risk by holding funds in the same currency as expected expenses and entering into forward contracts to purchase currencies to match expenses.

The Club is exposed to credit risk on its investments in government and corporate bond securities. The Club manages credit risk by only investing in securities with a credit rating of at least A by at least one rating agency. The overall portfolio in the reserve fund will have a minimum A credit rating and the overall portfolio in the Operating Fund will have a minimum AA credit rating.

It is management's opinion that the Club is not exposed to significant interest rate or credit risk arising from these financial instruments.

### 7 Government remittances

Government remittances consist of amounts (such as property taxes, sales taxes and payroll withholding taxes) required to be paid to government authorities and are recognized when the amounts become due. The government remittance amounts other than sales taxes for 2015 and 2014 are in a receivable position resulting in no payable amounts at year-end.

Certain additional amounts have been accrued in the consolidated financial statements related to the GST payable (note 8). These amounts are currently in dispute and final amounts are being negotiated with the Canada Revenue Agency (CRA).

# **Club Intrawest**

## Notes to Consolidated Financial Statements

**December 31, 2015**

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### **8 Contingencies**

In 2008, the Club received notification that the CRA was preparing an assessment for GST against the Club. The CRA stated that it intended to assess the Club for amounts billed to members as resort fees related to Canadian operations.

In 2010, the Club paid assessments from the CRA totalling \$1,939,464 relating to years 2002 - 2008. The funds required to make this payment were transferred from the Capital Fund to the Operating Fund.

The Club has opposed and continues to oppose the CRA's position and has issued notices of objection on all assessments. The final outcome of this matter cannot be predicted with certainty, and therefore, there can be no assurance that its final resolution will be in favour of the Club.

### **9 Subsequent event**

On January 29, 2016, Diamond Resorts International completed its acquisition of Intrawest Resort Club Group from Intrawest Resort Holdings, Inc.

The purchase agreement included the assignment of the management agreement of Club Intrawest to the purchaser subject to certain conditions. Under the terms of the management agreement, this assignment was subject to the prior written consent of the Board of Directors of the Club. A special committee of the Board of Directors of Club Intrawest was formed, and after performing due diligence, gave their consent to the assignment. No other terms of the management agreement were changed.