



Financial Statements of

PARADISE ISLAND BEACH CLUB

Years ended December 31, 2012 and 2011

PARADISE ISLAND BEACH CLUB

Financial Statements

Years ended December 31, 2012 and 2011

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INDEPENDENT AUDITORS' REPORT

To the Members
Paradise Island Beach Club

We were engaged to audit the accompanying financial statements of Paradise Island Beach Club ("the Club"), which comprise the statements of financial position as at December 31, 2012 and 2011, the statements of income, changes in equity and cash flows for the years then ended, and notes, comprising 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 the accounting policies disclosed in notes 2 and 3, 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.

Auditors' responsibility

Our responsibility is to express an opinion on these financial statements based on conducting the audit in accordance with International Standards on Auditing. Because of the matters described in the Basis for Disclaimer of Opinion section of this report, however, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

Basis for disclaimer of opinion

- (a) We have not been able to substantiate all recorded balances as at January 1, 2011 or to determine if any other balances should have been recorded at that date, as we were not engaged to audit periods prior to that date, nor were such periods audited by other auditors.
- (b) We were not appointed as auditors of the Club until after December 31, 2012 and thus did not observe the physical counting of the mini-mart inventory at January 10, 2013. We were not able to satisfy ourselves by alternative means concerning the quantity of the mini-mart inventory held at December 31, 2012. Moreover, based on audit evidence available, we were unable to satisfy ourselves as to the completeness, accuracy and valuation of the mini-mart inventory recorded in the statement of financial position of \$83,531 and nil as of December 31, 2012 and 2011, respectively. Further, management has recorded the mini-mart inventory by crediting due to related parties with which accounting treatment we do not agree. No minimart inventory was recorded at December 31, 2011. Pool bar inventory has not been recorded at December 31, 2012.
- (c) For the years ended December 31, 2012 and 2011 the operations of the pool bar and mini-mart have not been recorded on a gross basis to properly reflect revenue, cost of sales and operating expenses in the statement of income but have instead been recorded via a series of



“intercompany” accounts on a net basis. Cash and cash equivalents and payables of \$13,686 and \$31,405 respectively, associated with the mini-mart are not recorded in the statement of financial position at December 31, 2012 and cash and cash equivalents and payables of \$4,713 and \$24,666 respectively, associated with the mini-mart are not recorded in the statement of financial position at December 31, 2011.

- (d) Management has determined a provision for bad debts relating to defaulted weeks and other receivables based on the estimated net realizable value of defaulted weeks taking into consideration the expected resale price less closing costs. In the absence of historical information to evaluate management’s assumptions regarding the timing and amount of such resales, we were unable to satisfy ourselves as to the adequacy of the provision for bad debts and any adjustments that might be necessary to bad debts expense.

As a result of the above matters, we were unable to determine the amount of the adjustments necessary in respect of the recorded or unrecorded amounts and disclosures in these financial statements.

Disclaimer of opinion

Because of the significance of the matters described in the Basis for Disclaimer of Opinion section above, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, we do not express an opinion on these financial statements.

December 19, 2013

PARADISE ISLAND BEACH CLUB

Statement of Financial Position

December 31, 2012 and 2011
(Expressed in Bahamian dollars)

	Note	2012	2011
Assets			
Current assets:			
Cash and cash equivalents	5, 20	\$ 1,117,091	1,190,175
Term deposits	5, 20	–	527,940
Accounts receivable	6, 20	548,187	361,932
Inventories	7	83,531	–
Prepayments		2,103	8,549
Total current assets		1,750,912	2,088,596
Non-current assets:			
Property and equipment, net	8	5,205	17,329
Total non-current assets		5,205	17,329
Total assets		\$ 1,756,117	2,105,925
Liabilities and equity			
Current liabilities			
Account payable and accrued expenses	9, 20	\$ 294,223	311,923
Due to related parties	18, 20	144,229	155,526
Total current liabilities		438,452	467,449
Non-current liabilities			
Tenant security deposits		–	500
Maintenance fees paid in advance	10	1,945,848	1,797,442
Total non-current liabilities		1,945,848	1,797,942
Equity			
Accumulated deficit	10	(496,789)	(604,082)
Replacement fund reserve (deficit)/surplus	10, 17	(131,394)	444,616
Total deficit		(628,183)	(159,466)
Commitments	19		
Total liabilities and equity		\$ 1,756,117	2,105,925

See accompanying notes to financial statements.

These financial statements were approved by the Management Committee on December 19, 2013 and signed on behalf of the Management Committee by:



Christopher E. Lightbourn
Nominated Member - Chairman



Scott R. Sieck
Elected Member

PARADISE ISLAND BEACH CLUB

Statement of Income

Years ended December 31, 2012 and 2011

(Expressed in Bahamian dollars)

	Note	2012	2011
Income			
Maintenance fees	10	\$ 2,123,000	2,005,970
Energy surcharge revenue	11	167,688	164,010
Credit card revenue	11	37,287	35,280
Food and beverage profit share		26,244	20,814
Interest income	5	27,214	29,100
Telephone revenue		4,030	7,750
Other income	19	85,618	109,499
Total income		2,471,081	2,372,423
Direct expenses			
Salaries	12	709,941	698,578
Utilities	13	483,123	484,411
Maintenance materials	14, 18	260,707	232,539
Contracted services	15	99,387	81,805
Other supplies and materials	16	99,643	157,003
Saturday reception party		66,300	68,563
Uniforms		2,367	1,090
Replacement of amenities		1,619	9,782
Total direct expenses		1,723,087	1,733,721
Operating profit		747,994	638,702
Indirect expenses			
Management fees	18	205,000	205,000
Licences and taxes		122,201	122,257
Insurance		119,891	111,330
Loss on disposal of property and equipment		55,942	—
Bank charges		42,616	38,844
Professional fees		39,266	25,786
Rent expense - welcome centre	19	39,140	39,140
Computer and IT services		30,514	29,547
Office supplies and expenses		22,157	22,190
Company vehicle		5,908	5,744
Travel and entertainment		5,542	4,251
Bad debt expense	6	56,495	150,756
Dues and subscriptions		—	587
Depreciation	8	6,029	12,090
Total indirect expenses		750,701	767,522
Net loss		\$ (2,707)	(128,820)

See accompanying notes to financial statements.

PARADISE ISLAND BEACH CLUB

Statement of Changes in Equity

Years ended December 31, 2012 and 2011

(Expressed in Bahamian dollars)

		Replacement Fund Reserve (Note 17)	Accumulated Deficit	Total
Balance at December 31, 2010	\$	306,869	(585,262)	(278,393)
Net loss for the year		—	(128,820)	(128,820)
Contributions from members (note 10)		506,000	110,000	616,000
Replacement fund expenditure (note 17)		(368,253)	—	(368,253)
Balance at December 31, 2011		444,616	(604,082)	(159,466)
Net loss for the year		—	(2,707)	(2,707)
Contributions from members (note 10)		506,000	110,000	616,000
Replacement fund expenditure (note 17)		(1,082,010)	—	(1,082,010)
Balance at December 31, 2012	\$	(131,394)	(496,789)	(628,183)

See accompanying notes to financial statements.

PARADISE ISLAND BEACH CLUB

Statement of Cash Flows

Years ended December 31, 2012 and 2011

(Expressed in Bahamian dollars)

	Note	2012	2011
Cash flows from operating activities			
Net loss for the year		\$ (2,707)	(128,820)
Adjustments:			
Depreciation	8	6,029	12,090
Bad debt expense	6	56,495	150,756
Loss on disposal of property and equipment		55,942	—
Net cash from operations before changes in working capital		115,759	34,026
Decrease/(increase) in term deposits		527,940	(22,392)
Increase in accounts receivable		(242,750)	(192,669)
Increase in inventories		(83,531)	—
Decrease in prepayments		6,446	10,995
(Decrease)/increase in accounts payable and accrued expenses		(17,700)	102,697
(Decrease)/increase in due to related parties		(11,297)	36,878
Increase in maintenance fees paid in advance		148,406	8,350
Decrease in tenant security deposit		(500)	—
Net cash provided by/(used in) operating activities		442,773	(22,115)
Cash flows from investing activities			
Additions to property and equipment	8	(49,847)	(18,434)
Net cash used in investing activities		(49,847)	(18,434)
Cash flows from financing activities			
Contributions from members to fund accumulated deficit	10	110,000	110,000
Contributions from members to replacement fund reserve	10, 17	506,000	506,000
Replacement fund expenditure	17	(1,082,010)	(368,253)
Net cash (used in)/provided by financing activities		(466,010)	247,747
Net (decrease)/increase in cash and cash equivalents		(73,084)	207,198
Cash and cash equivalents, beginning of year		1,190,175	982,977
Cash and cash equivalents, end of year	5	\$ 1,117,091	1,190,175

See accompanying notes to financial statements.

PARADISE ISLAND BEACH CLUB

Notes to Financial Statements

Years ended December 31, 2012 and 2011

(Expressed in Bahamian dollars)

1. General information

Paradise Island Beach Club ("the Club") is a forty-four unit timeshare resort located on Paradise Island, Bahamas which was developed in 1984 by Paradise Island Development Ltd. ("PIDL", or "Founder Member"). The Founder Member is a wholly owned subsidiary of Paradise Island Beach Club Limited ("PIBCL" or "Landlord") having its registered office at first floor, Cloughton House Shirley & Charlotte Street, Nassau, Bahamas.

The property on which the Club was developed was conveyed by PIDL to CIBC Trust to be held in trust until December 31, 2028 as assurance for purchasers of timeshare units that the property could not be encumbered. The term of the Trust was extended on two occasions until December 31, 2032 to accommodate a longer than anticipated sell-out. The trust was transferred from CIBC Trust to Butterfield Bank (Bahamas) Ltd. (formerly "Thorand Bank & Trust Ltd.") on June 2, 2003. At the end of the trust period, the property will revert to Landlord.

The Club is a non-profit-making entity whose object is to secure for the members joint rights of use of the timeshare units.

PIDL sold vacation certificates for each of the forty-four units which gave the purchaser/member the right to occupy a unit for one week per year (out of a possible fifty weeks) for a total of forty years. Each member is obligated to pay their annual member's dues prior to being allowed to make a reservation to occupy a unit.

Under the Constitution of the Club (hereinafter referred to as "the Constitution"), the affairs of the Club shall be managed by a Management Committee of 5 individuals, 3 of whom are nominated by the Founder Member and 2 shall be members of the Club. PIBC Management Ltd. ("PIBCML"), incorporated on September 27, 2007, was formed to provide management services to the Club under an agreement dated November 14, 2007. PIBCML has assigned its rights and obligations under this agreement to Timeshare Management Bahamas Limited ("TMBL") with effect from 2008. The Club also operates a mini-mart, restaurant and pool-bar, all of which are located on the premises of the Club. All relevant business and trade licences are in the name of PIBCML.

2. Basis of preparation

(a) *Statement of compliance*

These financial statements are prepared in accordance with the policies described below.

(b) *Basis of measurement*

These financial statements are prepared under the historical cost convention, except where otherwise disclosed.

(c) *Functional and presentation currency*

These financial statements are presented in Bahamian dollars which is the functional and reporting currency of the Club. The Bahamian dollar is the prime currency of the country where Club operates.

PARADISE ISLAND BEACH CLUB

Notes to Financial Statements

Years ended December 31, 2012 and 2011

(Expressed in Bahamian dollars)

2. Basis of preparation *(continued)*

(d) Use of estimates and judgement

The preparation of financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Information about critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the financial statements is included in the following notes:

Note 6	Accounts receivable
Note 7	Inventories
Note 8	Property and equipment, net
Note 20	Financial instruments and associated risks

3. Summary of significant accounting policies

Following is a summary of the significant accounting policies which have been applied consistently by the Club in preparing these financial statements.

(a) Financial instruments

Classification

Financial instruments include financial assets and financial liabilities. Financial assets that are classified as loans and receivables include cash held with banks, term deposits and accounts receivable. Financial liabilities that are not at fair value through profit or loss include accounts payable and accrued expenses and due to related parties.

Recognition

The Club recognizes financial instruments initially at the trade date, which is the date when it becomes a party to the contractual provisions of the instruments.

Measurement

Financial instruments are measured initially at fair value plus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

Transaction costs on financial assets and financial liabilities at fair value through profit or loss are expensed immediately, while on other financial instruments they are amortized.

PARADISE ISLAND BEACH CLUB

Notes to Financial Statements

Years ended December 31, 2012 and 2011

(Expressed in Bahamian dollars)

3. Summary of significant accounting policies *(continued)*

(a) Financial instruments (continued)

Measurement *(continued)*

Subsequent to initial recognition, financial assets and financial liabilities not at fair value through profit or loss are carried at amortized cost using the effective interest method, less in the case of financial assets, impairment losses, if any.

Derecognition

The Club derecognizes a financial asset when the contractual rights to cash flows from the financial asset expire or it transfers the financial asset.

The Club derecognizes a financial liability when the obligation specified in the contract is discharged, cancelled or expired.

(b) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, cash held with banks including term deposits having maturity of three months or less.

(c) Accounts receivable

Accounts receivable are stated at amortized cost net of allowance for doubtful accounts.

(d) Inventories

Inventories are stated at the lower of cost and net realizable value. Cost is determined using the FIFO method and includes expenditure incurred in acquiring the inventories, production costs and other costs incurred in bringing them to their existing location and condition. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

(e) Property and equipment

Items of property and equipment are carried at cost less accumulated depreciation and impairment losses.

Cost includes expenditure that is directly attributable to the acquisition of the asset.

When parts of an item of property and equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment.

The cost of replacing a part of an item of property and equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Club and its cost can be measured reliably. The carrying amount of the replaced part is derecognized. The costs of the day-to-day servicing of property and equipment are recognized in the statement of income as incurred.

Gains and losses on disposal of an item of property and equipment are determined by comparing the proceeds from disposal with the carrying amount of property and equipment, and are recognized in the statement of income.

PARADISE ISLAND BEACH CLUB

Notes to Financial Statements

Years ended December 31, 2012 and 2011

(Expressed in Bahamian dollars)

3. Summary of significant accounting policies *(continued)*

(e) Property and equipment (continued)

Depreciation is calculated on the depreciable amount, which is the cost of an asset, or other amounts substituted for cost, less its residual value.

Depreciation is recognized in the statement of income on a straight-line basis over the estimated useful lives of the items of property and equipment, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset.

The estimated depreciation rate of property and equipment are as follows:

Telephone equipment	40%
Computer equipment and software	25% - 50%

Depreciation methods, useful lives and residual values are reviewed at each reporting date and are adjusted, if appropriate.

(f) Impairment

Financial assets

Financial assets other than receivables, which are reviewed on a continuous basis, are assessed at each reporting date to determine whether there is any objective evidence of impairment. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

Financial assets are tested for impairment on an individual basis. All impairment losses are recognized in the statement of income.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognized.

Non-financial assets

The carrying amounts of the Club's non-financial assets other than inventories are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated.

An impairment loss is recognized if the carrying amount of the asset exceeds its estimated recoverable amount. The recoverable amount of an asset is the greater of its value in use and its fair value less costs to sell. Value in use represents the present value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life.

PARADISE ISLAND BEACH CLUB

Notes to Financial Statements

Years ended December 31, 2012 and 2011

(Expressed in Bahamian dollars)

3. Summary of significant accounting policies *(continued)*

(f) Impairment (continued)

Non-financial assets (continued)

Impairment losses are recognized in the statement of income.

Impairment losses recognized in prior periods are assessed at each reporting date for any indication that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined net of depreciation or amortization, if no impairment loss had been recognized.

(g) Short-term employee benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognized for the amount expected to be paid under short-term benefits if the Club has a present legal or constructive obligation to pay this amount as a result of past service provided by the employees and the obligation can be estimated reliably.

(h) Revenue recognition

Revenue is comprised primarily of members' annual maintenance, maid service revenue, electricity surcharge, telephone, credit card and internet revenue. Annual maintenance fees are billed in advance for the year in which they are due. Maintenance fees collected in advance are shown as maintenance fees paid in advance at the reporting date and recognized as revenue in the following year. Revenue is recognized when the services are provided and the good are delivered to guests.

(i) Interest income

Interest income is accrued on a daily basis using the effective interest rate method.

(j) Expenses

Expenses are recognized on the accrual basis.

(k) Foreign currencies

Transactions in foreign currencies are translated into Bahamian dollars at exchange rates prevailing on the transaction dates. Monetary assets and liabilities denominated in such currencies at the year-end date are translated at the rates prevailing at that date. Any differences arising on translation are recognized as exchange gains/losses in the statement of income.

PARADISE ISLAND BEACH CLUB

Notes to Financial Statements

Years ended December 31, 2012 and 2011

(Expressed in Bahamian dollars)

3. Summary of significant accounting policies *(continued)*

(l) Related parties

A related party is a person or entity that is related to the entity that is preparing its financial statements ("Reporting Entity").

(a) A person or a close member of that person's family is related to a Reporting Entity if that person:

- (i) has control or joint control over the Reporting Entity;
- (ii) has significant influence over the Reporting Entity; or
- (iii) is a member of the key management personnel of the Reporting Entity or of a parent of the Reporting Entity.

(b) An entity is related to a Reporting Entity if any of the following conditions applies:

- (i) The entity and the Reporting Entity are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
- (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
- (iii) Both entities are joint ventures of the same third party.
- (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
- (v) The entity is a post-employment benefit plan for the benefit of employees of either the Reporting Entity or an entity related to the Reporting Entity. If the Reporting Entity is itself such a plan, the sponsoring employers are also related to the Reporting Entity.
- (vi) The entity is controlled, or jointly controlled by a person identified in (a).
- (vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

(m) Provisions

Provisions are recognized when the Club has a present obligation (legal or constructive) as a result of a past event, it is probable that the Club will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation.

PARADISE ISLAND BEACH CLUB

Notes to Financial Statements

Years ended December 31, 2012 and 2011

(Expressed in Bahamian dollars)

3. Summary of significant accounting policies *(continued)*

(m) Provisions (continued)

Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows. When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

(n) Replacement fund reserve

The Management Committee has established a replacement fund for on-going capital improvements and to replace furniture, fixtures and equipment. The annual assessment is based on \$230 per unit week. Capital improvements, furniture, fixtures and equipment purchased using this fund are debited to the replacement reserve fund and are not capitalized.

(o) Accumulated deficit fund

The Management Committee has established a fund to reduce historical accumulated losses. The annual assessment is based on \$50 per unit week. Amounts billed to members are debited to the accumulated deficit.

(p) Annual maintenance fee and maintenance fee in advance

The Management Committee determines annual maintenance fee for members to contribute in order to support operations of the Club. These dues are received in advance and are recorded as maintenance fee in advance. Maintenance fee in advance is recorded as revenue in the year it relates to.

(q) Sale of re-possessed units

Under rule 8A of the Constitution, any and every vacation certificate forfeited to the Club for non-payment of dues shall be held by the Founder Member on behalf of the Club upon trust to subsequently sell the same. The Club will be the beneficiary of the net proceeds of sale of every such vacation certificate and the Founder Member shall be entitled to pay the usual commission to any person affecting such sale. The Founder Member will be entitled to let the premises to which such vacation certificate relates and the Club will be the beneficiary of the net proceeds of such lettings. The Club will be responsible for the annual dues in respect to all such vacation certificates.

Pursuant to this rule, annual dues of such certificates are debited to the Founder Member account and net sale proceeds (after commission and other charges) and net proceeds from letting the unsold vacation certificates are credited to the Founder Member account.

PARADISE ISLAND BEACH CLUB

Notes to Financial Statements

Years ended December 31, 2012 and 2011

(Expressed in Bahamian dollars)

4. Critical accounting judgements and key sources of estimation uncertainty

Certain amounts included in or affecting the Club's financial statements and related disclosures must be estimated, requiring the Club's management to make assumptions with respect to values or conditions which cannot be known with certainty at the time the financial statements are prepared. A "critical accounting estimate" is one which is both important to the portrayal of the Club's financial condition and results, and requires management's most difficult, subjective or complex judgements, often as a result of the need to make estimates about the effect of matters that are inherently uncertain.

5. Cash and bank balances

	2012	2011
Cash on hand	\$ 2,000	2,000
Cash held with banks	1,115,091	1,188,175
Cash and cash equivalents	1,117,091	1,190,175
Term deposits (having maturity over 3 months)	—	527,940
Total cash and bank balances	\$ 1,117,091	1,718,115

Term deposits having maturities of less than 3 months being part of cash held with banks and more than 3 months being part of term deposits earn interest at rates between 2.00% to 2.75% per annum (2011 - 2.00% to 4.50% per annum).

6. Accounts receivable

	2012	2011
Accounts receivable - members	\$ 728,481	513,330
Other receivables	20,728	1,414
Allowance for doubtful debts	(201,022)	(152,812)
	\$ 548,187	361,932

The ageing of accounts receivable - members is as follows:

	2012	2011
Current	\$ 6,039	7,997
Past due but not impaired	521,420	352,521
Past due and impaired	201,022	152,812
	\$ 728,481	513,330

PARADISE ISLAND BEACH CLUB

Notes to Financial Statements

Years ended December 31, 2012 and 2011

(Expressed in Bahamian dollars)

6. Accounts receivable *(continued)*

The movement in the allowance for doubtful debts was as follows:

	2012	2011
Balance at January 1	\$ 152,812	254,919
Provision made during the year	56,495	150,756
Provision reversed during the year	(8,285)	(252,863)
Balance as at December 31	\$ 201,022	152,812

Subsequent to the year ended December 31, 2012, the Management Committee has implemented an active on-line rental program in an effort to address current maintenance fees on defaulted weeks and to provide potential buyers for such defaulted weeks.

7. Inventories

	2012	2011
Food items	\$ 10,762	—
Beverage items	23,868	—
Disposal plastic and paper products	27,836	—
Other items	21,065	—
	\$ 83,531	—

8. Property and equipment, net

	Telephone Equipment	Vehicle	Computer and Software Equipment	Total
Cost:				
At January 1, 2011	\$ 41,104	9,200	39,133	89,437
Additions	—	—	18,434	18,434
At December 31, 2011	\$ 41,104	9,200	57,567	107,871
Additions	1,350	—	48,497	49,847
Disposals	—	—	(57,254)	(57,254)
At December 31, 2012	\$ 42,454	9,200	48,810	100,464
Accumulated depreciation:				
At January 1, 2011	\$ 38,944	6,090	33,418	78,452
Depreciation	2,160	2,610	7,320	12,090
At December 31, 2011	41,104	8,700	40,738	90,542
Depreciation	1,350	500	4,179	6,029
Disposals	—	—	(1,312)	(1,312)
At December 31, 2012	\$ 42,454	9,200	43,605	95,259
Net Book Value:				
December 31, 2012	\$ —	—	5,205	5,205
December 31, 2011	\$ —	500	16,829	17,329

PARADISE ISLAND BEACH CLUB

Notes to Financial Statements

Years ended December 31, 2012 and 2011

(Expressed in Bahamian dollars)

9. Accounts payable and accrued expenses

	2012	2011
Accounts payable	\$ 177,137	185,138
Accrued expenses	117,086	126,785
	\$ 294,223	311,923

10. Members annual dues

The members of the Club are responsible for the following annual dues for each of their unit:

	2012	2011
Maintenance fees	\$ 965	935
Replacement fund reserve (note 17)	230	230
Accumulated deficit fund	50	50
	\$ 1,245	1,215

Annual dues for 2013 received in 2012 were recorded as maintenance fee paid in advance.

11. Energy surcharge and credit card fee revenue

The Club charges its members an energy charge of \$100 (2011 - \$100) per week when members stay at the Club. The Club also charges a credit card fee at the rate of 4% for each credit card payment.

12. Salaries

	2012	2011
Vacation experience	\$ 24,909	24,297
Housekeeping	275,276	269,269
Maintenance	253,995	253,073
Administration	155,761	151,889
	\$ 709,941	698,528

PARADISE ISLAND BEACH CLUB

Notes to Financial Statements

Years ended December 31, 2012 and 2011

(Expressed in Bahamian dollars)

13. Utilities

	2012	2011
Electricity	\$ 358,482	389,361
Water	83,432	58,654
CATV and internet	23,772	18,824
Telephone	16,105	15,157
Garbage collection	1,332	2,415
	\$ 483,123	484,411

14. Maintenance materials

	2012	2011
Materials	\$ 19,368	27,524
Exteriors	57,457	45,682
Interiors	15,009	47,479
Maintenance at shut down	168,873	111,854
	\$ 260,707	232,539

15. Contracted services

	2012	2011
Security personnel	\$ 55,563	55,444
Fire fighting and security equipment	25,683	8,250
Garbage removal	11,181	11,151
Pest control	6,960	6,960
	\$ 99,387	81,805

16. Other supplies and materials

	2012	2011
Cleaning supplies	\$ 27,681	57,802
Laundry supplies	29,834	33,185
Inventory replacement - linens, towels, kitchen items	35,186	55,650
Decorations	2,968	4,002
Other	3,974	6,364
	\$ 99,643	157,003

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17. Replacement fund reserve

The movement in replacement fund reserve is as follows:

	2012	2011
Balance at beginning of year	\$ 444,616	306,869
Assessment during the year (\$230 per member)	506,000	506,000
Expenditure:		
Interiors:		
Remodeling of units	731,477	36,170
Furniture	151,518	6,161
Welcome centre	124,274	—
TVs and Electrical	24,253	48,512
Kitchen in units	382	70,000
Used furniture proceeds	—	(3,108)
Total interiors	1,031,904	157,735
Exteriors	20,046	56,092
Amenities	1,329	728
Beach area	17,751	—
Pool area	4,224	8,988
Gym area	3,057	27,336
Common area assets	3,699	—
Club enhancements:		
Garden pool enhancements	—	75,894
Welcome centre drainage and parking	—	41,480
Total club enhancements	—	117,374
Total expenditure	(1,082,010)	(368,253)
Replacement fund reserve, end of year	\$ (131,394)	444,616

During the year ended December 31, 2012, due to significant expenditure, the Management Committee authorised the use of \$450,000 of maintenance fees received in respect of 2013.

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18. Related party transactions

Related party balances and transactions are shown below. Balances due from and/to related parties are interest-free and are without stated terms of repayments.

	2012	2011
Balances		
Due to Founder Member	\$ 130,000	130,000
Due to TMB Ltd. (management company)	13,779	25,526
Due to affiliate	450	—
Net due to related parties	\$ 144,229	155,526
Transactions		
Management fees	\$ 205,000	205,000
Maintenance materials (affiliate)	2,680	—

Management fee

Pursuant to the management agreement noted in note 1, a management fee of \$205,000 was paid by equal monthly installments.

19. Lease commitments

On April 17, 2003, PIDL entered into a lease agreement with Marriott Ownership Resorts (Bahamas) Ltd. in its capacity as the Founder Member of the Club for and on behalf of the Club and its members effective January 1, 2003 for a term of 23 years. The property leased is to be used for the benefit of the members of the Club which now serves as the Welcome Centre. The Club's commitments on this operating lease are as follows:

	2012	2011
Less than one year	\$ 39,140	39,140
Two to five years	156,560	156,560
Over five years	352,260	391,400
	\$ 547,960	587,100

A portion of the above premises was sub-leased to other tenants on a month to month lease basis. The Club earned rental income of \$8,050 during 2012 which was included in other income. No income was earned in 2011.

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Notes to Financial Statements

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20. Financial risk management

There are a number of risks that are identified and managed on an ongoing basis. Among these risks, the more significant are market, credit and liquidity. The Club presents qualitative information about its exposure to risk and the objectives, policies and processes for measuring and managing these risks. Further quantitative disclosures are included throughout this note.

(a) *Market risk*

Market risk is the risk that future changes in market conditions such as foreign exchange rates and interest rates will affect the Club's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return on risk.

The Company is not exposed to significant price risk as it does not invest in any equities and has minimum exposure to currency and interest rate risks.

Currency risk

All of the Company's financial assets and liabilities are denominated in Bahamian dollars or in US dollars, therefore the Company is not normally exposed to significant currency risk.

Interest rate risk

Interest rate risk refers to the risk of loss due to adverse movements in interest rates. The Club's interest rate risk arises from its cash held with banks including term deposits. The interest rate exposure at the reporting date is \$527,940 (2011: \$Nil). As of December 31, 2012, interest rates on the cash held with bank are 2.00% to 2.75% per annum (2011 - Nil).

The Club believes that interest rate risk is minimal and a hypothetical 1% increase/decrease in the interest rate would have an impact of \$5,280 on the financial position and results of operations.

(b) *Credit risk*

Credit risk is the risk that a counterparty to a financial instrument will fail to discharge an obligation or commitment that it has entered into with the Club.

The Club's maximum exposure to credit risk is as follows:

	2012	2011
Cash held with banks	\$ 1,115,091	1,188,175
Term deposits	—	527,940
Accounts receivable, net	548,187	361,932
	\$ 1,663,278	2,078,047

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20. Financial risk management (continued)

(b) Credit risk (continued)

Management actively monitors the aging of receivables and establishes an allowance as circumstances warrant. The Club does not anticipate any losses in excess of the allowance for doubtful accounts as a result of this exposure.

Cash at bank amounting to \$1,115,091 (2011: \$1,716,115) was deposited with regulated financial institutions. Accordingly management considers this to bear minimal credit risk.

(c) Liquidity risk

Liquidity risk is the risk that the Club will not be able to meet its financial obligations as they fall due. The Club's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities and other commitments when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Club's reputation.

A maturity analysis of financial liabilities is as follows:

At December 31, 2012	Carrying Amount	Contractual cash flows	On demand	1 -12 months	1 - 5 years	More than 5 years
Due to related parties	\$ 144,229	144,229	144,229	-	-	-
Accounts payable and accrued expenses	294,223	294,223	294,223	-	-	-
	\$ 438,452	438,452	438,452	-	-	-

At December 31, 2011	Carrying Amount	Contractual cash flows	On demand	1 -12 months	1 - 5 years	More than 5 years
Due to related parties	\$ 155,526	155,526	155,526	-	-	-
Accounts payable and accrued expenses	311,923	311,923	311,923	-	-	-
	\$ 467,449	467,449	467,449	-	-	-

21. Fair values of financial instruments

The carrying values of financial assets and liabilities are considered to approximate their fair values due to the following reasons:

- (a) immediate or short-term maturity; and/or
- (b) interest rates approximate current market rates

The fair values of cash and cash equivalents, accounts receivables, accounts payable and accrued expenses are not considered to be materially different from their carrying values due to their short-term nature. Because of the interest-free nature and uncertainty surrounding the timing of the settlement of balances due to related parties, management is unable to estimate the fair value of these financial instruments.

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22. Capital management

The Club's main objectives when managing its capital are to safeguard its ability to continue as a going concern, to maintain adequate liquidity to meet obligations and to keep the property in an acceptable state of repair.