

BERMUDA TOURISM AUTHORITY FINANCIAL STATEMENTS

December 31, 2014



Office of the Auditor General

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INDEPENDENT AUDITOR'S REPORT

To the Minister of Tourism Development and Transport

Report on the Financial Statements

I have audited the accompanying financial statements of the Bermuda Tourism Authority, which comprise the statement of financial position as at December 31, 2014, and the statement of operations and accumulated surplus, the statement of change in net financial assets and the statement of cash flows for the period from December 16, 2013 to December 31, 2014, 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 public sector accounting standards generally accepted in Bermuda and Canada 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

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with auditing standards generally accepted in Bermuda and Canada. Those standards require that I 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 overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Bermuda Tourism Authority as at December 31, 2014, and the results of its operations, change in its net financial assets, and its cash flows for the period from December 16, 2013 to December 31, 2014, in accordance with public sector accounting standards generally accepted in Bermuda and Canada.

Report on Other Legal and Regulatory Requirements

As required by Section 20 of the Bermuda Tourism Authority Act 2013, I also report that, in my opinion, proper books of account have been kept by the accounting officer and that the receipt, expenditure and investment of moneys and acquisition and disposal of assets by the Bermuda Tourism Authority during the period from December 16, 2013 to December 31, 2014 have been in accordance with the provisions of the Bermuda Tourism Authority Act 2013.

Hamilton, Bermuda
August 6, 2015

A handwritten signature in black ink.

Heather A. Jacobs Matthews, JP, FCPA, FCA, CFE
Auditor General

STATEMENT OF FINANCIAL POSITION

31 December, 2014

	2014
	\$
<hr/>	
FINANCIAL ASSETS	
Cash	4,656,470
Accounts receivable and accrued revenue (note 4)	200,528
Loans receivable (note 5)	180,029
Due from the Government of Bermuda (note 10)	122,165
	<hr/>
	5,159,192
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LIABILITIES	
Accounts payable and accrued liabilities (note 6)	2,013,078
Due to the Government of Bermuda (note 10)	137,226
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	2,150,304
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NET FINANCIAL ASSETS	3,008,888
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NON-FINANCIAL ASSETS	
Tangible capital assets (note 7)	333,495
Prepaid expenses	95,079
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	428,574
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ACCUMULATED SURPLUS	3,437,462
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CONTRACTUAL OBLIGATIONS (note 14)

APPROVED BY:



David Dodwell
Chairman



William Hanbury
Chief Executive Officer

The accompanying notes are an integral part of these financial statements

STATEMENT OF OPERATIONS AND ACCUMULATED SURPLUS

For the Period from 16 December, 2013 (commencement of operations) to 31 December, 2014

	Budget (Note 15)	2014
	\$	\$
REVENUES		
Government of Bermuda grant (note 10)	21,050,495	21,050,495
Tourism authority fees (note 8)	3,454,603	3,418,706
	24,505,098	24,469,201
EXPENSES (note 9)		
Sales & marketing	10,199,580	9,733,834
Operations	6,324,800	6,636,670
Transition	4,394,422	3,081,306
Product development & experience	3,706,250	1,557,806
Research & business intelligence	382,150	333,530
Grants	600,000	225,000
	25,607,202	21,568,146
(DEFICIT)/SURPLUS FOR THE PERIOD	(1,102,104)	2,901,055
ACCUMULATED SURPLUS TRANSFERRED FROM THE TOURISM BOARD (note 16)		536,407
ACCUMULATED SURPLUS, END OF PERIOD		3,437,462

The accompanying notes are an integral part of these financial statements

STATEMENT OF CHANGE IN NET FINANCIAL ASSETS

For the Period from 16 December, 2013 (commencement of operations) to 31 December, 2014

	2014
	\$
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NET FINANCIAL ASSETS, BEGINNING OF PERIOD	-
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Surplus	2,901,055
Transfer of tangible capital assets from the Tourism Board (note 16)	(2,110)
Acquisition of tangible capital assets (note 7)	(392,592)
Amortization of tangible capital assets (note 7)	61,207
Change in prepaid expenses	(79,064)
Transfer of prepaid expenses from the Tourism Board (note 16)	(16,015)
Net financial assets transferred from the Tourism Board (note 16)	536,407
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INCREASE IN NET FINANCIAL ASSETS	3,008,888
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NET FINANCIAL ASSETS, END OF PERIOD	3,008,888
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The accompanying notes are an integral part of these financial statements

STATEMENT OF CASH FLOWS

For the Period from 16 December, 2013 (commencement of operations) to 31 December, 2014

	2014
	\$
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CASH FLOWS FROM OPERATING ACTIVITIES	
Surplus	2,901,055
Adjustments for items not affecting cash:	
Amortization of tangible capital assets	61,207
Net working capital transferred from the Tourism Board	534,297
Changes in non-cash working capital:	
Increase in accounts receivable and accrued revenue	(200,528)
Increase in due from the Government of Bermuda	(122,165)
Increase in accounts payable and accrued liabilities	2,013,078
Increase in due to the Government of Bermuda	137,226
Increase in prepaid expenses	(95,079)
Net cash from operating activities	5,229,091
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CASH FLOWS FROM CAPITAL ACTIVITY	
Acquisition of capital assets	(392,592)
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CASH FLOWS FROM INVESTING ACTIVITY	
Payment for loan receivable	(180,029)
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NET INCREASE IN CASH	4,656,470
CASH, BEGINNING OF PERIOD	-
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CASH, END OF PERIOD	4,656,470
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The accompanying notes are an integral part of these financial statements

NOTES TO THE FINANCIAL STATEMENTS

31 December, 2014

1 NATURE OF OPERATIONS

The Bermuda Tourism Authority (the “Authority”) was established on December 16, 2013 under the Bermuda Tourism Authority Act 2013 (the “Act”) following the repeal of the Tourism Board Act 2012. The main functions of the Authority is to develop and promote Bermuda as a tourist destination; to advise the Government on matters relating to travel and tourism; to enhance the travel and tourism sector’s contribution to the Bermuda economy; to provide appropriate tourism education and training; and to implement the National Tourism Plan.

2 SIGNIFICANT ACCOUNTING POLICIES

Pursuant to standards established by the Public Sector Accounting Board (“PSAB”) of the Chartered Professional Accountants of Canada, the Authority is classified as an other government organisation. These financial statements have been prepared in accordance with public sector accounting standards generally accepted in Bermuda and Canada and the accounting policies considered particularly significant are set out below:

a Revenue recognition

Revenues are recognised in the period in which the transactions or events occurred that gave rise to the revenues. All revenues are recorded on an accrual basis, except when the accruals cannot be determined with a reasonable degree of certainty or when their estimation is impracticable. Government of Bermuda grants are recognised as revenues when the grant is authorised and any eligibility criteria are met.

The Authority derives its revenue from tourism authority fees which are based on actual board returns received and an accrued estimate relating to hotels which are required by the Act to file board returns and remit the related tourism authority fees. This estimate has been made by management using information available to the Authority.

b Expenses

Expenses are reported on an accrual basis. The cost of all goods consumed and services received during the period are expensed.

c Cash

Cash is comprised of a Bermuda dollar checking account with a local bank.

d Loans receivable

Loans receivable are recorded at amortised cost less any amount for valuation allowances. Valuation allowances are made to reflect loans receivable at the lower of amortised cost and the net recoverable value, when collectability and risk of loss exists.

Changes in valuation allowances are recognized in the statement of operations and accumulated surplus.

e Tangible capital assets

Tangible capital assets are stated at cost less accumulated amortisation. Tangible capital assets are classified according to their function. Amortisation is recorded on a straight-line basis over their estimated useful lives as follows:

Computer hardware and software	3 years
Equipment	3 - 5 years
Office furniture & fittings	6 - 7 years

Tangible capital assets are written down when conditions indicate that they no longer contribute to the Authority’s ability to deliver on its mandate, or when the value of future economic benefits associated with the tangible capital assets are less than their net book value. The net write-downs are accounted for as expenses in the statement of operations and accumulated surplus.

f Prepaid expenses

Prepaid expenses include payments relating to annual service contracts and deposit payments for tourism related services and are charged to expense over the periods expected to benefit from it.

g Measurement uncertainty

These financial statements are prepared in accordance with public sector accounting standards generally accepted in Bermuda and Canada. These standards require 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 revenues and expenses during the period. Actual results could differ from these estimates.

h Financial instruments

Financial instruments consist of cash, accounts receivable and accrued revenue, loans receivable, due from the Government of Bermuda, accounts payable and accrued liabilities, and due to the Government of Bermuda. It is management's opinion that the Authority is not exposed to significant interest rate, currency or credit risks arising from these financial instruments. The carrying value of these financial instruments approximate their fair value due to their short-term nature.

3 ECONOMIC DEPENDENCE ON GOVERNMENT

The Authority is economically dependent upon the Government of Bermuda (the "Government") and receives an annual grant to fund its operations.

4 ACCOUNTS RECEIVABLE AND ACCRUED REVENUE

	31 December 2014 \$
Accounts receivable	53,061
Accrued revenue	160,677
Less: Provision for allowance for doubtful accounts	(13,210)
	200,528

Accounts receivable pertains to tourism authority fees due based on actual board returns received. Accrued revenue is an estimate of tourism authority fees due for which board returns have not been received at the year end.

5 LOANS RECEIVABLE

	31 December 2014 \$
Loans receivable	180,029

The above loan is non-interest bearing and is repayable in three equal quarterly installments ending December 1, 2015. The loan is in relation to the enhancement of a tourism product and is subject to a chattel mortgage and insurance coverage in favour of the Authority.

The loan was fully repaid on April 30, 2015.

6 ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	31 December 2014 \$
Accrued expenses	733,909
Benefits payable	519,981
Trade payables	693,088
Accrued vacation	66,100
	2,013,078

Accounts payable and accrued expenses relate to trade and operational liabilities. Benefits payable relate to employee benefits including health, social insurance, incentives and pensions.

7 TANGIBLE CAPITAL ASSETS

	Computer hardware and software \$	Equipment \$	Office furniture & fittings \$	31 December 2014 Total \$
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Cost				
Transfer from Tourism Board	2,329	-	-	2,329
Additions	159,640	53,718	179,234	392,592
	161,969	53,718	179,234	394,921
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Accumulated Amortisation				
Transfer from Tourism Board	219	-	-	219
Amortisation	39,796	5,472	15,939	61,207
	40,015	5,472	15,939	61,426
<hr/>				
Net Book Value	121,954	48,246	163,295	333,495

8 TOURISM AUTHORITY FEES

The tourism authority fee is imposed on each proprietor of a hotel for each guest accommodated in the hotel at a rate of 2.5% of the rack rate charge (the charge made for accommodations at a hotel), payable monthly in arrears.

9 EXPENSES BY OBJECT

The following is a summary of expenses by object:

	31 December 2014 \$
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Sales & Marketing	
Media	4,041,664
Events sponsorship	1,509,927
Production	1,003,157
Consumer incentives	764,773
Public relations	614,722
Partnership funding	573,965
Sales	466,687
Services	315,000
Trade shows & events	311,468
Familiarisation	80,615
Promotional items	43,934
Printing	7,922
	9,733,934

31 December
2014
\$

Operations

Staff costs	4,522,333
Communications & IT	592,624
General expenses	537,845
Premises	494,702
Bank fees and exchange costs	245,777
Professional fees	224,403
Marketing	9,901
Transport	5,701
Maintenance	3,384

6,636,670

Transition

Planning and operations	1,406,487
Legal & Professional	1,200,982
IT costs	248,767
Recruitment	203,433
Real Estate	21,637

3,081,306

Product Development & Experience

Contributions & Grants	721,766
Events Sponsorship	343,242
Services	327,661
Training & Standards	88,553
Activities / Attractions	46,742
Real Estate Improvements	15,666
Public Relations	14,176

1,557,806

Research & Business Intelligence

Current consumer research	291,352
Market research	17,415
Local resident research	13,672
Other	11,091

333,530

Grants

Bermuda Hospitality Institute	225,000
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21,568,146

10 RELATED PARTY TRANSACTIONS

The Authority is related to all Government agencies including those jointly controlled or significantly influenced by Government. The Authority enters into transactions with these entities in the normal course of business and such transactions are measured at the exchange amount which is the amount of consideration established and agreed by the related parties. The Authority had the following transactions with the Government:

	Transactions for the period \$	Due at period end \$
Revenues and receivables:		
Government of Bermuda grant	21,050,495	-
Reimbursement of funds	128,368	122,165
	21,178,863	122,165
Expenses and payables:		
Social Insurance	27,622	11,384
Payroll tax	131,470	125,842
	159,092	137,226

Two directors of the Board have interests in hotels which had transactions with the Authority in respect to payments of tourism authority fees amounting to \$514,465. At period-end, there was \$15,005 of accrued revenue which is included in accounts receivable and accrued revenue.

11 EMPLOYEE BENEFITS

Employee benefits include the following:

a Pension plan

The Authority has three different pension plans all of which are defined contribution plans.

The Registered Plan which is for all Bermudian employees and members of staff that are the spouse of a Bermudian, and is in accordance with the National Pensions Scheme (Occupational Pensions) Act 1988. The non-registered pension plan which is for non-Bermudian employees and spouses mirrors the Registered Plan in all ways except that vested contributions can be withdrawn upon the end of employment with the Authority. There is also a 401k plan which provides for US employees retirement planning. The plans are administered by the Argus Group.

The plans includes a life insurance benefit. All employees who are contributing to the plans are covered under a group life policy. The Authority's employees are entitled to workers compensation for eligible expenses in respect of medical aid, death or incapacity while insured under the plans.

Employee contributions to the plans are 5% of gross salary and they are matched by the Authority. These contributions are recognised as pension contribution expenses when they are due. The Authority's contributions to the plans during the period were \$144,973.

b Other

Full-time regular employees are eligible for a variety of benefits including Medical insurance, Short Term and Long Term Disability coverage and Life insurance and Accidental Death and Dismemberment (AD&D) insurance. Other employee benefits include maternity leave, sick leave and vacation days. All of these benefits are unfunded.

Maternity leave does not accumulate or vest and therefore an expense and liability is only recognised when extended leave is applied for and approved. There were no maternity leave benefits applied for or approved during the current period and therefore, no liability has been accrued in the accounts.

Sick leave accumulates but does not vest, and like maternity leave, a liability is recorded only when extended leave is applied for

12 FINANCIAL RISK MANAGEMENT

The Authority is exposed to various risks through its financial instruments. The Board has overall responsibility for the establishment and oversight of its risk management framework. The Authority manages its risk and risk exposure through sound business practices. The following analysis provides a measure of the risks at the reporting date.

a Credit risk

Credit risk arises from cash held with banks and other receivables. The maximum exposure to credit risk is equal to the carrying value (net of allowances) of the financial assets. The objective of managing counterparty credit risk is to prevent losses on financial assets. The Authority assesses the credit quality of counterparties, taking into account their financial position, past experience and other factors.

i Cash

Cash consists of cash in a current bank account. Credit risk associated with cash is minimised substantially by ensuring that these financial assets are invested with highly rated financial institutions.

ii Other receivables

Other receivables consist of tourism authority fees, loans receivable and due from the Government of Bermuda. The Authority's credit risk arises from the possibility that a counterparty which owes the Authority money is unable or unwilling to meet its obligations in accordance with the terms and conditions in the contracts with the Authority, which would result in a financial loss for the Authority. This risk is mitigated through established credit management techniques, including ongoing reviews of outstanding balances.

The Authority believes that its allowance for doubtful accounts is sufficient to reflect the related credit risk.

b Liquidity risk

Liquidity risk is the risk that the Authority will not be able to meet its financial obligations as they become due. The Authority mitigates such risk by monitoring cash activities and projected outflows through budgeting and maintaining liquid cash balances.

c Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk is generally comprised of three key risks: currency risk, interest rate risk and other price risks.

i Currency risk

Foreign currency risk is the risk that the value of a financial instrument will fluctuate because of changes in foreign exchange rates. The majority of receivables and payables are generally settled in local currency or in US dollars.

ii Interest rate risk

Interest rate risk arises from changes in prevailing levels of market interest rates. At period-end, the Authority had no significant interest rate risk exposure.

iii Price risk

Price risk arises from changes in market risks, other than interest rate risk and credit risk, causing fluctuations in the fair value of future cash flows of the financial instruments. At the date of the Statement of Financial Position, the Authority had no significant price risk exposure.

13 CAPITAL MANAGEMENT

The Authority's objective when managing capital is to hold sufficient accumulated surplus to enable it to withstand negative unexpected financial events. The Authority achieves this objective through management of cash flows. The Authority maintains sufficient liquidity to meet its short-term obligations as they come due. The Authority is not subject to any externally imposed capital requirements.

14 CONTRACTUAL OBLIGATIONS

The Authority has entered into various contracts relating to operational support and direct tourism related initiatives. The aforementioned contracts have commencement terms prior to December 31, 2014 and the latest contract termination date is January 31, 2020. These contractual obligations will become liabilities in the future when the terms of the contracts are met. The remaining obligations of the contracts are as follows:

	2015 \$	2016 \$	2017 \$	2018 \$	2019 \$	2020 \$
Product development grants	184,139	80,000	-	-	-	-
Operational	745,666	290,785	60,300	-	-	-
Property	525,830	545,096	545,096	545,096	515,904	16,233

15 BUDGETED FIGURES

Budgeted figures have been approved by the Authority on March 28, 2014 and are for the period from December 16, 2013 (commencement of operations) to December 31, 2014. The budgeted figures include one-off transition costs following the repeal of the Tourism Board Act 2012 and establishment of the Bermuda Tourism Authority.

16 TRANSFER OF ASSETS AND LIABILITIES

On December 16, 2013, the Tourism Board Act 2012 was repealed as provided in Section 26 of the Act.

All rights, assets and property vested in or held in any manner, on behalf of or for the Tourism Board before commencement of the Act, were vested in the Authority. Additionally, all liabilities and obligations that existed for the Tourism Board immediately before the commencement of the Act, continue to exist against the Authority.

A summary of the balances transferred is detailed below:

	\$
Cash	993,500
Accounts receivable and accrued revenue	519,699
Accounts payable and accrued liabilities	(994,917)
Tangible capital assets (note 7)	2,110
Prepaid expenses	16,015
	536,407

17 COMPARATIVE FIGURES

The Authority was established on December 16, 2013 and the current period figures relate to a period of twelve and a half months. As such, there are no comparative figures.

18 SUBSEQUENT EVENTS

There were no subsequent events.