

BERMUDA TOURISM AUTHORITY
CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2018

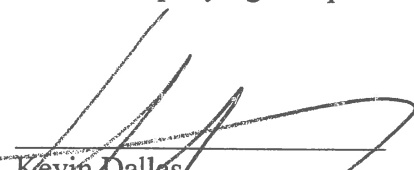
Management's Responsibility for the Consolidated Financial Statements

These consolidated financial statements have been prepared by management, who are responsible for the reliability, integrity and objectivity of the information provided. The preparation of financial statements necessarily involves using management's best estimates and judgments, where appropriate.

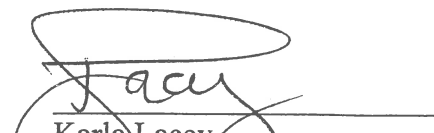
Management is responsible for maintaining a comprehensive system of accounting records, internal controls, policies and management practices, designed to provide reasonable assurance that transactions are properly authorized and in compliance with legislation, assets are safeguarded, and reliable financial information is available on a timely basis.

The Bermuda Tourism Authority's Board (the "Board") through the Audit and Risk Committee, is responsible for ensuring that management fulfills its responsibility for financial reporting and internal controls. The Audit and Risk Committee meets periodically with management to discuss matters relating to consolidated financial reporting, internal control and audits. The Audit and Risk Committee also reviews the financial statements before recommending approval by the Board. The consolidated financial statements have been approved by the Board and have been examined by the Office of the Auditor General.

The accompanying Independent Auditor's Report is presented herein.



Kevin Dallas
Chief Executive Officer



Karla Lacey
Chief Operating Officer

DATE 28th June 2019



Office of the Auditor General

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INDEPENDENT AUDITOR'S REPORT

To the Minister of Tourism and Transport

Report on the Audit of the Consolidated Financial Statements

Opinion

I have audited the consolidated financial statements of the Bermuda Tourism Authority, which comprise the consolidated statement of financial position as at December 31, 2018, and the consolidated statements of operations and accumulated surplus, change in net financial assets and cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In my opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Bermuda Tourism Authority as at December 31, 2018, and the consolidated results of its operations, changes in its net financial assets and its cash flows for the year then ended in accordance with public sector accounting standards generally accepted in Bermuda and Canada.

Basis for Opinion

I conducted my audit in accordance with auditing standards generally accepted in Bermuda and Canada. My responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of my report. I am independent of the Bermuda Tourism Authority in accordance with the ethical requirements that are relevant to my audit of the consolidated financial statements in Bermuda, and I have fulfilled my other ethical responsibilities in accordance with these requirements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Bermuda Tourism Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Bermuda Tourism Authority or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Bermuda Tourism Authority's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

My objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with auditing standards generally accepted in Bermuda and Canada will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with auditing standards generally accepted in Bermuda and Canada, I exercise professional judgment and maintain professional skepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the consolidated financial statements (whether due to fraud or error), design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than from one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Bermuda Tourism Authority's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going-concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bermuda Tourism Authority's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the Bermuda Tourism Authority to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements (including the disclosures), and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

I communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during the audit.


I also provide those charged with governance with a statement that I have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on my independence and, where applicable, related safeguards.

A further description of the auditor's responsibilities for the audit of the consolidated financial statements is located at the Office of the Auditor General website at: www.oagbermuda.bm. This description forms part of my auditor's report.

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 accounting and supporting records have been kept and that the receipt, expenditure and investment of moneys and the acquisition and disposal of assets by the Bermuda Tourism Authority during the year ended December 31, 2018, have been in accordance with the provisions of the Bermuda Tourism Authority Act 2013.

Hamilton, Bermuda
June 28, 2019


Heather Thomas, CPA, CFE, CGMA
Auditor General

BERMUDA TOURISM AUTHORITY
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT DECEMBER 31, 2018

	2018	2017
	\$	\$
FINANCIAL ASSETS		
Cash	7,487,361	5,501,997
Accounts receivable and accrued revenue (note 4)	527,556	753,260
Loans receivable (note 5)	2,301	2,301
Inventory	88,698	70,932
	<u>8,105,916</u>	<u>6,328,490</u>
LIABILITIES		
Accounts payable and accrued liabilities (note 7)	3,267,307	2,537,977
Deferred income (note 8)	800,000	-
Due to related parties (note 12)	275,410	50,209
	<u>4,342,717</u>	<u>2,588,186</u>
NET FINANCIAL ASSETS	<u>3,763,199</u>	<u>3,740,304</u>
NON-FINANCIAL ASSETS		
Tangible capital assets (note 9)	1,866,732	560,920
Prepaid expenses	286,178	35,529
	<u>2,152,910</u>	<u>596,449</u>
ACCUMULATED SURPLUS	<u>5,916,109</u>	<u>4,336,753</u>
CONTRACTUAL OBLIGATIONS (note 16)		

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

BERMUDA TOURISM AUTHORITY
CONSOLIDATED STATEMENT OF OPERATIONS AND ACCUMULATED SURPLUS
FOR THE YEAR ENDED DECEMBER 31, 2018

	2018 Budget (note 18) \$	2018 \$	2017 \$
REVENUES			
Government of Bermuda grant - Bermuda Tourism Authority (note 12)	26,000,000	25,100,000	24,425,000
Tourism authority fees (note 10)	7,904,661	8,171,774	7,965,189
Other income	637,000	2,969,093	2,204,520
Government of Bermuda grant - WTSBDA (note 12)	2,420,823	2,420,823	2,164,149
Vacation rental fees (note10)	-	48,319	-
	<u>36,962,484</u>	<u>38,710,009</u>	<u>36,758,858</u>
EXPENSES (note 11)			
Sales & marketing	19,355,245	17,720,482	18,031,210
Operations	11,441,500	12,761,079	12,015,316
WTSBDA	3,359,060	3,144,626	622,206
Product & experience development	2,105,300	1,656,738	2,061,412
BVSC	-	938,988	-
Research & business intelligence	656,988	588,740	611,289
Grants	320,000	320,000	320,000
Investment	-	-	127,719
	<u>37,238,093</u>	<u>37,130,653</u>	<u>33,789,152</u>
ANNUAL SURPLUS (DEFICIT)	<u>(275,609)</u>	1,579,356	2,969,706
ACCUMULATED SURPLUS, BEGINNING OF YEAR		4,336,753	1,367,047
ACCUMULATED SURPLUS, END OF YEAR		<u>5,916,109</u>	<u>4,336,753</u>

BERMUDA TOURISM AUTHORITY
CONSOLIDATED STATEMENT OF CHANGE IN NET FINANCIAL ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2018

	2018	2017
	\$	\$
NET FINANCIAL ASSETS (DEBT), BEGINNING OF YEAR	<u>3,740,304</u>	<u>(13,479)</u>
Annual surplus	1,579,356	2,969,706
Acquisition of tangible capital assets (note 9)	(1,368,398)	(419,478)
Amortization of tangible capital assets (note 9)	62,586	65,475
Change in prepaid expenses	<u>(250,649)</u>	<u>1,138,080</u>
INCREASE IN NET FINANCIAL ASSETS	<u>22,895</u>	<u>3,753,783</u>
NET FINANCIAL ASSETS , END OF YEAR	<u><u>3,763,199</u></u>	<u><u>3,740,304</u></u>

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

BERMUDA TOURISM AUTHORITY
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2018

	2018	2017
	\$	\$
CASH FLOWS FROM OPERATING ACTIVITIES		
Annual surplus	1,579,356	2,969,706
Adjustments for items not affecting cash:		
Amortization of tangible capital assets	62,586	65,475
Changes in non-cash working capital:		
Increase in inventory	(17,766)	(39,808)
Decrease (increase) in accounts receivable and accrued revenue	225,704	(337,492)
Increase in deferred income	800,000	-
Decrease in due from related parties	-	39,478
Increase (decrease) in accounts payable and accrued liabilities	729,330	(374,640)
Increase (decrease) in due to related parties	225,201	(2,508)
(Increase) decrease in prepaid expenses	(250,649)	1,138,080
	3,353,762	3,458,291
CASH FLOWS FROM CAPITAL ACTIVITY		
Acquisition of tangible capital assets	(1,368,398)	(419,478)
CASH FLOWS FROM INVESTING ACTIVITY		
Decrease in loans receivable	-	4,000
NET INCREASE IN CASH	1,985,364	3,042,813
CASH, BEGINNING OF YEAR	5,501,997	2,459,184
CASH, END OF YEAR	7,487,361	5,501,997

The accompanying notes are an intergral part of these consolidated financial statements

BERMUDA TOURISM AUTHORITY
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2018

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 are 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 organization. These consolidated financial statements have been prepared by management in accordance with public sector accounting standards generally accepted in Bermuda and Canada and the accounting policies considered particularly significant are set out as follows:

a. Basis of consolidation

The consolidated financial statements reflect the assets, liabilities, revenues and expenses of the Authority and its 100% owned subsidiaries, WTSBDA Ltd. (“WTSBDA”) and Bermuda Visitor Services Centre Ltd. (“BVSC”). All inter-entity balances and transactions between these organisations are eliminated upon consolidation.

b. Revenue recognition

Revenues are recognized 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. The Authority derives its revenue from Government of Bermuda grants, tourism authority fees and other income.

Government of Bermuda grants are recognized as revenues when the grant is authorised and any eligibility criteria are met. The tourism authority fees are based on actual returns received and an accrued estimate relating to hotels and properties which are required by the Act to file returns and remit the related fees. This estimate has been made by management using the latest information available to the Authority. Other income is recognised in the period in which it relates.

c. Expenses

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

BERMUDA TOURISM AUTHORITY
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2018

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

d. Cash

Cash includes a Bermuda dollar and US dollar checking and savings accounts with a local bank and an overseas bank.

e. Loans receivable

Loans receivable are recorded at amortized cost less any amount for valuation allowances. Valuation allowances are made to reflect loans receivable at the lower of amortized 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.

f. Inventory

Inventories consist of items held for resale at the Visitor Information Centre. It is recorded at the lower of cost and net realizable value and cost is determined using the first-in, first-out method.

g. Tangible capital assets

Tangible capital assets are stated at cost less accumulated amortization. Tangible capital assets are classified according to their function. Amortization 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	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.

h. 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.

BERMUDA TOURISM AUTHORITY
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2018

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

i. Measurement uncertainty

These consolidated 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 consolidated financial statements and the reported amounts of revenues and expenses during the year.

Significant areas requiring the use of estimates include the estimated useful lives of tangible capital assets, bad debt allowance and accruals. Estimates are based on best information available at the time of preparation of the consolidated financial statements and are reviewed annually to reflect new information as it becomes available. Actual results could differ from these estimates.

j. Financial instruments

Cash is recognized at cost. Accounts receivable and accrued income, loans receivable, accounts payable and accrued liabilities and due to related parties are initially recognized at cost and subsequently carried at amortized cost using the effective interest rate method, less any impairment losses on financial assets.

Transaction costs related to financial instruments in the cost or amortized cost category are added to the carrying value of the instrument when initially recognized.

Write-downs on financial assets in the amortized cost category are recognized when the amount of a loss is known with sufficient precision, and there is no realistic prospect of recovery. Financial assets are then written down to net recoverable value with the write-down being recognized in the statement of operations and accumulated surplus.

k. Statement of remeasurement gains and losses

A statement of remeasurement gains and losses has not been presented as the Authority does not have any significant financial assets or liabilities that would give rise to remeasurement gains or losses.

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.

BERMUDA TOURISM AUTHORITY
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2018

4. ACCOUNTS RECEIVABLE AND ACCRUED REVENUE

	2018	2017
	\$	\$
Accounts receivable	274,829	731,745
Accrued revenue	193,795	21,515
Other receivables	58,932	-
	<u>527,556</u>	<u>753,260</u>

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

5. LOANS RECEIVABLE

	2018	2017
	\$	\$
Loans receivable	<u>2,301</u>	<u>2,301</u>

In January 2015, the Authority agreed to provide a loan of \$15,000 to an Experience Developer for the development of a tourism product. The loan is subject to a Promissory Note in favor of the Authority. A total of \$12,699 of this loan had been paid in the prior years. The loan is non-interest bearing and was due to be fully repaid in November 2016.

6. INVESTMENTS

On April 24, 2017, WTSBDA Ltd. was incorporated. The authorized share capital of WTSBDA Ltd. is 100 shares at \$1 per share and they have been fully subscribed for, and allotted to, the Authority. WTSBDA Ltd. was formed for the purpose of managing all aspects of the World Triathlon Series in Bermuda.

On November 23, 2017, Bermuda Visitor Services Centre Ltd ("BVSC") was incorporated. The authorized share capital of BVSC is 100 shares at \$1 per share and they have been fully subscribed for, and allotted to, the Authority. BVSC was formed for the purpose of managing the visitor service centres in Bermuda. BVSC started operating in September 2018 (note 11).

BERMUDA TOURISM AUTHORITY
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2018

7. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	2018	2017
	\$	\$
Trade payables	848,050	762,174
Accrued expenses	1,535,743	883,982
Benefits payable	834,615	831,851
Accrued vacation	48,899	59,970
	<u>3,276,307</u>	<u>2,537,977</u>

Trade payables and accrued expenses relate to operational liabilities. Benefits payable relate to employee benefits including incentives and pensions.

8. DEFERRED INCOME

During the year, the Authority received a grant of \$750,000 from the Government of Bermuda which was only to be used to fund specific, agreed projects. At the year-end \$100,000 of that grant had been expended against such projects and the balance of \$650,000 has been included in deferred income.

The Authority also received funding of \$150,000 from a Cruise Line to provide an enhanced visitor experience. As at the year-end that income had not been expended and is included in deferred income.

BERMUDA TOURISM AUTHORITY
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2018

9. TANGIBLE CAPITAL ASSETS

	Computer hardware and software \$	Equipment \$	Office furniture & fittings \$	Asset under construction \$	Total \$
Cost					
At December 31, 2016	172,634	57,091	237,611	-	467,336
Additions	4,658	-	71,909	342,911	419,478
At December 31, 2017	177,292	57,091	309,520	342,911	886,814
Additions	33,110	7,169	25,351	1,302,768	1,368,398
At December 31, 2018	210,402	64,260	334,871	1,645,679	2,255,212
Accumulated amortization					
At December 31, 2016	153,578	31,069	75,772	-	260,419
Amortization	18,253	11,626	35,596	-	65,475
At December 31, 2017	171,831	42,695	111,368	-	325,894
Amortization	11,017	10,034	41,535	-	62,586
At December 31, 2018	182,848	52,729	152,903	-	388,480
Net Book Value					
December 31, 2018	27,554	11,531	181,968	1,645,679	1,866,732
December 31, 2017	5,461	14,396	198,152	342,911	560,920

Asset under construction relates to a building and amortization will commence when the construction is completed.

10. TOURISM AUTHORITY AND VACATION RENTAL FEES

The tourism authority fee is imposed on each guest accommodated in the hotel at a rate of 4.5% of the rack rate charge (the charge made for accommodations at a hotel), payable monthly in arrears.

The Vacation Rentals Act 2018 introduced a vacation rental fee payable to the Bermuda Tourism Authority of 4.5% of the rack rate charge for the accommodation on each guest staying at a vacation rental property. This charge relates to all new bookings on or after 1 November 2018.

BERMUDA TOURISM AUTHORITY
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2018

11. EXPENSES BY OBJECT

The following is a summary of expenses by object:

	2018	2017
	\$	\$
<u>Sales & marketing</u>		
Advertising	10,195,624	8,920,873
Promotions	2,209,274	564,114
Partner marketing	1,463,748	4,115,541
Website	923,263	804,455
Group sales	816,099	745,947
Media relations & PR	724,033	860,430
Social media	424,067	320,945
International representation & activation	333,877	1,263,047
Travel industry outreach	285,341	297,072
Collateral	251,841	111,614
Sponsorship	61,592	-
Research	31,723	27,172
	17,720,482	18,031,210
	2018	2017
	\$	\$
<u>Operations:</u>		
Staff costs (note 13)	6,833,210	6,637,850
Services and merchandise	2,056,286	2,545,422
Premises	949,792	760,637
General expenses	887,493	780,914
Professional fees	524,549	265,974
Communications & IT	456,546	509,479
National Tourism Plan	436,666	-
Beach economy	151,210	-
Training & standards	149,238	241,663
Equipment and maintenance	90,664	30,812
Tourism appreciation	77,398	103,298
Sponsorship	62,669	32,705
Bank fees and exchange costs	55,327	62,446
Stakeholder relations and communication	25,579	33,152
Marketing	4,452	9,636
Transport	-	1,328
	12,761,079	12,015,316

BERMUDA TOURISM AUTHORITY
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2018

11. EXPENSES BY OBJECT (continued)

	2018	2017
	\$	\$
<u>WTSBDA:</u>		
Course management	1,507,455	11,616
Event management	1,281,817	571,968
Race operations	355,354	38,622
	3,144,626	622,206
	2018	2017
	\$	\$
<u>Product & experience development:</u>		
Grants and event sponsorship	1,558,675	1,477,706
Activities / Attractions	35,937	358,796
Services	30,346	64,330
Promotional & print	30,138	141,647
Other	1,069	300
Research	573	8,313
Real estate improvements	-	10,320
	1,656,738	2,061,412
	2018	2017
	\$	\$
<u>BVSC:</u>		
Cost of goods sold	644,358	-
Staff costs	157,141	-
General costs	137,489	-
	938,988	-
	2018	2017
	\$	\$
<u>Research and business intelligence:</u>		
Current consumer research	336,583	429,898
Market research	135,456	97,573
Product research	103,101	78,846
Other	10,000	2,472
Local resident research	3,600	2,500
	588,740	611,289

BERMUDA TOURISM AUTHORITY
 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
 DECEMBER 31, 2018

11. EXPENSES BY OBJECT (continued)

	2018	2017
	\$	\$
<u>Grants:</u>		
Bermuda Hospitality Institute	320,000	320,000
	2018	2017
	\$	\$
<u>Investments:</u>		
Event sponsorship	-	127,719
	37,130,653	33,789,151

Visitor Information Centre

During the year, the Authority operated the Visitor Information Centre in Dockyard which, in addition to providing information to visitors, sold public transportation passes and some merchandise. The gross revenue and expenses related to this operation were \$2,331,108 and \$2,995,273 (2017: \$2,204,520 and \$2,315,422), respectively. The transportation passes were acquired from the Government while rent and service charges were paid to the West End Development Corporation (“WEDCO”). Both are related parties to the Authority. The operations of the Visitor Information Centre in Dockyard were taken over by BVSC in September 2018 (note 6).

WTSBDA

WTSBDA is responsible for managing all aspects of the World Triathlon Series in Bermuda. It commenced operations during 2017 and received a grant of \$2,420,823 (2017: \$2,164,149) from the Government. It incurred expenses of \$3,144,626 (2017: \$622,206) resulting in a deficit of \$723,803 for the year (2017: \$1,651,943 surplus).

BERMUDA TOURISM AUTHORITY
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2018

12. 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.

Under the Payroll Tax Act, the Authority is a Class C employer and is exempt from Payroll Tax. The amounts due at the end of the year are payments to be made on behalf of employees.

On December 18, 2015, the Minister of Finance enacted the Foreign Currency Purchase Tax Order 2015 to include the Bermuda Tourism Authority as an exempt body.

During the year, the Authority leased the Visitor Information Centre property from WEDCO (note 11). Under the terms of the lease, rent is calculated as a percentage of the turnover of the Visitor Information Centre.

During the year, the Authority paid \$106,000 (2017: \$67,240) to related parties to support events included within the product and experience development programme.

The Authority had the following transactions with the Government and its agencies:

	Transactions for the year		Due at the year end	
	2018	2017	2018	2017
	\$	\$	\$	\$
Revenues and receivables:				
Government grant BTA	25,100,000	24,425,000	-	-
Government grant WTSBDA	2,420,823	2,164,149	-	-
Reimbursement of funds	-	56,215	-	-
	<u>27,520,823</u>	<u>26,645,364</u>	<u>-</u>	<u>-</u>
Expenses and payables:				
Transportation passes	1,935,828	1,970,183	148,797	-
Taxes	59,956	44,605	57,071	50,209
Other	148,519	117,599	69,542	-
	<u>2,144,303</u>	<u>2,132,387</u>	<u>275,410</u>	<u>50,209</u>

During the year, one director of the Board had an interest in a hotel which had transactions with the Authority in respect to payments of tourism authority fees amounting to \$704,192 (2017: \$1,056,225). At year-end, there was \$28,058 (2017: \$28,375) of accrued revenue which is included in accounts receivable and accrued revenue. During the previous year, WTSBDA entered into an agreement with a company which is owned by the spouse of a Board member, to provide project management services for the delivery of the World Triathlon Series event in Bermuda in 2018. The payments totaled \$61,666 (2017: \$185,000). The Board member did not partake in any board discussions relating to this arrangement.

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13. POST-EMPLOYMENT BENEFITS AND COMPENSATED ABSENCES

Employee benefits include the following:

a. Pension plans

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 include 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 recognized as pension contribution expenses when they are due. The Authority's contributions to the plans during the year were \$235,413 (2017: \$216,973).

b. Other benefits and compensated absences

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. Compensated absences include maternity leave, paternity leave, sick leave and vacation days. All of these benefits are unfunded.

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

Sick leave does not accumulate or vest, and like maternity and paternity leave, a liability is recorded only when extended leave is applied for and approved. There was no extended sick leave applied for or approved during the current year and therefore, no liability has been accrued in the accounts.

Vacation days accumulate and vest and therefore a liability is accrued each year. The accrued liability at December 31, 2018 of \$48,899 (2017: \$59,970) is included in accounts payable and accrued liabilities.

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14. FINANCIAL INSTRUMENTS AND 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 checking and savings accounts. Credit risk associated with cash is minimized substantially by ensuring that these financial assets are invested with highly rated financial institutions.

ii. Receivables

Receivables consist of tourism authority fees, vacation rental fees and loans receivable. 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.

The amounts outstanding at the year-end were as follows:

	Total	Current	31- 90 days	90 + days
	\$	\$	\$	\$
Accounts receivable	274,829	226,797	11,545	36,488
Accrued revenue	193,795	193,795	-	-
Other receivables	58,932	24,177	24,397	10,358
Loans receivable	2,301	-	-	2,301
	<u>529,857</u>	<u>444,768</u>	<u>35,942</u>	<u>49,147</u>

There have been no significant changes from the previous year in the exposure to risk or policies, procedures and methods to measure credit risk.

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14. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

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.

The following table sets out the expected cash flows of financial liabilities:

	Total	Current	31 - 90	90 +
	\$	\$	days	days
			\$	\$
Trade payables	848,050	848,050	-	-
Accrued expenses	1,535,743	1,535,743	-	-
Benefits payable	834,615	25,015	809,600	-
Accrued vacation	48,899	-	-	48,899
Due to related parties	275,410	275,410	-	-
	<u>3,542,717</u>	<u>2,684,218</u>	<u>809,600</u>	<u>48,899</u>

There have been no significant changes from the previous year in the exposure to risk or policies, procedures and methods to measure liquidity risk.

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

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 year-end, the Authority had no significant interest rate risk exposure.

There have been no significant changes from the previous year in the exposure to risk or policies, procedures and methods to measure market risk.

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15. 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.

16. 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, 2018 and the latest contract termination date is November 30, 2029. 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:

	2019	2020	2021 and beyond
	\$	\$	\$
Operational	3,107,505	49,388	-
Sponsorship	150,000	-	-
Property	522,560	388,046	3,366,803
World Triathlon Series	632,048	390,000	-
Bermuda Visitor Services	120,944	-	-
	<u>4,533,057</u>	<u>827,434</u>	<u>3,366,803</u>

17. LETTER OF CREDIT

An amount of \$93,267 is held in an overseas savings account against a Letter of Credit issued in favour of Royalty Realty Corp, the landlord of the office in New York, in the event of a rent default.

18. BUDGET

The budget was approved by the Board.

19. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform to the current year's presentation.

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20. SUBSEQUENT EVENTS

a. Loan Facility

On March 13, 2019, the Authority signed a \$10 million 5-year fixed rate loan with Bank of NT Butterfield and Son. The loan was used to repay an outstanding commitment owed by the Government of Bermuda to a cruise line.

b. Cruise Ship Passenger Fee

On March 8, 2019, the Government of Bermuda introduced a new Cruise Ship Passenger Fee of \$16 per passenger for cruise ship passengers departing Bermuda between 1 April and 31 October each year. This fee is payable directly to the Authority.

c. US Open Tennis Championship

On April 30, 2019 the Authority was named as Official Tourism Partner of the US Open Tennis Championship. This multi-year partnership includes on-court signage in Arthur Ashe Stadium, presence on US Open digital properties, social media channels and on-site activation space for consumer engagement.

d. PGA Tour

On June 4, 2019, the Authority announced a five-year agreement with the PGA Tour for Bermuda to host the newly announced Bermuda Championship to its schedule commencing in 2019. The Authority will be the title sponsor.