

BERMUDA TOURISM AUTHORITY

FINANCIAL STATEMENTS

DECEMBER 31, 2016

Management's Responsibility for the Financial Statements

These financial statements have been prepared by management, which is 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 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 financial reporting, internal control and audits. The Audit and Risk Committee also reviews the financial statements before recommending approval by the Board. The 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.



Keyin Dallas
Chief Executive Officer



Karla Lacey
Chief Operating Officer

DATE 19 MAY 2017



Office of the Auditor General

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INDEPENDENT AUDITOR'S REPORT

To the Minister of Tourism, Transport and Municipalities

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, 2016, and the statements of operations and accumulated surplus, change in net debt and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with 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, 2016, and the results of its operations, changes in its net debt, and its cash flows for the year then ended, 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 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, 2016, have been in accordance with the provisions of the Bermuda Tourism Authority Act 2013.

A handwritten signature in black ink that reads "Heather M." with a stylized flourish at the end.

Hamilton, Bermuda
May 19, 2017

Heather Thomas, CPA, CFE, CGMA
Auditor General

BERMUDA TOURISM AUTHORITY
STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2016

	2016	2015
	\$	\$
FINANCIAL ASSETS		
Cash	2,459,184	2,418,907
Accounts receivable and accrued revenue (note 4)	415,768	197,925
Loans receivable (note 5)	6,301	7,529
Due from related parties (note 10)	39,478	21,011
Inventory	31,124	197,313
	2,951,855	2,842,685
LIABILITIES		
Accounts payable and accrued liabilities (note 6)	2,912,617	1,633,997
Due to the Government of Bermuda (note 10)	52,717	52,913
	2,965,334	1,686,910
NET (DEBT) FINANCIAL ASSETS	(13,479)	1,155,775
NON-FINANCIAL ASSETS		
Tangible capital assets (note 7)	206,917	311,385
Prepaid expenses	1,173,609	193,715
	1,380,526	505,100
ACCUMULATED SURPLUS	1,367,047	1,660,875
CONTRACTUAL OBLIGATIONS (note 14)		

The accompanying notes are an integral part of these financial statements

BERMUDA TOURISM AUTHORITY
STATEMENT OF OPERATIONS AND ACCUMULATED SURPLUS
FOR THE YEAR ENDED DECEMBER 31, 2016

	2016 Budget (note 16) \$	2016 \$	2015 \$
REVENUES			
Government of Bermuda grant (note 10)	22,450,000	22,450,000	22,049,250
Tourism authority fees (note 8)	5,275,000	5,757,941	3,376,484
Other income	100,000	-	4,501
	<u>27,825,000</u>	<u>28,207,941</u>	<u>25,430,235</u>
EXPENSES (note 9)			
Sales & marketing	17,183,750	16,167,180	15,529,331
Operations	8,732,917	9,104,565	8,299,096
Product development & experience	2,371,517	2,327,785	2,169,512
Research & business intelligence	460,645	475,707	370,585
Grants	320,000	320,000	320,000
Investment	100,000	106,532	518,298
	<u>29,168,829</u>	<u>28,501,769</u>	<u>27,206,822</u>
OPERATING DEFICIT	<u>(1,343,829)</u>	<u>(293,828)</u>	<u>(1,776,587)</u>
ACCUMULATED SURPLUS, BEGINNING OF YEAR		1,660,875	3,437,462
ACCUMULATED SURPLUS, END OF YEAR		<u>1,367,047</u>	<u>1,660,875</u>

The accompanying notes are an integral part of these financial statements

BERMUDA TOURISM AUTHORITY
STATEMENT OF CHANGE IN NET DEBT
FOR THE YEAR ENDED DECEMBER 31, 2016

	2016 \$	2015 \$
NET FINANCIAL ASSETS, BEGINNING OF YEAR	<u>1,155,775</u>	<u>3,008,888</u>
Operating deficit	(293,828)	(1,776,587)
Acquisition of tangible capital assets (note 7)	-	(72,415)
Amortization of tangible capital assets (note 7)	104,468	94,525
Change in prepaid expenses	<u>(979,894)</u>	<u>(98,636)</u>
DECREASE IN NET FINANCIAL ASSETS	<u>(1,169,254)</u>	<u>(1,853,113)</u>
NET (DEBT) FINANCIAL ASSETS, END OF YEAR	<u><u>(13,479)</u></u>	<u><u>1,155,775</u></u>

The accompanying notes are an integral part of these financial statements

BERMUDA TOURISM AUTHORITY
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2016

	2016	2015
	\$	\$
CASH FLOWS FROM OPERATING ACTIVITIES		
Operating deficit	(293,828)	(1,776,587)
Adjustments for items not affecting cash:		
Amortization of tangible capital assets	104,468	94,525
Changes in non-cash working capital:		
Decrease (increase) in inventory	166,189	(197,313)
(Increase) decrease in accounts receivable and accrued revenue	(217,843)	2,603
(Increase) decrease in due from related parties	(18,467)	101,154
Increase (decrease) in accounts payable and accrued liabilities	1,278,620	(379,081)
Decrease in due to the Government of Bermuda	(196)	(84,313)
Increase in prepaid expenses	(979,894)	(98,636)
	39,049	(2,337,648)
CASH FLOWS FROM CAPITAL ACTIVITY		
Acquisition of tangible capital assets	-	(72,415)
CASH FLOWS FROM INVESTING ACTIVITY		
Decrease in loans receivable	1,228	172,500
NET INCREASE (DECREASE) IN CASH	40,277	(2,237,563)
CASH, BEGINNING OF YEAR	2,418,907	4,656,470
CASH, END OF YEAR	2,459,184	2,418,907

The accompanying notes are an integral part of these financial statements

BERMUDA TOURISM AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016

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 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. 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 a Government of Bermuda grant and tourism authority fees. Government of Bermuda grants are recognized as revenues when the grant is authorized and any eligibility criteria are met.

The tourism authority fees are based on actual returns received and an accrued estimate relating to hotels which are required by the Act to file 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 includes a Bermuda dollar and US dollar checking and savings accounts with a local bank and an overseas bank.

BERMUDA TOURISM AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

d. 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.

e. 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.

f. 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.

g. 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 FINANCIAL STATEMENTS
DECEMBER 31, 2016

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

h. 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 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 financial statements and are reviewed annually to reflect new information as it becomes available. Actual results could differ from these estimates.

i. Financial instruments

Cash is recognized at cost. Accounts receivable and accrued income, loans receivable, due from related parties, accounts payable and accrued liabilities and due to the Government of Bermuda 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.

j. 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 FINANCIAL STATEMENTS
DECEMBER 31, 2016

4. ACCOUNTS RECEIVABLE AND ACCRUED REVENUE

	2016	2015
	\$	\$
Accounts receivable	417,554	58,593
Accrued revenue	18,617	160,153
Less: Allowance for doubtful accounts	(20,403)	(20,821)
	<u>415,768</u>	<u>197,925</u>

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

5. LOANS RECEIVABLE

	2016	2015
	\$	\$
Loans receivable	<u>6,301</u>	<u>7,529</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. At the beginning of the year, \$7,500 of this loan had been paid. No further payments have been made by the Authority. The loan is non-interest bearing and was due to be fully repaid in November 2016. However, as at December 31, 2016, only \$1,200 of this loan has been repaid.

6. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	2016	2015
	\$	\$
Trade payables	1,530,617	819,466
Benefits payable	787,728	216,958
Accrued expenses	531,418	597,573
Accrued vacation	62,854	-
	<u>2,912,617</u>	<u>1,633,997</u>

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

BERMUDA TOURISM AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016

7. TANGIBLE CAPITAL ASSETS

	Computer hardware and software \$	Equipment \$	Office furniture & fittings \$	Total \$
Cost				
At December 31, 2014	161,969	53,718	179,234	394,921
Additions	10,665	3,373	58,377	72,415
At December 31, 2015	172,634	57,091	237,611	467,336
Additions				
At December 31, 2016	172,634	57,091	237,611	467,336
Accumulated amortization				
At December 31, 2014	40,015	5,472	15,939	61,426
Amortization	56,270	13,012	25,243	94,525
At December 31, 2015	96,285	18,484	41,182	155,951
Amortization	57,293	12,585	34,590	104,468
At December 31, 2016	153,578	31,069	75,772	260,419
Net Book Value				
December 31, 2016	19,056	26,022	161,839	206,917
December 31, 2015	76,349	38,607	196,429	311,385

8. TOURISM AUTHORITY FEES

The tourism authority fee is imposed on each guest accommodated in the hotel. For the period from January 1, 2016 to April 30, 2016, this rate was 2.5% of the rack rate charge (the charge made for accommodations at a hotel), payable monthly in arrears. On March 28, 2016, the Bermuda Tourism Authority Amendment Act 2016 was passed into legislation which increased the tourism authority fee to 4.5% with effect from May 1, 2016.

BERMUDA TOURISM AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016

9. EXPENSES BY OBJECT

The following is a summary of expenses by object:

	2016	2015
	\$	\$
<u>Sales & marketing</u>		
Advertising	9,272,890	8,441,006
Promotions	1,333,695	456,968
International representation & activation	1,318,095	1,478,992
Partner marketing	1,247,407	2,369,404
Website	949,790	1,160,370
Group sales	811,556	593,621
Media relations & PR	582,931	630,535
Travel industry outreach	287,193	193,668
Social Media	254,553	186,597
Collateral	109,070	18,170
	<u>16,167,180</u>	<u>15,529,331</u>
	2016	2015
	\$	\$
<u>Operations:</u>		
Staff costs	6,368,380	5,174,566
General expenses	876,328	975,123
Premises	737,456	711,972
Communications & IT	550,986	595,932
Professional fees	204,984	207,991
Training & standards	139,096	119,183
Tourism appreciation	75,772	124,916
Bank fees and exchange costs	54,359	269,503
Maintenance	43,130	65,284
Marketing	27,981	3,776
Stakeholder relations & communication	23,922	48,332
Transport	2,171	2,518
	<u>9,104,565</u>	<u>8,299,096</u>

BERMUDA TOURISM AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016

9. EXPENSES BY OBJECT (continued)

	2016	2015
	\$	\$
<u>Product development & experience:</u>		
Contributions & grants	1,048,484	1,090,471
Events sponsorship	606,151	341,015
Services	313,102	439,084
Promotional & print	207,504	62,583
Activities / Attractions	118,364	51,446
Research	19,045	69,847
Real estate improvements	12,915	96,223
Public relations	2,220	18,843
	<u>2,327,785</u>	<u>2,169,512</u>
	2016	2015
	\$	\$
<u>Research and business intelligence:</u>		
Current consumer research	382,959	352,818
Local resident research	63,001	7,000
Market research	26,256	5,500
Other	3,491	5,267
	<u>475,707</u>	<u>370,585</u>
	2016	2015
	\$	\$
<u>Grants:</u>		
Bermuda Hospitality Institute	<u>320,000</u>	<u>320,000</u>

BERMUDA TOURISM AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016

9. EXPENSES BY OBJECT (continued)

	2016	2015
	\$	\$
<u>Investments:</u>		
Event sponsorship	60,712	-
Mangrove Bay	16,250	-
St. George's project	15,000	383,133
Other	14,570	1,105
Horseshoe Bay	-	134,060
	106,532	518,298
	28,501,769	27,206,822

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 \$2,649,905 and \$2,694,727 (2015: \$3,716,621 and \$3,894,523), respectively, resulting in a net cost of \$44,822 (2015: \$177,902) and is included in the services expenses as noted above. The transportation passes were acquired from the Government while rent and service charges were obtained from the West End Development Corporation ("WEDCO"). Both are related parties to the Authority.

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.

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 inclusive of 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. 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 received reimbursement of \$89,287 from ACBDA Limited ("ACBDA") for the provision of staff and paid the ACBDA \$47,500 for airport branding costs.

BERMUDA TOURISM AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2016

10. RELATED PARTY TRANSACTIONS (continued)

During the year, the Authority paid \$35,000 under a Partnership Agreement with the National Sports Centre to cover the cost of training facilities for sports teams.

At the end of the year, a balance of \$5,494 (2015: \$19,318) was due from WEDCO in relation to the return of shuttle passes, \$7,151 (2015: \$Nil) was due from ACBDA for reimbursements and \$26,833 (2015: \$Nil) was due from the Government for transportation passes returned.

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

	Transactions for the year		Due at year end	
	2016	2015	2016	2015
	\$	\$	\$	\$
Revenues and receivables:				
Government of Bermuda grant	22,450,000	22,049,250	-	-
Return of transportation passes	-	-	32,327	-
Reimbursements	<u>89,287</u>	<u>25,090</u>	<u>7,151</u>	<u>21,011</u>
	<u>22,539,287</u>	<u>22,074,340</u>	<u>39,478</u>	<u>21,011</u>
Expenses and payables:				
Transportation passes	2,113,860	3,497,408	-	-
Beach shuttle tokens	-	199,159	-	-
Foreign currency purchase tax	23,778	184,604	-	-
Social insurance	38,464	30,861	11,819	12,668
Partnership agreement	35,000	-	-	-
Airport branding costs	47,500	-	-	-
Rent and service charges	39,444	32,265	-	-
Payroll tax	<u>-</u>	<u>-</u>	<u>40,898</u>	<u>40,245</u>
	<u>2,298,046</u>	<u>3,944,297</u>	<u>52,717</u>	<u>52,913</u>

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 \$816,057 (2015: \$516,012). At year-end, there was \$33,388 (2015: \$14,724) of accrued revenue which is included in accounts receivable and accrued revenue. During the year, the Authority entered into an agreement for the sum of \$20,000 plus costs and expenses with a company which is owned by the spouse of a Board member, to provide support for the bid to host the World Triathlon Series. The Board member did not partake in any board discussions relating to this arrangement. The contract ended on December 16, 2016.

BERMUDA TOURISM AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016

11. 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 \$188,662 (2015: \$201,272).

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, 2016 of \$62,854 is included in accounts payable and accrued liabilities in the statement of operations and accumulated surplus. Accrued vacation as at December 31, 2015 of \$25,081 was not accrued in the accounts.

BERMUDA TOURISM AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016

12. 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. Other receivables

Other receivables consist of tourism authority fees, loans receivable and due from the related parties. 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	417,554	310,577	82,214	24,763
Accrued revenue	18,617	18,617	-	-
Loans receivable	6,301	-	-	6,301
Due from related parties	39,478	39,478	-	-
	<u>481,950</u>	<u>368,672</u>	<u>82,214</u>	<u>31,064</u>
Less: Impairment allowance	(20,403)	-	-	(20,403)
Net receivables	<u>461,547</u>	<u>368,672</u>	<u>82,214</u>	<u>10,661</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.

BERMUDA TOURISM AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2016

12. 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 days	90 + days
	\$	\$	\$	\$
Trade payables	1,530,617	1,530,617	-	-
Benefits payable	787,728	24,515	763,213	-
Accrued expenses	531,418	531,418	-	-
Accrued vacation	62,854	22,692	-	40,162
Due to the Government of Bermuda	52,717	52,717	-	-
	<u>2,965,334</u>	<u>2,161,959</u>	<u>763,213</u>	<u>40,162</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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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, 2016 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:

	2017	2018	2019	2020
	\$	\$	\$	\$
Operational	4,352,495	1,074,580	916,935	-
Product development grants	334,100	25,000	-	-
Property	551,047	557,825	535,756	17,937
	<u>5,237,642</u>	<u>1,657,405</u>	<u>1,452,691</u>	<u>17,937</u>

15. 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.

16. BUDGET

The budget was approved by the Board on May 31, 2016.

17. COMPARATIVE FIGURES

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

18. SUBSEQUENT EVENTS

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.