

BERMUDA TOURISM AUTHORITY

FINANCIAL STATEMENTS

DECEMBER 31, 2015

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.

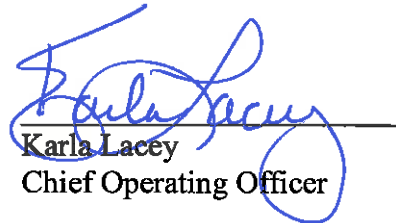
The Bermuda Tourism Authority's Board through the Audit and Risk Committee, is responsible for ensuring that management fulfills its responsibility for financial reporting and internal controls. The Audit and Risk Committee meets periodically with management to discuss matters relating to financial reporting, 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.

On behalf of the Bermuda Tourism Authority



William A. Hanbury
Chief Executive Officer



Karla Lacey
Chief Operating Officer

DATE July 13, 2016



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, 2015, and the statements of operations and accumulated surplus, change in net financial assets 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, 2015, and the 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.

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 other 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, 2015, have been in accordance with the provisions of the Bermuda Tourism Authority Act 2013.

A handwritten signature in blue ink, appearing to read "Heather Thomas".

Hamilton, Bermuda
July 13, 2016

Heather Thomas, CPA, CFE, CGMA
Auditor General

BERMUDA TOURISM AUTHORITY
STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2015

	2015	2014
	\$	\$
FINANCIAL ASSETS		
Cash	2,418,907	4,656,470
Accounts receivable and accrued revenue (note 4)	197,925	200,528
Loans receivable (note 5)	7,529	180,029
Due from the Government of Bermuda (note 10)	21,011	122,165
Inventory	197,313	-
	<u>2,842,685</u>	<u>5,159,192</u>
LIABILITIES		
Accounts payable and accrued liabilities (note 6)	1,633,997	2,013,078
Due to the Government of Bermuda (note 10)	52,913	137,226
	<u>1,686,910</u>	<u>2,150,304</u>
NET FINANCIAL ASSETS	<u>1,155,775</u>	<u>3,008,888</u>
NON-FINANCIAL ASSETS		
Tangible capital assets (note 7)	311,385	333,495
Prepaid expenses	193,715	95,079
	<u>505,100</u>	<u>428,574</u>
ACCUMULATED SURPLUS	<u>1,660,875</u>	<u>3,437,462</u>
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, 2015

	2015 Budget (note 16) \$	2015 \$	2014 \$
REVENUES			
Government of Bermuda grant (note 10)	22,049,250	22,049,250	21,050,495
Tourism authority fees (note 8)	3,600,000	3,376,484	3,418,706
Other income	<u>50,000</u>	<u>4,501</u>	<u>-</u>
	<u>25,699,250</u>	<u>25,430,235</u>	<u>24,469,201</u>
EXPENSES (note 9)			
Sales & marketing	16,287,500	15,529,331	9,733,834
Operations	9,003,829	8,299,096	6,725,223
Product development & experience	1,994,350	2,169,512	1,469,253
Investment	500,000	518,298	-
Research & business intelligence	394,060	370,585	333,530
Grants	320,000	320,000	225,000
Transition	<u>-</u>	<u>-</u>	<u>3,081,306</u>
	<u>28,499,739</u>	<u>27,206,822</u>	<u>21,568,146</u>
OPERATING (DEFICIT) SURPLUS	<u>(2,800,489)</u>	<u>(1,776,587)</u>	<u>2,901,055</u>
ACCUMULATED SURPLUS, BEGINNING OF YEAR		3,437,462	-
ACCUMULATED SURPLUS TRANSFERRED FROM THE TOURISM BOARD (note 17)		<u>-</u>	<u>536,407</u>
ACCUMULATED SURPLUS, END OF YEAR		<u>1,660,875</u>	<u>3,437,462</u>

The accompanying notes are an integral part of these financial statements

BERMUDA TOURISM AUTHORITY
STATEMENT OF CHANGE IN NET FINANCIAL ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2015

	2015	2014
	\$	\$
NET FINANCIAL ASSETS, BEGINNING OF YEAR	<u>3,008,888</u>	<u>-</u>
Operating (deficit) surplus	(1,776,587)	2,901,055
Transfer of tangible capital assets from the Tourism Board (note 17)	-	(2,110)
Acquisition of tangible capital assets (note 7)	(72,415)	(392,592)
Amortization of tangible capital assets (note 7)	94,525	61,207
Change in prepaid expenses	(98,636)	(79,064)
Transfer of prepaid expenses from the Tourism Board (note 17)	-	(16,015)
Net financial assets transferred from the Tourism Board (note 17)	<u>-</u>	<u>536,407</u>
(DECREASE)/INCREASE IN NET FINANCIAL ASSETS	<u>(1,853,113)</u>	<u>3,008,888</u>
NET FINANCIAL ASSETS, END OF YEAR	<u><u>1,155,775</u></u>	<u><u>3,008,888</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, 2015

	2015	2014
	\$	\$
CASH FLOWS FROM OPERATING ACTIVITIES		
Operating (deficit) surplus	(1,776,587)	2,901,055
Adjustments for items not affecting cash:		
Amortization of tangible capital assets	94,525	61,207
Net working capital transferred from the Tourism Board	-	534,297
Changes in non-cash working capital:		
Increase in inventory	(197,313)	-
Decrease (increase) in accounts receivable and accrued revenue	2,603	(200,528)
Decrease (increase) in due from the Government of Bermuda	101,154	(122,165)
(Decrease) increase in accounts payable and accrued liabilities	(379,081)	2,013,078
(Decrease) increase in due to the Government of Bermuda	(84,313)	137,226
Increase in prepaid expenses	(98,636)	(95,079)
	<u>(2,337,648)</u>	<u>5,229,091</u>
CASH FLOWS FROM CAPITAL ACTIVITY		
Acquisition of tangible capital assets	<u>(72,415)</u>	<u>(392,592)</u>
CASH FLOWS FROM INVESTING ACTIVITY		
Decrease (increase) in loans receivable	<u>172,500</u>	<u>(180,029)</u>
NET (DECREASE) INCREASE IN CASH	(2,237,563)	4,656,470
CASH, BEGINNING OF YEAR	<u>4,656,470</u>	<u>-</u>
CASH, END OF YEAR	<u><u>2,418,907</u></u>	<u><u>4,656,470</u></u>

The accompanying notes are an integral part of these financial statements

BERMUDA TOURISM AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2015

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 below:

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 is comprised of 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, 2015

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	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.

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, 2015

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 the Government of Bermuda, 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, 2015

4. ACCOUNTS RECEIVABLE AND ACCRUED REVENUE

	2015	2014
	\$	\$
Accounts receivable	58,593	53,061
Accrued revenue	160,153	160,677
Less: Allowance for doubtful accounts	(20,821)	(13,210)
	197,925	200,528

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 at the year end.

5. LOANS RECEIVABLE

	2015	2014
	\$	\$
Loans receivable	7,529	180,029

In January 2015, the Authority agreed to provide a loan of \$15,000 to an Experience Developer for the development of a tourism product. During the year, \$7,500 of this loan had been paid. The loan is non-interest bearing and is repayable in 2 installments of \$5,000 in November 2015 and \$10,000 in November 2016. The loan is subject to a Promissory Note in favor of the Authority. As at December 31, 2015, this loan has not been repaid.

The loan made in 2014 was repaid on April 30, 2015.

6. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	2015	2014
	\$	\$
Trade payables	819,466	693,088
Accrued expenses	597,573	733,909
Benefits payable	216,958	519,981
Accrued vacation	-	66,100
	1,633,997	2,013,078

BERMUDA TOURISM AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2015

6. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES (continued)

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

7. TANGIBLE CAPITAL ASSETS

	Computer hardware and software \$	Equipment \$	Office furniture & fittings \$	Total \$
Cost				
Transfer from Tourism Board	2,329	-	-	2,329
Additions	159,640	53,718	179,234	392,592
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
Accumulated amortization				
Transfer from Tourism Board	219	-	-	219
Amortization	39,796	5,472	15,939	61,207
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
Net Book Value				
December 31, 2015	76,349	38,607	196,429	311,385
December 31, 2014	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.

BERMUDA TOURISM AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2015

9. EXPENSES BY OBJECT

The following is a summary of expenses by object:

	2015	2014
	\$	\$
<u>Sales & marketing:</u>		
Advertising	8,441,006	5,359,821
Partner marketing	2,369,404	573,965
International representation & activation	1,478,992	466,687
Website	1,160,370	-
Media relations & PR	630,535	614,722
Group sales	593,621	1,076,241
Promotions	456,968	43,934
Travel industry outreach	193,668	80,615
Social Media	186,597	-
Collateral	18,170	7,922
Events sponsorship	-	1,509,927
	15,529,331	9,733,834
	2015	2014
	\$	\$
<u>Operations:</u>		
Staff costs	5,174,566	4,522,333
General expenses	975,123	537,845
Premises	711,972	494,702
Communications & IT	595,932	592,624
Bank fees and exchange costs	269,503	245,777
Professional fees	207,991	224,403
Stakeholder relations & communication	173,248	-
Training & standards	119,183	88,553
Maintenance	65,284	3,384
Marketing	3,776	9,901
Transport	2,518	5,701
	8,299,096	6,725,223

BERMUDA TOURISM AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2015

9. EXPENSES BY OBJECT (continued)

	2015	2014
	\$	\$
<u>Product development & experience:</u>		
Contributions & Grants	1,090,471	721,766
Services	439,084	327,661
Events sponsorship	341,015	343,242
Real Estate Improvements	96,223	15,666
Product research	69,847	-
Promotional & print	62,583	-
Activities / Attractions	51,446	46,742
Public Relations	18,843	14,176
	2,169,512	1,469,253
	2015	2014
	\$	\$
<u>Investments:</u>		
St. George's project	383,133	-
Horseshoe Bay	134,060	-
Other	1,105	-
	518,298	-
	2015	2014
	\$	\$
<u>Research and business intelligence:</u>		
Current consumer research	352,818	291,352
Local resident research	7,000	13,672
Market research	5,500	17,415
Other	5,267	11,091
	370,585	333,530
	2015	2014
	\$	\$
<u>Grants:</u>		
Bermuda Hospitality Institute	320,000	225,000

BERMUDA TOURISM AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2015

9. EXPENSES BY OBJECT (continued)

	2015	2014
	\$	\$
<u>Transition:</u>		
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
	27,206,822	21,568,146

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, beach shuttle tokens and some merchandise. The gross revenue and expenses related to this operation were \$3,716,621 and \$3,894,523, respectively, resulting in a net cost of \$177,902 and is included in the services expenses as noted above. The transportation passes were acquired from the Government of Bermuda while rent and service charges and beach shuttle tokens 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.

During the period from April 1, 2015 to December 31, 2015 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.

At the end of the year, a balance of \$19,318 was due from WEDCO in relation to the purchase of shuttle passes.

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

BERMUDA TOURISM AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2015

10. RELATED PARTY TRANSACTIONS (continued)

The Authority had the following transactions with the Government:

	Transactions for the period		Due at the period end	
	2015	2014	2015	2014
	\$	\$	\$	\$
Revenues and receivables:				
Government of Bermuda grant	22,049,250	21,050,495	-	-
Reimbursement of funds	25,090	128,368	21,011	122,165
	<u>22,074,340</u>	<u>21,178,863</u>	<u>21,011</u>	<u>122,165</u>
Expenses and payables:				
Transportation passes	3,497,408	-	-	-
Beach shuttle tokens	199,159	-	-	-
Foreign currency purchase tax	184,604	115,872	-	-
Social insurance	30,861	27,622	12,668	11,384
Rent and service charges	32,265	-	-	-
Payroll tax	-	131,470	40,245	125,842
	<u>3,944,297</u>	<u>274,964</u>	<u>52,913</u>	<u>137,226</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 \$516,012 (2014: \$514,465). At period-end, there was \$14,724 (2014: \$15,005) of accrued revenue which is included in accounts receivable and accrued revenue.

11. EMPLOYEE FUTURE BENEFITS

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 includes a life insurance benefit. All employees who are contributing to the plans are covered under a group life policy.

BERMUDA TOURISM AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2015

11. EMPLOYEE FUTURE BENEFITS (continued)

a. Pension plans (continued)

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 period were \$201,272 (2014: \$144,973).

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 period and therefore, no liability has been accrued in the accounts.

Sick leave does not accumulate or vest, and like maternity 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 period and therefore, no liability has been accrued in the accounts.

Vacation days accumulate and vest and therefore a liability is accrued each period. The accrued liability at December 31, 2014 is \$66,100 and is included in accounts payable and accrued liabilities. The accrued liability at December 31, 2015 of \$25,081 has not been accrued in the accounts.

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.

BERMUDA TOURISM AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2015

12. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

a. Credit risk (continued)

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 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.

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

	Total	Current	31 - 90 days	90 + days
	\$	\$	\$	\$
Accounts receivable	58,593	30,491	13,483	14,619
Accrued revenue	160,153	160,153	-	-
Due from the Government of Bermuda	21,011	21,011	-	-
	<u>239,757</u>	<u>211,655</u>	<u>13,483</u>	<u>14,619</u>
Less: Impairment allowance	(20,821)	-	(6,202)	(14,619)
Net receivables	<u>218,936</u>	<u>211,655</u>	<u>7,281</u>	<u>-</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, 2015

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	819,466	819,466	-	-
Accrued expenses	597,573	597,573	-	-
Benefits payable	216,958	30,958	-	186,000
Due to the Government of Bermuda	52,913	52,913	-	-
	<u>1,686,910</u>	<u>1,500,910</u>	<u>-</u>	<u>186,000</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

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.

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, 2015 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:

	2016	2017	2018	2019	2020
	\$	\$	\$	\$	\$
Product development grants	210,000	-	-	-	-
Operational	2,193,573	1,626,550	-	-	-
Property	545,096	545,096	545,096	515,904	16,233
	<u>2,948,669</u>	<u>2,171,646</u>	<u>545,096</u>	<u>515,904</u>	<u>16,233</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 FIGURES

The budget was approved by the Board on April 22, 2015.

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17. 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:

	2014
	\$
Cash	993,500
Accounts receivable and accrued revenue	519,699
Accounts payable and accrued liabilities	(994,917)
Tangible capital assets	2,110
Prepaid expenses	<u>16,015</u>
	<u>536,407</u>

18. COMPARATIVE FIGURES

The Authority was established on December 16, 2013 and the comparative period figures relate to a period from December 16, 2013 to December 31, 2014. The Authority commenced operations on April 1, 2014 and costs incurred in the period from December 16, 2013 to March 31, 2014 are included in the transition costs within the expenses in the statement of operations and accumulated surplus.

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

19. SUBSEQUENT EVENTS

On March 28, 2016, an amendment to the Bermuda Tourism Authority Act 2013 was passed which increased the tourism authority fee to 4.5% with effect from May 1, 2016.