

**BERMUDA TOURISM AUTHORITY**  
**CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2017**

**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 financial reporting, internal control and audits. The Audit and Risk Committee also reviews the consolidated 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 29 June 2018



## ***Office of the Auditor General***

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### **INDEPENDENT AUDITOR'S REPORT**

To the Minister of Economic Development and Tourism

#### **Report on the Consolidated Financial Statements**

I have audited the accompanying consolidated financial statements of the Bermuda Tourism Authority, which comprise the consolidated statement of financial position as at December 31, 2017, and the consolidated 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 Consolidated Financial Statements**

Management is responsible for the preparation and fair presentation of these 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.

#### **Auditor's Responsibility**

My responsibility is to express an opinion on these consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Bermuda Tourism Authority as at December 31, 2017, and its consolidated results of 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 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, 2017, have been in accordance with the provisions of the Bermuda Tourism Authority Act 2013.

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

Hamilton, Bermuda  
June 29, 2018

Heather Thomas, CPA, CFE, CGMA  
Auditor General

**BERMUDA TOURISM AUTHORITY**  
**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**  
**DECEMBER 31, 2017**

	2017	2016
	\$	\$
<b>FINANCIAL ASSETS</b>		
Cash	5,501,997	2,459,184
Accounts receivable and accrued revenue (note 4)	753,260	415,768
Loans receivable (note 5)	2,301	6,301
Due from related parties (note 11)	-	39,478
Inventory	70,932	31,124
	6,328,490	2,951,855
<b>LIABILITIES</b>		
Accounts payable and accrued liabilities (note 7)	2,537,977	2,912,617
Due to related parties (note 11)	50,209	52,717
	2,588,186	2,965,334
<b>NET FINANCIAL ASSETS (DEBT)</b>	<b>3,740,304</b>	<b>(13,479)</b>
<b>NON-FINANCIAL ASSETS</b>		
Tangible capital assets (note 8)	560,920	206,917
Prepaid expenses	35,529	1,173,609
	596,449	1,380,526
<b>ACCUMULATED SURPLUS</b>	<b>4,336,753</b>	<b>1,367,047</b>
<b>CONTRACTUAL OBLIGATIONS (note 15)</b>		

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, 2017**

	2017 Budget (note 17) \$	2017 \$	2016 \$
<b>REVENUES</b>			
Government of Bermuda grant - Bermuda Tourism Authority (note 11)	24,425,000	24,425,000	22,450,000
Tourism authority fees (note 9)	6,521,488	7,965,189	5,757,941
Government of Bermuda grant - WTSBDA Ltd. (notes 10 and 11)	2,164,149	2,164,149	-
Other income	30,000	-	-
	<u>33,140,637</u>	<u>34,554,338</u>	<u>28,207,941</u>
<b>EXPENSES (note 10)</b>			
Sales & marketing	18,056,000	18,031,210	16,167,180
Operations	9,889,317	9,469,894	9,104,565
Product experience & development	2,502,112	2,402,314	2,327,785
WTSBDA Ltd.	949,626	622,206	-
Research & business intelligence	571,700	611,289	475,707
Grants	320,000	320,000	320,000
Investment	226,000	127,719	106,532
	<u>32,514,755</u>	<u>31,584,632</u>	<u>28,501,769</u>
<b>OPERATING SURPLUS (DEFICIT)</b>	<u>625,882</u>	<u>2,969,706</u>	<u>(293,828)</u>
<b>ACCUMULATED SURPLUS, BEGINNING OF YEAR</b>		<u>1,367,047</u>	<u>1,660,875</u>
<b>ACCUMULATED SURPLUS, END OF YEAR</b>		<u>4,336,753</u>	<u>1,367,047</u>

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

BERMUDA TOURISM AUTHORITY  
CONSOLIDATED STATEMENT OF CHANGE IN NET FINANCIAL ASSETS  
FOR THE YEAR ENDED DECEMBER 31, 2017

	2017 \$	2016 \$
NET (DEBT) FINANCIAL ASSETS, BEGINNING OF YEAR	<u>(13,479)</u>	<u>1,155,775</u>
Operating surplus (deficit)	2,969,706	(293,828)
Acquisition of tangible capital assets (note 8)	(419,478)	-
Amortization of tangible capital assets (note 8)	65,475	104,468
Change in prepaid expenses	<u>1,138,080</u>	<u>(979,894)</u>
INCREASE (DECREASE) IN NET FINANCIAL ASSETS	<u>3,753,783</u>	<u>(1,169,254)</u>
NET FINANCIAL ASSETS (DEBT), END OF YEAR	<u><u>3,740,304</u></u>	<u><u>(13,479)</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, 2017**

	2017	2016
	\$	\$
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Operating surplus (deficit)	2,969,706	(293,828)
Adjustments for items not affecting cash:		
Amortization of tangible capital assets	65,475	104,468
Changes in non-cash working capital:		
(Increase) decrease in inventory	(39,808)	166,189
Increase in accounts receivable and accrued revenue	(337,492)	(217,843)
Decrease (increase) in due from related parties	39,478	(18,467)
(Decrease) increase in accounts payable and accrued liabilities	(374,640)	1,278,620
Decrease in due to related parties	(2,508)	(196)
Decrease (increase) in prepaid expenses	1,138,080	(979,894)
	<u>3,458,291</u>	<u>39,049</u>
<b>CASH FLOWS FROM CAPITAL ACTIVITY</b>		
Acquisition of tangible capital assets	<u>(419,478)</u>	<u>-</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Decrease in loans receivable	<u>4,000</u>	<u>1,228</u>
Net cash generated from investing activities	<u>4,000</u>	<u>1,228</u>
<b>NET INCREASE IN CASH</b>	<b>3,042,813</b>	<b>40,277</b>
<b>CASH, BEGINNING OF YEAR</b>	<b><u>2,459,184</u></b>	<b><u>2,418,907</u></b>
<b>CASH, END OF YEAR</b>	<b><u>5,501,997</u></b>	<b><u>2,459,184</u></b>

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



BERMUDA TOURISM AUTHORITY  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2017

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. 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 accounts and transactions between these organizations 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 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.

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, 2017

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, 2017

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

i. 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.

j. 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 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  
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4. ACCOUNTS RECEIVABLE AND ACCRUED REVENUE

	2017	2016
	\$	\$
Accounts receivable	731,746	417,554
Accrued revenue	21,514	18,617
Less: Allowance for doubtful accounts	-	(20,403)
	753,260	415,768

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

	2017	2016
	\$	\$
Loans receivable	2,301	6,301

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, \$8,699 of this loan had been paid. During the year, \$4,000 was received by the Authority. The loan is non-interest bearing and was due to be fully repaid in November 2016.

6. INVESTMENTS

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

On November 23, 2017, 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.

BERMUDA TOURISM AUTHORITY  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
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7. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	2017	2016
	\$	\$
Trade payables	762,174	1,530,617
Benefits payable	831,851	787,728
Accrued expenses	883,982	531,418
Accrued vacation	59,970	62,854
	2,537,977	2,912,617

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

8. TANGIBLE CAPITAL ASSETS

	Computer hardware and software \$	Equipment \$	Office furniture & fittings \$	Asset under construction \$	Total \$
<b>Cost</b>					
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
Additions	4,658	-	71,909	342,911	419,478
At December 31, 2017	177,292	57,091	309,520	342,911	886,814
<b>Accumulated amortization</b>					
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
Amortization	18,253	11,626	35,596	-	65,475
At December 31, 2017	171,831	42,695	111,368	-	325,894
<b>Net Book Value</b>					
December 31, 2017	5,461	14,396	198,152	342,911	560,920
December 31, 2016	19,056	26,022	161,839	-	206,917

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

BERMUDA TOURISM AUTHORITY  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
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9. TOURISM AUTHORITY 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.

10. EXPENSES BY OBJECT

The following is a summary of expenses by object:

	2017	2016
	\$	\$
<u>Sales &amp; marketing</u>		
Advertising	8,920,873	9,272,890
Partner marketing	4,115,541	1,247,407
International representation & activation	1,263,047	1,318,095
Media relations & PR	860,430	582,931
Website	804,455	949,790
Group sales	745,947	811,556
Promotions	564,114	1,333,695
Social media	320,945	254,553
Travel industry outreach	297,072	287,193
Collateral	111,614	109,070
Research	27,172	-
	18,031,210	16,167,180
	2017	2016
	\$	\$
<u>Operations</u>		
Staff costs	6,637,850	6,368,380
General expenses	780,914	876,328
Premises	760,637	737,456
Communications & IT	509,479	550,986
Professional fees	265,974	204,984
Training & standards	241,663	139,096
Tourism appreciation	103,298	75,772
Bank fees and exchange costs	62,446	54,359
Stakeholder relations	33,152	23,922
Sponsorship	32,705	-
Maintenance	30,812	43,130
Marketing	9,636	27,981
Transport	1,328	2,171
	9,469,894	9,104,565

BERMUDA TOURISM AUTHORITY  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
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10. EXPENSES BY OBJECT (continued)

	2017	2016
	\$	\$
<u>Product &amp; experience development</u>		
Contributions & grants	930,163	1,048,484
Events sponsorship	547,543	606,151
Services	405,232	313,102
Activities / Attractions	358,796	118,364
Promotional & print	141,647	207,504
Real estate improvements	10,320	12,915
Research	8,313	19,045
Public relations	300	2,220
	<u>2,402,314</u>	<u>2,327,785</u>

	2017	2016
	\$	\$
<u>WTSBDA Ltd.</u>		
Course management	11,616	-
Race operations	38,622	-
Event management	571,968	-
	<u>622,206</u>	<u>-</u>

	2017	2016
	\$	\$
<u>Research and business intelligence</u>		
Current consumer research	429,898	382,959
Market research	97,573	26,256
Product research	78,846	-
Local resident research	2,500	63,001
Other	2,472	3,491
	<u>611,289</u>	<u>475,707</u>

BERMUDA TOURISM AUTHORITY  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2017

10. EXPENSES BY OBJECT (continued)

	2017	2016
	\$	\$
<u>Grants</u>		
Bermuda Hospitality Institute	320,000	320,000
	2017	2016
	\$	\$
<u>Investments</u>		
Event sponsorship	127,719	60,712
Mangrove Bay	-	16,250
St. George's project	-	15,000
Other	-	14,570
	127,719	106,532
	31,584,632	28,501,769

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 \$2,204,520 and \$2,315,422 (2016: \$2,649,905 and \$2,694,727), respectively, resulting in a net cost of \$110,902 (2016: \$44,822) and is included in the Services cost in Product and Experience Development expenses noted above. 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 will be taken over by BVSC during 2018 (note 6).

WTSBDA

WTSDBA is responsible for managing all aspects of the World Triathlon Series in Bermuda. It commenced operations during 2017 and received a grant of \$2,164,149 from the Government. It incurred expenses of \$622,206 resulting in a surplus of \$1,541,943 for the year.



BERMUDA TOURISM AUTHORITY  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
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11. 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 (note 10). 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 \$56,215 (2016: \$89,287) from ACBDA Limited ("ACBDA") for the provision of staff and paid ACBDA \$Nil (2016: \$47,500) for airport branding costs.

During the year, the Authority paid \$67,240 (2016: \$35,000) to related parties to support events included within the product and experience development programme.

At the end of the year, a balance of \$Nil (2016: \$5,494) was due from WEDCO in relation to the return of shuttle passes, \$Nil (2016: \$7,151) was due from ACBDA for reimbursements and \$Nil (2016: \$26,833) was due from the Government for transportation passes returned.

BERMUDA TOURISM AUTHORITY  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
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11. RELATED PARTY TRANSACTIONS (continued)

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

	Transactions for the year		Due at year end	
	2017	2016	2017	2016
	\$	\$	\$	\$
<b>Revenues and receivables:</b>				
Government of Bermuda grant	26,589,149	22,450,000	-	-
Return of transportation passes	-	-	-	32,327
Reimbursement of funds	<u>56,215</u>	<u>89,287</u>	-	<u>7,151</u>
	<u>26,645,364</u>	<u>22,539,287</u>	<u>-</u>	<u>39,478</u>
<b>Expenses and payables:</b>				
Transportation passes	1,970,183	2,113,860	-	-
Foreign currency purchase tax	-	23,778	-	-
Social insurance	41,336	38,464	6,984	11,819
Events sponsorship	67,240	35,000	-	-
Duty	3,269	-	-	-
Airport branding	-	47,500	-	-
Rent and service charges	50,359	39,444	-	-
Payroll tax	-	-	43,225	40,898
	<u>2,132,387</u>	<u>2,298,046</u>	<u>50,209</u>	<u>52,717</u>

During the year, 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 \$1,056,225 (2016: \$816,057). At year-end, there was \$28,375 (2016: \$33,388) of accrued revenue which is included in accounts receivable and accrued revenue. During the year, a subsidiary company of the Authority, WTSBDA Ltd, entered into an agreement for the sum of \$185,000 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. The Board member did not partake in any board discussions relating to this arrangement.

BERMUDA TOURISM AUTHORITY  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2017

12. 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 \$203,240 (2016: \$188,662).

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, 2017 of \$59,970 (2016: \$62,854) is included in accounts payable and accrued liabilities.

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13. 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	731,746	351,657	94,460	285,629
Accrued revenue	21,514	21,514	-	-
Loans receivable	2,301	-	-	2,301
	<u>755,561</u>	<u>373,171</u>	<u>94,460</u>	<u>287,930</u>
Less: Impairment allowance	-	-	-	-
Net receivables	<u>755,561</u>	<u>373,171</u>	<u>94,460</u>	<u>287,930</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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13. 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	762,174	762,174	-	-
Accrued expenses	883,982	883,982	-	-
Benefits payable	831,851	19,783	812,068	-
Accrued vacation	59,970	-	3,298	56,672
Due to related parties	50,209	50,209	-	-
	<u>2,588,186</u>	<u>1,716,148</u>	<u>815,366</u>	<u>56,672</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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14. 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.

15. 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, 2017 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:

	2018	2019	2020
	\$	\$	\$
Operational	2,843,660	961,735	42,800
Product development grants	105,000	-	-
WTSBDA	560,587	350,000	350,000
Property	557,825	535,756	17,937
	<u>4,067,072</u>	<u>1,847,491</u>	<u>410,737</u>

16. 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.

17. BUDGET

The budget was approved by the Board.

18. SUBSEQUENT EVENTS

There were no subsequent events.