

BERMUDA TOURISM AUTHORITY
CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2019

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 consolidated financial statements necessarily involves using management's best estimates and judgments, where appropriate.

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

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



Glenn Jones
Chief Executive Officer

Karla Lacey

Karla Lacey
Chief Operating Officer

DATE 27 July 2020

Signature:


Karla Lacey (Jul 28, 2020 12:18 ADT)

Email: klacey@bermudatourism.com



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INDEPENDENT AUDITOR'S REPORT

To the Premier

Report on the Audit of the Consolidated Financial Statements

Opinion

I have audited the consolidated financial statements of the Bermuda Tourism Authority, which comprise the consolidated statement of financial position as at December 31, 2019, and the consolidated statements of operations and accumulated surplus, change in net debt and cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In my opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Bermuda Tourism Authority as at December 31, 2019, and the consolidated results of its operations, consolidated changes in its net debt and its consolidated cash flows for the year then ended in accordance with public sector accounting standards generally accepted in Bermuda and Canada.

Basis for Opinion

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

Emphasis of matter

The accompanying consolidated financial statements have been prepared assuming that the Bermuda Tourism Authority will continue as a going concern. As more fully described in notes 3 and 21, in March 2020, the World Health Organization officially declared the outbreak of the novel coronavirus (COVID-19), a global pandemic. Given the inherent uncertainties, it is not practicable at this time to determine the impact of COVID-19 on the future operating and financial performance of the Bermuda Tourism Authority or to provide a quantitative estimate of this impact. These conditions may give rise to a material uncertainty that could raise substantial doubt about the Bermuda Tourism Authority's ability to continue as a going concern. My opinion is not modified in respect of this matter.

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

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with public sector accounting standards generally accepted in Bermuda and Canada, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

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

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

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

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

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

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

Report on Other Legal and Regulatory Requirements

As required by Section 20 of the Bermuda Tourism Authority Act 2013, I also report that, in my opinion, proper accounting and supporting records have been kept and that the receipt, expenditure and investment of moneys and the acquisition and disposal of assets by the Bermuda Tourism Authority during the year ended December 31, 2019, have been in accordance with the provisions of the Bermuda Tourism Authority Act 2013.



Hamilton, Bermuda

June 26, 2020

Except as to Note 21 (b), which is as of July 27, 2020

Heather Thomas, CPA, CFE, CGMA

Auditor General

BERMUDA TOURISM AUTHORITY
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT DECEMBER 31, 2019

	2019	2018
	\$	\$
FINANCIAL ASSETS		
Cash	7,406,667	7,487,361
Accounts receivable and accrued revenue (note 4)	506,394	527,556
Loans receivable (note 5)	-	2,301
Due from related parties (note 13)	9,693	-
Inventory	158,559	88,698
	8,081,313	8,105,916
LIABILITIES		
Accounts payable and accrued liabilities (note 7)	1,668,134	3,267,307
Deferred income (note 8)	460,620	800,000
Long-term debt (note 10)	8,425,571	-
Due to related parties (note 13)	132,250	275,410
	10,686,575	4,342,717
NET (DEBT) FINANCIAL ASSETS	(2,605,262)	3,763,199
NON-FINANCIAL ASSETS		
Tangible capital assets (note 9)	2,215,989	1,866,732
Prepaid expenses	1,825,691	286,178
	4,041,680	2,152,910
ACCUMULATED SURPLUS	1,436,418	5,916,109
CONTRACTUAL OBLIGATIONS (note 17)		

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, 2019

	2019 Budget (note 19) \$	2019 \$	2018 \$
REVENUES			
Government of Bermuda grant - Bermuda Tourism Authority (note 13)	23,125,000	23,714,380	25,100,000
Cruise ship passenger fee (note 11)	7,563,520	7,882,752	-
Tourism authority fees (note 11)	8,200,161	7,836,213	8,171,774
Other income	3,061,625	2,860,542	2,969,093
Government of Bermuda grant - WTSBDA (note 13)	2,119,334	2,119,334	2,420,823
Vacation rental fees (note11)	300,000	611,141	48,319
	<u>44,369,640</u>	<u>45,024,362</u>	<u>38,710,009</u>
EXPENSES (note 12)			
Sales & marketing	22,877,300	21,983,423	18,061,182
Operations	18,880,255	15,943,077	16,503,993
Grants	-	10,202,495	320,000
Experience development	798,500	756,602	1,656,738
Business intelligence and technology	778,368	618,456	588,740
	<u>43,334,423</u>	<u>49,504,053</u>	<u>37,130,653</u>
ANNUAL (DEFICIT) SURPLUS	<u>1,035,217</u>	(4,479,691)	1,579,356
ACCUMULATED SURPLUS, BEGINNING OF YEAR		5,916,109	4,336,753
ACCUMULATED SURPLUS, END OF YEAR		<u>1,436,418</u>	<u>5,916,109</u>

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

BERMUDA TOURISM AUTHORITY
CONSOLIDATED STATEMENT OF CHANGE IN NET DEBT
FOR THE YEAR ENDED DECEMBER 31, 2019

	2019	2018
	\$	\$
NET FINANCIAL ASSETS, BEGINNING OF YEAR	<u>3,763,199</u>	<u>3,740,304</u>
Annual (deficit) surplus	(4,479,691)	1,579,356
Acquisition of tangible capital assets (note 9)	(810,208)	(1,368,398)
Amortization of tangible capital assets (note 9)	436,986	62,586
Write-downs of tangible capital assets (note 9)	23,965	-
Change in prepaid expenses	<u>(1,539,513)</u>	<u>(250,649)</u>
(DECREASE) INCREASE IN NET FINANCIAL ASSETS	<u>(6,368,461)</u>	<u>22,895</u>
NET (DEBT) FINANCIAL ASSETS , END OF YEAR	<u><u>(2,605,262)</u></u>	<u><u>3,763,199</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, 2019

	2019	2018
	\$	\$
CASH FLOWS FROM OPERATING ACTIVITIES		
Annual (deficit) surplus	(4,479,691)	1,579,356
Adjustments for items not affecting cash:		
Amortization of tangible capital assets	436,986	62,586
Bad debts	107,606	-
Write-downs of tangible capital assets	23,965	-
Loans receivable written-off	2,301	-
Unamortized loan transaction costs	(74,429)	-
Changes in non-cash working capital:		
Increase in inventory	(69,861)	(17,766)
(Increase) decrease in accounts receivable and accrued revenue	(86,444)	225,704
Increase in due from related parties	(9,693)	-
(Decrease) increase in deferred income	(339,380)	800,000
(Decrease) increase in accounts payable and accrued liabilities	(1,599,173)	729,330
(Decrease) increase in due to related parties	(143,160)	225,201
Increase in prepaid expenses	(1,539,513)	(250,649)
	<u>(7,770,486)</u>	<u>3,353,762</u>
CASH FLOWS FROM CAPITAL ACTIVITY		
Acquisition of tangible capital assets	(810,208)	(1,368,398)
	<u>(810,208)</u>	<u>(1,368,398)</u>
CASH FLOWS FROM FINANCING ACTIVITY		
Drawdown of long-term debt	10,000,000	-
Repayment of long-term debt	(1,500,000)	-
	<u>8,500,000</u>	<u>-</u>
Net cash generated from financing activities	8,500,000	-
	<u>8,500,000</u>	<u>-</u>
NET (DECREASE) INCREASE IN CASH	(80,694)	1,985,364
CASH, BEGINNING OF YEAR	<u>7,487,361</u>	<u>5,501,997</u>
CASH, END OF YEAR	<u><u>7,406,667</u></u>	<u><u>7,487,361</u></u>
Interest paid	<u>322,868</u>	<u>-</u>

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

BERMUDA TOURISM AUTHORITY
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2019

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 of Bermuda (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 another government organization and has adopted policies appropriate for the classification. The accounting policies considered particularly significant are set out as follows:

a. Basis of preparation and consolidation

These consolidated financial statements have been prepared by management in accordance with public sector accounting standards generally accepted in Bermuda and Canada. These consolidated financial statements have been prepared on a going concern basis (see Note 3).

The consolidated financial statements reflect the assets, liabilities, revenues and expenses of the Authority and its 100% owned subsidiaries, WTSBDA Ltd. (“WTSBDA”) and Bermuda Visitor Services Centre Ltd. (“BVSC”). All inter-entity balances and transactions between these 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 the Government grants, cruise ship passenger fees, tourism authority fees, vacation rental fees and other income.

BERMUDA TOURISM AUTHORITY
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2019

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

b. Revenue recognition (continued)

The Government 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 and properties which are required by the Act to file returns and remit the related fees. This estimate has been made by management using the latest information available to the Authority. Vacation rental fees are recognized in the period in which the visitor stays except where the booking has been made through a booking agent, in which case income is recognized in the period of booking. Cruise ship passenger fees and other income, which includes income from subsidiaries, is recognized in the period in which it relates.

c. Expenses

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

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 and the World Triathlon events. They are recorded at the lower of cost and net realizable value and cost is determined using the first-in, first-out method.

BERMUDA TOURISM AUTHORITY
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2019

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

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:

Office furniture & fittings	7 years
Building	10 years or over the lease term
Equipment	3 - 5 years
Computer hardware and software	3 years
Leasehold improvements	Over term of the lease

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.

i. Long-term debt

Long-term debt is initially measured at fair value and subsequently measured at amortized cost. Transaction costs and financing fees are amortized on a straight-line basis.

j. Measurement uncertainty

These consolidated financial statements are prepared in accordance with public sector accounting standards generally accepted in Bermuda and Canada. These standards require management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities, at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the year.

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

BERMUDA TOURISM AUTHORITY
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2019

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

k. Financial instruments

Cash is recognized at cost. Accounts receivable and accrued revenue, due from related parties, loans receivable, accounts payable, accrued liabilities, long-term debt 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.

l. 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 and receives an annual grant to fund its operations. The ability of the Authority to continue as a going concern and discharge its liabilities in the normal course of business is dependent upon the continued support of the Government. During the year, the Authority received a government grant of \$25,833,714 (2018: \$27,520,823). In addition, the Government has committed to a grant of \$22,500,000 for the year ended December 31, 2020.

4. ACCOUNTS RECEIVABLE AND ACCRUED REVENUE

	2019	2018
	\$	\$
Accounts receivable	466,238	274,829
Accrued revenue	147,762	193,795
Other receivables	-	58,932
	<u>614,000</u>	<u>527,556</u>
Less: Allowance for doubtful debts	<u>(107,606)</u>	<u>-</u>
	<u><u>506,394</u></u>	<u><u>527,556</u></u>

BERMUDA TOURISM AUTHORITY
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2019

4. ACCOUNTS RECEIVABLE AND ACCRUED REVENUE (continued)

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

5. LOANS RECEIVABLE

	2019	2018
	\$	\$
Loans receivable	-	2,301

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. A total of \$12,699 of this loan had been paid in the prior years. The loan is non-interest bearing and was due to be fully repaid in November 2016. In 2019, the outstanding loan receivable of \$2,301 was written-off.

6. INVESTMENTS

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

On November 23, 2017, Bermuda Visitor Services Centre Ltd ("BVSC") was incorporated. The authorized share capital of BVSC is 100 shares at \$1 per share and they have been fully subscribed for, and allotted to, the Authority. BVSC was formed for the purpose of managing the visitor service centres in Bermuda. BVSC started operating in September 2018 (note 12).

7. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	2019	2018
	\$	\$
Trade payables	1,026,956	848,050
Accrued expenses	558,982	1,535,743
Accrued vacation	74,615	48,899
Benefits payable	7,581	834,615
	1,668,134	3,267,307

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 CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2019

8. DEFERRED INCOME

In 2019, the Authority received an additional grant of \$250,000 (2018: \$750,000) from the Government, which was only to be used to fund specific and agreed projects. During the year, \$339,380 (2018: \$100,000) had been used for certain projects. The remaining balance as at December 31, 2019 amounted to \$310,620 has been included in deferred income.

In 2018, the Authority also received funding of \$150,000 from a Cruise Line to provide an enhanced visitor experience. As at the year-end that income had not been expended and is included in deferred income.

9. TANGIBLE CAPITAL ASSETS

	Buildings	Office furniture & fittings	Equipment	Leasehold improvements	Computer hardware and equipment	Assets under construction	Total
	\$	\$	\$		\$	\$	\$
Cost							
At December 31, 2017	-	309,520	57,091	-	177,292	342,911	886,814
Additions	-	25,351	7,169	-	33,110	1,302,768	1,368,398
At December 31, 2018	-	334,871	64,260	-	210,402	1,645,679	2,255,212
Additions	573,872	71,952	69,754	55,552	39,078	-	810,208
Transfers	1,544,379	15,772	59,489	-	2,074	(1,621,714)	-
Write-downs	-	-	-	-	-	(23,965)	(23,965)
At December 31, 2019	2,118,251	422,595	193,503	55,552	251,554	-	3,041,455
Accumulated amortization							
At December 31, 2017	-	111,368	42,695	-	171,831	-	325,894
Amortization	-	41,535	10,034	-	11,017	-	62,586
At December 31, 2018	-	152,903	52,729	-	182,848	-	388,480
Amortization	332,585	53,561	23,920	6,481	20,439	-	436,986
At December 31, 2019	332,585	206,464	76,649	6,481	203,287	-	825,466
Net Book Value							
December 31, 2019	1,785,666	216,131	116,854	49,071	48,267	-	2,215,989
December 31, 2018	-	181,968	11,531	-	27,554	1,645,679	1,866,732

The building is amortized over the life of the lease on the land, which is 5 years.

BERMUDA TOURISM AUTHORITY
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2019

10. LONG-TERM DEBT

On February 12, 2019, the Authority signed a \$10 million 5-year fixed rate loan with Bank of NT Butterfield and Son. The loan was used to repay an outstanding commitment owed by the Government to a cruise line. The loan is to be repaid in equal instalments over the 5 years at an interest rate of 4.75%. The loan has been guaranteed by the Government and is secured against future income from cruise ship passenger fees. Transaction costs of \$104,529 were added to the carrying value of the instrument when initially recognized and is amortized over the term of the loan. Transaction costs of \$30,100 were amortized during the year and is included in the statement of operations. The unamortized balance of \$74,429 has been netted against the outstanding balance of the loan as at December 31, 2019 of \$8.5 million. Interest of \$357,635 was charged in the year. The credit facility letter covering the long-term debt above has been superseded by a new credit facility letter entered into by the Authority subsequent to year-end (refer to Note 21 (b)).

11. TOURISM AUTHORITY FEES, VACATION RENTAL FEES AND CRUISE SHIP PASSENGER FEES

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

The vacation rental fee is imposed on each guest staying at a vacation rental property at a rate of 4.5% of the rack rate charge, payable on the 15th of the following month.

In March, 2019, the Act was amended to include a cruise ship passenger fee payable to the Authority in the amount of \$16 per passenger where the ship's visit to Bermuda includes any days between 1 April and 31 October.

12. EXPENSES BY OBJECT

The following is a summary of expenses by object:

	2019	2018
	\$	\$
<u>Sales & marketing:</u>		
Advertising	9,984,899	10,536,324
Sport and event sponsorship	4,383,591	61,592
Partner marketing	2,636,317	1,463,748
Promotions	1,318,289	2,209,274
Website	941,405	923,263
Media relations & PR	774,276	724,033
Group sales	758,556	816,099
Social media	490,552	424,067
International representation & activation	360,519	333,877
Collateral	198,576	251,841
Travel industry outreach	108,508	285,341
Research	27,935	31,723
	<u>21,983,423</u>	<u>18,061,182</u>

BERMUDA TOURISM AUTHORITY
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2019

12. EXPENSES BY OBJECT (continued)

	2019	2018
	\$	\$
<u>Operations</u>		
Staff costs (note 14)	7,455,969	7,508,343
Goods for resale (note 20)	1,985,781	2,048,230
General expenses (note 20)	1,191,167	948,284
Course management (note 20)	1,112,782	1,542,406
Premises	940,407	990,172
Communications & IT	580,445	456,546
Bank fees and exchange costs (note 20)	493,581	83,146
Travel and accommodation (note 20)	389,887	151,635
License fees	359,000	359,000
Professional fees (note 20)	288,688	539,482
Sponsorship	287,121	62,669
Events (note 20)	198,602	90,992
Training & standards	197,041	149,238
National Tourism Plan	126,787	436,666
Race operations (note 20)	126,392	73,623
Tourism appreciation	90,736	77,398
Equipment and maintenance	74,434	104,663
Services and merchandise	19,849	700,259
Marketing	18,507	4,452
Stakeholder relations and communication	5,901	25,579
Beach economy	-	151,210
	<u>15,943,077</u>	<u>16,503,993</u>
	2019	2018
	\$	\$
<u>Grants:</u>		
Settlement of liability - Government of Bermuda (note 10)	10,202,495	-
Bermuda Hospitality Institute	-	320,000
	<u>10,202,495</u>	<u>320,000</u>

BERMUDA TOURISM AUTHORITY
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12. EXPENSES BY OBJECT (continued)

	2019	2018
	\$	\$
<u>Experience development:</u>		
Grants and event sponsorship	636,277	1,558,675
Promotional & print	63,795	30,138
Activities / Attractions	47,422	35,937
Services	7,589	30,346
Other	1,519	1,069
Research	-	573
	756,602	1,656,738
	2019	2018
	\$	\$
<u>Business intelligence and technology:</u>		
Current consumer research	285,986	336,583
Product research	201,394	103,101
Market research	120,261	135,456
Local resident research (note 20)	10,815	13,600
	618,456	588,740
	49,504,053	37,130,653

BVSC

During the year, the Authority operated the Visitor Information Centres in Dockyard, Hamilton and St. George's which, in addition to providing information to visitors, sold public transportation passes and some merchandise. The gross revenue and expenses to this operation were \$2,230,804 and \$2,943,240 (2018: \$2,331,108 and \$2,995,273), respectively. BVSC receives a grant from the Authority to fund its operations amounting to \$500,000 (2018: \$500,000).

WTSBDA

WTSBDA is responsible for managing all aspects of the World Triathlon Series in Bermuda. During the year, it received a grant from the Government of \$2,119,334 (2018: \$2,420,823) and sponsorship income totaling \$525,000 (2018: \$539,950) from various parties. It incurred expenses of \$2,865,396 (2018: \$3,144,626) resulting in a deficit of \$116,324 (2018: \$85,818) for the year.

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13. RELATED PARTY TRANSACTIONS

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

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

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

During the prior 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 paid \$268,412 (2018: \$106,000) to related parties to support events and tourism initiatives. The Authority had the following transactions with the Government and its agencies:

	Transactions for the year		Due at the year end	
	2019	2018	2019	2018
	\$	\$	\$	\$
Revenues and receivables:				
Government of Bermuda grant BTA	23,714,380	25,100,000	-	-
Government of Bermuda grant WTSBDA	2,119,334	2,420,823	-	-
Reimbursement of funds	-	-	9,693	-
	<u>25,833,714</u>	<u>27,520,823</u>	<u>9,693</u>	<u>-</u>
Expenses and payables:				
Settlement of liability - Government of Bermuda	10,202,495	-	-	-
Transportation passes	1,857,091	1,935,828	69,800	148,797
Taxes	80,190	59,956	62,450	57,071
Other	300,472	148,519	-	69,542
	<u>12,440,248</u>	<u>2,144,303</u>	<u>132,250</u>	<u>275,410</u>

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13. RELATED PARTY TRANSACTIONS (continued)

In 2018, one director had an interest in a hotel which had transactions with the Authority in respect to payments of tourism authority fees amounting to \$704,192. As at December 31, 2018, there was \$28,058 of accrued revenue which was included in accounts receivable and accrued revenue. As at year-end, the director no longer has an interest in said hotel. In 2017, WTSBDA entered into an agreement with a company which is owned by the spouse of a Board member, to provide project management services for the delivery of the World Triathlon Series event in 2018. The payments in 2018 totaled \$61,666. The Board member did not partake in any board discussions relating to this arrangement which ended in 2018.

14. 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 Pension Scheme (Occupational Pensions) Act 1998. 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 \$217,756 (2018: \$235,413).

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14. POST-EMPLOYMENT BENEFITS AND COMPENSATED ABSENCES (continued)

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, 2019 of \$74,615 (2018: \$48,899) is included in accounts payable and accrued liabilities.

15. 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.

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15. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

a. Credit risk (continued)

ii. Receivables

Receivables consist of tourism authority fees receivable, vacation rental fees receivable, due from related parties and other receivables. 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	466,238	338,517	58,753	68,968
Accrued revenue	147,762	100,044	18,028	29,690
Due from related parties	9,693	9,693	-	-
	<u>623,693</u>	<u>448,254</u>	<u>76,781</u>	<u>98,658</u>
Less: Impairment allowance	(107,606)	(2,872)	(18,028)	(86,706)
Net receivables	<u><u>516,087</u></u>	<u><u>445,382</u></u>	<u><u>58,753</u></u>	<u><u>11,952</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.

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15. 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 long-term debt is secured by revenue from cruise ship passenger fees and guaranteed by the Government.

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

	Total	Within 1 year	1 to 5 years
	\$	\$	\$
Trade payables	1,026,956	1,026,956	-
Accrued expenses	558,982	558,982	-
Accrued vacation	74,615	74,615	-
Benefits payable	7,581	7,581	-
Long-term debt*	8,500,000	2,000,000	6,500,000
Due to related parties	132,250	132,250	-
	10,300,384	3,800,384	6,500,000

**Principal amount due, gross of unamortized loan transaction costs*

Except for the long-term debt, 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 risk.

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. Interest on long-term debt is fixed over the term of the debt. At the year-end, the Authority had no other significant exposure.

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15. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

c. Market risk (continued)

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

16. 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 seeks to maintain sufficient liquidity to meet its short-term obligations as they come due. The Authority is not subject to any externally imposed capital requirements.

17. 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, 2019 and the latest contract termination date is November 30, 2029. These contractual obligations will become liabilities in the future when the terms of the contracts are met. The remaining obligations of the contracts are as follows:

	2020	2021	2022 and beyond
	\$	\$	\$
Operational	4,859,753	2,973,320	5,940
Sponsorship	3,760,750	3,636,200	5,741,820
Property	513,289	514,346	3,097,771
World Triathlon Series	456,350	40,000	-
Bermuda Visitor Services	24,000	24,000	44,500
	<u>9,614,142</u>	<u>7,187,866</u>	<u>8,890,031</u>

18. 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.

19. BUDGET

The budget was approved by the Board.

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20. COMPARATIVE FIGURES

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

21. SUBSEQUENT EVENT

a. Impact of COVID-19 Global Pandemic

Subsequent to the year-end, many countries, including Bermuda, have experienced an outbreak of the infectious coronavirus (COVID-19) and on March 11, 2020 the World Health Organization officially declared the outbreak of COVID-19 a global pandemic. Management is closely monitoring the evolution of this pandemic, including how it may affect the economy, impacts on travel supply and demand and the general population. COVID-19 has caused disruption to businesses and economic activity both locally and globally. The Authority considers the emergence and spread of COVID-19 to be a non-adjusting subsequent event that occurred after the reporting period. Given the evolving nature of COVID-19, it is not practicable at this time to determine the impact of COVID-19 on the future operating and financial performance of the Authority or to provide a quantitative estimate of this impact that could potentially be significant.

b. New Credit Facility

Subsequent to the year-end, the Authority entered into a new credit facility letter with Bank of NT Butterfield and Son. This new credit facility supersedes and terminates the credit facility letter entered into on February 12, 2019 which covers the existing long-term debt of \$8.5 million as at December 31, 2019 (refer to Note 10). This liability will be treated as continuing obligations of the Authority under the new credit facility letter.

The new credit facility makes available to the Authority new borrowings of up to \$2 million and amends the repayment terms and drawdown terms of the original loan. The loan term is a period of five years from the date of the initial drawdown of the original long-term debt with an interest rate of 4.75% per annum. All existing securities, including the Government guarantee and assignment of future income from cruise ship passenger fees, are amended to cover all liabilities of the Authority under the new credit facility letter. There has been no drawdowns on the new credit facility as of the audit report date.