

BERMUDA TOURISM AUTHORITY
CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2020

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.

CHJeffers II

Charles H. Jeffers II
Chief Executive Officer

Duncan Beveridge

Duncan Beveridge
Director of Finance

DATE 16 July 2021

Signature: 
Charles H. Jeffers II (Jul 16, 2021 15:30 EDT)

Email: cjeffers@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, 2020, 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, 2020, 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.

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.

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 financial statements is located at the Office of the Auditor General website at: www.oagbermuda.bm. This description forms part of our auditor's report.

Hamilton, Bermuda
March 3, 2021

A handwritten signature in cursive script, appearing to read "Heather T.", written in black ink.

Heather Thomas, CPA, CFE, CGMA
Auditor General

BERMUDA TOURISM AUTHORITY
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT DECEMBER 31, 2020

| | 2020 | 2019 |
|---------------------------------------------------|-----------|-------------|
| | \$ | \$ |
| FINANCIAL ASSETS | | |
| Cash | 7,625,104 | 7,406,667 |
| Accounts receivable and accrued revenue (note 4) | 410,169 | 506,394 |
| Due from related parties (note 12) | 345,661 | 9,693 |
| Inventory | 240,082 | 158,559 |
| | 8,621,016 | 8,081,313 |
| LIABILITIES | | |
| Accounts payable and accrued liabilities (note 6) | 1,360,520 | 1,668,134 |
| Deferred income (note 7) | 323,915 | 460,620 |
| Long-term debt (note 9) | 7,453,218 | 8,425,571 |
| Due to related parties (note 12) | 71,334 | 132,250 |
| | 9,208,987 | 10,686,575 |
| NET DEBT | (587,971) | (2,605,262) |
| NON-FINANCIAL ASSETS | | |
| Tangible capital assets (note 8) | 1,785,901 | 2,215,989 |
| Prepaid expenses | 741,200 | 1,825,691 |
| | 2,527,101 | 4,041,680 |
| ACCUMULATED SURPLUS | 1,939,130 | 1,436,418 |
| CONTRACTUAL OBLIGATIONS (note 16) | | |

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

BERMUDA TOURISM AUTHORITY
CONSOLIDATED STATEMENT OF OPERATIONS AND ACCUMULATED SURPLUS
FOR THE YEAR ENDED DECEMBER 31, 2020

| | 2020 Budget (note 18) \$ | 2020 \$ | 2019 \$ |
|-------------------------------------------------------------------|-----------------------------------|-------------------|--------------------|
| REVENUES | | | |
| Government of Bermuda grant - Bermuda Tourism Authority (note 12) | 22,800,000 | 22,577,295 | 23,714,380 |
| Tourism authority fees (note 10) | 8,031,395 | 1,500,611 | 7,836,213 |
| Government of Bermuda grant - WTSBDA (note 12) | 517,618 | 850,168 | 2,119,334 |
| Vacation rental fees (note10) | 550,000 | 196,172 | 611,141 |
| Other income | 953,038 | 175,858 | 2,860,542 |
| Cruise ship passenger fees (note 10) | 7,320,776 | - | 7,882,752 |
| | <u>40,172,827</u> | <u>25,300,104</u> | <u>45,024,362</u> |
| EXPENSES (note 11) | | | |
| Sales and marketing | 14,879,808 | 13,799,861 | 21,983,423 |
| Operations | 13,668,699 | 10,366,349 | 15,943,077 |
| Experience development | 452,000 | 344,190 | 756,602 |
| Business intelligence and technology | 364,717 | 286,992 | 618,456 |
| Grants | - | - | 10,202,495 |
| | <u>29,365,224</u> | <u>24,797,392</u> | <u>49,504,053</u> |
| ANNUAL SURPLUS (DEFICIT) | <u>10,807,603</u> | <u>502,712</u> | <u>(4,479,691)</u> |
| ACCUMULATED SURPLUS, BEGINNING OF YEAR | | <u>1,436,418</u> | <u>5,916,109</u> |
| ACCUMULATED SURPLUS, END OF YEAR | | <u>1,939,130</u> | <u>1,436,418</u> |

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

BERMUDA TOURISM AUTHORITY
CONSOLIDATED STATEMENT OF CHANGE IN NET DEBT
FOR THE YEAR ENDED DECEMBER 31, 2020

| | 2020 | 2019 |
|--------------------------------------------------|-------------------------|---------------------------|
| | \$ | \$ |
| NET (DEBT) FINANCIAL ASSETS, BEGINNING OF YEAR | <u>(2,605,262)</u> | <u>3,763,199</u> |
| Annual surplus (deficit) | 502,712 | (4,479,691) |
| Acquisition of tangible capital assets (note 8) | (140,490) | (810,208) |
| Amortization of tangible capital assets (note 8) | 570,578 | 436,986 |
| Write-downs of tangible capital assets (note 8) | - | 23,965 |
| Change in prepaid expenses | <u>1,084,491</u> | <u>(1,539,513)</u> |
| DECREASE (INCREASE) IN NET DEBT | <u>2,017,291</u> | <u>(6,368,461)</u> |
| NET DEBT, END OF YEAR | <u><u>(587,971)</u></u> | <u><u>(2,605,262)</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, 2020

| | 2020 | 2019 |
|----------------------------------------------------------------|--------------------|--------------------|
| | \$ | \$ |
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Annual surplus (deficit) | 502,712 | (4,479,691) |
| Adjustments for items not affecting cash: | | |
| Amortization of tangible capital assets | 570,578 | 436,986 |
| Amortization of loan transaction costs | 27,650 | 30,100 |
| Bad debts | 8,831 | 107,606 |
| Write-downs of tangible fixed assets | - | 23,965 |
| Loans receivable written-off | - | 2,301 |
| Changes in non-cash working capital: | | |
| Decrease (increase) in prepaid expenses | 1,084,491 | (1,539,513) |
| Decrease (increase) in accounts receivable and accrued revenue | 87,394 | (86,444) |
| Decrease in due to related parties | (60,916) | (143,160) |
| Increase in inventory | (81,523) | (69,861) |
| Decrease in deferred income | (136,705) | (339,380) |
| Decrease in accounts payable and accrued liabilities | (307,614) | (1,599,173) |
| Increase in due from related parties | (335,968) | (9,693) |
| | <u>1,358,930</u> | <u>(7,665,957)</u> |
| Net cash provided by (used in) operating activities | | |
| CASH FLOWS FROM CAPITAL ACTIVITY | | |
| Acquisition of tangible capital assets | (140,490) | (810,208) |
| | <u>(140,490)</u> | <u>(810,208)</u> |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Repayment of long-term debt | (1,000,003) | (1,500,000) |
| Drawdown of long-term debt | - | 10,000,000 |
| Loan transaction costs | - | (104,529) |
| | <u>(1,000,003)</u> | <u>(104,529)</u> |
| Net cash (used in) provided by financing activities | | |
| | <u>(1,000,003)</u> | <u>8,395,471</u> |
| NET INCREASE (DECREASE) IN CASH | 218,437 | (80,694) |
| CASH, BEGINNING OF YEAR | 7,406,667 | 7,487,361 |
| | <u>7,406,667</u> | <u>7,487,361</u> |
| CASH, END OF YEAR | 7,625,104 | 7,406,667 |
| | <u>7,625,104</u> | <u>7,406,667</u> |
| Interest paid | 378,638 | 322,868 |
| | <u>378,638</u> | <u>322,868</u> |

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

BERMUDA TOURISM AUTHORITY
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2020

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 an other 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 Government of Bermuda grants, cruise ship passenger fees, tourism authority fees, vacation rental fees and other income.

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 to which it relates.

BERMUDA TOURISM AUTHORITY
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2020

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

c. Expenses

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

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:

| | |
|--------------------------------|---------------------------------|
| 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.

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.

h. 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.

BERMUDA TOURISM AUTHORITY
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2020

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

i. Measurement uncertainty

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

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

j. Financial instruments

Cash is recognized at cost. Accounts receivable and accrued revenue, due from related parties, accounts payable and 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.

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 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 on the continued support of the Government. During the year, the Authority received a government grant of \$23,427,463 (2019: \$25,833,714). In addition, the Government has committed to a grant of \$21,750,000 for the year ended December 31, 2021.

BERMUDA TOURISM AUTHORITY
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2020

4. ACCOUNTS RECEIVABLE AND ACCRUED REVENUE

| | 2020 | 2019 |
|------------------------------------|-----------------------|-----------------------|
| | \$ | \$ |
| Accounts receivable | 454,731 | 466,238 |
| Accrued revenue | <u>71,875</u> | <u>147,762</u> |
| | 526,606 | 614,000 |
| Less: Allowance for doubtful debts | (116,437) | (107,606) |
| | <u><u>410,169</u></u> | <u><u>506,394</u></u> |

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. INVESTMENTS

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

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

6. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

| | 2020 | 2019 |
|------------------|-------------------------|-------------------------|
| | \$ | \$ |
| Trade payables | 394,032 | 1,026,956 |
| Accrued expenses | 849,545 | 558,982 |
| Accrued vacation | 112,689 | 74,615 |
| Benefits payable | 4,254 | 7,581 |
| | <u><u>1,360,520</u></u> | <u><u>1,668,134</u></u> |

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

BERMUDA TOURISM AUTHORITY
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2020

7. DEFERRED INCOME

In 2019, the Authority received an additional grant of \$250,000 from the Government, which was only to be used to fund specific, agreed projects. During the year, \$77,295 (2019: \$339,380) was used for certain projects. The remaining balance as at December 31, 2020 amounted to \$233,325 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. During the year, \$75,000 (2019: Nil) was used for certain projects. The remaining balance amounted to \$75,000 has been included in deferred income.

In 2020, the WTS Bermuda Ltd. received sponsorships of \$24,290 for future race events. The remaining balance of \$15,590 has been included in deferred income.

8. TANGIBLE CAPITAL ASSETS

| | Buildings* | Office furniture & fittings | Equipment | Leasehold improvements | Computer hardware and software | Assets under construction | Total |
|-----------------------------|------------------|-----------------------------------|----------------|---------------------------|-----------------------------------------|---------------------------------|------------------|
| | \$ | \$ | \$ | \$ | \$ | \$ | \$ |
| Cost | | | | | | | |
| 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 |
| Additions | 44,478 | - | 3,211 | 81,875 | 10,926 | - | 140,490 |
| At December 31, 2020 | 2,162,729 | 422,595 | 196,714 | 137,427 | 262,480 | - | 3,181,945 |
| Accumulated amortization | | | | | | | |
| 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 |
| Amortization | 434,508 | 56,880 | 27,496 | 23,073 | 28,621 | - | 570,578 |
| At December 31, 2020 | 767,093 | 263,344 | 104,145 | 29,554 | 231,908 | - | 1,396,044 |
| Net Book Value | | | | | | | |
| At December 31, 2019 | 1,785,666 | 216,131 | 116,854 | 49,071 | 48,267 | - | 2,215,989 |
| At December 31, 2020 | 1,395,636 | 159,251 | 92,569 | 107,873 | 30,572 | - | 1,785,901 |

*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, 2020

9. 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. On June 24, 2020, the Authority signed a new facility letter which replaces the 2019 facility letter and makes available to the Authority new borrowings of up to \$2 million and amends the repayment terms and drawdown terms of the original long-term debt. The loan is to be repaid over the 5 years from the date of the initial drawdown. The loan has a nominal interest rate of 4.75% (effective rate 5%). Except for the payments of principal related to the interest only period described below, the loan shall be repaid in monthly principal payments of \$166,667 plus interest in arrears starting April 1, 2019.

During the six-month period commencing on June 1, 2020 up to and including November 30, 2020, the Authority was only required to make interest only payments (“interest only period”). The first interest only payment was due on June 1, 2020 and on or before the first day of each following month up to November 1, 2020. The payments of principal which would otherwise have been paid by the Authority but for the exemption during the interest only period, shall be paid by the Authority in two lump sum payments of \$500,000 as follows: (1) the first deferred principal payment shall be paid on or before the day falling four years from the commencement of the loan term; and (2) the second deferred principal payment shall be paid on or before the day falling five years from the commencement of the loan term (on or before the maturity date).

The loan has been guaranteed by the Government and is secured against future income from cruise ship passenger fees. Transaction costs of \$27,650 (2019: \$30,100) were amortized during the year and is included in the statement of operations. The unamortized balance of \$46,779 (2019: \$74,429) has been netted against the outstanding balance of the loan as at December 31, 2020 of \$7.5 million (2019: \$8.5 million). Interest of \$374,537 (2019: \$357,635) was charged in the year. There have been no drawdowns on the new credit facilities at the year end and the additional facility expired on October 31, 2020.

10. 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 charged (the charge 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 charged, payable on the 15th of the following month.

The cruise ship passenger fee payable to the Authority is an amount of \$16 per passenger where the ship’s visit to Bermuda include any days between April 1 and October 31.

BERMUDA TOURISM AUTHORITY
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2020

11. EXPENSES BY OBJECT

The following is a summary of expenses by object:

| | 2020 | 2019 |
|---------------------------------------------|-------------------|-------------------|
| <u>Sales and marketing:</u> | \$ | \$ |
| Advertising | 6,838,289 | 9,984,899 |
| Sports and event sponsorship | 4,083,121 | 4,383,591 |
| Partner marketing | 1,153,507 | 2,636,317 |
| Website | 503,759 | 941,405 |
| Media relations and PR | 335,498 | 774,276 |
| Social media | 288,807 | 490,552 |
| Group sales | 271,923 | 758,556 |
| Collateral | 129,730 | 198,576 |
| Promotions | 101,288 | 1,318,289 |
| International representation and activation | 55,786 | 360,519 |
| Travel industry outreach | 18,846 | 108,508 |
| Research | 9,500 | 27,935 |
| Event sponsorship | 9,065 | - |
| Other | 742 | - |
| | <u>13,799,861</u> | <u>21,983,423</u> |
| | 2020 | 2019 |
| <u>Operations:</u> | \$ | \$ |
| Staff costs (note 13) | 6,529,861 | 7,455,969 |
| General expenses | 978,190 | 1,191,167 |
| Premises | 852,054 | 940,407 |
| Communications and IT | 541,731 | 580,445 |
| Bank fees and exchange costs | 444,627 | 493,581 |
| Professional fees | 390,898 | 288,688 |
| Course management | 165,325 | 1,112,782 |
| Training and standards | 105,836 | 197,041 |
| Goods for resale | 107,821 | 1,985,781 |
| Tourism appreciation | 80,426 | 90,736 |
| Travel and accommodation | 62,071 | 389,887 |
| Services and merchandise | 33,966 | 19,849 |
| Equipment and maintenance | 23,196 | 74,434 |
| National Tourism Plan | 24,606 | 126,787 |
| Race operations | 15,914 | 126,392 |
| Marketing | 5,929 | 18,507 |
| Stakeholder relations and communication | 3,898 | 5,901 |
| License fees | - | 359,000 |
| Sponsorship | - | 287,121 |
| Events | - | 198,602 |
| | <u>10,366,349</u> | <u>15,943,077</u> |

BERMUDA TOURISM AUTHORITY
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2020

11. EXPENSES BY OBJECT (continued)

| | 2020 | 2019 |
|----------------------------------------------------------|------------|------------|
| | \$ | \$ |
| <u>Experience development:</u> | | |
| Grants and event sponsorship | 265,032 | 636,277 |
| Promotional and print | 51,365 | 63,795 |
| Activities / Attractions | 26,428 | 47,422 |
| Other | 1,365 | 1,519 |
| Services | - | 7,589 |
| | 344,190 | 756,602 |
| | | |
| | 2020 | 2019 |
| | \$ | \$ |
| <u>Business intelligence and technology:</u> | | |
| Current consumer research | 114,887 | 285,986 |
| Market research | 84,767 | 120,261 |
| Product research | 81,738 | 201,394 |
| Local resident research | 5,600 | 10,815 |
| | 286,992 | 618,456 |
| | | |
| | 2020 | 2019 |
| | \$ | \$ |
| <u>Grant:</u> | | |
| Settlement of liability - Government of Bermuda (Note 9) | - | 10,202,495 |
| | - | 10,202,495 |
| | 24,797,392 | 49,504,053 |

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 \$100,342 and \$537,658 (2019: \$2,230,804 and \$2,943,240), respectively. BVSC receives a grant from the Authority to fund its operations amounting to \$400,000 (2019: \$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 Bermuda of \$850,168 (2019: \$2,119,334) and other income totaling \$516 (2019: \$629,738). It incurred expenses of \$591,642 (2019: \$2,865,396) resulting in a surplus of \$259,042 (2019: \$116,324) for the year.

BERMUDA TOURISM AUTHORITY
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2020

12. RELATED PARTY TRANSACTIONS

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

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

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

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

On June 3, 2020 a Memorandum of Agreement (“MOA”) was signed between the Authority and the Bermuda Airport Authority (“BAA”) to collaborate on efforts to advance Bermuda’s air service objectives. The MOA outlines management and decision-making parameters governing the use of the Air Service Development fund paid by the Government to the BAA. This MOA expired on March 31, 2021.

During the year, the Authority paid \$27,695 (2019: \$268,412) 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 | |
|----------------------------------------------------|---------------------------|-------------------|---------------------|----------------|
| | 2020 | 2019 | 2020 | 2019 |
| | \$ | \$ | \$ | \$ |
| Revenues and receivables: | | | | |
| Government of Bermuda grant | | | | |
| - Bermuda Tourism Authority | 22,577,295 | 23,714,380 | - | - |
| - WTSDBA | 850,168 | 2,119,334 | 332,550 | - |
| Reimbursement of funds | 6,830 | - | 13,111 | 9,693 |
| | <u>23,434,293</u> | <u>25,833,714</u> | <u>345,661</u> | <u>9,693</u> |
| Expenses and payables: | | | | |
| Taxes | 69,503 | 80,190 | 71,334 | 62,450 |
| Other | 55,062 | 300,472 | - | - |
| Transportation passes | 43,205 | 1,857,091 | - | 69,800 |
| Settlement of liability - Government of Bermuda | - | 10,202,495 | - | - |
| | <u>167,770</u> | <u>12,440,248</u> | <u>71,334</u> | <u>132,250</u> |

BERMUDA TOURISM AUTHORITY
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2020

13. POST-EMPLOYMENT BENEFITS AND COMPENSATED ABSENCES

Employee benefits include the following:

a. Pension plans

The Authority has three different pension plans all of which are defined contribution plans.

The Registered Plan which is for all Bermudian employees and members of staff that are the spouse of a Bermudian and is in accordance with the National Pensions Scheme (Occupational Pensions) Act 1988. The non-registered pension plan which is for non-Bermudian employees and spouses mirrors the Registered Plan in all ways except that vested contributions can be withdrawn upon the end of employment with the Authority. There is also a 401k plan which provides for US employees retirement planning. The plans are administered by the Argus Group.

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

The Authority's employees are entitled to workers compensation for eligible expenses in respect of medical aid, death or incapacity while insured under the plans.

Employee contributions to the plans are 5% of gross salary and they are matched by the Authority. These contributions are recognized as pension contribution expenses when they are due. The Authority's contributions to the plans during the year were \$169,068 (2019: \$217,756).

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, 2020 of \$112,689 (2019: \$74,615) is included in accounts payable and accrued liabilities.

BERMUDA TOURISM AUTHORITY
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2020

14. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The Authority is exposed to various risks through its financial instruments. The Board has overall responsibility for the establishment and oversight of its risk management framework. The Authority manages its risk and risk exposure through sound business practices. The following analysis provides a measure of the risks at the reporting date.

a. Credit risk

Credit risk arises from cash held with banks and other receivables. The maximum exposure to credit risk is equal to the carrying value (net of allowances) of the financial assets. The objective of managing counterparty credit risk is to prevent losses on financial assets. The Authority assesses the credit quality of counterparties, taking into account their financial position, past experience and other factors.

i. Cash

Cash consists of cash in checking and savings accounts. Credit risk associated with cash is minimized substantially by ensuring that these financial assets are invested with highly rated financial institutions.

ii. Receivables

Receivables consist of tourism authority fees 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 | 454,731 | 166,142 | 87,856 | 200,733 |
| Accrued revenue | 71,875 | 71,875 | - | - |
| Due from related parties | 345,661 | 340,661 | 5,000 | - |
| | <u>872,267</u> | <u>578,678</u> | <u>92,856</u> | <u>200,733</u> |
| Less: Impairment allowance | (116,437) | - | (5,719) | (110,718) |
| Net receivables | <u>755,830</u> | <u>578,678</u> | <u>87,137</u> | <u>90,015</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 CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2020

14. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

b. Liquidity risk

Liquidity risk is the risk that the Authority will not be able to meet its financial obligations as they become due. The Authority mitigates such risk by monitoring cash activities and projected outflows through budgeting and maintaining liquid cash balances. The 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 | 1 to 5 |
|------------------------|------------------|------------------|------------------|
| | \$ | year | years |
| | \$ | \$ | \$ |
| Trade payables | 394,032 | 394,032 | - |
| Accrued expenses | 849,545 | 849,545 | - |
| Benefits payable | 4,254 | 4,254 | - |
| Accrued vacation | 112,689 | 112,689 | - |
| Long-term debt * | 7,499,997 | 2,000,000 | 5,499,997 |
| Due to related parties | 71,334 | 71,334 | - |
| | <u>8,931,851</u> | <u>3,431,854</u> | <u>5,499,997</u> |

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

BERMUDA TOURISM AUTHORITY
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2020

15. CAPITAL MANAGEMENT

The Authority's objective when managing capital is to hold sufficient accumulated surplus to enable it to withstand negative unexpected financial events. The Authority achieves this objective through management of cash flows. The Authority 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.

16. CONTRACTUAL OBLIGATIONS

The Authority has entered into various contracts relating to operational support and direct tourism related initiatives. The aforementioned contracts have commencement terms prior to December 31, 2020 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:

| | 2021 | 2022 | 2023 and beyond |
|--------------------------|------------------|------------------|-----------------------|
| | \$ | \$ | \$ |
| Operational | 2,141,611 | 796,755 | 22,662 |
| Sponsorship | 6,387,440 | 3,704,400 | 3,889,620 |
| Property | 514,346 | 514,346 | 2,583,425 |
| World Triathlon | 447,051 | - | - |
| Bermuda Visitor Services | 24,000 | 24,000 | 20,500 |
| | <u>9,514,448</u> | <u>5,039,501</u> | <u>6,516,207</u> |

17. LETTER OF CREDIT

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

18. BUDGET

As a result of the impact of the Covid-19 global pandemic, the Authority updated its cost budget during the year. The updated budget was approved by the board and is included in the Statement of Operations.

BERMUDA TOURISM AUTHORITY
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2020

19. IMPACT OF COVID-19 GLOBAL PANDEMIC

On March 11, 2020, the World Health Organization officially declared the outbreak of COVID-19 a global pandemic. The outbreak of the COVID-19 pandemic and the measures adopted by governments to mitigate its spread have affected the Authority. In response to the COVID-19 pandemic, the Authority reassessed their cost structure by renegotiating contracts, reducing all paid media and implementing reduction in staff hours.

Given the inherent uncertainties of the COVID-19 pandemic, it is not practicable at this time to determine the impact of COVID-19 on future operating and financial performance of the Authority or to provide a quantitative estimate of this impact, which could potentially be significant.

The Authority's opinion is that the COVID-19 pandemic does not cast doubt over the Authority's ability to continue as a going concern, due to the Government grant commitment for 2021 (Note 3) and the resumption of travel and tourism industry both locally and globally albeit limited.