BERMUDA COLLEGE

FINANCIAL STATEMENTS

MARCH 31, 2007

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INDEPENDENT AUDITOR'S REPORT

To the Minister of Education

I have audited the accompanying financial statements of the Bermuda College, which comprise the statement of financial position as at March 31, 2007, and the statements of operations, changes in net assets and cash flows for the year then ended and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with auditing standards generally accepted in Bermuda and Canada. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified audit opinion.

Basis for Qualified Opinion

As with many not-for-profit organisations, the Bermuda College derives a portion of its revenues from donations received, the completeness of which is not susceptible to satisfactory audit verification. Accordingly, my verification of these revenues was limited to the amounts recorded in the records of the Bermuda College and I was not able to determine whether any adjustments might be necessary to donation revenues, deficiency of revenues over expenses, assets, deferred contributions, deferred capital contributions, restricted contributions and net assets.

I was unable to obtain sufficient appropriate audit evidence to complete the valuation testing of the Bermuda College's inventory amounting to $207,702 (2006 - $196,901). Consequently, I was unable to determine whether any adjustments might be necessary to inventory and excess of revenues over expenses for the years ended March 31, 2007 and 2006.

Qualified Opinion

In my opinion, except for the possible effects of the matters described in the Basis for Qualified Opinion paragraphs, the financial statements present fairly, in all material respects, the financial position of the Bermuda College as at March 31, 2007, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in Bermuda and Canada.

Other Matters

The financial statements for the year ended March 31, 2006 were qualified. Since opening balances enter into the determination of the results of operations, I was unable to determine whether adjustments to revenues, expenses, deficiency of revenues over expenses and opening net assets might be necessary.

Hamilton, Bermuda
April 30, 2013

Heather A. Jacobs Matthews, JP, FCA, CFE
Auditor General

BERMUDA COLLEGE

STATEMENT OF FINANCIAL POSITION

MARCH 31, 2007

	2007 $	2006 $
CURRENT ASSETS		
Cash and cash equivalents	1,402,608	1,024,250
Accounts receivable	110,767	132,662
Prepaid expenses	76,735	74,447
Due from the Coco Reef Resorts Limited (note 8)	-	11,000
Due from the Government of Bermuda (note 11)	336,445	263,374
Inventories	207,702	196,901
	2,134,257	1,702,634
CAPITAL ASSETS (note 4)	30,020,724	31,005,902
RESTRICTED ASSETS (note 5)	2,172,794	2,035,923
	34,327,775	34,744,459
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	860,658	744,685
Employee future benefits (note 12)	628,156	576,652
Due to the Government of Bermuda (note 11)	451,736	429,654
Deferred contributions (note 7)	30,876	30,876
Long-term debt, current portion (note 6)	124,604	114,485
	2,096,030	1,896,352
LONG-TERM DEBT (note 6)	227,008	342,428
DEFERRED CAPITAL CONTRIBUTIONS (note 9)	23,712,934	24,841,001
RESTRICTED CONTRIBUTIONS (note 5)	2,172,794	2,035,923
	28,208,766	29,115,704
NET ASSETS		
Invested in capital assets	3,769,202	4,508,103
Unrestricted net assets	2,349,807	1,120,652
	6,119,009	5,628,755
	34,327,775	34,744,459

COMMITMENTS (note 13)

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

BERMUDA COLLEGE

STATEMENT OF OPERATIONS

FOR THE YEAR ENDED MARCH 31, 2007

	2007 $	2006 $
REVENUES		
Government of Bermuda operating grants (note 11)	17,554,000	14,982,000
Student fees (note 10)	3,082,630	3,391,041
Amortization of deferred capital contributions (note 9)	1,128,067	1,157,199
Ancillary operations and other revenues	1,289,564	1,112,810
Interest income	-	2,076
	23,054,261	20,645,126
EXPENSES		
Academic studies	6,918,700	6,089,131
Academic services	6,748,356	5,580,908
Physical plant and maintenance	3,304,167	2,520,968
Administration	1,594,240	2,305,617
Amortization of capital assets	1,866,968	1,991,325
Ancillary operations	840,982	998,532
Public relations	495,019	437,457
Employee future benefits	-	246,952
Adult Education School grant (note 11)	142,500	142,500
Career Centre grant (note 11)	-	150,000
Other	653,075	605,567
	22,564,007	21,068,957
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENSES\	490,254	(423,831)

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

BERMUDA COLLEGE

STATEMENT OF CHANGES IN NET ASSETS

FOR THE YEAR ENDED MARCH 31, 2007

	2007			2006
	Invested in Capital Assets	Unrestricted	Total	Total
	$	$	$	$
BALANCE, BEGINNING OF YEAR	4,508,103	1,120,652	5,628,755	6,052,586
Excess (deficiency) of revenues over expenses	(738,901)	1,229,155	490,254	(423,831)
BALANCE, END OF YEAR	3,769,202	2,349,807	6,119,009	5,628,755

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

BERMUDA COLLEGE

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED MARCH 31, 2006

	2006 $	2005 $ Restated (Note 16)
CASH FLOWS FROM OPERATING ACTIVITIES		
(Deficiency) excess of revenues over expenses	(423,831)	1,164,051
Items not affecting cash:		
Amortization of capital assets	1,991,325	2,130,245
Amortization of deferred capital contributions	(1,157,199)	(1,199,969)
Unrealized loss on investment	-	(14,478)
Changes in non-cash working capital:		
Decrease in accounts receivable	35,179	1,311,907
Decrease in prepaid expenses	8,533	46,367
Decrease (increase) in due from the Coco Reef Resorts Limited	3,122	(14,122)
Decrease (increase) in due from the Government of Bermuda	76,049	(69,523)
Decrease (increase) in inventories	38,715	(87,187)
Increase (decrease) in accounts payable and accrued liabilities	32,872	(1,494,392)
Increase in employee future benefits	246,952	329,700
Decrease in deferred insurance proceeds	-	(275,290)
Decrease in deferred contributions	-	(7,200)
Increase (decrease) in due to the Government of Bermuda	159,754	(10,228)
Decrease in due to the Coco Reef Resorts Limited	-	(818,878)
Cash flows from operating activities	1,011,471	991,003
CASH FLOW FROM INVESTING ACTIVITY		
Purchase of capital assets	(863,739)	(312,670)
CASH FLOWS FROM FINANCING ACTIVITIES		
Non-cash restricted assets	(143,611)	(136,210)
Restricted contributions	143,611	150,688
Repayment of long-term debt	(336,146)	(361,487)
Cash flows used in financing activities	(336,146)	(347,009)
(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(188,414)	331,324
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	1,212,664	881,340
CASH AND CASH EQUIVALENTS, END OF YEAR	1,024,250	1,212,664

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

BERMUDA COLLEGE

NOTES TO THE FINANCIAL STATEMENTS

MARCH 31, 2007

1. AUTHORITY

Bermuda College (the "College") was established under the Bermuda College Act 1974 (the "Act") to provide full and part-time education and training for persons over the compulsory school age. The College is managed and controlled by a Board of Governors under the provisions of this Act and amendments thereto.

2. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared in accordance with accounting principles generally accepted in Bermuda and Canada. For financial reporting purposes, the College is classified as a government not-for-profit organization and has adopted accounting policies appropriate for this classification. The policies considered particularly significant are set out below:

(a) Revenue recognition

Contributions in the form of operating grants are recognized as revenue on the statement of operations. Contributions relating to the acquisition of capital assets are deferred and recognized as revenue on the same basis as the amortization expense of the related capital assets.

The College follows the deferral method of accounting for contributions. Under the deferral method, restricted contributions are recognized as revenue in the year in which the related expenses are incurred. Unrestricted contributions are recognized as revenue when received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured.

Restricted investment income is recognized as revenue in the year in which the related expenses are incurred. Unrestricted investment income is recognized as revenue when earned.

(b) Cash and cash equivalents

Cash and cash equivalents are comprised of cash on hand and cash held in the bank.

(c) Inventories

Inventories are valued at the lower of cost and net realizable value. Cost is determined using the first-in, first-out method.

(d) Capital assets

Capital assets are recorded at cost less accumulated amortization. Contributed capital assets are recorded at fair value at the date of contribution. Amortization is provided on a straight-line basis over the estimated useful lives:

Buildings and car parks	- 40 years and 25 years, respectively
Furniture and fixtures	- 10 years
Equipment	- 4 years for computers and 5 years for other equipment
Laptop project equipment	- 3 years

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) Financial instruments

The College's financial instruments consist of cash and cash equivalents, accounts receivables, due from the Coco Reef Resorts Limited, due from the Government of Bermuda, accounts payable and accrued liabilities, due to the Government of Bermuda and long-term debt. It is management's opinion that the College is not exposed to significant interest, currency or credit risks arising from these financial instruments. The fair value of these financial instruments approximates their carrying values due to their relative short-term nature.

Certain items such as prepaid expenses, inventories and capital assets are excluded from fair value disclosure as they are not financial instruments.

(f) Contributed materials and services

Contributed materials and services are recognized in the financial statements when a fair value can be reasonably estimated and when the materials and services are used in the normal course of the College's operations and would otherwise have been purchased.

(g) Use of estimates

The preparation of financial statements in accordance with accounting principles generally accepted in Bermuda and Canada requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues earned and expenses incurred during the year. Actual results could differ from these estimates.

3. ECONOMIC DEPENDENCE

The College is economically dependent upon the Government of Bermuda for its daily operations, cash flow, capital development and capital acquisitions.

4. CAPITAL ASSETS

	2007			2006
	Cost $	Accumulated Amortization $	Net Book Value	Net Book Value
Buildings and car parks	40,925,220	16,971,741	23,953,479	24,628,863
Land	2,686,240	-	2,686,240	2,686,240
Furniture and fixtures	3,905,679	2,699,952	1,205,727	976,859
Equipment	9,581,860	7,406,582	2,175,278	2,654,808
Laptop project equipment	1,179,182	1,179,182	-	59,132
	58,278,181	28,257,457	30,020,724	31,005,902

5. RESTRICTED ASSETS AND CONTRIBUTIONS

The College receives funds from private sources to be used for the provisions of scholarships, support for the Corange Science Center and other programs for the advancement of students' education.

Changes in the restricted assets and contributions balance are as follows:

	2007 $	2006 $
Balance, beginning of year	2,035,923	1,892,312
Add: contributions and interest	199,936	143,611
Less: disposal of investment	(63,065)	-
Balance, end of year	2,172,794	2,035,923
Restricted assets and contributions are comprised of the following investments:		
Bonds and government securities	318,305	318,216
Equities	440,713	439,486
Money market funds	486,671	378,486
Fixed deposits	119,454	112,159
	1,365,143	1,248,347
Restricted cash	807,651	787,576
	2,172,794	2,035,923

As of March 31, 2007, the cost of bonds and government securities amounted to $318,305 (2006 - $318,216) and for equities is $440,713 (2006 - $439,486).

6. LONG-TERM DEBT

	2007 $	2006 $
Loan payable to Bermuda Electricity Company of $811,200, bearing interest at 8.5% per annum, secured by the energy financed, payable in monthly installments of principal and controls system interest of $11,675 to December 2009.	351,612	456,913
	351,612	456,913
Current portion	124,604	114,485
	227,008	342,428

6. LONG-TERM DEBT (continued)

Prinicipal repayments required are as follows:

	$
2008	124,604
2009	125,622
2010	101,386
	351,612

7. DEFERRED CONTRIBUTIONS

Deferred contributions represent unspent resources for use on costs of specific programs and student tuition for certain programs. Changes in the deferred contributions balance are as follows:

	2007	2006
	$	$
Balance, beginning of year	30,876	30,876
Add: contributions	-	-
Less: amounts recognized as revenue	-	-
Balance, end of year	30,876	30,876

During 2006, negotiations began for a new procedural arrangement, whereby the interim program funding has not been spent.

8. DUE FROM THE COCO REEF RESORTS LIMITED

The College recovers electricity cost of $132,000 annually from Coco Reef. The amount due from Coco Reef as of March 31, 2007 is $Nil (2006 - $11,000).

9. DEFERRED CAPITAL CONTRIBUTIONS

Deferred capital contributions represent contributions made by the Government of Bermuda for the construction of the College and for the initial contents of the school. The Government of Bermuda continues to provide grants for the ongoing capital requirements of the College.

9. DEFERRED CAPITAL CONTRIBUTIONS (continued)

The contributions are amortized to revenue on the same basis as the amortized expense of the acquired capital assets. Changes in the deferred capital contributions balance are as follows:

	2007	2006
	$	$
Balance, beginning of year	24,841,001	25,998,200
Less: amounts amortized to revenue	(1,128,067)	(1,157,199)
Balance, end of year	23,712,934	24,841,001

10. STUDENT FEES

In accordance with the College's policy of providing a number of free places for needy students for whom the tuition fees are a deterrent to enrolment, full time fees in the amount of $30,244 (2006 - $36,605) have been waived.

11. RELATED PARTY TRANSACTIONS

The College is related in terms of common ownership to all Government of Bermuda departments and agencies. The College 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 to by the related parties.

Significant transactions with the Government of Bermuda are as follows:

(a) Government grants

The College received Government grants totaling $17,554,000 (2006 - $14,982,000) during the year.

Included in Government grants is $142,500 (2006 - $142,500) which the College has been instructed by the Ministry of Education to pay to the Adult Education School. The College remits a quarterly distribution directly to the Adult Education School. For 2007, the College was not instructed to contribute to the Career Centre (2006 - $150,000). The remainder of the 2007 grants received in the amount of $17,411,500 (2006 - $14,689,500) are to be used for operations and capital expenditures.

11. RELATED PARTY TRANSACTIONS (continued)

(b) Other amounts

	2007		2006	
	Revenue (Expense)	Receivable (Payable)	Revenue (Expense)	Receivable (Payable)
	$	$	$	$
Student fees	387,516	246,000	274,258	207,586
Training and Development	212,769	16,800	75,805	17,646
Text books	10,259	221	2,996	-
Facility rentals	68,123	73,424	69,260	38,142
Pension	(590,410)	(99,896)	(455,975)	(75,770)
Social insurance	(187,079)	(29,426)	(169,748)	(25,974)
Insurance	(451,384)	(78,540)	(343,750)	(61,181)
Audit Fees	(13,200)	(102,400)	(20,200)	(123,400)
Payroll tax	(562,403)	(141,474)	(515,150)	(132,306)
Miscellaneous	(4,412)	-	(11,023)	(11,023)

12. EMPLOYEE FUTURE BENEFITS

(a) Contributory defined benefit pension plan

Employees of the College are covered by the Public Service Superannuation Fund (the "Fund"), which is a defined benefit plan administered by the Government of Bermuda. A service pension is available with a minimum of eight years credited service. Contributions to the Fund are required from both the employees and the College, at a rate of 8.0% each. These contributions represent the total liability of the College and are recognized in the accounts on an accrual basis.

The College is not required under present legislation to make contributions with respect to actuarial deficiencies of the Fund. The College's contributions to the Fund as recorded as employee benefits during the year total $590,410 (2006 - $455,975).

(b) Retirement allowance

The College provides its employees with greater than ten years of service with continued pay for a period of up to twelve weeks, subsequent to their retirement. The length of the continued pay period is dependent on the length of service of the employee. An actuarial valuation was performed as at March 31, 2004, using the projected benefit method, prorated on years of service. The assumptions were government's best estimates of future events, including inflation rates, interest rates, and wage and salary rates. The results were then extrapolated to March 31, 2007, using the same assumptions, to produce the estimates of benefit costs and accrued benefit obligation included in the financial statements.

12. EMPLOYEE FUTURE BENEFITS (continued)

(b) Retirement allowance (continued)

There are no assets associated with this plan, as the College provides fully for the benefit. As well, there are no unamortized liabilities as at March 31, 2007. The discount rate used to determine benefit cost and accrued benefit obligation was 6.5% (2006 - 6.5%). The rate of compensation increase was 4.5% (2006 – 4.5%).

Based on employees currently eligible for this benefit, the actuarial valuation determined that the accrued benefit liability as at March 31, 2007 was $628,156 (2006 - $576,652). Amounts payable as at March 31, 2007 were $99,896 (2006 - $75,770).

	2007 $	2006 $
Accrued benefit obligation, beginning of year	576,652	329,700
Amortization of experience loss	-	195,673
Current period benefit cost	31,086	29,747
Interest accrued	37,924	34,687
Benefit payments	(17,506)	(13,155)
Accrued benefit obligation, end of year	628,156	576,652

(c) Other benefits

Other employee benefits include maternity leave, sick leave and vacation days. All of these plans are unfunded.

Maternity leave does not accumulate or vest and therefore an expense and corresponding liability are only recognized when applied for and approved. There were no maternity benefits applied for and approved during the current year, and therefore no liability has been accrued in the accounts.

Sick leave accumulates but does not vest and therefore an expense and corresponding liability are only recorded when an extended leave is applied for and approved. There was no extended sick leave applied for and approved during the current year, and therefore no liability has been accrued in the accounts.

Vacation days accumulate and vest, therefore a liability is accrued each year. An actuarial study has not been performed for the vacation days benefit obligation, as there are no factors used in the calculation that are materially different from the figures that would be estimated by an actuary. A maximum of ten vacation days in the aggregate may be carried forward from one year to the next. The accrued vacation liability as at March 31, 2007 was $262,966 (2006 - $237,674).

13. LEASE COMMITMENTS

The cost as at March 31, 2007 for the leased property is $6,315,342 (2006 - $6,315,342) and accumulated depreciation is $4,035,517 (2006 - $3,877,633).

Rent is based on the following base rent for the following periods:

(a) A yearly base rent:

- May 1, 2003 - April 30, 2008 - one peppercorn (if demanded)
- May 1, 2008 - April 30, 2013 - $200,000
- May 1, 2013 - April 30, 2018 - $250,000
- May 1, 2018 - April 30, 2024 - $300,000;
- May 1, 2024 - April 30, 2053 - rent shall increase from $300,000 by the percentage increase equivalent to the rate of increase in the consumer price index or to 110% of the passing rent whichever is greater and adjusted every seven years thereafter;
- May 1, 2053 - April 30, 2128 - rent shall increase annually by an amount equivalent to the percentage increase in the consumer price index for the immediate preceding year provided that in any event that such rent shall be no less than the rent payable for the preceding year; and

(b) A yearly turnover rent equal to 20% of gross annual profits commencing May 1, 2003:

Gross profits are as defined by Uniform System of Accounts for Hotels.

No rent receivable has been recognized as of March 31, 2007 as the Coco Reef Resorts Limited has had gross operating losses as at April 30, 2007, their fiscal year-end.

14. FINANCIAL RISK MANAGEMENT

The College is exposed to various risks through its financial instruments. The College has overall responsibility for the establishment and oversight of its risk management framework. The College manages its risks and risk exposures through sound business practices. The following analysis provides a measure of the risks at the reporting date, March 31, 2007.

(a) Credit risk

Credit risk arises from cash held with banks. The maximum exposure to credit risk is equal to the carrying value of the financial assets. The objective of managing counterparty credit risk is to prevent losses on financial assets. The College determines, on a continuous basis, amounts receivable on the basis of amounts it is virtually certain to receive based on their estimated realizable value.

(b) Liquidity risk

Liquidity risk is the risk the College will not be able to meet its financial obligations as they fall due. The College's objective in managing liquidity is to ensure that it will always have sufficient liquidity to meet its commitments when due, without incurring unacceptable losses or risking damage to the College's reputation. The College manages exposure to liquidity risk by closely monitoring supplier and other liabilities, focusing on generating positive cash flows from operations and establishing and maintaining good relationships with various financial institutions.

14. FINANCIAL RISK MANAGEMENT (continued)

(c) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates, will affect the fair value of recognized assets and liabilities or future cash flows of the College's results of operations. The College has minimal exposure to market risk.

(i) Foreign exchange

The College's business transactions are mainly conducted in Bermuda dollars and, as such, it has minimal exposure to foreign exchange risk.

(ii) Interest rate

The College is exposed to changes in interest rates, which may impact interest revenue on short-term investments.

15. CAPITAL MANAGEMENT

The College's objective when managing capital is to hold sufficient unrestricted net assets to enable it to withstand negative unexpected financial events. The College seeks to achieve this objective through receipt of operating grants from the Government of Bermuda and excess of revenues over expenses. The College seeks to maintain sufficient liquidity to meet its short-term obligations as they come due. The College is not subject to any externally imposed capital requirements.

16. FUTURE ACCOUNTING POLICY CHANGES

In December 2010, the Public Sector Accounting Board approved an amendment to the introduction to the Public Sector Accounting Handbook. Effective for fiscal years beginning on or after January 1, 2012, government not-for-profit organizations are directed to use either the public sector accounting standards or public sector accounting standards for government not-for-profit organizations. The College is currently assessing the appropriateness and potential impact of the change in accounting standards on its financial statements for the year ending March 31, 2013.

17. SUBSEQUENT EVENTS

On May 4, 2009 the Board of Governors for the Bermuda College and the Coco Reef signed a Deed of Addendum to extend their lease for an additional term of 75 years. The total term of the lease shall now be a period of 125 years commencing May 1, 2003.

In March 2011, an amendment to the Companies Act 1981 to make clear that the Minister responsible for administering the Act can sanction the leasing of land by a local company for a period of up to 131 years was passed. The Coco Reef Resorts Limited's Memorandum of Association was amended to allow it to lease land for a period of up to 125 years with the prior sanction of the Minister of Finance.

17. SUBSEQUENT EVENTS (continued)

On May 19, 2011, the Minister of Business Development and Tourism granted permission for the Coco Reef Resorts Limited to lease the Coco Reef Resorts Limited and related lands for 125 years.

On June 2, 2011, the Lease Addendum was signed by the College Board and the Coco Reef Resorts Limited. The terms of the Addendum are identical to those contained in the first Addendum signed in May 4, 2009.