

**BERMUDA LAND DEVELOPMENT
COMPANY LIMITED**

FINANCIAL STATEMENTS

MARCH 31, 2007



Office of the Auditor General

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AUDITOR'S REPORT

To the Shareholders of the Bermuda Land Development Company Limited

I have audited the balance sheet of the Bermuda Land Development Company Limited as at March 31, 2007 and the statements of operations and retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. 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 plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Bermuda Land Development Company Limited 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.

Hamilton, Bermuda
June 21, 2007

Larry T. Dennis, C.A.
Auditor General

BERMUDA LAND DEVELOPMENT COMPANY LIMITED
(Incorporated in Bermuda)

BALANCE SHEET

MARCH 31, 2007
(expressed in Bermuda dollars)

	<u>2007</u>	<u>2006</u>
ASSETS		
Current assets		
Cash and cash equivalents	\$ 6,696,473	\$ 5,370,520
Accounts receivable (Note 11)	184,961	150,668
Due from the Government of Bermuda (Note 11)	-	347,502
Capital assets held for resale (Note 6)	<u>3,373,001</u>	<u>4,796,324</u>
	10,254,435	10,665,014
Deposits (Note 5)	205,530	279,640
Capital assets (Note 6)	<u>36,996,920</u>	<u>32,084,259</u>
	<u>\$ 47,456,885</u>	<u>\$ 43,028,913</u>
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities (Note 11)	\$ 1,320,817	\$ 1,297,116
Deferred insurance proceeds (Note 3)	385,000	1,274,757
Provision for hurricane repairs (Note 12)	324,000	-
Tenant deposits	400,422	387,050
Deferred revenues, current portion	<u>195,445</u>	<u>195,445</u>
	2,625,684	3,154,368
Deferred revenues	1,057,470	1,249,288
Deferred capital contributions (Note 7)	<u>32,024,293</u>	<u>29,923,939</u>
	<u>35,707,447</u>	<u>34,327,595</u>

BERMUDA LAND DEVELOPMENT COMPANY LIMITED
(Incorporated in Bermuda)

BALANCE SHEET, Cont'd.

MARCH 31, 2007
(expressed in Bermuda dollars)

	<u>2007</u>	<u>2006</u>
SHAREHOLDERS' EQUITY		
Share capital (Note 8)	\$ 5,000,000	\$ 5,000,000
Retained earnings	<u>6,749,438</u>	<u>3,701,318</u>
	<u>11,749,438</u>	<u>8,701,318</u>
	<u>\$ 47,456,885</u>	<u>\$ 43,028,913</u>

On behalf of the Board:



Director



Director

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

BERMUDA LAND DEVELOPMENT COMPANY LIMITED

STATEMENT OF INCOME AND RETAINED EARNINGS

YEAR ENDED MARCH 31, 2007

(expressed in Bermuda dollars)

	<u>2007</u>	<u>2006</u>
Revenues		
Rental income (Note 11)	\$ 4,275,074	\$ 3,931,047
Sale of cottages	2,434,862	-
Insurance proceeds (Note 3)	889,757	-
Tenant recoveries	550,991	618,872
Interest and other income	<u>335,729</u>	<u>254,780</u>
	<u>8,486,413</u>	<u>4,804,699</u>
Expenses		
Salaries, wages and employee benefits (Note 9)	2,103,344	2,231,878
Cost of property sales	1,619,249	-
Amortization of capital assets	1,507,715	1,531,216
Repairs and maintenance	949,770	753,789
Insurance	577,387	440,933
General and administrative	430,026	328,674
Utilities (net of recoveries of \$357,626; 2006 - \$224,213)	385,330	448,947
Provision for hurricane Florence (Note 12)	324,000	-
Security	259,239	250,299
Bad debts	102,066	89,983
Leasing and marketing	<u>79,813</u>	<u>41,372</u>
	<u>8,337,939</u>	<u>6,117,091</u>
 Net income (loss) before the undernoted items	 148,474	 (1,312,392)
Amortization of deferred capital contributions (Note 7)	1,280,397	1,531,216
Deferred capital contributions realised on sale of cottages (Note 7)	<u>1,619,249</u>	<u>-</u>
Net income	3,048,120	218,824
Retained earnings, beginning of year	<u>3,701,318</u>	<u>3,482,494</u>
Retained earnings, end of year	\$ <u>6,749,438</u>	\$ <u>3,701,318</u>

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

BERMUDA LAND DEVELOPMENT COMPANY LIMITED

STATEMENT OF CASH FLOWS

YEAR ENDED MARCH 31, 2007
(expressed in Bermuda dollars)

	<u>2007</u>	<u>2006</u>
Operating activities:		
Net income	\$ 3,048,120	\$ 218,824
Items not affecting cash:		
Amortization of capital assets	1,507,715	1,531,216
Amortization of deferred capital contributions	(1,280,397)	(1,531,216)
Realised deferred capital contributions	(1,619,249)	-
Gain on sale of capital assets held for resale	(815,613)	-
Deferred revenues	(191,818)	(194,707)
Deferred insurance proceeds	(889,757)	(243,930)
Changes in non-cash items:		
Increase in accounts receivable	(34,293)	(74,948)
Decrease in amount due from the Government of Bermuda	347,502	702,498
Decrease in prepaid expenses	-	7,884
Increase (decrease) in accounts payable and accrued liabilities	23,701	(921,326)
Increase in provision for hurricane repairs	324,000	-
Increase (decrease) in tenant deposits	<u>13,372</u>	<u>(26,115)</u>
	<u>433,283</u>	<u>(531,820)</u>
Investing activities:		
Purchase of capital assets	(4,997,053)	(5,408,095)
Purchase of capital assets held for resale	(1,619,249)	-
Proceeds from sale of capital assets held for resale	<u>2,434,862</u>	<u>-</u>
	<u>(4,181,440)</u>	<u>(5,408,095)</u>
Financing activity:		
Capital contribution from the Government of Bermuda (Note 7)	<u>5,000,000</u>	<u>3,000,000</u>

BERMUDA LAND DEVELOPMENT COMPANY LIMITED

STATEMENT OF CASH FLOWS, Cont'd.

YEAR ENDED MARCH 31, 2007
(expressed in Bermuda dollars)

	<u>2007</u>	<u>2006</u>
Net increase (decrease) in cash and deposits	\$ 1,251,843	\$ (2,939,915)
Cash and cash equivalents, beginning of year	<u>5,650,160</u>	<u>8,590,075</u>
Cash and cash equivalents, end of year	<u>\$ 6,902,003</u>	<u>\$ 5,650,160</u>
Cash and cash equivalents consist of the following:		
Cash and cash equivalents	\$ 6,696,473	\$ 5,370,520
Deposits (Note 5)	<u>205,530</u>	<u>279,640</u>
	<u>\$ 6,902,003</u>	<u>\$ 5,650,160</u>
Included in cash flows from operating activities are the following amounts:		
Interest received	<u>\$ 200,233</u>	<u>\$ 207,293</u>

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

BERMUDA LAND DEVELOPMENT COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS

MARCH 31, 2007

(expressed in Bermuda dollars)

1. Nature of business

The Bermuda Land Development Company Limited (the "Company") was incorporated under the authority of The Base Lands Development Act 1996 (the "Act") on November 12, 1996. The shares of the Company are held by the Minister of Works and Engineering and the Minister of Finance in trust for the benefit of the country (see Note 11).

The general purpose of the Company is to manage and develop the land entrusted to it. The Company does this in a manner that will integrate the land into the economic and social fabric of Bermuda and create opportunities for increased employment now and in the future.

2. Summary of significant accounting policies

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles which have general application in Bermuda. For financial reporting purposes, the Company is classified as a government business-type organization and has adopted accounting policies appropriate for this classification. Those policies considered particularly significant are set out below:

(a) Grants from the Government of Bermuda

Capital grants received from the Government for the purpose of capital developments are shown as capital grants and are deferred and taken into income on the same basis as the amortization of the related capital asset.

(b) Capital assets

Capital assets are valued at cost. Costs incurred by the Company for improvements to buildings and infrastructure, purchase of equipment, site preparation and demolition are capitalized.

Amortization is calculated using the straight-line basis over the estimated useful lives at the following rates:

Buildings	5 to 20 years
Infrastructure	5 to 15 years
Equipment	5 years

Amortization has not yet been charged against site preparation costs, which include costs to clear land and demolish obsolete structures as these costs were necessary to bring the property into condition for future development. It is the intention of the Company to amortize these costs over the estimated useful life of each of the properties once development is completed.

No carrying value has been assigned to land, buildings and assets assumed by the Company as these assets are included as part of the lease (Note 10(a)) and are not capitalized.

BERMUDA LAND DEVELOPMENT COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS, Cont'd.

MARCH 31, 2007
(expressed in Bermuda dollars)

2. Summary of significant accounting policies, cont'd.

(c) Cash and cash equivalents

Cash and cash equivalents include all cash held at banks with a maturity of 12 months or less.

(d) Capital assets held for resale

Capital assets held for resale represents houses held for future sale. The inventory is valued at cost that includes direct costs associated with the renovation of the properties. No amortization was charged during the year.

(e) Revenue from the sale of houses and properties

The Company renovates houses and properties and leases them for a maximum period of 125 years. All proceeds from the lease are received at the time the lease agreement is executed. The long-term leases are treated as sales.

(f) Tenant recoveries

Common area expenses recovered from tenants are shown as revenue. Other recoveries such as water, electricity and telephone are netted against the corresponding expense.

(g) Rental income

The Company recognizes rental income on an accruals basis and is received under operating leases. All assets noted as land and buildings in Note 6 are used to generate rental income.

(h) Interest and other income

Interest income is recognized on an accruals basis. Other income, which includes lease negotiation fees, is recognized on an accruals basis.

(i) Financial assets and liabilities

The estimated fair value of the Company's financial instruments which include cash and deposits, accounts receivable and recoverable expenses, accounts payable and accrued charges, deposits and deferred revenues. Unless otherwise noted, it is management's opinion that the Company is not exposed to significant interest, currency or credit risks arising from these financial instruments. The fair values of these financial instruments approximate their carrying values, unless otherwise noted.

(j) Use of estimates

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

BERMUDA LAND DEVELOPMENT COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS, Cont'd.

MARCH 31, 2007
(expressed in Bermuda dollars)

3. Deferred insurance proceeds

During the year ended March 31, 2004, the Company's properties sustained damage from Hurricane Fabian. The total amount of damage was approximately \$2,845,000 and the insurance company had agreed to compensate the Company for this amount. As of year ended March 31, 2007, claims amounting to \$385,000 (2006 - \$1,274,757) has not yet been used to repair the damage and has been deferred. During the year, the Company released the amount of \$889,757 for excess proceeds over remaining repairs and \$243,936 was used for repairs in 2006.

4. Economic dependence

The Company will require significant funding for environmental remediation, construction of infrastructure, demolition of unsafe and uneconomic structures, renovation of viable existing structures and construction of new facilities. The Company is dependent on Government funding to achieve its development goals and to become financially self-sufficient.

5. Deposits

At March 31, 2007, the Company had \$205,530 (2006 - \$279,640) of deposits relating to cottages sold. The cash is held on deposit with various mortgage lenders to guarantee a portion of the purchaser's mortgage value.

6. Capital assets

Capital assets are comprised of:

	2007			2006
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Site preparation	\$ 15,987,158	\$ -	\$ 15,987,158	\$ 14,191,344
Land	7,755,680	-	7,755,680	7,755,680
Buildings	13,643,610	4,904,322	8,739,288	9,576,025
Infrastructure	10,529,254	2,891,189	7,638,065	5,154,980
Equipment	<u>1,028,973</u>	<u>779,243</u>	<u>249,730</u>	<u>202,553</u>
Capital assets	48,944,675	8,574,754	40,369,921	36,880,583
Capital assets held for sale	<u>3,373,001</u>	<u>-</u>	<u>3,373,001</u>	<u>4,796,324</u>
	<u>\$ 45,571,674</u>	<u>\$ 8,574,754</u>	<u>\$ 36,996,920</u>	<u>\$ 32,084,259</u>

The amounts disclosed separately as capital assets held for resale are included in the site preparation balance above.

BERMUDA LAND DEVELOPMENT COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS, Cont'd.

MARCH 31, 2007
(expressed in Bermuda dollars)

7. Deferred capital contributions

Deferred capital contributions represent the aggregate amount of capital grants received from the Government of Bermuda less amounts amortized to income and are comprised of:

	<u>2007</u>	<u>2006</u>
Balance, beginning of year	\$ 29,923,939	\$ 28,455,155
Add: capital contributions	5,000,000	3,000,000
Less: amortization	(1,280,397)	(1,531,216)
Less: realized on sale of cottages	<u>(1,619,249)</u>	<u>-</u>
Balance, end of year	\$ <u>32,024,293</u>	\$ <u>29,923,939</u>

8. Share capital

	<u>2007</u>	<u>2006</u>
Authorised and issued: 10,000,000 common shares of \$1 par value each	\$ <u>10,000,000</u>	\$ <u>10,000,000</u>
50% called and fully paid in cash	\$ <u>5,000,000</u>	\$ <u>5,000,000</u>

Upon incorporation the Company issued 10,000,000 common shares, of which 50% were called and paid.

9. Employee benefits

(a) Pension

The Company has a defined contribution pension plan. Employees join after three months with the Company and contribution levels are 5% of gross salary, which is matched by the Company. The pension expense to the Company for the year, included in salaries, wages and employee benefits was \$73,283 (2006 - \$84,729).

(b) Other benefits

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

Maternity leave and sick leave costs do not accumulate or vest and therefore an expense and liability is only recognized when applied for and approved. Vacation days accumulate and vest and therefore a liability is accrued each year.

BERMUDA LAND DEVELOPMENT COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS, Cont'd.

MARCH 31, 2007
(expressed in Bermuda dollars)

10. Contingencies and commitments

- (a) On May 13, 1997, the Company entered into a lease with the Government of Bermuda for a period of 131 years. The lease is effective from the Company's date of incorporation on November 12, 1996 and includes the four properties known as the Southside, St. David's (formerly the US Naval Air Station, excluding the airport), the Naval Annex in Southampton, Daniel's Head in Sandys and the Operating Base at Tudor Hill in Southampton including all buildings as described in detail in the schedule which forms part of the lease. The rent for the whole period is \$131 and has been paid.
- (b) The Base Lands Development Act 1996 (the "Act") provides certain assurances with respect to the scheduled lands including that the Government owns the land in fee simple, absolute in possession and holds the Company harmless for any losses relating to pollution or contamination of the land which existed prior to the commencement of the Act on September 20, 1996.
- (c) At March 31, 2007, the Company was committed to capital projects at Southside, St. David's with a value outstanding on the contracts of \$1,166,000.

The Company was also committed to service contracts for security and facilities maintenance for the various properties totaling approximately \$Nil.

- (d) The Legislature has approved \$2,500,000 in capital grants for the fiscal year ending March 31, 2008.

11. Related party transactions

The Company is related in terms of common ownership to all Government of Bermuda departments and agencies. During the year ended March 31, 2007, the Company earned rental and other revenues in the amount of \$1,717,444 (2006 - \$1,687,417) from various Government departments and agencies. At March 31, 2007, net amounts due (to) from various Government departments and agencies totaled (\$63,288) (2006 - \$140,333) and have been included as \$81,068 (2006 - \$212,872) in accounts payable, as \$17,780 (2006 - \$5,703) in accounts receivable and as \$Nil (2006 - \$347,502) in due from the Government of Bermuda.

During the year ended March 31, 2007, the Company purchased fixtures on behalf of a Government Quango, in the amount of \$2,925 (2006 - \$5,639) from a party in which a Director of the Company has an interest.

These transactions are in the normal course of operations and are measured at the exchange amount which is the amount of consideration established and agreed by the related parties.

BERMUDA LAND DEVELOPMENT COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS, Cont'd.

MARCH 31, 2007
(expressed in Bermuda dollars)

12. Provision for hurricane repairs

The Company provided \$324,000 for repairs on damages caused by Hurricane Florence during the year.

13. Comparatives

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