

**BERMUDA LAND DEVELOPMENT
COMPANY LIMITED**

FINANCIAL STATEMENTS

MARCH 31, 2008



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 ("BLDC") as at March 31, 2008 and the statements of income 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 BLDC as at March 31, 2008 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.

Note 12, Subsequent Events, states: "*As of the date of the auditor's report the divestiture has not been completed and compensation has not been agreed*". Until the divestiture has been completed and the compensation agreed, there remains a material uncertainty whether the divestiture and compensation would be in compliance with Sections 9(3) and 12(5), respectively, of the Base Lands Development Act 1996 ("the Act"), as amended. Section 9 expressly contemplates only "*any lease or letting*," while remaining silent on outright sales or divestiture. Given that the Act requires Legislative approval for leases in excess of 21 years, it cannot have been the intent of Parliament for outright surrender into perpetuity to require nothing. It appears that Government intends to effect the transfer of property by means of a "direction" rather than by approval of the Legislature. Section 12 provides that "*the Government shall pay BLDC for the property...in question the price determined by the Government after consultation with BLDC*." As a matter of general principle "price" means "value" and it must be "reasonable". It is proposed that the Government shall pay only a nominal consideration.

Hamilton, Bermuda
October 9, 2008

Larry T. Dennis, C.A.
Auditor General

BERMUDA LAND DEVELOPMENT COMPANY LIMITED
(Incorporated in Bermuda)

BALANCE SHEET

MARCH 31, 2008
(expressed in Bermuda dollars)

	<u>2008</u>	<u>2007</u>
ASSETS		
Current assets		
Cash and cash equivalents	\$ 11,922,537	\$ 6,696,473
Accounts receivable (Note 10)	733,827	184,961
Capital assets held for resale (Note 5)	-	3,373,001
Prepaid expenses	<u>11,600</u>	<u>-</u>
	12,667,964	10,254,435
Deposits (Note 4)	181,843	205,530
Capital assets (Note 5)	<u>38,408,106</u>	<u>36,996,920</u>
	\$ <u>51,257,913</u>	\$ <u>47,456,885</u>
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities (Note 10)	\$ 1,156,211	\$ 1,320,817
Deferred insurance proceeds (Note 3)	-	385,000
Provision for hurricane repairs	-	324,000
Tenant deposits	513,699	400,422
Deferred revenues, current portion	<u>195,445</u>	<u>195,445</u>
	1,865,355	2,625,684
Deferred revenues	982,529	1,057,470
Deferred capital contributions (Note 6)	<u>29,674,662</u>	<u>32,024,293</u>
	<u>32,522,546</u>	<u>35,707,447</u>

BERMUDA LAND DEVELOPMENT COMPANY LIMITED
(Incorporated in Bermuda)

BALANCE SHEET. Cont'd.

MARCH 31, 2008
(expressed in Bermuda dollars)

	<u>2008</u>	<u>2007</u>
SHAREHOLDERS' EQUITY		
Share capital (Note 7)	\$ 5,000,000	\$ 5,000,000
Retained earnings	<u>13,735,367</u>	<u>6,749,438</u>
	<u>18,735,367</u>	<u>11,749,438</u>
	\$ <u>51,257,913</u>	\$ <u>47,456,885</u>

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

On behalf of the Board:



Director



Director

BERMUDA LAND DEVELOPMENT COMPANY LIMITED

STATEMENT OF INCOME AND RETAINED EARNINGS

YEAR ENDED MARCH 31, 2008

(expressed in Bermuda dollars)

	<u>2008</u>	<u>2007</u>
Revenues		
Sale of cottages	\$ 5,743,923	\$ 2,434,862
Rental income (Note 10)	4,729,033	4,275,074
Tenant recoveries	578,388	550,991
Insurance proceeds (Note 3)	472,132	889,757
Interest and other income	<u>465,101</u>	<u>335,729</u>
	<u>11,988,577</u>	<u>8,486,413</u>
Expenses		
Salaries, wages and employee benefits (Note 8)	2,176,763	2,103,344
Cost of property sales	3,380,575	1,619,249
Amortization of capital assets	1,728,301	1,507,715
Repairs and maintenance	817,260	949,770
Insurance	537,057	577,387
Utilities (net of recoveries of \$243,316 (2007 - \$357,626))	530,430	385,330
General and administrative	426,560	532,092
Security	255,333	259,239
Provision for hurricane repairs	<u>-</u>	<u>403,813</u>
	<u>9,852,279</u>	<u>8,337,939</u>
Net income before the undernoted items	2,136,298	148,474
Amortization of deferred capital contributions (Note 6)	1,469,056	1,280,397
Realised deferred capital contributions (Note 6)	<u>3,380,575</u>	<u>1,619,249</u>
Net income	6,985,929	3,048,120
Retained earnings, beginning of year	<u>6,749,438</u>	<u>3,701,318</u>
Retained earnings, end of year	\$ <u>13,735,367</u>	\$ <u>6,749,438</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, 2008
(expressed in Bermuda dollars)

	<u>2008</u>	<u>2007</u>
Operating activities:		
Net income	\$ 6,985,929	\$ 3,048,120
Items not affecting cash:		
Amortization of capital assets	1,728,301	1,507,715
Amortization of deferred capital contributions	(1,469,056)	(1,280,397)
Amortization of capital assets held for resale	(3,380,575)	(1,619,249)
Gain on sale of capital assets held for resale	(2,363,348)	(815,613)
Deferred revenues	(74,941)	(191,818)
Changes in non-cash items:		
Increase in accounts receivable	(548,866)	(34,293)
Decrease in amount due from the Government of Bermuda	-	347,502
Increase in prepaid expenses	(11,600)	-
(Decrease) increase in accounts payable and accrued liabilities	(164,606)	23,701
Decrease in deferred insurance proceeds	(385,000)	(889,757)
(Decrease) increase in provision for hurricane repairs	(324,000)	324,000
Increase in tenant deposits	113,277	13,372
	<u>105,515</u>	<u>433,283</u>
Investing activities:		
Purchase of capital assets	(3,147,061)	(4,997,053)
Purchase of capital assets held for resale	-	(1,619,249)
Proceeds from sale of capital assets held for resale	<u>5,743,923</u>	<u>2,434,862</u>
	<u>2,596,862</u>	<u>(4,181,440)</u>
Financing activity:		
Capital contribution from the Government of Bermuda (Note 6)	<u>2,500,000</u>	<u>5,000,000</u>

BERMUDA LAND DEVELOPMENT COMPANY LIMITED

STATEMENT OF CASH FLOWS, Cont'd.

YEAR ENDED MARCH 31, 2008
(expressed in Bermuda dollars)

	<u>2008</u>	<u>2007</u>
Net increase in cash and deposits	\$ 5,202,377	\$ 1,251,843
Cash and cash equivalents and deposits, beginning of year	<u>6,902,003</u>	<u>5,650,160</u>
Cash and cash equivalents and deposits, end of year	<u>\$ 12,104,380</u>	<u>\$ 6,902,003</u>
Cash and cash equivalents and deposits consist of the following:		
Cash and cash equivalents	\$ 11,922,537	\$ 6,696,473
Deposits (Note 4)	<u>181,843</u>	<u>205,530</u>
	<u>\$ 12,104,380</u>	<u>\$ 6,902,003</u>
Included in cash flows from operating activities are the following amounts:		
Interest received	<u>\$ 455,507</u>	<u>\$ 200,233</u>

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

BERMUDA LAND DEVELOPMENT COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS

MARCH 31, 2008
(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.

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 9(a)) and are not capitalized.

BERMUDA LAND DEVELOPMENT COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS. Cont'd.

MARCH 31, 2008
(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.
- (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 5 are used to generate rental income.
- (h) Fair value of financial instruments
The estimated fair value of the Company's financial instruments which include cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, tenant deposits and deferred revenues approximate their carrying value. 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.
- (i) 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 reported period. Actual results could differ from these estimates.
- (j) Adoption of accounting policy
Effective April 1, 2007, the Company adopted the recommendations of CICA 3855: Financial Instruments - Recognition and Measurement and CICA 3861: Financial Instruments - Disclosure and Presentation. CICA 3855 establishes standards for recognizing and measuring financial instruments, including the accounting treatment for changes in fair value. As permitted by CICA 3855, the Company's financial assets and liabilities continue to be presented at amortized cost which approximates fair value. Therefore, the adoption of these recommendations did not have a significant impact on the financial statements.

BERMUDA LAND DEVELOPMENT COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS, Cont'd.

MARCH 31, 2008
(expressed in Bermuda dollars)

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

(k) Interest and other income

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

3. Deferred insurance proceeds/Hurricane Fabian damage

The Company arranges its insurance coverage through a master policy that is administered by the Government of Bermuda (the "Government").

In 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, 2008, all repairs and claims for repairs have been settled amongst the parties. Insurance proceeds in excess of repairs amounting to \$472,132 (2007 - \$889,757) has been accounted for as Insurance proceeds in the Company's Statement of Income and Retained earnings for the year.

4. Deposits

At March 31, 2008, the Company had \$181,843 (2007 - \$205,530) 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.

5. Capital assets

Capital assets are comprised of:

	2008			2007
	<u>Cost</u>	<u>Accumulated Amortization</u>	<u>Net Book Value</u>	<u>Net Book Value</u>
Site preparation	\$ 15,447,762	\$ -	\$ 15,447,762	\$ 15,987,158
Buildings	13,685,478	5,813,048	7,872,430	8,739,288
Land	7,755,680	-	7,755,680	7,755,680
Infrastructure	10,539,347	3,640,213	6,899,134	7,638,065
Equipment	<u>1,282,894</u>	<u>849,794</u>	<u>433,100</u>	<u>249,730</u>
	48,711,161	10,303,055	38,408,106	40,369,921
Less: capital assets held for resale	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,373,001</u>
	\$ <u>48,711,161</u>	\$ <u>10,303,055</u>	\$ <u>38,408,106</u>	\$ <u>36,996,920</u>

BERMUDA LAND DEVELOPMENT COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS, Cont'd.

MARCH 31, 2008
(expressed in Bermuda dollars)

6. 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>2008</u>	<u>2007</u>
Balance, beginning of year	\$ 32,024,293	\$ 29,923,939
Add: capital contributions	2,500,000	5,000,000
Less: cost of housing sales amortized to revenue	(3,380,575)	(1,619,249)
Less: capital grants amortized to revenue	<u>(1,469,056)</u>	<u>(1,280,397)</u>
Balance, end of year	\$ <u>29,674,662</u>	\$ <u>32,024,293</u>

7. Share capital

	<u>2008</u>	<u>2007</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.

8. Employee benefits

(a) Pension

The Company has a defined contribution pension plan. Employees join after three months with the Company and contributions 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 \$ 92,394 (2007 - \$73,283).

(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 an actual study has not been performed for the vacation days benefit obligation as there were no factors used in the calculation that are materially different from the figures that would be estimated by an actuary. The accrued vacation liability as of March 31, 2008 and 2007 was nil.

BERMUDA LAND DEVELOPMENT COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS. Cont'd.

MARCH 31, 2008
(expressed in Bermuda dollars)

9. 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, 2008, the Company was committed to capital projects at Southside, St. David's with a value outstanding on the contracts of \$86,000 (2007 - \$1,166,000).
- (d) The Company did not ask for nor did the Legislature approve any capital grants for the fiscal year ending March 31, 2009.

10. Related party transactions

The Company is related in terms of common ownership to all Government of Bermuda departments and agencies. The Company enters into transactions with these entities in the normal course of business. During the year ended March 31, 2008, the Company earned rental and other revenues in the amount of \$1,519,427 (2007 - \$1,717,444) from various Government departments and agencies. At March 31, 2008, net amounts due to various Government departments and agencies totaled \$22,880 (2007 - \$63,288) and have been included as \$113,868 (2007 - \$81,068) in accounts payable and as \$90,988 (2007 - \$17,780) in accounts receivable.

The transactions have been measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

11. Comparative figures

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

BERMUDA LAND DEVELOPMENT COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS, Cont'd.

MARCH 31, 2008
(expressed in Bermuda dollars)

12. Subsequent event

On August 27, 2008, the Board approved and minuted the intended divestiture of certain entrusted lands to the Government of Bermuda.

The Board also resolved to accept "the Minister's assurance that the Company will receive compensation from the Government of Bermuda for the land to be divested pursuant to Section 12 (5) of the Base Land development Act 1996". As of the date of the auditor's report the divestiture has not been completed and compensation has not been agreed.