

**BERMUDA LAND DEVELOPMENT
COMPANY LIMITED**

FINANCIAL STATEMENTS

MARCH 31, 2009



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, 2009 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 Bermuda Land Development Company Limited as at March 31, 2009 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
April 23, 2010

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

BERMUDA LAND DEVELOPMENT COMPANY LIMITED
(Incorporated in Bermuda)

BALANCE SHEET

MARCH 31, 2009
(expressed in Bermuda dollars)

	<u>2009</u>	<u>2008</u>
ASSETS		
Current assets		
Cash and deposits	\$ 10,547,203	\$ 11,922,537
Accounts receivable and recoverable expenses (note 12)	948,723	733,827
Prepaid expenses	<u>11,357</u>	<u>11,600</u>
	11,507,283	12,667,964
Restricted cash (note 5)	167,412	181,843
Capital assets (note 6)	<u>39,283,129</u>	<u>38,408,106</u>
	\$ <u>50,957,824</u>	\$ <u>51,257,913</u>
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities (note 12)	\$ 918,292	\$ 1,156,211
Tenant deposits	533,809	513,699
Deferred revenues, current portion	<u>128,663</u>	<u>195,445</u>
	1,580,764	1,865,355
Deferred revenues	894,082	982,529
Deferred capital contributions (note 7)	<u>28,525,549</u>	<u>29,674,662</u>
	<u>31,000,395</u>	<u>32,522,546</u>
SHAREHOLDERS' EQUITY		
Share capital (note 8)	5,000,000	5,000,000
Retained earnings	<u>14,957,429</u>	<u>13,735,367</u>
	<u>19,957,429</u>	<u>18,735,367</u>
	\$ <u>50,957,824</u>	\$ <u>51,257,913</u>

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

BERMUDA LAND DEVELOPMENT COMPANY LIMITED
STATEMENT OF INCOME AND RETAINED EARNINGS
FOR THE YEAR ENDED MARCH 31, 2009
(expressed in Bermuda dollars)

	<u>2009</u>	<u>2008</u>
Revenues		
Rental income (note 12)	\$ 5,182,218	\$ 4,729,033
Sale of cottages	691,497	5,743,923
Tenant recoveries	656,225	578,388
Interest and other income	457,788	465,101
Insurance proceeds (note 4)	-	472,132
	<u>6,987,728</u>	<u>11,988,577</u>
Expenses		
Salaries, wages and employee benefits (note 9)	2,229,172	2,176,763
Amortization of capital assets	1,674,549	1,728,301
Repairs and maintenance	633,123	817,260
Bad debts (recovery)	558,028	(4,355)
Insurance	557,015	537,057
General and administrative	540,941	430,915
Utilities (net of recoveries of \$321,300 (2008 - \$243,316) (note 10))	471,652	530,430
Security	250,299	255,333
Cost of property sales	-	3,380,575
	<u>6,914,779</u>	<u>9,852,279</u>
Net income before the undernoted items	72,949	2,136,298
Amortization of deferred capital contributions (note 7)	1,149,113	1,469,056
Realized deferred capital contributions	-	3,380,575
Net income	1,222,062	6,985,929
Retained earnings, beginning of year	<u>13,735,367</u>	<u>6,749,438</u>
Retained earnings, end of year	\$ <u>14,957,429</u>	\$ <u>13,735,367</u>

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

BERMUDA LAND DEVELOPMENT COMPANY LIMITED

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED MARCH 31, 2009
(expressed in Bermuda dollars)

	<u>2009</u>	<u>2008</u>
Operating activities:		
Net income	\$ 1,222,062	\$ 6,985,929
Items not affecting cash:		
Amortization of capital assets	1,674,549	1,728,301
Amortization of deferred capital contributions	(1,149,113)	(1,469,056)
Amortization of capital assets held for resale	-	(3,380,575)
Gain on sale of capital assets held for resale	(691,497)	(2,363,348)
Deferred revenues	(155,229)	(74,941)
Changes in non-cash items:		
Increase in accounts receivable	(214,896)	(548,866)
Decrease (increase) in prepaid expenses	243	(11,600)
Decrease in accounts payable and accrued liabilities	(237,919)	(164,606)
Decrease in deferred insurance proceeds	-	(385,000)
Decrease in provision for hurricane repairs	-	(324,000)
Increase in tenant deposits	20,110	113,277
	<u>468,310</u>	<u>105,515</u>
Investing activities:		
Purchase of capital assets	(2,549,572)	(3,147,061)
Proceeds from capital assets held for resale	691,497	5,743,923
	<u>(1,858,075)</u>	<u>2,596,862</u>
Financing activity:		
Capital contribution from the Government of Bermuda (note 7)	-	2,500,000

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

BERMUDA LAND DEVELOPMENT COMPANY LIMITED

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED MARCH 31, 2009
(expressed in Bermuda dollars)

	<u>2009</u>	<u>2008</u>
Net (decrease) increase in cash and deposits	(1,389,765)	5,202,377
Cash and cash equivalents, beginning of year	<u>12,104,380</u>	<u>6,902,003</u>
Cash and cash equivalents, end of year	<u><u>10,714,615</u></u>	<u><u>12,104,380</u></u>
Cash and cash equivalents consist of the following:		
Cash and deposits	\$ 10,547,203	11,922,537
Restricted cash	<u>167,412</u>	<u>181,843</u>
	<u><u>\$ 10,714,615</u></u>	<u><u>12,104,380</u></u>
Included in cash flows from operating activities are the following amounts:		
Interest received	<u><u>\$ 169,197</u></u>	<u><u>\$ 455,507</u></u>

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

BERMUDA LAND DEVELOPMENT COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS

MARCH 31, 2009

(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 accounting principles generally accepted in Bermuda and Canada applicable to a 'going concern', which assume that the Company will continue operation for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of operations.

Management regularly reviews and considers the current and forecast activities of the Company in order to satisfy itself as to the viability of operations. These ongoing reviews include current and future business opportunities, customer and supplier exposure and forecast of cash requirements and balances. Based on these evaluations management considers that the Company is able to continue as a going concern.

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 of Bermuda (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

BERMUDA LAND DEVELOPMENT COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS

MARCH 31, 2009
(expressed in Bermuda dollars)

2. Summary of significant accounting policies (cont'd.)

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 11(a)) and are not capitalized.

c) 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.

d) 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.

e) 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.

f) 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.

g) Adoption of Accounting Standards

Effective April 1, 2008 the Company adopted the following new accounting standards issued by the Canadian Institute of Chartered Accountants (which are promoted by the Institute of Chartered Accountants of Bermuda by signed agreement and therefore generally accepted in Bermuda).

Financial Instruments – Disclosure, Section 3862; Financial Instruments – Presentation, Section 3863; Capital Disclosures, Section 1535; and General Standards of Financial Statement Presentation, Section 1400.

BERMUDA LAND DEVELOPMENT COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS

MARCH 31, 2009

(expressed in Bermuda dollars)

2. Summary of significant accounting policies (cont'd.)

Section 3862 requires entities to provide disclosures in their financial statements that enable users to evaluate the significance of financial instruments on the Company's financial position and its performance and the nature and extent and risks arising from financial instruments to which the Company is exposed during the period and at the balance sheet date, and how it manages those risks. Section 3863 establishes standards for presentation of financial and non-financial derivatives. It deals with the classification of financial instruments, from the perspective of the issuer, between liabilities and equities, the classification of related interest, dividends, losses and gains, and circumstances in which financial assets and financial liabilities offset. These new sections place increased emphasis on disclosure about the nature and extent of risks arising from financial instruments and how the Company manages those risks. The adoption of these standards has resulted in increased note disclosures in the Company's financial statements. (See Note 14)

Section 1535 establishes disclosure requirements about an entity's capital and how it is managed. It requires the disclosure of information about an entity's objectives, policies and process for managing capital. The adoption of this standard had no impact on the Company's financial statements. (See Note 15)

Section 1400 requires management to make an assessment of the entity's ability to continue as a going concern and disclose any uncertainty related to events or conditions that may cast significant doubt upon the entity's ability to continue as a going concern. When assessing the going concern assumption management must take into account all available information about the future, which is at least, but not limited to, twelve months from the balance sheet date. The adoption of this standard did not require any changes to the Company's accounting or note disclosures.

h) Financial Instruments, Recognition and Measurement

The Company's financial instruments consist of cash and deposits, accounts receivable and recoverable expenses, accounts payable and accrued liabilities, tenant deposits and deferred revenues. They are all categorised as held for trading and their fair value approximates their carrying value due to their short term maturity.

Unless otherwise noted, it is management's opinion that the Company is not exposed to significant interest, currency or credit risk arising from these financial instruments.

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

BERMUDA LAND DEVELOPMENT COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS

MARCH 31, 2009
(expressed in Bermuda dollars)

3. Economic dependence

The Company will require significant funding for environmental remediation, demolition, construction and repair of infrastructure. The Company is dependent on Government funding to achieve its development goals.

4. Deferred insurance proceeds/Hurricane Fabian damage

The Company arranges its insurance coverage through a master policy that is administered by the Government.

In 2004, the Company's properties sustained damages 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, 2009, all repairs and claims for repairs have been settled.

5. Restricted Cash

At March 31, 2009, the Company had \$167,412 (2008 - \$181,843) 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:

	2009			2008
	<u>Cost</u>	<u>Accumulated Amortization</u>	<u>Net Book Value</u>	<u>Net Book Value</u>
Buildings	\$ 25,318,511	\$ 6,626,306	\$ 18,692,205	7,872,430
Land	7,755,680	-	7,755,680	7,755,680
Infrastructure	11,489,983	4,392,908	7,097,075	6,899,134
Site preparation	5,289,867	-	5,289,867	15,447,762
Equipment	<u>1,406,692</u>	<u>958,390</u>	<u>448,302</u>	<u>433,100</u>
	\$ <u>51,260,733</u>	\$ <u>11,977,604</u>	\$ <u>39,283,129</u>	\$ <u>38,408,106</u>

BERMUDA LAND DEVELOPMENT COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS

MARCH 31, 2009
(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>2009</u>	<u>2008</u>
Balance, beginning of year	\$ 29,674,662	\$ 32,024,293
Add: capital contributions	-	2,500,000
Less: housing sales amortized to revenue	-	(3,380,575)
Less: capital grants amortized to revenue	<u>(1,149,113)</u>	<u>(1,469,056)</u>
Balance, end of year	\$ <u>28,525,549</u>	\$ <u>29,674,662</u>

8. Share capital

	<u>2009</u>	<u>2008</u>
Authorized 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 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 \$94,325 (2008 - \$92,394).

(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. The accrued liability as at March 31, 2009 is \$14,310.

BERMUDA LAND DEVELOPMENT COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS

MARCH 31, 2009
(expressed in Bermuda dollars)

10. Utilities expense

The Company's primary business is the redevelopment of the former Base Lands. The Company provides infrastructure services in the form of water, sewage, telephone and data, commonly referred to as utilities. The Company is best able to monitor the cost of providing utility services by matching utility salaries and wages against the related utility revenues. Included in utilities (net of recoveries) expense are salaries and wages in the amount of \$362,454 (2008 - \$366,321).

11. 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, 2009, the Company was committed to capital projects at Southside, St. David's with a value outstanding on the contracts of \$459,000.
- (d) The Company did not ask for nor did the Legislature approve any capital grants for the fiscal year ending March 31, 2010.

12. 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, 2009, the Company earned rental and other revenues in the amount of \$2,149,435 (2008 - \$1,519,427) and expenses in the amount of \$790,913 (2008 - \$761,397) from various Government departments and agencies. At March 31, 2009, net amounts due to various Government departments and agencies totalled \$64,094 (2008 - \$22,880) and have been included as \$148,878 (2008 - \$113,868) in accounts payable and as \$84,784 (2008 - \$90,988) in accounts receivable.

During the year, the Company entered into some lease transactions with related parties at less than fair market value.

BERMUDA LAND DEVELOPMENT COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS

MARCH 31, 2009

(expressed in Bermuda dollars)

13. Proposed divestiture of land

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 "Minster'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.

14. Financial risk management

The Company has exposure to counterparty credit risk, liquidity risk and market risk associated with its financial assets and liabilities. The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework. The Board of Directors has established the Finance and Audit Committee which is responsible for developing and monitoring the Company's compliance with risk management policies and procedures. The Finance and Audit Committee regularly reports to the Board of Directors on its activities. The Company's risk management program seeks to minimize potential adverse effects on the Company's financial performance. The Company manages its risks and risk exposures through a combination of insurance and sound business practices.

Credit Risk

Credit risk arises from cash held with banks and credit exposure to customers, including outstanding accounts receivable. 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 Company assesses the credit quality of counterparties, taking into account their financial position, past experience and other factors.

Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, current bank accounts, and short-term investments, with terms to maturity of less than 90 days. Credit risk associated with cash and cash equivalents is minimized substantially by ensuring that these financial assets are invested with highly rated financial institutions.

BERMUDA LAND DEVELOPMENT COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS

MARCH 31, 2009
(expressed in Bermuda dollars)

14. Financial risk management (cont'd.)

Accounts receivable

Accounts receivable consist primarily of trade accounts receivable from billings of services provided. The Company's credit risk arises from the possibility that a counterparty which owes the Company money is unable or unwilling to meet its obligations in accordance with the terms and conditions in the contracts with the Company, which would result in a financial loss for the Company. This risk is mitigated through established credit management techniques, including monitoring counterparty's creditworthiness, obtaining references and taking security deposits. In the year ended March 31, 2009, the maximum credit risk to which the Company is exposed represents the fair value of its accounts receivable.

Liquidity Risk

Liquidity risk is the risk the Company will not be able to meet its financial obligations as they fall due. The Company'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 Company's reputation. The Company manages exposure to liquidity risk by closely monitoring supplier and other liabilities, focusing on debtor collection, generating positive cash flows from operations and establishing and maintaining good relationships with various financial institutions.

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 Company's results of operations. The Company has minimal exposure to market risk.

Foreign exchange risk

The Company's business transactions are normally conducted in Bermuda dollars and, as such, it has limited exposure to foreign exchange risk.

Interest rate

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

BERMUDA LAND DEVELOPMENT COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS

MARCH 31, 2009
(expressed in Bermuda dollars)

15. Capital management

The Company's objective when managing capital is to hold sufficient shareholder's equity to enable it to withstand negative unexpected financial events. The Company seeks to achieve this objective through generating net income. The Company is not subject to any externally imposed capital requirements.

16. Future accounting pronouncements

Financial Statement Concepts, Section 1000

On April 1, 2009, the Company will adopt the new recommendations of the Canadian Institute of Chartered Accountants (CICA) Handbook Section 1000, Financial Statement Concepts, to clarify the criteria for recognition of an asset and the timing of expense recognition. The new requirements are effective for annual financial statements relating to fiscal years beginning on or after October 1, 2008. The adoption of this standard will not have a material impact on the Company's financial statements.

Accounting Developments

In February 2008, the Accounting Standards Board of the CICA confirmed its strategic plan which will abandon Canadian generally accepted accounting principles (GAAP) and affect a complete convergence to International Financial Reporting Standards (IFRS). In September 2009, the Public Sector Accounting Board approved an amendment to the scope of public sector accounting standards. The existing category of government business type organizations (GBTO) will cease to exist and such organizations like the Bermuda Land Development Company Limited previously falling into that category must decide if they are a "Government Not-for-profit Organization (GNFPO)" or an "Other Government Organization (OGO)". Other government organizations will be permitted to choose to prepare their financial statements in accordance with public sector standards or IFRS. This choice will depend on an evaluation of which basis will better satisfy the needs of users of their financial statements. These new developments will be effective for the Company's financial year commencing April 1, 2011.

17. Comparative figures

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