

BERMUDA LAND DEVELOPMENT COMPANY LIMITED

FINANCIAL STATEMENTS

MARCH 31, 2003



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, 2003 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, 2003 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.

Larry T. Dennis, C.A.
Auditor General

Hamilton, Bermuda
June 12, 2003

BERMUDA LAND DEVELOPMENT COMPANY LIMITED

BALANCE SHEET

MARCH 31, 2003

	2003	2002
	\$	\$
ASSETS		
CURRENT ASSETS		
Cash and deposits	6,774,956	12,082,953
Accounts receivable and recoverable expenses	224,325	159,377
	<u>6,999,281</u>	<u>12,242,330</u>
RESTRICTED CASH AND DEPOSITS (note 4)	303,892	292,435
CAPITAL ASSETS (note 5)	28,366,571	23,630,734
CAPITAL ASSETS HELD FOR RESALE	207,965	133,106
	<u>35,877,709</u>	<u>36,298,605</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	1,032,989	732,804
Developer deposits		250,000
Tenant deposits	224,177	204,311
Deferred revenues, current portion	195,445	195,445
	<u>1,452,611</u>	<u>1,382,560</u>
DEFERRED REVENUES	1,834,885	2,030,330
DEFERRED CAPITAL CONTRIBUTIONS (note 6)	24,510,001	24,753,150
	<u>27,797,497</u>	<u>28,166,040</u>
SHAREHOLDERS' EQUITY		
Share capital (note 7)	5,000,000	5,000,000
Retained earnings	3,080,212	3,132,565
	<u>8,080,212</u>	<u>8,132,565</u>
	<u>35,877,709</u>	<u>36,298,605</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
FOR THE YEAR ENDED MARCH 31, 2003

	2003	2002
	\$	\$
REVENUES		
Rental income	3,034,482	2,846,959
Tenant recoveries	444,339	401,987
Interest and other income	243,071	407,662
Sale of cottages		2,555,001
	<u>3,721,892</u>	<u>6,211,609</u>
EXPENSES		
Salaries, wages and employee benefits (note 8)	1,503,650	1,507,902
Amortization of capital assets	1,243,149	609,758
Utilities (net of recoveries of \$211,075 (2002- \$392,124))	724,340	453,690
Repairs and maintenance	681,605	979,778
Insurance	261,640	222,918
Security	233,762	314,388
General and administrative	229,035	259,357
Bad debts	72,000	60,000
Leasing and marketing	68,213	70,085
Cost of property sales		1,883,221
	<u>5,017,394</u>	<u>6,361,097</u>
LOSS BEFORE THE UNDERNOTED ITEM	(1,295,502)	(149,488)
Amortization of deferred capital contributions (note 6)	<u>1,243,149</u>	<u>2,478,603</u>
(LOSS) NET INCOME	(52,353)	2,329,115
RETAINED EARNINGS, BEGINNING OF YEAR	<u>3,132,565</u>	<u>803,450</u>
RETAINED EARNINGS, END OF YEAR	<u>3,080,212</u>	<u>3,132,565</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, 2003

	2003	2002
	\$	\$
CASH FLOWS FROM OPERATING ACTIVITIES		
(Loss) net income	(52,353)	2,329,115
Items not affecting cash:		
Amortization of capital assets	1,243,149	609,758
Amortization of deferred capital contributions	(1,243,149)	(2,478,603)
Gain on sale of capital assets held for resale		(686,158)
Deferred revenues	(195,445)	846,221
	<u>(247,798)</u>	<u>620,333</u>
Changes in non-cash items:		
(Increase) decrease in accounts receivable	(64,948)	362,190
Decrease in prepaid expenses		7,552
Increase (decrease) in accounts payable and accrued liabilities	300,185	(392,553)
Decrease in developer deposits	(250,000)	
Increase (decrease) in tenant deposits	19,866	(606)
	<u>(242,695)</u>	<u>596,916</u>
CASH FLOWS FROM INVESTING AND FINANCING ACTIVITIES		
Purchase of capital assets	(5,978,986)	(5,026,779)
Purchase of capital assets held for resale	(74,859)	(400,737)
Proceeds from sale of capital assets held for resale		2,555,001
Capital contribution from the Government of Bermuda (note 6)	1,000,000	6,000,000
	<u>(5,053,845)</u>	<u>3,127,485</u>
NET (DECREASE) INCREASE IN CASH AND DEPOSITS	(5,296,540)	3,724,401
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	12,375,388	8,650,987
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>7,078,848</u>	<u>12,375,388</u>
Cash and cash equivalents consist of the following:		
Cash and deposits	6,774,956	12,082,953
Restricted cash and deposits (note 4)	303,892	292,435
	<u>7,078,848</u>	<u>12,375,388</u>

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

BERMUDA LAND DEVELOPMENT COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS

MARCH 31, 2003

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 Housing 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. It will do 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. 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

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 10 years
Equipment	3 to 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

MARCH 31, 2003

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) 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.

(d) Revenue from the sale of houses and properties

The Company renovates houses and properties and leases them for a 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.

(e) 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.

(f) 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 approximate their carrying value.

(g) 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.

3. 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.

BERMUDA LAND DEVELOPMENT COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS

MARCH 31, 2003

4. RESTRICTED CASH AND DEPOSITS

At March 31, 2003, the Company had \$303,892 (2002 - \$292,435) of restricted cash and 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:

	2003			2002
	Cost \$	Accumulated Amortization \$	Net Book Value \$	Net Book Value \$
Site preparation	15,575,377		15,575,377	10,518,724
Buildings	7,471,431	1,547,042	5,924,389	6,735,521
Land	5,430,079		5,430,079	4,649,704
Infrastructure	2,268,593	1,071,834	1,196,759	1,488,367
Equipment	<u>797,489</u>	<u>557,522</u>	<u>239,967</u>	<u>238,418</u>
	<u>31,542,969</u>	<u>3,176,398</u>	<u>28,366,571</u>	<u>23,630,734</u>

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:

	2003 \$	2002 \$
Balance, beginning of year	24,753,150	21,231,753
Add: capital contributions	1,000,000	6,000,000
Less: housing sales amortized to revenue		(1,868,845)
Less: capital grants amortized to revenue	<u>(1,243,149)</u>	<u>(609,758)</u>
Balance, end of year	<u>24,510,001</u>	<u>24,753,150</u>

BERMUDA LAND DEVELOPMENT COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS

MARCH 31, 2003

7. SHARE CAPITAL

	2003 \$	2002 \$
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% was 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 \$24,105 (2002 - \$49,774).

(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.

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.

BERMUDA LAND DEVELOPMENT COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS

MARCH 31, 2003

9. CONTINGENCIES AND COMMITMENTS (continued)

(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, 2003, the Company was committed to capital projects at Southside, St. David's with a value outstanding on the contracts of \$2,721,000.

The Company was also committed to service contracts for security and facilities maintenance for the various properties totaling approximately \$175,000.

(d) The Legislature has approved \$3,500,000 in capital grants for the fiscal year ending March 31, 2004.

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, 2003, the Company earned rental and other revenues in the amount of \$1,085,000 (2002 - \$1,171,000) from various Government departments and agencies. At March 31, 2003, net amounts due from/(to) various Government departments and agencies totaled \$7,600 (2002 - (\$26,000)) and have been included in accounts payable and accounts receivable.

During the year ended March 31, 2003, the Company purchased goods and services in the amount of \$59,000 (2002 - \$32,000) from other related parties and earned rental revenues in the amount of \$30,000 (2002 - \$33,000). At March 31, 2003, accounts receivable were \$6,000 (2002 - \$14,000).

11. COMPARATIVE FIGURES

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