

**BERMUDA LAND DEVELOPMENT
COMPANY LIMITED**

FINANCIAL STATEMENTS

MARCH 31, 2006



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, 2006 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, 2006 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 16, 2006

A handwritten signature in black ink, appearing to read 'Larry T. Dennis'.

Larry T. Dennis, C.A.
Auditor General

BERMUDA LAND DEVELOPMENT COMPANY LIMITED
(Incorporated in Bermuda)

BALANCE SHEET

MARCH 31, 2006
(expressed in Bermuda dollars)

	<u>2006</u>	<u>2005</u>
ASSETS		
Current assets		
Cash and deposits	\$ 5,370,520	\$ 8,318,149
Accounts receivable and recoverable expenses	150,668	75,720
Due from the Government of Bermuda (Note 11)	347,502	1,050,000
Prepaid expenses	<u>-</u>	<u>7,884</u>
	5,868,690	9,451,753
Restricted cash and deposits (Note 5)	279,640	271,926
Capital assets (Note 6)	<u>36,880,583</u>	<u>33,003,704</u>
	<u>\$ 43,028,913</u>	<u>\$ 42,727,383</u>
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities (Note 11)	\$ 1,297,116	\$ 2,218,442
Deferred insurance proceeds (Note 3)	1,274,757	1,518,687
Tenant deposits	387,050	413,165
Deferred revenues, current portion	<u>195,445</u>	<u>195,445</u>
	3,154,368	4,345,739
Deferred revenues	1,249,288	1,443,995
Deferred capital contributions (Note 7)	<u>29,923,939</u>	<u>28,455,155</u>
	<u>34,327,595</u>	<u>34,244,889</u>

BERMUDA LAND DEVELOPMENT COMPANY LIMITED
(Incorporated in Bermuda)

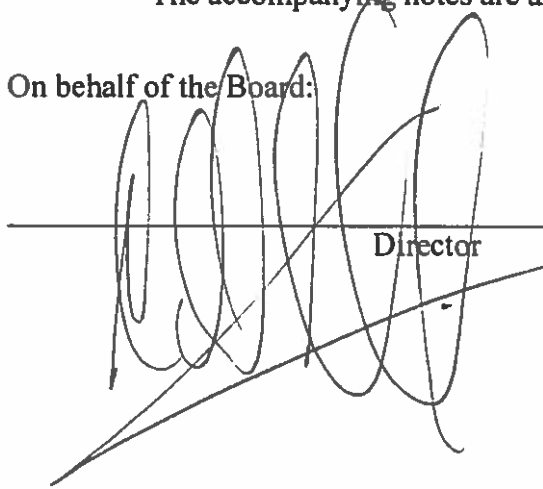
BALANCE SHEET, Cont'd.

MARCH 31, 2006
(expressed in Bermuda dollars)

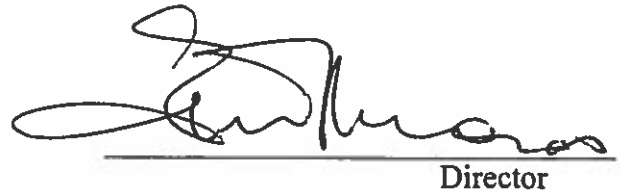
	<u>2006</u>	<u>2005</u>
SHAREHOLDERS' EQUITY		
Share capital (Note 8)	\$ 5,000,000	\$ 5,000,000
Retained earnings	<u>3,701,318</u>	<u>3,482,494</u>
	<u>8,701,318</u>	<u>8,482,494</u>
	<u>\$ 43,028,913</u>	<u>\$ 42,727,383</u>

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, 2006
(expressed in Bermuda dollars)

	<u>2006</u>	<u>2005</u>
Revenues (Note 11)		
Rental income	\$ 3,931,047	\$ 3,783,476
Tenant recoveries	618,872	619,395
Interest and other income	<u>254,780</u>	<u>327,060</u>
	<u>4,804,699</u>	<u>4,729,931</u>
Expenses		
Salaries, wages and employee benefits (Note 9)	2,231,878	2,216,532
Amortization of capital assets	1,531,216	1,523,156
Repairs and maintenance	753,789	810,049
Utilities (net of recoveries of \$224,213; 2005 - \$225,055)	448,947	412,547
Insurance	440,933	494,254
General and administrative	328,674	355,048
Security	250,299	231,942
Bad debts	89,983	81,000
Leasing and marketing	<u>41,372</u>	<u>163,647</u>
	<u>6,117,091</u>	<u>6,288,175</u>
Net loss before the undernoted item	(1,312,392)	(1,558,244)
Amortization of deferred capital contributions (Note 7)	<u>1,531,216</u>	<u>1,523,156</u>
Net income (loss)	218,824	(35,088)
Retained earnings, beginning of year	<u>3,482,494</u>	<u>3,517,582</u>
Retained earnings, end of year	<u>\$ 3,701,318</u>	<u>\$ 3,482,494</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, 2006

(expressed in Bermuda dollars)

	<u>2006</u>	<u>2005</u>
Operating activities:		
Net income (loss)	\$ 218,824	\$ (35,088)
Items not affecting cash:		
Amortization of capital assets	1,531,216	1,523,156
Amortization of deferred capital contributions	(1,531,216)	(1,523,156)
Deferred revenues	(194,707)	(196,014)
Changes in non-cash items:		
(Increase) decrease in accounts receivable	(74,948)	128,678
Decrease in insurance claim receivable	-	2,741,462
Decrease (increase) in amount due from the Government of Bermuda	702,498	(1,050,000)
Decrease (increase) in prepaid expenses	7,884	(4,037)
(Decrease) increase in accounts payable and accrued liabilities	(921,326)	401,314
Decrease in deferred insurance proceeds	(243,930)	(934,573)
(Decrease) increase in tenant deposits	<u>(26,115)</u>	<u>176,863</u>
	<u>(531,820)</u>	<u>1,228,605</u>
Investing activity:		
Purchase of capital assets	<u>(5,408,095)</u>	<u>(4,788,911)</u>
Financing activity:		
Capital contribution from the Government of Bermuda (Note 7)	<u>3,000,000</u>	<u>3,000,000</u>

BERMUDA LAND DEVELOPMENT COMPANY LIMITED

STATEMENT OF CASH FLOWS, Cont'd.

YEAR ENDED MARCH 31, 2006
(expressed in Bermuda dollars)

	<u>2006</u>	<u>2005</u>
Net decrease in cash and cash equivalents	(2,939,915)	(560,306)
Cash and cash equivalents, beginning of year	<u>8,590,075</u>	<u>9,150,381</u>
Cash and cash equivalents, end of year	\$ <u>5,650,160</u>	\$ <u>8,590,075</u>
Cash and cash equivalents consist of the following:		
Cash and deposits	\$ 5,370,520	\$ 8,318,149
Restricted cash and deposits (Note 5)	<u>279,640</u>	<u>271,926</u>
	\$ <u>5,650,160</u>	\$ <u>8,590,075</u>
Included in cash flows from operating activities are the following amounts:		
Interest received	\$ <u>207,293</u>	\$ <u>167,755</u>

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

BERMUDA LAND DEVELOPMENT COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS

MARCH 31, 2006
(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, Engineering and Housing 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. 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

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, 2006
(expressed in Bermuda dollars)

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

- (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 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.
- (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) **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.
- (g) **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.
- (h) **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.
- (i) **Cash and deposits**
Cash and deposits includes all cash held at banks with a maturity of 12 months or less.
- (j) **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.

BERMUDA LAND DEVELOPMENT COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS, Cont'd.

MARCH 31, 2006
(expressed in Bermuda dollars)

3. Hurricane Fabian damage

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

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. The amount of the claim that had not yet been used to repair the damage has been deferred and separately identified on the balance sheet.

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. Restricted cash and deposits

At March 31, 2006, the Company had \$279,640 (2005 - \$271,927) 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.

6. Capital assets

Capital assets are comprised of:

	2006			2005
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Site preparation	\$ 14,171,344	\$ -	\$ 14,191,344	\$ 8,870,368
Land	7,755,680	-	7,755,680	7,755,680
Buildings	13,573,620	3,997,594	9,576,026	10,481,779
Infrastructure	7,492,918	2,337,938	5,154,980	5,717,640
Equipment	<u>934,060</u>	<u>731,507</u>	<u>202,553</u>	<u>178,237</u>
	\$ <u>43,947,622</u>	\$ <u>7,067,039</u>	\$ <u>36,880,583</u>	\$ <u>33,003,704</u>

Site preparation includes \$4,796,324 (2005 - \$2,616,344) in capital assets held for resale.

BERMUDA LAND DEVELOPMENT COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS, Cont'd.

MARCH 31, 2006
(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>2006</u>	<u>2005</u>
Balance, beginning of year	\$ 28,455,155	\$ 26,978,311
Add: capital contributions	3,000,000	3,000,000
Less: capital grants amortized to revenue	<u>(1,531,216)</u>	<u>(1,523,156)</u>
Balance, end of year	\$ <u>29,923,939</u>	\$ <u>28,455,155</u>

8. Share capital

	<u>2006</u>	<u>2005</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 \$84,729 (2005 - \$75,449).

(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, 2006
(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, 2006, the Company was committed to capital projects at Southside, St. David's with a value outstanding on the contracts of \$2,864,000.

The Company was also committed to service contracts for security and facilities maintenance for the various properties totaling approximately \$138,848.

- (d) The Legislature has approved \$5,000,000 in capital grants for the fiscal year ending March 31, 2007.

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, 2006, the Company earned rental and other revenues in the amount of \$1,687,417 (2005 - \$1,521,000) from various Government departments and agencies. At March 31, 2006, net amounts due from various Government departments and agencies totaled \$140,333 (2005 - \$481,244) and have been included as \$212,872 (2005 - \$587,547) in accounts payable, as \$5,703 (2005 - \$18,791) in accounts receivable and as \$347,502 (2005 - \$1,050,000) in due from the Government of Bermuda.

During the year ended March 31, 2006, the Company purchased fixtures on behalf of a Government Quango, in the amount of \$5,639, from a party in which a Director of the Company has an interest. During the year ended March 31, 2005, the Company purchased legal services on behalf of a Government Quango in the amount of \$154,000, from a party in which a Director of the Company has an interest. At March 31, 2006, the balance due to this related party was \$Nil (2005 - \$21,018).

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.