



Regulatory Authority Activities & Audited Financials

April 1, 2015 - March 31, 2016



**REGULATORY
AUTHORITY**
OF BERMUDA



CHAIRMAN'S FOREWORD

This report presents the Annual Report on activities and the annual financial statements of the Regulatory Authority of Bermuda (the "Authority") for the fiscal year 2015-16, which is the Authority's third full year of operation since it was established in 2013.

During 2015-16 there were significant and wide-ranging changes in the electronic communications sector, primarily focused on mergers and acquisitions. The Authority has a statutory responsibility to promote investment and innovation in the sector. Therefore, the Authority allocated a significant amount of management and the Board of Commissioners ("Board") time, as well as technical expertise to the careful consideration and assessment of the planned mergers and acquisitions. In approving the same, it struck a balance between delivering higher levels of investment into key infrastructure for Bermuda, whilst in tandem, sustaining and promoting the interest of consumers.

In addition, during the period the Authority recognised it had a responsibility to ensure the development of a framework for the release of high demand spectrum (4G) via an assessment and award process. To this end, it focused on a series of consultations to establish what framework should ensue. This proved to be a significant work area that drew on management time as well as budget.

In the context of the above the Authority recognised it had to make the difficult decision to defer various work projects and prioritise the above.

In March 2016, the Authority welcomed Mr. Matthew Copeland as the new Chief Executive, who has been tasked with continuing the Authority's move towards becoming a mature regulatory body whilst providing an enhanced focus on the strategic direction of the Authority and key areas of delivery.

The Authority's operating and capital budgets and Work Plan for fiscal year 2015-16 were approved by the Minister of Finance on 6 August 2015. I am pleased to report that the Authority's activities were carried out within its approved budgets.

During 2015-16, the Authority succeeded in initiating or completing many significant projects, which included:

- facilitating the efficient use of high demand spectrum by reducing the allocated spectrum that was not being used efficiently;

- consulting on procedures to assign new high demand spectrum; and
- developing a framework to undertake the first phase of the Market Review.

The Authority remains committed to encouraging growth and competition as appropriate in Bermuda, while ensuring that the needs of consumers remain the focal point of that growth and development in the telecommunications sector.

I wish to express my sincere thanks to my fellow Board members, and the management, and staff of the Authority for their efforts over the past year. On behalf of the Authority, I would also like to give special thanks to both the electronic communication service providers and the general public for their cooperation and open and frank feedback in respect to the various public consultations issued by the Authority during the period.



Angela S. Berry
Chairman.

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REGULATORY AUTHORITY ACTIVITIES

The 2015-16 Work Plan was consulted upon and approved by the Minister on 6 August 2015. The Authority adopted a Work Plan that sought to achieve the following five strategic goals:

- Striving for organizational excellence: to be a highly efficient and effective organization that supports and enables its staff to achieve the Authority's objectives;
- Promoting and facilitating sustainable competition: to apply effective and proportionate regulation to facilitate dynamic and sustainable competition within the sectors it regulates;
- Promoting and protecting the interests of consumers: to safeguard the interests of the consumers of electronic communications services by protecting and empowering them;
- Facilitating innovation and investment: to provide regulatory certainty within the sectors under its responsibility. This will include the fair application of rules, market evaluation and enforcement of breaches of the regulatory rules. This, in turn, will support investment into the relevant sectors; and
- Providing timely advice and information to the government: on policy and legislative changes which may be required to enhance the success of the electronic communications industry or its regulatory framework, and to promptly respond to legally mandated directives from the Minister.

Within the last fiscal year, the following activities were carried out by the Authority and were aimed at promoting the aforementioned strategic goals:

1) Striving for Organizational Excellence

The Authority has continued to employ and train qualified staff to support the Authority in achieving its statutory responsibilities. The Authority's full-time staff increased from 7 in 2014-15 to 9 during 2015-16. In August 2015, the Authority's Chief Executive resigned his position and was replaced by an interim Chief Executive until March 2016, when the new Chief Executive commenced his position. The Authority also increased its capacity by hiring a Chief Financial Officer in June 2015 and a Junior Legal Advisor in March 2016.

During the fiscal year, the Authority updated the following policies with the aim of strengthening internal controls and increase transparency: Conflict of Interest and Gifts and Hospitality Policy; Finance Policy; Overseas Travel and Subsistence Policy; Procurement Policy; Recruitment, Remuneration and Employee Performance Policy; and the Employee Handbook.

2) Promoting and Facilitating Sustainable Competition

One of the Authority's key focuses in promoting sustainable competition was to facilitate the efficient use of high demand spectrum in line with the Minister's 2014 Policy Statement. The Authority's actions toward achieving this objective included reducing allocated spectrum that was not being used efficiently and consulting on procedures to assign new high demand spectrum.

Settlement of Bermuda Digital Communications Limited v. Regulatory Authority

In July 2015, Bermuda Digital Communications Ltd (doing business as CellOne) agreed to withdraw its appeal against the Authority which challenged the Authority's decision to reduce spectrum allotted to CellOne and to pay \$85,000 to the Authority with respect to the Authority's costs in full and final settlement of the matter.

High Demand Spectrum Consultation

The Authority recognises the vital importance of the release of high demand spectrum to the electronic communications market and the Bermuda economy. Therefore, despite the fact that the projects were not in the 2015-16 Work Plan, in the period April 2015 it devoted significant resources and management time in preparing the ground work that would lead to a spectrum application and award process.

To this end, on 12 August 2015, the Authority released a Consultation on the Criteria and Procedures for Assigning High Demand Spectrum ("HDS-I Consultation") to solicit public feedback. The purposes of the HDS-I Consultation were to: (a) define, by means of a General Determination, the set of frequencies for which demand is expected to exceed supply and for which there is a particular need to ensure efficient spectrum assignments (the "HDS Frequencies"), as required by paragraph 19 of the Minister's 2014 Spectrum Policy Statement; (b) identify, from amongst the HDS Frequencies, those that are suitable for assignment (the "Designated HDS-I Frequencies") in line with the Spectrum Policy Statement, the five purposes of the Electronic Communications Act 2011 ("ECA") and the ECA's spectrum management objectives; and (c) establish the criteria and procedures for the assignment of specific blocks within the Designated HDS-I Frequencies (the "HDS-I Blocks").

Following the HDS-I Consultation, it became clear that there were various industry issues the Authority needed to consider at management and Board level prior to the issue of the final request for applications.

Market Review

In August 2015, the Authority commenced a two-stage bidding process to select a vendor for the Market Review by issuing a call for Expressions of Interest, receiving six responses. Subsequently, the Authority received Requests for Proposals from three qualified bidders. In December 2015, the Authority selected Deloitte Limited ("Deloitte") to conduct the Market Review. Deloitte commenced working on the first phase of the Market Review in January 2016.

3) Promoting and Protecting the Interests of Consumers

The Authority notes that on an ongoing basis via its consumer affairs function it continued to handle and resolve various complaints made with regards to service providers.

4) Facilitating Innovation and Investment

The Authority recognises its significant responsibilities to innovation and investment into the electronic communications sector. Therefore, during this period, it allocated significant resources and budget to sector mergers and acquisitions.

5) Providing Timely Advice and Information to the Government

The Authority continued to work closely with the Ministry of Economic Development in order to carry out the Minister's policies.

6) Unforeseen matters

Concentration Reviews

The 2015-16 fiscal year was a busy year for market consolidations, as the Authority received two requests to review proposed concentrations, as required under RAA Section 87. Digicel proposed to acquire Bermuda Telephone Company

Limited ("BTC") while Atlantic Tele Network Inc.'s ("ATN") proposed to acquire majority control of Keytech. The Authority ultimately approved the Digicel/BTC concentration, subject to certain conditions set forth in the Authority's decision. The Authority's review of the ATN/Keytech concentration was still ongoing at the close of fiscal year 2015-16.

DMTV Decision

On 7 July 2015, representatives from Trina Investments Limited ("Trina") informed the Authority that it intended to acquire a controlling interest in DMTV through a share purchase agreement with DMTV's current shareholders, increasing its current shareholding in DMTV from 25% to 70%. DMTV currently provides electronic communications services in the subscription television market to a very small number of customers. Trina does not provide any electronic communications services in Bermuda. On 13 July 2015, after some initial meetings between representatives from DMTV and the Authority, DMTV provided a formal section 83(7) Notification. On 3 August 2015, Trina provided additional financial information which the Authority deemed necessary to enable a proper review of the proposed transaction to be carried out.

The Authority undertook a detailed review and analysis of the proposed transaction and gave careful consideration to the information provided in order to determine: (a) whether, in accordance with RAA Section 87(10), the proposed transaction would likely have the effect of: (i) creating an entity with a dominant position or enhancing an existing dominant position in any relevant market; (ii) substantially lessening competition in any relevant market; and/or (iii) harming the public interest; and, if so; (b) whether the Authority should reject the proposed transaction, or approve the transaction unconditionally or approve the proposed transaction subject to one or more of the following conditions permitted under RAA Section 87(11): (i) compliance with any of the ex-ante remedies specified in the ECA; (ii) partial divestiture to a purchaser approved by the Authority; or (iii) any other condition that the Authority, with the approval of the Minister, may adopt.

SPECTRUM

After public consultation, the Authority issued its Final Decision and Order ("D&O") on World on Wireless ("WOW") 700 MHz Spectrum Migration Proposal on 31 March 2015. This D&O prescribed the details to be followed by WOW, for the vacation of the 700 MHz frequencies so that they can be reallocated for mobile use.

On 31 December 2015, WOW completed the vacation of the 700 MHz band thus freeing up the band for the process of "High Demand Spectrum Request for Applications for the Assignment of Designated HDS-I Frequencies".

Recognising the importance that the America's Cup "Louis Vuitton America's Cup World Series" event would have to the Bermudian economy, the Authority decided to dedicate management time and technical expertise to a very early development of a spectrum strategy of the same. As part of this, the Authority took various spectrum activities in relation to the America's Cup "Louis Vuitton America's Cup World Series" event, which took place in October 2015.

This saw the Authority approve the spectrum assignments required for the event. These spectrum assignments deployed during the event included over fifty individual frequencies which supported such services as Telemetry, Video Microwave, Audio, Radio Microphones, Radio Talkback (both Simplex and Duplex), and other Satellite Communications links as well as Point-to-Point microwave links.

CONSUMER PROTECTION

The Authority recognizes its responsibilities with regards to the consumers and their interests and any issues they may have with service provision by the Integrated Communications Operator Licences ("ICOL") holders.

In the day to day activities, the Authority processes and resolves various customer complaints and notes any negative trends that may appear in the sector, with a view to resolving them. In this particular year, there were issues surrounding number portability that needed resolution. In addition, the Authority also intervened and mandated a process for email mobility.

CORPORATE DEVELOPMENTS AND INITIATIVES

The following are the main corporate and ongoing activities undertaken by the Authority.

Commitment to development of staff

The Authority remains focused on the acquisition and development of the necessary skills by the Authority as a key strategic goal. Regulation is a highly human resource intensive activity, which requires professionals who are highly trained, skilled and experienced in specialised areas of law, economics and finance. As such, the Authority maintains its strong desire to provide opportunities for Bermudians to develop their skills and abilities in the telecommunications regulatory sector. The Authority team will be sourcing external expertise for key deliverables. A key element to the rationale of/for sourcing of such expertise is for the internal Authority staff to gain knowledge and expertise that can be developed and grown internally. It is proud to report that seven of the nine employees are Bermudian for the period 2015-16. The Authority will continue to review its needs in the area of human resources.

Organisational Restructure

The Authority is planning to perform an organizational re-structuring in 2016-17. The re-structuring will focus on building a team of pre-dominantly Bermudian staff, from which to deliver a strong base for the delivery of future senior management.

Performance Management/Training and Development

The Authority remains committed to training its employees and has provided both local and overseas training opportunities to ensure that performance and organisational goals are in alignment. It will continue to invest in its employees' professional development in order to meet its Work Plan objectives.

Information Management

The Authority has performed a significant upgrade to its information technology network and information management system to improve the security and effective management of information within the Authority.

WORKPLAN ACTIVITIES

In the year 2015-16, the Authority notes that it had to react to significant unforeseen market changes focused on mergers and acquisitions. In particular, to this extent, it devoted Board and management time, as well as budget to these unplanned activities.

The Authority recognised that these workstreams had to be high priority as they were highly significant and relevant to the future of the electronic communications sector; dependent on how and if the Authority decided such mergers and acquisitions would occur.

Secondly, as already mentioned, the Authority recognised the critical nature and importance of releasing the high demand spectrum (4G). Accordingly, even though resource and budget were limited, the Authority focused on this area as a key deliverable.

Due to the above, the Authority notes that projects that may have been planned for the 2015-16 fiscal year and their delivery, were not possible. However, these have been carried over to the following fiscal year 2016-17.

FINANCIAL HIGHLIGHTS 2015-16

The Authority generates its own revenues currently sourced primarily from Regulatory Authority fees levied on all ICOL holders within the telecommunications sector. These funds are used to finance the operations of the Authority, thereby, allowing the Authority to deliver on its mandate.

The Authority prepares its financial statements in accordance with public sector accounting standards generally accepted in Bermuda and Canada as recommended by the Public Sector Accounting Board of the Chartered Professional Accountants of Canada, which are subject to an annual audit. Included in this report are the audited financial statements for the financial period ended 31 March 2016.

For the year ended 31 March 2016, the Authority recorded a net surplus of \$89,324. The approved operating and capital budgets for the period were \$3.46 million and \$100,000 respectively. The Authority's audited results rendered a surplus of \$164,061 before taking into account capital outflows of \$74,737 bringing the net surplus to \$89,324.

During the year, the Authority noted a significant decline of \$19 million (9%) in the relevant turnover reported from ICOL holders decreasing from \$206 million in 2014-15 to \$187 million in 2015-16. This led to the Authority receiving \$2.8 million in Regulatory Authority Fees compared to the budgeted revenues of \$3.54 million resulting in a difference of \$723,814 (20%). The Authority's management of its budget and the delivery of projects was carried out with appropriate due diligence. Due to the anticipated decrease in the annual Regulatory Authority Fees, the Authority revised its Work Plan accordingly resulting in the postponement of carefully selected Work Plan activities and planned expenditures.

The actual operating and capital expenditure for the period were less than the budgeted allocation by \$805,375 (23%) and \$25,263 (25%) respectively. The majority of the variances were as a result of salaries and employee benefits being significantly below budget to the amount of \$476,889 (25%). This was largely due to staff hiring not occurring as anticipated.

Technical consultancy and Non-Technical consultancy were under budget by \$132,581 (18%) and \$112,817 (62%) respectively. This decrease was largely due to the revised Work Plan resulting in the postponement of planned work streams. These were partially offset by unexpected regulatory projects occurring during the year.

The capital budget was underutilized by \$25,263 (25%) in order to accommodate the decline in revenues.

PERFORMANCE AGAINST BUDGET

(Expressed in Bermuda dollars)

DESCRIPTION	ACTUAL 2015-16	BUDGET 2015-16	VARIANCE \$	VARIANCE %
OPERATING BUDGET				
TOTAL REVENUES	2,816,186	3,540,000	(723,814)	-20
EXPENSES				
General administration:				
Salaries, employee benefits and commissioners' honoraria	1,396,711	1,873,600	(476,889)	-25%
Rent and utilities	170,403	208,720	(38,317)	-18%
Office services	85,425	75,560	9,865	13%
Communication and meetings	65,439	76,500	(11,061)	-14%
Training and travel	34,531	40,000	(5,469)	-14%
IT expenditure	36,778	24,000	12,778	53%
Casual labor	30,310	85,000	(54,690)	-64%
Professional Fees	14,585	7,500	7,085	94%
Staff Recruitment	13,957	60,000	(46,043)	-77%
Bank charges	13,074	-	13,074	100%
Miscellaneous	12,530	11,120	1,410	13%
Advertising and public relations	18,599	50,000	(31,401)	-63%
	1,892,342	2,512,000	(619,658)	-25%
Professional services:				
Technical consultancy	586,752	719,333	(132,581)	-18%
Non-technical consultancy	67,850	180,667	(112,817)	-62%
Accounting fees	52,320	25,500	26,820	105%
Audit fees	24,000	20,000	4,000	20%
	730,922	945,500	(214,578)	-23%
Amortization of tangible capital assets	28,861	-	28,861	100%
TOTAL EXPENSES	2,652,125	3,457,500	(805,375)	-23%
SURPLUS	164,061	82,500	81,561	99%
CAPITAL BUDGET				
Furniture and Fittings	-	10,000	(10,000)	-100%
Office Equipment and Supplies	8,373	10,000	(1,627)	-16%
IT Equipment	66,364	80,000	(13,636)	-17%
TOTAL	74,737	100,000	(25,263)	-25%
NET SURPLUS / (DEFICIT)	89,324	(17,500)	106,824	-610%

Management's Responsibility for the Financial Statements

These financial statements have been prepared by management, which is responsible for the reliability, integrity and objectivity of the information provided. The preparation of financial statements necessarily involves using management's best estimates and judgments, where appropriate.

Management is responsible for maintaining a comprehensive system of accounting records, internal controls, policies and management practices, designed to provide reasonable assurance that transactions are properly authorized and in compliance with legislation, assets are safeguarded, and reliable financial information is available on a timely basis.

The Regulatory Authority's Board of Commissioners is responsible for ensuring that management fulfills its responsibility for financial reporting and internal controls. The Board of Commissioners meets periodically with management to discuss matters relating to financial reporting, internal control and audits. The Board of Commissioners also reviews the financial statements before their approval. The financial statements have been approved by the Board of Commissioners and have been examined by the Office of the Auditor General.

The accompanying Independent Auditor's Report is presented herein.



Matthew Copeland
Chief Executive



Paull Davis
Chief Financial Officer

July 17, 2017



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INDEPENDENT AUDITOR'S REPORT

To the Minister of Transport and Regulatory Affairs

Report on the Financial Statements

I have audited the accompanying financial statements of the Regulatory Authority, which comprise the statement of financial position as at March 31, 2016, and the statements of operations and accumulated surplus, change in net financial assets and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with public sector accounting standards generally accepted in Bermuda and Canada, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Regulatory Authority as at March 31, 2016, and the results of its operations, changes in its net financial assets and its cash flows for the year then ended in accordance with public sector accounting standards generally accepted in Bermuda and Canada.

Report on Other Legal and Regulatory Requirements

As required by Section 46 of the Regulatory Authority Act 2011, I also report that, in my opinion, the financial statements show fairly the financial transactions and the state of affairs of the Authority, proper accounting and other records have been kept, including records of all assets of the Authority, and the receipts, expenditure and investment of moneys and the acquisition and disposal of assets by the Authority during the financial year, were in accordance with the provisions of the Act.

A handwritten signature in dark ink, appearing to read "Heather T.", is positioned above the printed name of the Auditor General.

Hamilton, Bermuda
July 17, 2017

Heather Thomas, CPA, CFE, CGMA
Auditor General

REGULATORY AUTHORITY

STATEMENT OF FINANCIAL POSITION

As at March 31, 2016

(Expressed in Bermuda dollars)

	2016 \$	2015 \$
FINANCIAL ASSETS		
Cash	1,781,572	1,607,689
Accounts receivable	3,502,468	3,733,626
Due from the Government of Bermuda	-	13,140
	<u>5,284,040</u>	<u>5,354,455</u>
LIABILITIES		
Accounts payable and accrued liabilities	291,401	436,916
Due to the Government of Bermuda (Note 9)	2,817,268	2,879,417
Obligation under capital lease (Note 8)	8,156	-
Distribution payable to the Consolidated Fund of the Government of Bermuda (Note 9)	660,950	578,919
	<u>3,777,775</u>	<u>3,895,252</u>
NET FINANCIAL ASSETS	<u>1,506,265</u>	<u>1,459,203</u>
NON-FINANCIAL ASSETS		
Tangible capital assets (Note 3 & 8)	133,479	87,603
Prepaid expenses	21,204	32,112
	<u>154,683</u>	<u>119,715</u>
ACCUMULATED SURPLUS (Note 4)	<u>1,660,948</u>	<u>1,578,918</u>
Accumulated surplus is comprised of:		
Initial paid-up capital	1,000,000	1,000,000
Paid-up capital	330,474	289,459
Reserve Fund	330,474	289,459
	<u>1,660,948</u>	<u>1,578,918</u>
CONTRACTUAL OBLIGATIONS (Note 7)		

The accompanying notes are an integral part of these financial statements

REGULATORY AUTHORITY

STATEMENT OF OPERATIONS AND ACCUMULATED SURPLUS

For the year ended March 31, 2016
(Expressed in Bermuda dollars)

	2016	2016	2015
	Budget	Actual	Actual
	(Note 12)		
	\$	\$	\$
REVENUES			
Fees from Integrated Communications			
Operating Licences (Note 11)	3,540,000	2,815,537	3,595,394
Interest	-	649	431
	<u>3,540,000</u>	<u>2,816,186</u>	<u>3,595,825</u>
EXPENSES (Note 5)			
General administration	2,512,000	1,892,342	1,908,702
Professional services	945,500	730,922	1,118,567
Amortization of tangible capital assets	-	28,861	18,695
	<u>3,457,500</u>	<u>2,652,125</u>	<u>3,045,964</u>
ANNUAL SURPLUS	<u>82,500</u>	164,061	549,861
ACCUMULATED SURPLUS, BEGINNING OF YEAR		1,578,918	1,303,988
Less: Distribution to the Consolidated Fund of the Government of Bermuda (Notes 4 and 9)		<u>(82,031)</u>	<u>(274,931)</u>
ACCUMULATED SURPLUS, END OF YEAR		<u>1,660,948</u>	<u>1,578,918</u>

The accompanying notes are an integral part of these financial statements

REGULATORY AUTHORITY

STATEMENT OF CHANGE IN NET FINANCIAL ASSETS

For the year ended March 31, 2016

(Expressed in Bermuda dollars)

	2016 \$	2015 \$
NET FINANCIAL ASSETS, BEGINNING OF YEAR	<u>1,459,203</u>	<u>1,202,538</u>
Annual surplus	164,061	549,861
Acquisition of tangible capital assets (Note 3)	(66,364)	(24,161)
Acquisition of office equipment under capital lease (Note 3)	(8,373)	-
Amortization of tangible capital assets (Note 3)	28,861	18,695
Change in prepaid expenses	10,908	(12,799)
Distribution to the Consolidated Fund of the Government of Bermuda (Notes 4 and 9)	<u>(82,031)</u>	<u>(274,931)</u>
Increase in net financial assets	<u>47,062</u>	<u>256,665</u>
NET FINANCIAL ASSETS, END OF YEAR	<u><u>1,506,265</u></u>	<u><u>1,459,203</u></u>

The accompanying notes are an integral part of these financial statements

REGULATORY AUTHORITY

STATEMENT OF CASH FLOWS

For the year ended March 31, 2016

(Expressed in Bermuda dollars)

	2016 \$	2015 \$
CASH FLOWS FROM OPERATING ACTIVITIES		
Annual surplus	164,061	549,861
Adjustment for items not affecting cash:		
Amortization of tangible capital assets	28,861	18,695
Acquisition of office equipment under capital lease	(8,373)	-
	<u>184,549</u>	<u>568,556</u>
Changes in non-cash working capital:		
Decrease (increase) in accounts receivable	231,158	(526,910)
Decrease in due from the Government of Bermuda	13,140	-
Decrease (increase) in prepaid expenses	10,908	(12,799)
(Decrease) increase in accounts payable and accrued liabilities	(145,515)	205,358
(Decrease) increase in due to the Government of Bermuda	(62,149)	494,936
Increase in obligation under capital lease	<u>8,156</u>	<u>-</u>
Cash flows generated through operating activities	<u>240,247</u>	<u>729,141</u>
CASH FLOWS FROM CAPITAL ACTIVITY		
Acquisition of tangible capital assets	<u>(66,364)</u>	<u>(24,161)</u>
NET INCREASE IN CASH	173,883	704,980
CASH, BEGINNING OF YEAR	<u>1,607,689</u>	<u>902,709</u>
CASH, END OF YEAR	<u><u>1,781,572</u></u>	<u><u>1,607,689</u></u>

The accompanying notes are an integral part of these financial statements

REGULATORY AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

MARCH 31, 2016

1. AUTHORITY AND PURPOSE

The Regulatory Authority (the "Authority") was established under the Regulatory Authority Act 2011 (the "Act"), as amended.

The Authority commenced operations on January 28, 2013 and currently operates as a telecommunications regulator under the Electronic Communications Act 2011.

The principal functions of the Authority, in relation to any industry sector that it regulates, are:

- to promote and preserve competition;
- to promote the interests of the residents and consumers of Bermuda;
- to promote the development of the Bermudian economy, Bermudian employment and Bermudian ownership;
- to promote innovation; and
- to fulfil any additional functions specified by sectoral legislation.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These financial statements are prepared in accordance with public sector accounting standards generally accepted in Bermuda and Canada as recommended by the Public Sector Accounting Board of the Chartered Professional Accountants of Canada. For financial reporting purposes, the Authority is classified as an "other government organization" and has adopted accounting policies appropriate for this classification. The policies considered particularly significant are as follows:

(a) Revenue recognition

Revenues are recognized in the period in which the transactions or events occurred that gave rise to the revenues. All revenues are recorded on an accrual basis, except when the accruals cannot be determined with a reasonable degree of certainty or when their estimation is impracticable.

The Authority derives its revenue from Integrated Communication Operating Licenses ("ICOLs") which are based on actual returns received and an accrued estimate relating to carriers which are required by the Act to file returns and remit the related ICOL fees. This estimate has been made by management using information available to the Authority.

Fees collected on behalf of the Government of Bermuda (the "Government") for Class licenses are not recognized as revenue, but rather recorded as amounts due to Government.

REGULATORY AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

MARCH 31, 2016

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) Expenses

Expenses are recognized when, and to the extent that, the goods or services have been received. They are measured at the fair value of the consideration paid or payable.

(c) Cash

Cash includes all cash on deposit with financial institutions that can be withdrawn without prior notice or penalty.

(d) Tangible capital assets including capital lease and amortization

Tangible capital assets are recorded at cost less accumulated amortization. The cost of a tangible capital asset consists of its purchase price and costs directly attributable to making the asset ready for its intended use.

Obligation under capital lease is recorded at the present value of the minimum lease payments excluding executor cost (e.g. insurance, maintenance cost, etc.). The discount rate used to determine the present value of the lease payments is the Authority's rate for incremental borrowing.

Amortization is computed using the straight-line method over the estimated useful lives of the tangible capital assets as follows:

Furniture and fittings	10 years
Office equipment	5 years
Computers and software	3 years

The estimated useful life of an asset is the period over which the Authority expects to obtain economic benefits or service potential from the asset. This is specific to the Authority and may be shorter than the physical life of the asset itself. Estimated useful lives and residual values are reviewed each year end, with the effect of any changes recognized on a prospective basis.

Tangible capital assets are written down when conditions indicate that they no longer contribute to the Authority's ability to provide services, or when the value of the future economic benefits associated with the tangible capital assets is less than their net book value. The net write-down is accounted for as an expense in the statement of operations and accumulated surplus.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) Leases

Leases are classified as capital leases when substantially all the risks and rewards of ownership are transferred to the lessee. All other leases are classified as operating leases.

Operating lease payments are recognized as an expense on a straight-line basis over the lease term. Lease incentives are recognized as a reduction of rentals on a straight-line basis over the lease term.

(f) Funds and reserves

Certain amounts, as stipulated in the Act, are set aside from the accumulated surplus for future operating and capital purposes. Transfers to/from funds and reserves are an adjustment to the respective fund when approved.

(g) Foreign currencies

The Authority's functional and presentation currency is the Bermuda dollar.

Transactions denominated in foreign currencies are translated into Bermuda dollars at the prevailing exchange rates on the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the year-end date.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are included in the statement of operations and accumulated surplus.

(h) Financial instruments

The Authority's financial instruments consist of cash, accounts receivable, accounts payable and accrued liabilities, amounts due from/to the Government and distribution payable to the Consolidated Fund of the Government of Bermuda (the "Consolidated Fund"). These financial instruments are measured at cost or amortized cost.

(i) Non-financial assets

Non-financial assets are not available to discharge existing liabilities and are held for use in the provision of services. They have useful lives extending beyond the current period and are not intended for sale in the normal course of operations.

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NOTES TO THE FINANCIAL STATEMENTS

MARCH 31, 2016

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(j) Measurement uncertainty

These financial statements are prepared in accordance with public sector accounting standards generally accepted in Bermuda and Canada. These standards require 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 and expenses during the year. Significant areas requiring the use of estimates include determination of the estimated useful lives of tangible capital assets and accruals. Estimates are based on the best information available at the time of preparation of the financial statements and are reviewed annually to reflect new information as it becomes available. Actual results could differ from these estimates.

(k) Remeasurement gains and losses

The Authority has no transactions that would result in remeasurement gains and losses therefore no statement of remeasurement gains and losses has been prepared.

3. TANGIBLE CAPITAL ASSETS

	Furniture and fittings	Office equipment	Computers and software	Office equipment under capital lease	Total
	\$	\$	\$	\$	\$
Opening cost - April 1, 2015	66,547	13,354	33,141	-	113,042
Additions	-	-	66,364	8,373	74,737
Closing cost - March 31, 2016	66,547	13,354	99,505	8,373	187,779
Opening accumulated amortization - April 1, 2015	7,229	4,579	13,631	-	25,439
Amortization	6,655	2,670	19,398	138	28,861
Closing accumulated amortization - March 31, 2016	13,884	7,249	33,029	138	54,300
Net book value - March 31, 2016	52,663	6,105	66,476	8,235	133,479

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NOTES TO THE FINANCIAL STATEMENTS

MARCH 31, 2016

3. TANGIBLE CAPITAL ASSETS (continued)

	Furniture and fittings	Office equipment	Computers and software	Total
	\$	\$	\$	\$
Opening cost - April 1, 2014	59,814	10,789	18,278	88,881
Additions	6,733	2,565	14,863	24,161
Closing cost - March 31, 2015	66,547	13,354	33,141	113,042
Opening accumulated amortization - April 1, 2014	612	2,000	4,132	6,744
Amortization	6,617	2,579	9,499	18,695
Closing accumulated amortization - March 31, 2015	7,229	4,579	13,631	25,439
Net book value - March 31, 2015	59,318	8,775	19,510	87,603

4. ACCUMULATED SURPLUS

Funds and reserves: Pursuant to Section 41 of the Act, in any year in which the Authority realizes a net surplus, the Authority, after recouping any net losses brought forward from prior years (subject to the approval of all Ministers responsible for regulated industry sectors), shall transfer any remaining surplus in the following manner:

- a) 50% shall be transferred to the Consolidated Fund;
- b) 25% shall be transferred to paid-up capital of the Authority; and
- c) 25% shall be transferred to the Reserve Fund.

The paid-up capital together with the Reserve Fund is not to exceed the Authority's authorized capital of \$3.5 million. Any excess surplus must be paid to the Consolidated Fund.

In 2013, the Government paid the Authority \$1 million as initial paid-up capital. The \$1 million was paid with the intent that the Authority would have funding until collecting sufficient revenues to cover operating expense as per section 111 (b)(ii) of the Act.

REGULATORY AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

MARCH 31, 2016

4. ACCUMULATED SURPLUS (continued)

The movements in Operating Fund, Initial paid-up capital, Paid-up capital and Reserve Fund balances during the year were as follows:

	Operating Fund	Initial paid- up capital	Paid-up capital	Reserve Fund	Total
	\$		\$	\$	\$
ACCUMULATED SURPLUS, BEGINNING OF YEAR	-	1,000,000	289,459	289,459	1,578,918
Annual surplus	164,061	-	-	-	164,061
Intra-fund transfers	(82,030)	-	41,015	41,015	-
Distribution to the Consolidated Fund	(82,031)	-	-	-	(82,031)
ACCUMULATED SURPLUS, END OF YEAR	<u>-</u>	<u>1,000,000</u>	<u>330,474</u>	<u>330,474</u>	<u>1,660,948</u>

5. EXPENSES BY OBJECT

The following is a summary of expenses by object:

	2016	2015
	\$	\$
GENERAL ADMINISTRATION		
Salaries, employee benefits and commissioners' honoraria (Note 6)	1,396,711	1,393,149
Rent and utilities	170,403	167,256
Office services	85,425	61,899
Communication and meetings	65,439	43,617
IT	36,778	51,037
Training and Travel	34,531	46,135
Casual labor	30,310	25,548
Advertising and public relations	18,599	44,756
Membership fees	14,585	10,763
Staff recruitment	13,957	42,696
Bank charges and lease interest	13,074	15,195
Miscellaneous	12,530	6,651
	<u>1,892,342</u>	<u>1,908,702</u>

REGULATORY AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

MARCH 31, 2016

5. EXPENSES BY OBJECT (continued)

The following is a summary of expenses by object:

	2016	2015
	\$	\$
PROFESSIONAL SERVICES		
Technical consultancy	586,752	777,607
Non-technical consultancy	67,850	278,627
Accounting fees	52,320	36,000
Audit fees	24,000	26,333
	<u>730,922</u>	<u>1,118,567</u>
Amortization of tangible capital assets (Note 3)	<u>28,861</u>	<u>18,695</u>
	<u><u>2,652,125</u></u>	<u><u>3,045,964</u></u>

6. SALARIES, EMPLOYEE BENEFITS AND COMMISSIONERS' HONORARIA

This account consists of:

	2016	2015
	\$	\$
Salaries, bonuses and commissioners' honoraria	1,161,207	1,160,689
Payroll tax	121,168	116,598
Pension	54,440	50,152
Health insurance	47,389	42,431
Social insurance	12,507	11,508
Housing allowance	-	11,771
	<u>1,396,711</u>	<u>1,393,149</u>

6. SALARIES, EMPLOYEE BENEFITS AND COMMISSIONERS' HONORARIA (continued)

Employee benefits include the following:

(a) Salaries, bonuses and commissioners' honoraria

i) Chief Executive compensation

The Chief Executive received a gross salary of \$168,554 (2015 - \$165,715) during the year. In addition, the Chief Executive was granted a housing allowance of \$nil (2015 - \$11,771). The Chief Executive is eligible for a performance based bonus of up to 10% of his salary.

ii) Commissioners' Honoraria

The Authority has three Commissioners. In accordance with the provisions of the Act, each Commissioner is selected by a Selection Committee that consists of the Minister responsible for justice, as Chairman; the Minister responsible for labor; the Opposition Leader or his or her designate; and the Minister responsible for the electronic communications sector. The responsibilities of the Commissioners are quite broad and diverse. Amongst other things, they are responsible for the strategic direction and governance of the Authority and for providing general direction to its Chief Executive. They are also responsible for making legally binding determinations, adjudication decisions and orders that may be required to effect the Authority's regulatory functions.

The total amount of honoraria paid to the Commissioners was \$282,150 (2015 - \$306,000).

(b) Compensated absences

Compensated absences include maternity and paternity leave, sick leave and vacation days. All of these benefits are unfunded as there is no separate fund set up to pay for these benefits.

Maternity and paternity leave does not accumulate or vest and therefore an expense and liability is only recognized when extended leave is applied for and approved. There were no maternity and paternity leave benefits applied for or approved during the current year and therefore, no liability has been accrued in the accounts.

6. SALARIES, EMPLOYEE BENEFITS AND COMMISSIONERS' HONORARIA (continued)

(b) Compensated absences (continued)

Sick leave does not accumulate or vest, and like maternity and paternity leave, a liability is recorded only when extended leave is applied for and approved. There was no extended sick leave applied for or approved during the current year and therefore, no liability has been accrued in the accounts.

Vacation days accumulate and vest and therefore a liability is accrued each year. The accrued vacation liability as at March 31, 2016 is \$18,666 (2015 - \$14,287) and is included in accounts payable and accrued liabilities.

(c) Health insurance

The Authority offers a standard group medical plan for a majority of employees and their qualified dependents. The remainder of employees, all of whom were previous employees of the Government, are covered by the Government Employment Health Insurance scheme ("GEHI"). The cost of health insurance is matched equally with employees.

(d) Pension plans

Employees of the Authority are enrolled in two different pension schemes:

i) Defined contribution plan

The Authority has a defined contribution plan administered by Colonial Pension Services Ltd. (the "Plan") for the majority of its eligible employees. A defined contribution plan is a post-employment benefit plan under which the Authority pays fixed contributions. The Authority has no legal or constructive obligations to pay further contributions. Employee contributions to the Plan are 5% of gross salary matched by the Authority. The Authority's contributions are recognized as employee benefit expenses when they are due and totaled \$27,517 (2015 - \$18,974) during the year.

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MARCH 31, 2016

6. SALARIES, EMPLOYEE BENEFITS AND COMMISSIONERS' HONORARIA (continued)

(d) Pension plans (continued)

ii) Defined benefit plan

The Authority contributes to the Public Service Superannuation Fund (the "PSSF"), which is a defined benefit plan, administered by the Government and covers the remainder of the Authority's eligible employees, all of whom were previous employees of the Government. Contributions of 8% of gross salary are required from both the employee and the Authority, and have been included in salaries and employee benefits. As part of the agreement to transfer this employee group to the Authority, the Authority is not required to make contributions to the PSSF with respect to the quantified actuarial deficiencies. As a result, the current year contributions to the PSSF represent the total liability of the Authority. The Authority's contributions to the PSSF during the year were \$26,798 (2015 - \$31,178).

7. CONTRACTUAL OBLIGATIONS

Effective December 24, 2012, the Authority entered into a five-year operating lease for office space and service charge at a cost of \$481,163 and \$160,387 respectively. Rent-free periods negotiated as part of the lease term have been amortized over the life of the lease on a pro-rated basis. The rent and service charge expense recognized during the year is \$96,233 (2015 - \$96,233) and \$27,739 (2015 - \$33,636) respectively.

As at March 31, 2016, the total remaining obligation under the lease is \$240,428. The future minimum lease payments in the ensuing fiscal years are as follows:

	\$
2016/17	137,322
2017/18	103,106

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NOTES TO THE FINANCIAL STATEMENTS

MARCH 31, 2016

8. OBLIGATION UNDER CAPITAL LEASE

Effective March 1, 2016, the Authority entered into a three-year lease for office equipment at an effective interest rate of 4.75%, which ownership would transfer over to the Authority at the end of the lease. As at March 31, 2016, the present value of the minimum lease payments was \$8,156 and has been recorded as a liability and a tangible capital asset in the financial statements. The interest and maintenance charge expense recognized during the year was \$33 (2015 - \$nil).

The future minimum lease payments in the ensuing fiscal years are as follows:

	\$
2016/17	3,000
2017/18	3,000
2018/19	<u>2,750</u>
Total minimum lease payments	8,750
Less amounts representing interest	<u>(594)</u>
Present value of net minimum capital lease payments	<u><u>8,156</u></u>

9. RELATED PARTY TRANSACTIONS

The Authority is related to all Government ministries, departments, agencies and quasi-autonomous non-governmental organizations under the common control of the Government. Also, the Authority is related to organizations that the Government jointly controls or significantly influences.

The Authority enters into transactions with these entities in the normal course of business and such transactions are measured at the exchange amount which is the amount of consideration established and agreed by the related parties.

Fees are collected by the Authority on behalf of the Government. These fees include the Government authorization, spectrum reference, class license and cellular telephone fees and are established by the Minister of Finance pursuant to the Government Fees Act 1965, as amended.

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NOTES TO THE FINANCIAL STATEMENTS

MARCH 31, 2016

9. RELATED PARTY TRANSACTIONS (continued)

Transactions with related parties during the year included:

	Expense during the year	Collection of fees on behalf of the Government	Payments / Remittance made during the year	Due to the Government of Bermuda at year-end
	\$	\$	\$	\$
GEHI and PSSF	45,259	-	(38,065)	7,194
Land tax	8,149	-	(8,149)	-
Payroll tax	121,168	-	(80,672)	40,496
Social insurance	12,507	-	(9,492)	3,015
ICOLs, handset and spectrum fees	-	11,101,472	(8,384,939)	2,716,533
Class licenses	-	398,360	(348,330)	50,030
	<u>187,083</u>	<u>11,499,832</u>	<u>(8,869,647)</u>	<u>2,817,268</u>
	Balance beginning of year	Distribution to the Consolidated Fund	Payments/ Remittance made during the year	Balance end of year
	\$	\$	\$	\$
Distribution payable to the Consolidated Fund of the Government of Bermuda	<u>(578,919)</u>	<u>(82,031)</u>	<u>-</u>	<u>(660,950)</u>

10. FINANCIAL RISK MANAGEMENT

In the normal course of operations, the Authority is exposed to a number of risks that can affect its operating performance. These include: credit risk, liquidity risk and market risk associated with its financial instruments. The Board of Commissioners has overall responsibility for the establishment and oversight of the Authority's risk management framework. The Authority's risk management program seeks to minimize potential adverse effects on the Authority's financial performance through a combination of sound business practices.

10. FINANCIAL RISK MANAGEMENT (continued)

a) Credit risk

Credit risk is the risk of financial loss if a counterparty to a financial instrument fails to meet its contractual obligations to the Authority. Such risks arise primarily from certain assets held consisting of cash and accounts receivable. The objective of managing counterparty risk is to prevent losses on financial assets. The Authority determines on a continuous basis, amounts receivable on the basis of amounts it is virtually certain to receive based on their estimated realizable value. It is management's opinion that the Authority is not exposed to significant credit risk associated with cash as they are placed with highly rated financial institutions.

The Authority is exposed to credit risk in the event of non-performance by licensed carriers. This risk is mitigated because 99% of accounts receivable are current; therefore, management does not consider it to be impaired.

b) Liquidity risk

Liquidity risk is the risk that the Authority will not be able to meet its financial obligations as they become due. The Authority manages liquidity risk by continually monitoring actual and forecasted cash flows from operations to ensure, as far as possible, that it will have sufficient liquidity to meet its liabilities when they become due.

c) Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk is comprised of currency risk and interest rate risk.

i) Currency risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in the foreign exchange rates. It is management's opinion that the Authority is not exposed to significant currency risk, as amounts held and transactions settled in foreign currency are insignificant.

10. FINANCIAL RISK MANAGEMENT (continued)

c) Market risk (continued)

ii) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in the market interest rates. The Authority's exposure to interest rate risk is limited to interest earned on its cash. It is management's opinion that the Authority is not exposed to significant interest rate risk.

11. FEES FROM INTEGRATED COMMUNICATIONS OPERATING LICENCES

On March 31, 2015, the Authority fees were decreased to 1.50% (2015 - 1.75%) of the ICOL holders' relevant turnover for the year from April 1, 2015 to March 31, 2016 in accordance with the Electronic Communications (Regulatory Authority Fees) Regulation 2015.

12. BUDGET

The work plan and budget for the year from April 1, 2015 to March 31, 2016 was approved by the Board of Commissioners on December 31, 2014.

13. SUBSEQUENT EVENTS



On September 23, 2016, the Ministry of Finance issued a letter of comfort to the Bank of N.T. Butterflied and Son Ltd. (the "Bank") extending an overdraft facility of \$3,400,000 to the Authority. On October 31, 2016, the Authority established the overdraft facility in the amount of \$3,400,000 with the Bank. To date (July 17, 2017), the total drawdown in relation to the overdraft facility amounted to \$752,394.

Effective October 28, 2016, the Electricity Act 2016 came into effect and transferred responsibility for the regulation of electricity from the Energy Commission to the Authority.



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