



**Report of the Auditor General**  
on the  
**Consolidated Fund of the**  
**Government of Bermuda**  
for the Financial Years  
March 31, 2010, March 31, 2011 and March 31, 2012

**December 2014**



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March 31, 2012**

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## **OUR MISSION**

**The mission of the Office of the Auditor General,  
derived from its legislative mandate, is  
to add credibility to the Government's financial reporting and  
to promote improvement in the financial administration  
of all Government Ministries, Departments and all other entities  
for which the Government is accountable to Parliament.**





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The Honourable K.H. Randolph Horton, JP, MP  
Speaker of the House of Assembly  
Bermuda

Sir:

In accordance with Section 101(3) of the Bermuda Constitution Order 1968 and Section 10 of the Audit Act 1990, I have the honour to submit herewith my Report on the Consolidated Fund of the Government of Bermuda for the financial years ended March 31, 2010, March 31, 2011 and March 31, 2012.

Respectfully submitted

Heather A. Jacobs Matthews, JP, FCPA, FCA, CFE  
Auditor General

Hamilton, Bermuda  
December 2014



# TABLE OF CONTENTS

	Page
<b>1 INTRODUCTION</b>	
1.1 Background.....	1
1.2 General Comments.....	2
1.3 Audit Committee.....	3
1.4 Parliamentary Standing Committee on the Office of the Auditor General.....	3
1.5 Parliamentary Standing Committee on the Public Accounts.....	4
1.6 Acknowledgements.....	5
<b>2 MATTERS OF SPECIAL IMPORTANCE</b>	
2.1 Qualification of the Auditor's Report.....	7
2.2 Consolidated financial statements for Government.....	8
2.3 Financial statement discussion and analysis.....	10
2.4 Borrowing and the plan to reduce the deficit and public debt.....	12
2.5 Pension and other employee future benefits.....	13
2.6 Taxpayer indebtedness to Government.....	15
2.7 Inadequate budget process.....	16
2.8 Overspending of Supplementary Estimate limits.....	17
2.9 Non-compliance with Financial Instructions and related rules...	18
<b>3 AUDIT OBSERVATIONS &amp; RECOMMENDATIONS</b>	
3.1 Failure to comply with Financial Instructions and related rules..	21
3.2 Millions paid without signed contracts or agreements.....	26
3.3 Significant contracts not tendered.....	27
3.4 Duplicate payments .....	29
3.5 Overpayments.....	29
3.6 Supplementary Appropriation Bills not tabled.....	30
3.7 Inadequate procedures over bank reconciliations.....	30
3.8 Completeness and accuracy of accounting for employee benefits	31
3.9 Inadequate provisioning.....	31
3.10 Inadequate procedures over amounts receivable from or payable to other Government agencies.....	32
3.11 Lack of ministerial authorization for inter-fund transfers.....	32
3.12 Millions paid for professional services without prior approval.....	33
3.13 Bank limit exceeded by \$24 million.....	33
3.14 Inappropriate application of or lack of accounting policies.....	33
3.15 Presentation issues.....	34
3.16 Overspending of Supplementary Estimate limits.....	35
3.17 Information Technology (IT) deficiencies.....	36
<b>4 GOVERNMENT'S FINANCIAL POSITION</b>	
4.1 Sustainability indicators.....	38
4.2 Flexibility indicators.....	42

# TABLE OF CONTENTS

## Page

### 5 APPENDICES

1	Listing of Government funds and organizations.....	47
2	Financial statements of the Consolidated Fund – March 31, 2010....	49
3	Ministry of Finance’s Comment on the 2010 financial statements....	105
4	Financial statements of the Consolidated Fund – March 31, 2011....	109
5	Ministry of Finance’s Comment on the 2011 financial statements....	169
6	Financial statements of the Consolidated Fund – March 31, 2012.....	175
7	Report of the Parliamentary Standing Committee on the Public Accounts for the financial years ended March 31, 2007 and 2008 ...	237
8	Ministry of Finance’s Response to the Report of the Parliamentary Standing Committee on the Public Accounts for the financial years ended March 31, 2007 and 2008 .....	245
9	Report of the Parliamentary Standing Committee on Part 1 of the Misuse of Public Funds Report.....	257
10	Report of the Parliamentary Standing Committee on Part 2 of the Misuse of Public Funds Report.....	269
11	Ministry of Finance’s Response to the Report of the Parliamentary Standing Committee on Part 2 of the Misuse of Public Funds Report	275
12	Report of the Parliamentary Standing Committee on the work of the Auditor General for the period April 1, 2009 to March 31, 2010 and the Public Accounts for the financial year ended March 31, 2009....	283
13	Ministry of Finance’s Response to the Report of the Parliamentary Standing Committee on the work of the Auditor General for the period April 1, 2009 to March 31, 2010 and the Public Accounts for the financial year ended March 31, 2009.....	289

# 1. INTRODUCTION

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## 1.1 Background

The Consolidated Fund is the general operating fund of the Government of Bermuda (the “Government”) which records the financial transactions of the Senate, House of Assembly, all Government departments, offices and courts. It is into this fund that taxpayers pay revenue such as Payroll Tax, Customs Duties, Company Fees and Land Tax. Government uses this revenue to pay for its many programmes such as health, education, public safety, financial assistance, infrastructure and public transportation.

The preparation of the financial statements of the Consolidated Fund is the responsibility of the Accountant General’s Department (the “ACG”) within the Ministry of Finance. The ACG is responsible for the accurate and timely preparation as well as the fair presentation of the financial statements in accordance with public sector accounting standards generally accepted in Bermuda and Canada. The ACG is also responsible for implementing internal controls which are necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

These responsibilities are enshrined in the Public Treasury (Administration and Payments) Act 1969 which provides the legislative authority for the Minister of Finance to manage Government finances and authorizes the Accountant General to prepare the annual accounts.

My role as the Auditor General is to express an opinion on the financial statements based on my audit. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected during the audit depend on professional judgment and includes an assessment of the risks of material misstatement of the financial statements, whether due to fraud or error.

In making those risk assessments, the audit considers internal controls relevant to the preparation and fair presentation of the financial statements. This is done to design audit procedures that are appropriate in the circumstances, not for the purpose of expressing an opinion on the effectiveness of internal controls.

In addition to these procedures, an audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates, as well as evaluating the overall presentation of the financial statements.

In each year, the audit of the Consolidated Fund was conducted 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 that the financial statements are free from material misstatement.

Reasonable assurance is not absolute assurance nor is it a guarantee that the financial statements are completely free from material error. Due to the inherent limitations of an audit, there is an unavoidable risk that some misstatements of the financial statements will not be detected (particularly intentional misstatements concealed through collusion), even though the audit is properly planned and performed.

### 1.2 General Comments

This report includes the results of audits of the Consolidated Fund for the years ended March 31, 2010, 2011 and 2012. My Auditor's Reports on those audits were qualified for the reasons outlined in Section 2 of this report.

The following matters of special importance which are relevant to all three years of audit are also documented in Section 2:

- Consolidated financial statements for the whole of Government;
- Financial statement discussion and analysis;
- Borrowing and the plan to reduce the deficit and public debt;
- Pension and other employee future benefits;
- Taxpayer indebtedness to Government;
- Inadequate budget process;
- Overspending of supplementary estimate limits; and
- Non-compliance with Financial Instructions and related rules.

An important part of the audit process is discussing our observations and recommendations with the Accountant General and other stakeholders. Key observations and recommendations are presented in Section 3 and commentary on Government's financial position is included in Section 4.



### 1.3 Audit Committee

The Audit Committee established under Section 5 of the Audit Act 1990 reviews my reports. The Committee's role includes reviewing drafts of my public reports, discussing key points with me and communicating to Cabinet any matters the Committee believes should be brought to Cabinet's attention before the report is disseminated in the public domain. The members of the Audit Committee who reviewed this report are:

<b>Name</b>	<b>Position</b>	<b>Employer</b>
Mr. Kirk L. Davis, CPA, CA, MioD, Chairman	President & CEO	Pin High Limited
Mr. Alan F. Richardson, CPA, CA Deputy Chairman	President & CEO	The Centre Limited
Mr. Andrew A. Griffith, CPA, CA	Group Vice- President & CFO	BAS Group of Companies
Ms. Shade Subair, LLB FR (Hons)	Partner and Director	Mussenden Subair Limited
Mr. Ottiwell Simmons, JP	Consultant	
Mr. Christopher A. Coelho, CPA, CA	Retired – Former Senior Vice- President & CFO	Ascendant Group Limited
The Hon. Everard Trenton Richards JP, MP (ex-officio member)	Minister of Finance	

### 1.4 Parliamentary Standing Committee on the Office of the Auditor General

The Parliamentary Standing Committee on the Office of the Auditor General is a bipartisan Committee established under the Rules of the House of Assembly. It is tasked with the responsibility of ensuring that the Office of the Auditor General has the necessary resources to carry out its mandate. On an annual basis, I present my annual budget to this Committee for its consideration.

The members of the Committee are:

Mr. N.H. Cole Simons, JP, MP Chairman	Government Whip
Ms. Nandi S. Outerbridge, JP, MP	Member of Parliament
Ms. Lovitta F. Foggo, JP, MP	Party Whip
Ms. Susan E. Jackson, JP, MP	Member of Parliament
Mr. Dennis P. Lister, JP, MP	Shadow Minister of Public Works
Mr. Clark Somner, Clerk to the Committee	Deputy Clerk to the Legislature

## **1.5 Parliamentary Standing Committee on the Public Accounts**

The Public Accounts Committee (the “PAC”) is a Parliamentary committee appointed for the duration of the life of Parliament and is chaired by a member of the Opposition.

The Committee’s mandate is to examine, consider and report on “the accounts showing the appropriation of the sums granted by the Legislature to meet the public expenditure of Bermuda” and the report of the Auditor General on those accounts. The Committee also reports on “any accounts as may be referred to the Committee by the House”.

After the audited financial statements of the Consolidated Fund and the Auditor General’s Annual Reports are tabled, the PAC reviews them. During its review, the PAC may make any inquiries and request the appearance of any person to address significant concerns. At the end of the process, the PAC issues a Report to the House of Assembly which typically requires the Minister of Finance to respond to recommendations therein.

The PAC tabled its report covering the Auditor General’s Annual Report for 2007 and 2008 (Appendix 7) in July 2010. The Committee has made several important recommendations in its reports over the years, many of which are yet to be implemented. In August 2010, the Minister of Finance provided a response to the Report to the House of Assembly (Appendix 8).

On July 20, 2012, the PAC tabled its report covering the first part of the Auditor General’s Report on the Misuse of Public Funds (Appendix 9). The PAC focused on the Inappropriate Conduct of the Chairman and Deputy Chairman of the Bermuda Land Development Company Limited and noted that time did not permit for deliberation on other aspects of my reports.

On June 6, 2014, the PAC tabled its report covering the second part of the Auditor General’s Report on the Misuse of Public Funds - the Inappropriate Use of Public Funds for Payment of Personal Legal Expenses (Appendix 10). The Ministry of Finance’s response is contained in Appendix 11. The PAC Report on the Auditor General’s Annual Report which includes comments arising out of the audit of the Consolidated Fund for the year ended March 31, 2009 was tabled on July 18, 2014 (Appendix 12). The Ministry of Finance’s responses is contained in Appendix 13.

The members of the PAC are:

Mr. E. David G. Burt, JP, MP Chairman	Shadow Minister of Finance
Ms. Lovitta F. Foggo, JP, MP	Party Whip
Mr. N.H. Cole Simons, JP, MP	Government Whip
Mr. Glen C. Smith, JP, MP	Member of Parliament
Mr. Jefferson C. Sousa, JP, MP	Member of Parliament
Mr. Wayne L. Furbert, JP, MP	Shadow Minister of Economic Development
Mr. Clark Somner, Clerk to the Committee	Deputy Clerk to the Legislature

## 1.6 Acknowledgements

In order to achieve our mandate, we work with many individuals in various departments as well as our committees. I acknowledge with thanks their ongoing co-operation and assistance.

I also express my sincere appreciation for the work and professionalism of my staff, without whose dedicated efforts I would have been unable to discharge my legislative responsibilities and complete this report.



Hamilton, Bermuda  
December 2014

Heather A. Jacobs Matthews, JP, FCPA, FCA, CFE  
Auditor General



## **2. MATTERS OF SPECIAL IMPORTANCE**

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### **2.1 Qualification of the Auditor's Report**

The audits of the Consolidated Fund of the Government of Bermuda were conducted in accordance with auditing standards generally accepted in Bermuda and Canada. In performing the audits, the audit evidence obtained was sufficient and appropriate to provide a basis for my opinion that the financial statements present fairly, in all material respects, the financial position of the Consolidated Fund of the Government of Bermuda except as explained below.

In 2009, a Special Report of the Auditor General detailed the reasons for the qualification on the financial statements of the Consolidated Fund for the year ended March 31, 2008. That report documented a high level of unsupported payments as well as an override of controls at the highest level of management in the construction of the Magistrate's Court Building and the Hamilton Police Station. Among other concerns, we found:

- Insufficient appropriate documentation or approvals to support payments;
- Compromised internal control systems;
- A \$6.5 million payment unsupported by verification to receipted invoices;
- Concerns expressed by the Project Manager about the legitimacy of some costs being claimed by the recommended contractor and
- Refusal by the certifying architect to certify \$2.7 million in payment requests submitted by the recommended contractor.

During the course of the audit, we were denied the right to audit material expenditures related to this capital project. In subsequent years, appropriate disclosures were not made. These matters led me to question the propriety of certain transactions and the underlying cost and value of the buildings.

As a result, I was unable to determine whether adjustments might have been necessary to material balances on the financial statements including current expenses, capital development expenses, deficit, work in progress, accumulated deficit and related note disclosures.

Considering the significant public expenditure on this project, the Accountant General agreed to obtain an independent professional valuation. However, a formal valuation was not provided during the course of these audits. Consequently, the auditor's opinion was qualified.

***Recommendation No. 1:***

***Government should follow through on its commitment to obtain an independent professional valuation.***

***Note: Subsequent to the issuance of the 2012 financial statements, a valuation was obtained and the qualification removed.***

## **2.2 Consolidated financial statements for Government**

In addition to the Consolidated Fund, Government business is transacted through other public funds and Government-controlled organizations such as the Bermuda Housing Corporation.

Government's financial statements do not currently consolidate the results of these organizations with the Consolidated Fund. Consolidating these funds and organizations with the Consolidated Fund essentially means that each organization's assets, liabilities and operating results would be incorporated into the Consolidated Fund and form a part of the Government's annual deficit or surplus.

Canada's Public Sector Accounting Board recommends standards of disclosure which should be followed by Governments. Those standards have been accepted by the Chartered Professional Accountants of Bermuda (formerly the Institute of Chartered Accountants of Bermuda) and are therefore generally accepted in Bermuda.

Such standards require that "*Financial statements should provide an accounting of the full nature and extent of the financial affairs and resources which the Government controls, including those related to the activities of its agencies and enterprises.*" The standards also state that:

- *Government financial statements should consolidate the financial statements of organizations comprising the Government reporting entity, except for Government business enterprises; and*
- *The Government reporting entity should comprise the organizations that are controlled by the Government.*

The inclusion of various funds and organizations in the Government reporting entity is primarily based on the criterion of control. Control is defined as the power to govern the financial and operating policies of another organization with expected benefits or the risk of loss accruing to the Government from the other organization's activities. In essence, if Government can control an organization, whether actual or implied, its results should be included in the Government reporting entity. Various Government funds and organizations (many of which will be included in the Government reporting entity) are listed in Appendix 1.

The Report of the Parliamentary Standing Committee on the Public Accounts for the financial years ended March 31<sup>st</sup> 2005 and March 31, 2006 also endorsed the need for consolidated financial statements for Bermuda. The Minister of Finance has in the past indicated a commitment to provide consolidated statements. However, this was still not achieved for the years under audit.

Until consolidated financial statements are presented, there is a risk that those reading and relying on the financial statements of the Consolidated Fund may mistakenly view them as the consolidated financial statements of the Government. More importantly, the public is not provided with full disclosure regarding the accumulated deficit or surplus of its Government.

As a result of this failure to conform to the standards of disclosure generally accepted in Bermuda, I have included the following explanatory paragraphs in my Auditor's Report on the Consolidated Fund's financial statements for the years ended March 31, 2010, 2011 and 2012:

*As described in Note 2, these financial statements represent the financial transactions of the Consolidated Fund and have been prepared primarily to provide accountability for the financial resources appropriated by the Legislature of Bermuda. These financial statements are not the summary consolidated financial statements, as contemplated by the Institute of Chartered Accountants of Bermuda and the Canadian Institute of Chartered Accountants that would report the financial position and results of operations of the Government of Bermuda. Significant financial activities of the Government occur outside the Consolidated Fund.*

*In the absence of consolidated summary financial statements for the Government of Bermuda, I am of the opinion that the financial statements of the Consolidated Fund are intended and used to represent for all practical purposes the financial position of the Government of Bermuda and the results of its operations, its change in net debt and its cash flows. As such, in my opinion, the accounting policies used to prepare these financial statements are inappropriate to present fairly the financial position of the Government of Bermuda and the results of its operations, its changes in net debt and its cash flows.*

***Recommendation No. 2:***

***Government should prepare and issue consolidated summary financial statements for Government as a whole.***

**Ministry of Finance Response**

***The Ministry agrees and is working towards the preparation of consolidated summary financial statements.***

### **2.3 Financial statement discussion and analysis**

Annual financial statements continue to be a key accountability document for Government. However, financial statements alone do not provide the breadth of information needed for users to fully understand Government finances.

CPA Canada (formerly the Canadian Institute of Chartered Accountants) has issued a Statement of Recommended Practice (SORP) entitled “Financial Statement Discussion and Analysis”. It states that a Government's (annual) report should include financial statements and financial statement discussion and analysis.



The SORP indicates that the purpose of Financial Statement Discussion and Analysis (FSD&A) is to expand on and explain information contained in financial statements, making them more understandable to the general public.

The SORP suggests that FSD&A should include:

- a. a highlights section that provides a brief, concise summary of the significant events affecting the results and financial position reflected in the financial statements; and
- b. an analysis section that:
  - (i) includes information on known significant risks and uncertainties inherent in the Government's financial position and changes in financial position, and briefly outlines the strategies, policies and techniques adopted to manage those risks and uncertainties;
  - (ii) identifies and explains:
    - significant variances between current year actual results and budget;
    - significant variances between current year actual results and prior year actual results; and
    - changes that have occurred but that are not readily apparent from the quantitative analysis; and
  - (iii) includes an analysis of significant trends related to financial assets, liabilities, net debt, tangible capital assets, net assets, revenues, expenses / expenditures, net revenues and cash flows.

I strongly endorse the idea of Government publishing a FSD&A document at the same time as it publishes its financial statements. Such a document would provide a robust analysis of what the financial statements mean and what the long-term trends are and is vital if readers are to understand the Government's financial position and results. If the FSD&A were done in conjunction with consolidated financial statements for the whole of Government, this would represent another significant enhancement of the Government of Bermuda's accountability.

***Recommendation No. 3:***

***Government should develop and publish a Financial Statement Discussion and Analysis document at the same time as its annual financial statements.***

**Ministry of Finance Response**

***The Ministry agrees and plans to have this analysis published with the financial statements for the year ended March 31, 2015.***

## **2.4 Borrowing and the plan to reduce the deficit and public debt**

In order to finance its annual operating deficits, replace maturing debt and acquire capital assets, Government has borrowed money from various lenders. The borrowing and more specifically, the public debt and net debt amounted to \$1.24 billion and \$2.42 billion respectively, at March 31, 2012.

The debt and related deficit continue to grow. The annual operating deficit for the year ended March 31, 2012 totalled \$343 million – \$100 million more than the 2008 deficit. The legislated borrowing limit has been increased twice over the two year period (from \$1.0 billion in 2010 to \$1.45 billion in 2012). Similarly, the Government's long-term debt as at March 31, 2012 (\$1.1 billion) has almost quadrupled what it was four years ago and resulted in annual interest costs of about \$71 million for the year ended March 31, 2012.

Despite this increasing level of debt and public concerns regarding sustainability, Government has not provided us with a plan to reduce the deficit and public debt.

***Recommendation No. 4:***

***To ensure the sustainability of public services, Government should establish and communicate a plan to reduce the deficit and level of public debt.***

**Ministry of Finance Response**

*The Government has announced the implementation of a medium term expenditure framework (MTEF). The full implementation of a MTEF involves the introduction, from the 2014/15 budget cycle of rolling three-year budget and forward estimates to establish hard multi-year budget ceilings for each Ministry. To achieve the Ministry of Finance's strategy for fiscal consolidation (i.e. deficit reduction) the Ministry set an ambitious target of cost savings on current account expenditure of 15%, in real terms, to be achieved by the end of three years. The 2015/16 fiscal year represents the second year of the MTEF. The other part of this strategy is to enhance revenue through policies that generate income from economic growth and other revenue streams. This will enable the Ministry of Finance to begin to fulfill its commitment to changing the trajectory of deficits and debt over the medium-term.*

**2.5****Pensions and other employee future benefits**

There are currently three major Government sponsored pensions plans. The Public Service Superannuation Fund ("PSSF") provides pensions for retired Government and quango employees. The Ministers and Members of the Legislature Pensions Fund ("MMLPF") provides retirement pensions for the ministers, members and officers of the Legislature and the Contributory Pension Fund ("CPF") provides old age pensions, disability and death benefits for the general workforce. In addition to the pension plans, the Government Employees Health Insurance Fund provides health insurance benefits for Government employees, Ministers and Members of the Legislature and their dependents.

Legislation relating to the PSSF and MMLPF provides that, if at any time the funds accumulated to pay pensions are insufficient, the deficiency will be made up by the Consolidated Fund. A corresponding provision does not exist to require the Consolidated Fund to provide for any shortfall if, at any time, the CPF has insufficient funds to meet its current legislated obligations.

An unfunded liability exists when the benefits to be paid out exceed amounts available to pay. The unfunded liability is therefore the amount of pension benefits which have been earned by current and former employees net of the value of assets held to pay for those benefits.

At March 31, 2012, the net unfunded liability for the PSSF, MMLPF and GEHI stood at \$1.1 billion.

**Table 1: Unfunded liability – pension/health plans**

	\$ millions				
	07/08	08/09	09/10	10/11	11/12
PSSF	555	615	694	779	863
MMLPF	18	20	21	21	23
GEHI	175	199	223	216	240
Total unfunded liability	748	834	938	1,016	1,126

***Recommendation No. 5:***

***Government should establish and communicate its plan to address the unfunded liability of the plans.***

### **Ministry of Finance Response**

*The Ministry indicated that it has started to address the problems associated with the PSSF in particular. Based on actuarial advice, PSSF contribution rates were increased from 5% to 8% and 9.5% for regular members and uniformed officers respectively. The increase in pension contributions was the first step in fixing this problem and the Ministry noted that Government still had to address the unfunded liability incurred from prior non-contributory service and prior inadequate contributions. To this end, in 2012 the Ministry commissioned an actuarial review of the PSSF to ensure the future sustainability of the Fund.*

*To assist with the review of these pension plans, a Pension and Benefits Working Group (PBWG) has been established to review all public sector pension plans, and make recommendations to Cabinet in order to ensure the sustainability of these plans and benefits in a manner that is responsible and fair to both the pensioners and members of the plans and Bermuda taxpayers. As a part of this exercise, benefit design changes will also be considered for the MMLPF. Reviews of the GEHI Plan are also being conducted in order to ensure the sustainability of this plan.*

## **2.6 Taxpayer indebtedness to Government**

As the unfunded liability increases, arrearages of Payroll and other taxes and pension contributions continue to increase despite various collection efforts. Measures to reduce taxpayer indebtedness to Government have been largely unsuccessful.

As at March 31, 2012, the amount of taxes greater than 90 days in arrears which was owed to just one department of Government was \$56.8 million compared to March 31, 2008, when the amount owed was \$36.6 million. Timely collection of outstanding revenue by Government helps to reduce the need for borrowing along with its associated finance costs.

Payroll, Hotel Occupancy, Corporate Services and Land Tax at March 31 greater than 90 days in arrears were:

**Table 2: Outstanding taxes**

	\$ millions				
	07/08	08/09	09/10	10/11	11/12
Payroll, Hotel Occupancy and Corporate Services Taxes	25.7	25.9	27.0	29.9	37.2
Land Tax	10.9	12.0	13.1	16.4	19.6
	36.6	37.9	40.1	46.3	56.8

***Recommendation No. 6:***

***Government should establish and communicate a plan to address taxpayer indebtedness.***

**Ministry of Finance Response**

***The Ministry agrees and indicates that the Government is looking at increasing resources in its Debt Enforcement Unit to assist with debt collection as this is a high priority of the Government.***

## **2.7 Inadequate budget process**

The annual budget process is not driven by sound information about needs or the performance of past programmes. In reality, the attempt at zero-based budgeting has become an incremental process in which the current year's budget is based on the amount a ministry or department received in the prior year. This is evident in the lack of a formal analysis of spending priorities as well as a formal assessment of which programmes fit best with overall Government objectives.

We were not provided with any form of analysis highlighting which programmes are underperforming, the reason for the under performance and what needs to be done. Neither was there any evidence of accountability for poor performance. As a result, inefficiencies and ineffectiveness in the implementation of Government programmes is perpetuated and there is little incentive to improve the performance of programmes.

**Recommendation No. 7:**

*If Government is committed to getting the debt and deficit under control, the annual budget needs to be driven by longer-term strategic considerations and sound information about the objectives and performance of programmes.*

**Ministry of Finance Response**

*The Ministry indicates that the MTEF seeks to strengthen budget formulation using a simple and practical multi-year, results-informed, program budgeting methodology. It allows flexibility in the allocation of resources across a series of annual budgets to meet objectives related to debt service and other Government commitments that cannot be achieved in a single budget cycle but this process will take time to implement properly.*

**2.8 Overspending of Supplementary Estimate limits**

For a number of years, many ministries, departments and legislative Offices have exceeded the limits imposed on their annual expenditures by the House of Assembly. In fact, the annual over-expenditure by departments has now become ingrained behavior in the conduct of Government officials for which there are no consequences.

For the year ended March 31, 2012, twenty-four ministries and departments collectively overspent approximately \$36 million on current expenditures without prior legislative approval.

This habitual overspending by Government ministries and departments raises questions about the credibility of the budget process, expenditure control and the cash management functions carried out by the Ministry of Finance.

**Recommendation No. 8:**

*Government should renew its commitment to ensure that unplanned spending receives the full consideration and prior approval of the House of Assembly and the consequences for non-compliance should be enforced.*

**Ministry of Finance Response**

*The Ministry indicates that all pending supplementary estimates are now taken to the House during the budget session before the Ministry has overspent their Budget appropriation. Overspends are now based on the Ministry total because departments can overspend as long as funds are vired to the Department and the Ministry total does not exceed the amount appropriated for the Ministry.*

**2.9 Non-compliance with Financial Instructions and related rules**

It is the responsibility of all public servants to ensure that public monies are spent in accordance with the appropriate legislative authority and related rules such as Financial Instructions issued by the Minister of Finance.

Many of the capital development transactions selected for testing did not comply with Financial Instructions and related rules. As in the past, the issue is not whether controls exist, but, rather, that the controls are ignored or overridden, with those responsible seemingly immune to the imposition of penalties and sanctions built into Financial Instructions.

***Recommendation No. 9:***

***Government should enforce the existing penalties for not complying with Financial Instructions and related rules.***

**Ministry of Finance Response**

***The Ministry agrees with this recommendation.***



### **3. AUDIT OBSERVATIONS & RECOMMENDATIONS**

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At the conclusion of the Consolidated Fund audit, we document our observations and provide recommendations to address issues identified. We discuss these matters with the Accountant General indicating any points which should be brought to the attention of specific departments. Although we expect our recommendations to be implemented, our primary concern is that the Accountant General and departments select the best course of action to address the issues identified on a timely basis.

Included in this section are those matters arising from the audit which are significant enough to warrant the attention of the House of Assembly. Many of the observations point to a general failure to follow the rules (Financial Instructions) established by Government for the safeguarding of public assets.

Financial Instructions are rules that govern the custody, handling and accounting of public money including the management of capital development projects. Financial Instructions and related rules are designed to ensure that public money is managed effectively for the intended purpose.

These instructions specify that the Permanent Secretary of Public Works is the Accounting Officer for all capital development projects except those delegated by the Minister of Finance to another Ministry. W&E is required to follow Financial Instructions as well as its own internal Management Policies and Procedures set out in P.F.A 2000 “Purchasing of Goods & Materials” and P.F.A 2002 “Procurement of Contract Services”.

#### **3.1 Failure to comply with Financial Instructions and related rules**

Many of the capital development transactions selected for testing during 2010 did not comply with Financial Instructions, P.F.A 2000 or P.F.A 2002.

We requested supporting documentation for an estimated \$35.5 million spent on capital contracts and purchases and 15% (\$5.2 million) did not have supporting documentation. Of the remaining \$30.3 million, many failed to comply with the applicable purchasing and approval standards. The majority lacked the required prior approval of Cabinet, did not have agreements or contracts and/or did not follow the basic tendering procedure.

### **3.1.1 Millions spent without the prior approval of Cabinet**

Cabinet is tasked with the responsibility of making major policy decisions on behalf of the people of Bermuda. In order for Cabinet ministers to make well informed decisions in the interest of the public, Cabinet must be provided with accurate, objective information and high quality advice. Financial Instruction 8.3.1 supports this principle by requiring all contracts “over \$50,000 (including those with multiple payments) to be approved by Cabinet before the agreement or contract is signed”.

During 2010, approximately \$14 million of expenditures tested did not have the required prior Cabinet approval. Examples of expenditures greater than \$500,000 without prior Cabinet approval include:

**Table 3: 2010 Contracts not approved by Cabinet**

<b>NATURE OF CONTRACT</b>	<b>VALUE</b>
	\$
Commercial courts/Ministry of Finance renovations	1,863,386
Maintenance and stores building	1,600,000
Purchase of sand and rock	1,421,400
Renovations - Department of Human Resources	957,726
Central Laboratory Building project	902,000

### **3.1.2 Commercial courts/Ministry of Finance renovations**

A contract for the construction of the Commercial courts and renovation of the Ministry of Finance Headquarters was awarded to a company (“the successful bidder”) without the prior approval of Cabinet and the related tender process was compromised.

When the project was first put out to tender, the successful bidder’s bid was determined to be invalid because required sections of the Form of Tender were not completed. Of the remaining 5 tenders received, staff in W&E recommended that the lowest bidder be awarded the contract.

However, in December 2008, the Minister of W&E instructed technical officers to request all bidders to re-bid based on a reduced scope of work. The Permanent Secretary (PS) noted that the request for the re-bid should be phrased in the context of Government wishing to reduce spending given the current economic environment. The PS gave instructions to include all bidders and to allow them to make corrections to irregularities which may have disqualified their initial bids.

The successful bidder submitted a revised bid of \$1.7 million. A review of this second round of bids was not carried out by W&E staff nor was a recommendation made by them.

From the onset, senior W&E staff expressed their concerns about the handling of the project. On January 2, 2009, a senior officer noted “...this is not how projects should be run. It should be noted that a review of the recent Tender was not carried out by this Department nor any recommendation put forward by this Department or Cabinet approval given to my knowledge. The decisions to award any contracts were carried out at a higher level. I am also concerned that “additional works” are going to be added and that the final expenditure is going to exceed the original Tender amount and that the quality is going to be compromised.”

The Ministry of Finance itself raised concerns about following due process in an email from the Financial Secretary to the PS which noted “...please advise whether the award complies with Financial Instructions in the following respects: 8.2.1(3) the same supplier should not be used repeatedly without good reason, 8.2.3(8) unsuccessful suppliers should not be allowed to resubmit a lower quotation price, 8.3.1 contracts totalling over \$50,000 must be submitted to Cabinet for approval before acceptance. In addition, please provide information pertaining to the principal(s) of the company which has been determined to receive the contract.”

We requested a copy of W&E’s response to the Ministry of Finance’s email and to date have not been provided with one. However, it is apparent that the awarding of this contract did not meet critical requirements of Financial Instructions.

On January 7, 2009, the PS confirmed that the Minister had approved the award of the contract to the successful bidder in the amount of \$1.7 million. Retroactive approval was later obtained from Cabinet on February 10, 2009. The final amount paid to the company subsequent to change orders was approximately \$1.9 million.

### **3.1.3 Maintenance and stores building**

In 2010, Cabinet's prior approval for a \$1.6 million contract for the construction of a Maintenance and stores building was not obtained.

When the original bids were received, W&E staff recommended the lowest bidder in their Contract Award Recommendation. They concluded that the lowest bidder should have been awarded the contract on the basis of cost, schedules provided in its submission, the company's clear understanding of the requirements to undertake the project and its collective experience.

However, when the contract was presented to Cabinet, the Minister of W&E voiced concerns about the lowest bidder's ability to achieve the deadline. No evidence to support these assertions was documented in the Cabinet Conclusion.

Cabinet did not approve the award of contract at that time. Instead, Cabinet recommended that consideration of the contract award should be carried over to the next meeting to ensure that the estimate for the works was updated.

We requested confirmation of Cabinet's subsequent approval. However, neither W&E nor the Cabinet Office provided evidence that this contract was in fact returned to Cabinet for approval.

### **3.1.4 Purchase of sand and rock**

P.F.A. 2000 requires significant purchases to be approved by Cabinet as well as documented in a contract or agreement. In 2010, we examined payments of \$1.4 million for the purchase of sand and rock. The payments were processed without prior Cabinet approval, a documented contract, or verification of receipt of goods such as a bill of lading.

We requested but were not provided with Cabinet approval. The failure to obtain Cabinet approval was corroborated by correspondence in which W&E staff questioned why an agreement was made prior to Cabinet approval.

These payments were also not supported by a contract or agreement as required by P.F.A. 2000. We requested but were not provided with a contract nor agreement. Instead, we were presented with a Government purchase order and invoices from the vendor as supporting documentation for the payments.

Further, we requested evidence that the quantity of sand and rock was received and verified. We would have expected to see the appropriate sign-off on bills of lading showing actual cargo received but W&E was unable to provide such evidence. These documents were later provided when W&E obtained them directly from the vendor.

A review of this documentation provided by the vendor indicated that payments for the sand and rock were processed prior to the receipt of goods in contravention of Financial Instructions.

### **3.1.5 Renovations - Department of Human Resources**

In 2010, a contract for renovations to the Department of Human Resources did not receive Cabinet's prior approval nor was it put out to tender.

W&E confirmed that the project was not properly tendered and noted that the Head of the Civil Service agreed to proceed with negotiating a cost with a contractor. As such, there was no Cabinet Award Recommendation document issued to Cabinet and no Cabinet approval was obtained for the award of this contract. The original contract sum of \$257,000 was negotiated with the contractor. However, as a result of numerous change orders in the amount of \$701,000, the final cost to the public was \$958,000.

### **3.1.6 Central Laboratory Building project**

The original contract sum for the Central Laboratory Building project was approximately \$46,000. In 2010, the contract did not receive prior Cabinet approval. Additionally, W&E noted that the services were not tendered but were negotiated with the knowledge of the PS. Additional services of \$856,000 resulted in a final contract amount of \$902,000.

### **3.1.7 Departmental expenditures**

There were numerous cases (69% or \$43 million of expenditures greater than \$1 million in 2011) which violated the requirement for prior Cabinet approval. In both 2010 and 2011, expenditures tested for the following departments did not have prior Cabinet approval.

**Table 4: Departmental expenditures not approved by Cabinet**

DEPARTMENT	2010	2011
	\$	\$
Lands, Buildings & Survey		10,596,138
Airport Operations		3,047,204
Civil Aviation	2,622,747	2,757,425
Tourism	1,500,727	2,726,303
Transport Control		2,068,106
Information Technology Office		2,019,150
Telecommunications		2,015,314
Education	3,890,235	1,828,218
Health Insurance		1,639,728
Finance HQ		1,399,966
Transport HQ		1,373,000
Corrections	1,108,338	1,363,273
Operations & Engineering	1,394,113	1,177,203
Accountant-General		1,027,889
Police	1,889,161	
Works & Engineering	1,494,311	

It is evident that the policies, procedures and rules pertaining to capital expenditures are being violated to such an extent that it has now become the norm for which there are no consequences.

Compliance with the required procedures for the procurement of goods and services reduces the risk of non-performance, fraud and misappropriation. Persons with signing authority should be held accountable for breaches of compliance of the relevant Financial Instructions and rules.

We recommended that W&E should comply with Financial Instructions, P.F.A 2000 and P.F.A 2002 and the Accountant-General should take steps to reinforce compliance with Financial Instructions and related rules across Government. Where appropriate, the existing penalties for not complying with these policies, procedures and rules should be enforced.

### **3.2 Millions paid without signed contracts or agreements**

Financial Instruction 8.3.4 provides that “if a contract is not provided by the supplier, a contract/agreement must be prepared that includes all terms and conditions... and must be vetted by the Attorney General prior to signing”.

In 2010, the Department of Works & Engineering did not adhere to Financial Instructions and related rules. We identified instances where expenditures were made without contracts or agreements. An estimated \$5 million (17%) of the \$30.3 million expenditures tested in 2010 did not have a contract or agreement. Expenditures greater than \$300,000 made on behalf of the following departments did not have signed contracts or agreements:

**Table 5: Expenditures made without signed contracts**

DEPARTMENT	2010
	\$
Civil Aviation	2,622,747
Ministry of Works & Engineering	1,494,311
Police	1,330,718
Corrections	1,108,338
Operations & Engineering	1,019,113
Lands, Buildings & Surveys	941,453
Information Technology Office	612,027
Accountant General	300,000

We recommended that payments should not be processed unless there has been substantial compliance with Financial Instructions and related rules. To facilitate this process, we provided suggestions for revising the payment authorization signoff stamp or requiring a checklist to be prepared to include key Financial Instructions and P.F.A. requirements. We also recommended training for persons with signing authority as well as holding responsible persons accountable for any breach of compliance of Financial Instructions and related rules.

### **3.3 Significant contracts not tendered**

Tendering is required for any contract where the value of goods and services exceeds \$50,000.

Financial Instruction 8.3.1 requires Ministries and Department to obtain quotations from suppliers of goods and services. The minimum number of quotations to be obtained and the rigour of the evaluation and awarding process depend on the size of the purchase or contract as well as the potential cost/benefit of administering the tendering process.

Despite the requirements of Financial Instructions, the 2010 audit revealed that 55% (\$16.8 million) of expenditures tested were not tendered. Expenditures greater than \$1 million which were not tendered relate to the following departments:

**Table 6: 2010 Contracts not tendered**

DEPARTMENT	2010
	\$
Education	4,189,474
Tourism	3,634,805
Civil Aviation	2,622,747
Information Technology Office	2,258,772
Transport Control	2,081,170
Police	1,643,562
Corrections	1,108,338
Ministry of Works & Engineering	1,033,807

In 2011, an estimated \$62 million of expenditures tested (76%) were not tendered in compliance with Financial Instructions, P.F.A. 2000 and P.F.A. 2002. Expenditures greater than \$1 million which were not tendered relate to the following departments:

**Table 7: 2011 Contracts not tendered**

DEPARTMENT	2011
	\$
Tourism	18,116,485
Lands, Buildings & Surveys	10,749,109
Marine & Ports	4,346,651
Airport Operations	3,830,087
Civil Aviation	2,791,425
Public Transportation	2,262,459
Transport Control	2,081,694
Telecommunications	2,049,993
Education	1,995,165
Health Insurance	1,639,728
Finance HQ	1,563,106
Financial Assistance	1,492,250
Corrections	1,418,625
Operations & Engineering	1,267,642



We recommended that the Accountant-General take steps to ensure that Financial Instructions and related rules are followed across Government. Contracts should not be entered into and payment certificates should not be processed unless all relevant procurement policies have been followed. Where appropriate, the existing consequences for not complying with Financial Instructions should be enforced.

### 3.4 Duplicate Payments

An underlying premise of Financial Instructions is that payments for the same goods and services will not be made twice. Financial Instruction 9.4 requires authorized officers to “exercise care and implement proper controls to prevent duplicate payments by ensuring that invoices have not been previously presented for payment.” Included in duplicate payments were the following:

**Table 8: Duplicate Payments**

	2010	2011	2012
	\$	\$	\$
3 <sup>rd</sup> Quarter grant	5,175,551		
Works & Engineering Payment Certificate	1,179,253		
Cheque issued twice	59,041		
Miscellaneous items		571,421	
Payment to Sandys 360			807,000
	6,413,845	571,421	807,000

The 3<sup>rd</sup> quarter grant was recovered but not the cheque which was issued twice. The amount paid to Sandys 360 has not been recovered. Explanations for the other duplications have not been provided. We recommended that the Accountant General investigate the circumstances giving rise to these duplications, implement more robust controls and procedures to prevent duplication of payments and take all steps necessary (including legal action) to recover any amounts overpaid.

### 3.5 Overpayments

A basic element of an effective internal control system is verification of the correctness of payments. Financial Instruction 9.4 is explicit that “it is the authorised officer’s responsibility to “ensure payment is made in accordance with Financial Instructions and to carefully review supporting documentation prior to approval for payment”.

The Department of Airport Operations (DAO) overpaid \$256,336 to a project contractor in 2009. This amount remained outstanding at March 31, 2010. When the retention of \$759,721 was subsequently released to the project contractor, this overpayment of \$256,336 along with outstanding Payroll Tax of \$321,277 was not deducted from the retention. This resulted in a loss of Government revenue of \$577,613.

In addition, the retention was paid to the wrong person. Payment was made to the project manager instead of the project contractor. DAO was advised of this error by the project manager who then transferred the funds to the project contractor.

We recommended that more robust controls and procedures should be implemented to prevent duplication of payments. We recommended that DAO should properly monitor retention amounts and take the necessary legal and other steps to recover any amounts overpaid.

#### **3.6 Supplementary Appropriation Bills not tabled**

Section 96(4) of the Bermuda Constitution Order 1968 requires a Supplementary Appropriation Bill to be introduced into the House of Assembly as soon as practicable after the year end of the financial year in which the Supplementary Estimates became necessary.

During 2010, Supplementary Appropriation Bills were not introduced in the House of Assembly for estimates relating to March 31, 2001 and subsequent years. In 2011, these Supplementary Estimates were tabled and approved.

We recommended that all required Supplementary Estimates be updated and related Supplementary Appropriation Bills introduced into the House of Assembly in accordance with the Bermuda Constitution Order 1968.

#### **3.7 Inadequate procedures over bank reconciliations**

In recent years, we reported significant issues related to the bank reconciliation process. These issues have not been resolved. Current year deficiencies include:

- Lack of support for reconciling items;
- Duplicate payments;
- Stale dated cheques not cancelled;
- Unsupported transactions;
- Unrecorded foreign exchange transactions;

- Deposits & wire transactions improperly or not recorded in the GL;
- Disbursements not recorded; and
- Deposits not made on a timely basis.

Given the risks inherent in the reconciliation process, it is imperative that the Accountant General exercise a greater degree of control over the reconciliation function. We recommended that the ACG perform procedures required under Financial Instructions and develop a robust control environment. In the case of stale-dated cheques for which there were no clear guidelines, we recommended that Financial Instructions should be amended to explicitly address this matter.

### **3.8 Completeness and accuracy of accounting for Employee Benefits**

Testing of the completeness and accuracy of the liability relating to the Public Service Superannuation and the Government Employees Health Insurance Funds revealed the following:

- During 2011, terminated, retired and temporary employees as well as summer students were erroneously included in the actuarial valuation. This resulted in a \$2.5 million miscalculation of the accrued benefit obligation for PSSF and \$10.5 million for GEHI;
- An inappropriate method of loss calculation was used which required a \$21.5 million valuation adjustment; and
- Incorrect Cost of Living Adjustments were included in the actuarial valuation resulting in a \$15 million overstatement.

We recommended that the ACG implement a more robust system to improve the completeness and accuracy of information provided to the actuary.

### **3.9 Inadequate provisioning**

During 2011, the Office of the Tax Commissioner (“OTC”) set up a \$20 million provision for doubtful accounts for taxes which were more than 90 days outstanding. The assumptions underlying this provision were not reasonable. Additionally, a well-founded plan of action for collection was not provided given the historical and statistical record of collection. The provision was subsequently increased to \$31.7 million.

We recommended that the OTC implement a sound methodology for estimating the provision and that the appropriate level of review be carried out by the ACG.

### **3.10 Inadequate procedures over amounts receivable from or payable to other Government agencies**

Our testing of receivable balances continues to indicate weak accounting procedures which include:

- Grants of \$700,000 and expenses of \$612,000 of the Confiscated Assets Fund were not appropriately reflected in the accounts and
- Amounts due to/from the Bermuda Hospitals Board were not reconciled on a timely basis resulting in \$9.4 million (2011) in unbilled claims not being properly reflected.

We recommended timely and accurate reconciliation of balances due to or from other Government agencies.

### **3.11 Lack of ministerial authorization for inter-fund transfers**

Inter-fund transfers in the following amounts were not authorized for transfer by the Minister of Finance.

**Table 9: Interfund transfers**

	<b>2010</b>	<b>2011</b>
	\$	\$
<b>Unauthorized transfers</b>	11 million	12 million

We recommended explicit written authorization of inter-fund transfers by the Minister.

### **3.12 Millions paid for professional services without prior approval**

Payments for consultants during fiscal 2012 amounted to \$33 million or 5% of the operating expenses of the Consolidated Fund. Financial Instruction 10 requires Accounting Officers to obtain the written approval of the Secretary to the Cabinet for the retention of consultants. Financial Instruction 10.4.3 further provides that an Accounting Officer may be surcharged under Financial Instruction 2.9 if consultants are retained without prior approval.

None of the payments selected for testing (\$2 million) pertaining to consultants contained the approval of the Secretary to the Cabinet nor were we provided with any evidence that surcharges had been levied on the relevant Accounting Officers for failure to obtain the necessary approvals prior to retaining the consultants.

We recommended the establishment of robust controls, heightened scrutiny, the establishment of an oversight committee for the retention of consultants and the application of surcharges.

### **3.13 Bank limit exceeded by \$24 million**

During fiscal 2012, the Temporary Loans Act 1973 limited the borrowing from any bank by way of overdraft to 10% of annual budget estimates of expenditure approved by the House of Assembly.

As at March 31, 2012, Government was not in compliance with Section 2 of the Temporary Loans Act 1973 as the bank overdraft of \$121 million exceeded the legislated limit by \$24 million.

We recommended enhanced monitoring, controls and procedures to ensure compliance with the Temporary Loans Act 1973.

### **3.14 Inappropriate application of or lack of accounting policies**

Accounting policies are principles or rules selected by Government which apply to the underlying transactions in the financial statements. The selection of appropriate accounting policies results in fair and accurate presentation.

Appropriate accounting policies were selected but misapplied in the following instances:

- Betterments were not added to related capital assets as required by accounting standards. Instead, they were separately capitalized resulting in inaccurate amortization charges; and
- Customs duty was capitalized resulting in an overstatement of the cost of capital assets and inventory.

Formal policies have not been established to address:

- the capitalization of computer software resulting in \$7.6 million being incorrectly recorded;
- the treatment of interest costs on capital projects;
- the transfer of capital assets to quangos; and
- the impairment of capital assets. As a result, the Assets under Construction balance included several items which no longer contribute to Government's ability to provide goods and services.

Given the need for consistent application of accounting policies, we recommended that:

- Betterments should be recorded and calculated in a manner that is consistent with the accounting policy and recommendations contained in the CPA Canada's Public Sector Accounting Standard PS 3510;
- A policy should be developed and applied consistently for the treatment of Customs duty; and
- Formal policies should be developed based on Canadian Public Sector Accounting Standards. These policies should be documented in Financial Instructions and communicated to all department and ministry comptrollers.

#### **3.15 Presentation issues**

We highlighted concerns about the timeliness and accuracy of financial information being presented for audit in previous years. This period was no exception. Among the notable matters which impacted the delivery of the audit were:

- Multiple revisions to the financial statements were required as a result of hundreds of adjusting journal entries (2012 – 269, 2011 – 193, 2010 – 84);

- Expenses were not reported by function; and
- Interdepartmental transactions were not eliminated.

The ACG needs to improve its financial reporting process by evaluating present procedures relating to timeliness and accuracy. We recommended that procedures be enhanced to improve the year-end financial processes and the review of financial statements.

### 3.16 **Overspending of Supplementary estimate limits**

Spending limits are imposed by the House of Assembly during the annual budget debate. Financial Instruction 5.5 states that “the approval of the Legislature must be obtained before committing to an over-expenditure. ... Except for a catastrophic event (e.g. spending required on an emergency basis in the event of a hurricane) approval of the Legislature must always be obtained in writing before making any commitment to overspend.”

For the year ended March 31 2010, the limits imposed by the House of Assembly were exceeded in the following areas:

- \$35.8 million was overspent on current expenditures by twenty-four departments without prior legislative approval. Fifteen of the departments which overspent in the current year also overspent in the previous fiscal year.
- Nine capital development projects exceeded the Total Authorized Figure (TAF) approved in the budget by \$400,000.
- Approximately \$9.4 million was overspent on capital projects by various Departments without prior Ministerial approvals as the required virements (transfers between estimates within a department) were only approved after the year-end. A virement is a transfer of a specific budget amount from one or more approved estimates to another within the department’s total budget.

**Table 10: Overspending of limits**

Overspending of:	2010	2011	2012
	\$ millions	\$ millions	\$ millions
<b>Current expenditures</b>	35.8	45.7	34.4
<b>Capital projects</b>	9.4	7.85	10.87
<b>Total authorized figure</b>	0.4	0.88	8.4

The Ministry of Finance has in the past agreed to enforce Supplementary Estimate procedures. This includes requiring formal explanations from departments that overspent, and applying sanctions or penalties for non-compliance as provided for in Financial Instructions. Since that time, however, each fiscal year has seen incidents of overspending with no supplementary estimates or sanctions applied. We continue to support the recommendation of procedures being enforced.

#### **3.17 Information Technology (IT) deficiencies**

The Government depends on information processed through its IT system to perform critical functions. We have in the past years identified IT control deficiencies, many of which have not been resolved. Deficiencies in the current years include

- Weaknesses in access rights/privileges;
- Lack of password policies;
- Formal change management and problem/incident management procedures were not in place;
- Disaster recovery plans and Business Continuity Plans were not finalized and updated;
- One open-ended contract resulted in significant modification costs as well as undue reliance on one individual;
- Weaknesses in the Virtual Private Network;
- Security Policy not implemented;
- Operations and emergency procedures not documented;
- A Risk Assessment and Risk Assessment Plan have not been prepared; and
- Lack of a policy on disposal of IT devices.

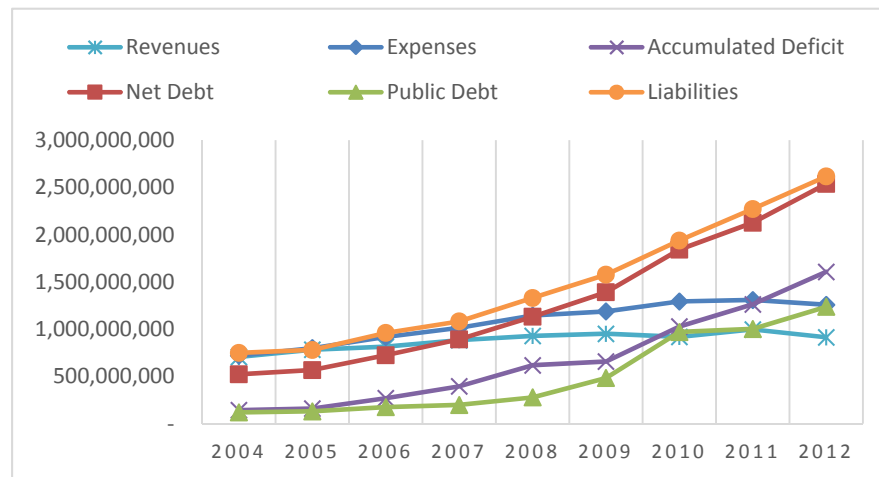
Given the risks to the delivery of services as well as protection of the accuracy, confidentiality and integrity of information collected, it is critical that these deficiencies are rectified. We recommended enhanced procedures to improve the management of IT security.



## 4. GOVERNMENT'S FINANCIAL POSITION

Financial statements provide a glimpse of Government's financial affairs at a particular point in time as indicated in the graph below:

**Graph 1**



However, such information is not always within the context of where Government has been and seldom within the context of where it is heading. To obtain this perspective, information such as financial indicators should be provided with the audited financial statements.

Although not mandated, standards generally accepted in Canada and Bermuda recommend the annual presentation of financial indicators. Key financial indicators can:

- provide insight into Government's fiscal stewardship;
- illustrate Government's financial ability to maintain the current level and quality of its services, meet its short and long-term obligations and finance new programmes;
- identify foreseeable risks and trends;
- provide a level of transparency as they indicate Government's policy and operating decisions and their resulting impacts; and
- provide a basis for comparison, where appropriate, with other relevant jurisdictions.

In the absence of Government providing such supplementary information, this section includes Sustainability and Flexibility indicators for the past 5 years.

#### 4.1 Sustainability Indicators

Sustainability refers to the degree to which Government can maintain its current financial obligations without increasing revenues such as taxes, customs duty or debt. The sustainability indicator is important because it describes the impact that the level of debt could have on providing future service to the public as well as honouring financial and other commitments to lenders, creditors, employees and others.

As a general rule, where net debt is increasing at a faster rate than the gross domestic product (GDP), there is a risk that current services to the public cannot be sustained.

**Table 11: Net Debt Increases and GDP decreases**

	<b>\$millions</b>				
	<b>07/08</b>	<b>08/09</b>	<b>09/10</b> (restated)	<b>10/11</b> (restated)	<b>11/12</b>
<b>Net Debt (Liabilities – Financial Assets)</b>	1,131.7	1,390.7	1,748.3	2,068.2	2,415.1
<b>% Increase</b>		22.9	25.7	18.3	16.8
<b>GDP decreases</b>					
<b>(\$billions)</b>	6.1	5.8	5.9	5.6	4.5

A 17% increase in the net debt is not sustainable in light of the negative growth rate of the economy.

Sustainability can also be assessed by analyzing trends in the:

- Annual Surplus or Deficit;
- Net Debt to Total Annual Revenue;
- Assets to Liabilities;
- Financial Assets to Liabilities; and
- Revenue as a Percentage of GDP.

### 4.1.1 Annual Surplus or Deficit

The Annual Surplus indicates the extent to which revenues exceed expenses during the year. The Annual Deficit is the amount by which Government's spending exceeded its incoming revenue from customs duties, taxes, etc. It is a measure of how much was overspent in any given year.

In each of the past five years, Government experienced the following deficits:

**Table 12: Annual Deficit**

	<b>\$millions</b>				
	<b>07/08</b>	<b>08/09</b> (restated)	<b>09/10</b> (restated)	<b>10/11</b> (restated)	<b>11/12</b>
Revenues	928.5	950.8	917.9	996.7	914.2
Expenses	1,143.7	1,187.0	1,292.9	1,308.5	1,257.4
<b>Annual Deficit</b>	215.2	236.2	375.0	311.8	343.2

The deficit for the year ended March 31, 2012 was \$343 million up 60% from 2008's deficit of \$215 million.

### Accumulated Deficit

Deficits are either reduced by annual surpluses or they continue to grow. Each year, the deficit is added to the prior year's balance to determine the accumulated deficit. The accumulated deficit, therefore, represents the total amount of all annual surpluses and deficits over time (net of accounting adjustments).

**Table 13: Accumulated Deficit**

	<b>\$millions</b>				
	<b>07/08</b>	<b>08/09</b> (restated)	<b>09/10</b> (restated)	<b>10/11</b> (restated)	<b>11/12</b>
<b>Accumulated Deficit</b>	617.5	657.7	1,028.1	1,262.8	1,606.0
% Increase		6.5	56.3	22.8	27.2

For the year ended March 31, 2012, the accumulated deficit stood at \$1.6 billion which was approximately \$988 million more than the 2008 accumulated deficit.

### 4.1.2 Net debt to total annual revenue

Each successive year of accumulated deficit results in Government borrowing with the result that net debt has increased at an average rate of 22% per year over the past five years. Net debt is the difference between liabilities (what is owed) and financial assets (generally cash and its equivalent). Net debt provides a snapshot of the extent to which future revenues will be required to pay for past transactions.

The net debt to total annual revenue indicator measures Government's net debt as a percentage of total revenues. At March 31, 2012, net debt stood at \$2.4 billion or \$347 million more than the 2011 debt of \$2.1 billion.

**Table 14: Net Debt to Total Annual Revenue**

	\$ millions		
Year	Net Debt	Total Revenue	Net debt/total revenue %
07/08	1,131.7	928.5	121.9
08/09	1,390.7	950.8	146.3
09/10	1,748.3	917.9	190.5
10/11	2,068.2	996.7	207.5
11/12	2,415.1	914.2	264.2

Over the past 5 years, net debt to total revenue has increased from 122% to 264% with the result that Government will need more time to eliminate the national debt. This trend is unfavourable and may not be sustainable.

### 4.1.3 Assets-to-Liabilities

The assets-to-liabilities indicator measures the ratio of Government's financial and non-financial assets to its liabilities. It illustrates the extent to which Government finances its operations by issuing debt.

**Table 15: Assets-to-Liabilities**

	\$ millions		
Year	Total Assets	Liabilities	Assets to Liabilities Ratio
07/08	712.8	1,330.3	.54
08/09	918.6	1,576.2	.58
09/10	909.8	1,937.9	.47
10/11	1,008.1	2,270.9	.44
11/12	1,009.4	2,615.4	.39

A ratio greater than one indicates that Government has accumulated surplus and has assets greater than debt. A ratio less than one indicates that debt is greater than assets and illustrates the extent to which Government has financed its operations by issuing debt.

In each of the past 5 years, this ratio has been less than one and a trend in this direction may not be sustainable.

#### **4.1.4 Financial Assets-to-Liabilities**

The extent to which Government's future revenues will be required to pay for past transactions or events is indicated by the Financial Assets to Liabilities Ratio.

**Table 16: Financial Assets-to-Liabilities**

	\$ millions		
Year	Financial Assets	Liabilities	Assets to Liabilities Ratio
07/08	198.6	1,330.3	.15
08/09	185.5	1,576.2	.12
09/10	189.5	1,937.9	.10
10/11	202.6	2,270.9	.09
11/12	200.2	2,615.4	.08

A ratio less than one indicates that liabilities exceed financial assets and may mean a reliance on future revenues or increasing debt to pay for past decisions.

In the last five years, liabilities have far outstripped financial assets and emphasize the degree to which future customs duty, fees, taxes or debt will be required to fund Government services. This trend is unfavorable and negatively impacts the sustainability factor of the Government. Borrowing to fund Government services is not always an appropriate financing strategy as it shifts the costs to future generations while today's taxpayers enjoy the benefits.

#### **4.1.5 Revenue as a percentage of GDP**

**Table 17: Revenue as a percentage of GDP**

Year	Total Revenue	GDP	Revenue/GDP %
	\$ millions	\$ billions	
07/08	928.5	6.1	.15
08/09	950.8	5.8	.16
09/10	917.9	5.9	.16
10/11	996.7	5.6	.18
11/12	914.2	4.5	.20

#### **4.2 Flexibility Indicators**

Flexibility is the degree to which Government can change its tax structure or debt to meet its existing commitment to the public to provide services as well as its financial commitments to lenders, creditors, employees and others.

Flexibility indicators provide a view of how Government manages its finances. Increasing current borrowing reduces Government's flexibility to respond when adverse economic circumstances develop. Similarly, increasing taxes, customs duty, fees and fines reduce Government's ability to do so in the future as it approaches the limit that the public is willing to bear. Key flexibility factors are:

- Public debt-to-revenues
- Net book value-to-cost of capital assets

### 4.2.1 Public debt-to-revenues

Public Debt is defined as any debt owed or guaranteed by the Consolidated Fund which is due and payable. It excludes the Sinking Fund which is money set aside to repay Government loans. At March 31, 2012, Public Debt stood at \$1.2 billion representing a 344% increase in five years:

**Table 18: Public debt**

Year	Public Debt	Legislated Limit
	\$	\$
07/08	278,322,792	375,000,000
08/09	483,262,295	1,000,000,000
09/10	969,464,859	1,000,000,000
10/11	1,001,981,762	1,250,000,000
11/12	1,235,972,933	1,450,000,000

The "public debt-to-revenues" indicator measures public debt charges as a percentage of revenues. It illustrates the extent to which past borrowing decisions present a constraint on Government's ability to meet its financial and service commitments in the current period. Specifically, the more Government uses revenues to meet interest cost commitments related to past borrowing, the less will be available for spending on current programmes.

**Table 19: Public debt-to-revenues**

	Public Debt	Revenues	Public debt to revenues
	\$	\$millions	
07/08	278,322,792	928.5	.30
08/09	483,262,295	950.8	.51
09/10	969,464,859	917.9	1.06
10/11	1,001,981,762	996.7	1.01
11/12	1,235,972,933	914.1	1.35

In the past five years, Government has more than quadrupled the amount of Public debt to revenue. This is important because when this indicator significantly increases for an extended period of time (assuming relatively stable interest rates), it means that Government has consistently chosen borrowing over increases in taxes, customs duty, fees and fines to meet its financial and service commitments. This eventually has an effect on Government's flexibility since higher debt generally impairs the ability to borrow money at reasonable interest rates and to roll over existing debt.

### 4.2.2 Net book value-to-cost of capital assets

The "net book value-to-cost of capital assets" indicator reports the extent to which the estimated useful lives of Government's tangible capital assets are available to provide its products and services.

**Table 20: Net book value-to-cost of capital assets**

	Capital assets		
	Net book value	Cost	Net book value to cost of capital assets
	\$	\$	
<b>07/08</b>	471,937,023	676,212,921	.70
<b>08/09</b>	599,263,650	836,714,330	.72
<b>09/10</b>	600,482,069	874,772,391	.69
<b>10/11</b>	727,752,452	1,044,407,866	.70
<b>11/12</b>	751,450,187	1,114,598,769	.67

If Government's scale, scope and level of services remain unchanged or grow, its ageing asset base could eventually impair flexibility because of the impending future costs of capital asset repair or replacement.

### Conclusion

Many of the indicators suggest a level of unsustainability and impaired flexibility which Government must make every effort to address.



## APPENDICES

	Page
<b>Appendix 1</b>	<b>Listing of Government funds and organizations..... 47</b>
<b>Appendix 2</b>	<b>Financial statements of the Consolidated Fund – March 31, 2010..... 49</b>
<b>Appendix 3</b>	<b>Ministry of Finance’s Comment on the 2010 financial statements ..... 105</b>
<b>Appendix 4</b>	<b>Financial statements of the Consolidated Fund – March 31, 2011..... 109</b>
<b>Appendix 5</b>	<b>Ministry of Finance’s Comment on the 2011 financial statements ..... 169</b>
<b>Appendix 6</b>	<b>Financial statements of the Consolidated Fund – March 31, 2012..... 175</b>
<b>Appendix 7</b>	<b>Report of the Parliamentary Standing Committee on the Public Accounts for the Financial year ended March 31, 2007 and 2008 ..... 237</b>
<b>Appendix 8</b>	<b>Ministry of Finance’s Response to the Report of the Parliamentary Standing Committee on the Public Accounts for the Financial year ended March 31, 2007 and 2008 ..... 245</b>
<b>Appendix 9</b>	<b>Report of the Parliamentary Standing Committee on Part 1 of the Misuse of Public Funds Report ..... 257</b>
<b>Appendix 10</b>	<b>Report of the Parliamentary Standing Committee on Part 2 of the Misuse of Public Funds Report ..... 269</b>
<b>Appendix 11</b>	<b>Ministry of Finance’s Response to the Report of the Parliamentary Standing Committee on Part 2 of the Misuse of Public Funds Report ..... 275</b>
<b>Appendix 12</b>	<b>Report of the Parliamentary Standing Committee on the work of the Auditor General for the period April 1, 2009 to March 31, 2010 and the Public Accounts for the financial year ended March 31, 2009 ..... 283</b>
<b>Appendix 13</b>	<b>Ministry of Finance’s Response to the Report of the Parliamentary Standing Committee on the work of the Auditor General for the period April 1, 2009 to March 31, 2010 and the Public Accounts for the financial year ended March 31, 2009 289</b>



## **Government-controlled Organizations**

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### **Funds**

Bermuda Department of Tourism North America Retirement Plan  
 Confiscated Assets Fund  
 Consolidated Fund  
 Contributory Pension Fund  
 Future Care Fund  
 Government Borrowing Sinking Fund  
 Government Employees Health Insurance Fund  
 Government Reserves Fund  
 Hospital Insurance Fund  
 Ministers and Members of the Legislature Pensions Fund  
 Mutual Re-insurance Fund  
 Public Service Superannuation Fund

### **Government-Controlled Organizations**

African Diaspora Heritage Trail (ADHT) Bermuda Foundation (The)  
 Bermuda Arts Council  
 Bermuda College  
 Bermuda Educators Council  
 Bermuda Health Council  
 Bermuda Hospitals Board  
 Bermuda Housing Corporation  
 Bermuda Housing Trust  
 Bermuda Land Development Company Limited  
 Bermuda Monetary Authority  
 Bermuda Small Business Development Corporation  
 Board of Trustees of the Golf Courses  
 CedarBridge Academy  
 Financial Intelligence Agency  
 Office of Ombudsman for Bermuda  
 Pension Commission  
 Trustees of the National Sports Centre  
 West End Development Corporation

### **Parish Councils**

Devonshire Parish Council  
 Hamilton Parish Council  
 Paget Parish Council  
 Pembroke Parish Council  
 Sandys Parish Council  
 Smith's Parish Council  
 Southampton Parish Council  
 St. George's Parish Council  
 Warwick Parish Council

### **Aided Schools**

Berkeley Institute Capitation Account  
 Sandys Secondary Middle School Capitation Account  
 St. George's Preparatory School Capitation Account  
 Whitney Educational Trust

### **Other**

Regulatory Authority  
 BSADA  
 Office of the Information Commissioner  
 Tourism Board  
 Sage Commission  
 BPAB  
 BDIC





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### AUDITOR'S REPORT

To the House of Assembly, the Governor and the Senate

I have audited the statement of financial position of the Consolidated Fund of the Government of Bermuda as at March 31, 2010, and the statements of operations and accumulated deficit, change in net debt and cash flow for the year then ended. These financial statements are the responsibility of the Government. My responsibility is to express an opinion on these financial statements based on my audit.

Except as explained in the following paragraph, 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 the Government, as well as evaluating the overall financial statement presentation.

I qualified my auditor's opinion on the financial statements of the Consolidated Fund for the year ended March 31, 2009, on the basis of serious deficiencies in internal control over the management of various capital development projects. These deficiencies led me to question the appropriateness of certain transactions and the underlying value of assets at March 31, 2009. As a consequence of last year's qualification, and without the benefit of an independent professional valuation, I am still unable to determine whether adjustments might be necessary to tangible capital assets, assets under construction and accumulated deficit as at March 31, 2010.

In my opinion, except for the effect of adjustments which I might have determined necessary had I been able to satisfy myself with respect to the balances of tangible capital assets, assets under construction and accumulated deficit referred to in the preceding paragraph, these financial statements present fairly, in all material respects, the financial position of the Consolidated Fund of the Government of Bermuda as at March 31, 2010 and the results of its operations and its cash flows for the year then ended, in accordance with the stated accounting policies disclosed in Note 3 to the financial statements, which conform with generally accepted accounting principles in Bermuda and Canada.

As described in Note 2, these financial statements represent the financial transactions of the Consolidated Fund and have been prepared primarily to provide accountability for the financial resources appropriated by the Legislature of Bermuda. These financial statements are not summary financial statements of the Government of Bermuda. Significant financial activities of the Government occur outside the Consolidated Fund. As such, the financial statements of the Consolidated Fund for the year ended March 31, 2010 do not represent the financial position of the Government of Bermuda as at March 31, 2010, and the results of its operations and its cash flows for the year then ended.

A handwritten signature in black ink, appearing to read 'HJM', followed by a horizontal line extending to the right.

Hamilton, Bermuda  
October 15, 2010

Heather A. Jacobs Matthews, CA, CFE  
Auditor General



GOVERNMENT OF BERMUDA

**Ministry of Finance**

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**Government of Bermuda  
Consolidated Fund  
Statement of Responsibility for the Financial Statements  
March 31, 2010**

The Accountant General, subject to the general direction and control of the Minister of Finance, is responsible for the preparation of the financial statements of the Consolidated Fund.

The financial statements of the Consolidated Fund are prepared by the Accountant General in accordance with the requirements of governing legislation. The financial statements are based upon information provided by Government departments and, where necessary, information is based upon best estimates and judgement.

In order to fulfill accounting and reporting responsibilities, the Accountant General maintains systems of financial management and internal control to provide reasonable assurance that transactions are properly authorised by the Legislature, executed in accordance with prescribed regulations and properly recorded to maintain accountability of public money and safeguard the assets and properties under Government administration.

The audited financial statements are tabled before the Legislature annually and are referred to the Public Accounts Committee, which reports to the Legislature on the results of its examination together with any recommendations it may have with respect to the financial statements and accompanying audit opinion.

On behalf of the Government of Bermuda.

A handwritten signature in blue ink, appearing to read 'D. Scott'.

Donald Scott  
Financial Secretary  
Ministry of Finance

A handwritten signature in blue ink, appearing to read 'Joyce Hayward'.

Joyce Hayward, CPA  
Accountant-General  
Ministry of Finance

Hamilton, Bermuda  
October 15, 2010

**Government of Bermuda - Consolidated Fund  
Statement of Financial Position**

As at March 31		2010	2009
		Actual	Restated (Note 17)
		\$	\$
<b>Liabilities</b>			
	<u>Schedule</u>		
Bank Overdraft (Note 16)		93,409,873	147,250,826
Accounts Payable and Accrued Liabilities	5	132,713,463	149,355,749
Deferred Revenue	6	30,262,623	29,911,196
		<u>256,385,959</u>	<u>326,517,771</u>
Interest Bearing Debt - Net of Sinking Fund	7	665,512,519	335,219,239
Pensions and Other Employee Future Benefits			
- Pensions and Retirement Benefits (Note 9(h))		939,354,866	834,409,234
- Compensated Absences (Note 8)		21,336,602	19,586,264
		<u>960,691,468</u>	<u>853,995,498</u>
<b>Other Liabilities</b>			
Due to Government Funds and Agencies	3(a)	51,063,657	60,487,014
<b>Total Liabilities</b>		<b>1,933,653,603</b>	<b>1,576,219,522</b>
<b>Financial Assets</b>			
Cash and Cash Equivalents		19,531,018	19,432,104
Accounts Receivable	1	142,586,906	136,826,810
Due from Government Funds and Agencies	3	25,129,255	22,006,507
Long-Term Receivables	4	2,231,431	2,255,744
Investment in Quango (Notes 3(e) & 14(b))		5,000,000	5,000,000
<b>Total Financial Assets</b>		<b>194,478,610</b>	<b>185,521,165</b>
<b>Net Debt</b>		<b>1,739,174,993</b>	<b>1,390,698,357</b>
<b>Non-Financial Assets</b>			
Tangible Capital Assets (Notes 3(f) & 15)	12	600,482,069	599,263,650
Assets under Construction (Note 3(f))	12	98,619,361	112,730,687
Prepaid Supplies	2	16,420,102	14,645,051
Prepaid Expenses		4,751,754	6,402,004
<b>Total Non-Financial Assets</b>		<b>720,273,286</b>	<b>733,041,392</b>
<b>Accumulated Deficit</b>		<b>1,018,901,707</b>	<b>657,656,965</b>
Contingent Liabilities, Non-Contractual Operational Commitments and Contractual Commitments (Notes 10, 11, 12 and Schedule 16)			

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



**Government of Bermuda - Consolidated Fund  
Statement of Operations and Accumulated Deficit**

For the year ended March 31		2010 Original Estimates	2010 Actual	2009 Restated (Note 17)
		\$	\$	\$
	<u>Schedule</u>			
<b>Revenue</b>	8,10	969,621,000	<b>917,268,545</b>	950,804,542
<b>Expenses</b>				
Current	9,11	966,888,000	<b>1,176,834,962</b>	1,112,193,073
Capital Development	13		<b>97,864,942</b>	62,745,702
Capital Acquisition	14		<b>7,825,370</b>	12,088,994
			<b>1,282,525,274</b>	1,187,027,769
<b>Annual Deficit</b>			<b>(365,256,729)</b>	(236,223,227)
<b>Accumulated Deficit, Beginning of Year</b>			<b>(657,656,965)</b>	(617,482,816)
Recognition of Tangible Capital Assets (Note 15)			<b>4,011,987</b>	131,758,926
Change in Accounting Principle (Note 17)			-	57,228,529
Change in Accounting Principle (Note 17)			-	2,061,623
Correction of Error (Note 17)			-	5,000,000
<b>Accumulated Deficit, End of Year</b>			<b>(1,018,901,707)</b>	(657,656,965)

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

**Government of Bermuda - Consolidated Fund  
Statement of Change in Net Debt**

<b>For the year ended March 31</b>	<b>2010</b>	<b>2009</b>
	<b>Actual</b>	<b>Restated (Note 17)</b>
	<b>\$</b>	<b>\$</b>
Annual Deficit	(365,256,729)	(236,223,227)
Change Due to Tangible Capital Assets:		
Net Additions to Tangible Capital Assets	(34,537,246)	(29,505,668)
Net Reductions in (Additions to) Assets under Construction	14,111,326	(88,019,450)
Amortization of Tangible Capital Assets	37,330,814	33,937,967
Total Change Due to Tangible Capital Assets	16,904,894	(83,587,151)
Net Additions to Prepaid Supplies	(1,775,051)	(1,488,057)
Net Reductions in (Additions to) Prepaid Expenses	1,650,250	(1,986,327)
Total Change Due to Prepaid Supplies and Prepaid Expenses	(124,801)	(3,474,384)
<b>Increase in Net Debt</b>	<b>(348,476,636)</b>	<b>(323,284,762)</b>
<b>Net Debt, Beginning of Year</b>	<b>(1,390,698,357)</b>	<b>(1,131,703,747)</b>
Change in Accounting Principle (Note 17)	-	57,228,529
Change in Accounting Principle (Note 17)	-	2,061,623
Correction of Error (Note 17)	-	5,000,000
<b>Net Debt, End of Year</b>	<b>(1,739,174,993)</b>	<b>(1,390,698,357)</b>

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

# **Government of Bermuda - Consolidated Fund** **Statement of Cash Flow**

For the year ended March 31	2010	2009
	Actual	Restated (Note 17)
	\$	\$
<b>Operating Activities</b>		
Annual Deficit	(365,256,729)	(236,223,227)
Items not affecting cash:		
Amortization of Tangible Capital Assets	37,330,814	33,937,967
Increase in Pension and Retirement Benefits Liability	104,945,632	86,278,106
Increase in Compensated Absences Liability	1,750,338	1,575,555
(Decrease) Increase in Non-Cash Working Capital	(34,697,548)	22,544,654
Cash Applied to Operating Activities	(255,927,493)	(91,886,945)
<b>Capital Activities</b>		
Net Additions to Tangible Capital Assets	(34,537,246)	(29,505,668)
Net Reductions in (Additions to) Assets under Construction	14,111,326	(88,019,450)
Cash Applied to Capital Activities	(20,425,920)	(117,525,118)
<b>Financing Activities</b>		
Loan Proceeds	315,000,000	70,000,000
Decrease (Increase) in Sinking Fund	15,293,280	(11,950,649)
Cash Provided By Financing Activities	330,293,280	58,049,351
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	<b>53,939,867</b>	<b>(151,362,712)</b>
<b>Cash and Cash Equivalents, Beginning of Year</b>	<b>(127,818,722)</b>	<b>23,543,990</b>
<b>Cash and Cash Equivalents, End of Year</b>	<b>(73,878,855)</b>	<b>(127,818,722)</b>
<b>Cash and Cash Equivalents, End of Year</b>		
Cash and Cash Equivalents	19,531,018	19,432,104
Bank Overdraft	(93,409,873)	(147,250,826)
<b>Cash and Cash Equivalents, End of Year</b>	<b>(73,878,855)</b>	<b>(127,818,722)</b>

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

**Government of Bermuda – Consolidated Fund**  
**Notes to the Financial Statements**  
**March 31, 2010**

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## **1. Authority**

The Consolidated Fund (the “Fund”) operates under the authority of the Bermuda Constitution Order 1968 and amendments, and the Public Treasury (Administration and Payments) Act 1969 and amendments.

All public money is paid into the Fund and Legislative authority must be obtained for any expenditure out of the Fund.

The Legislature provides authority to make payments out of the Fund in annual Appropriation Acts, Supplementary Estimates and other statutes. Unused spending authority for current account appropriations lapses at the end of the fiscal year. Unused spending authority for uncompleted capital projects is carried forward to subsequent fiscal years, subject to the approval of the Minister of Finance.

## **2. Reporting Entity**

The Fund’s financial statements report the financial position, results of operations, change in net debt and cash flow resulting from the activities of the Fund only, which comprise the accounts of the Senate, the House of Assembly, all Government departments and offices (including the Public Service Commission) and all courts. The Fund is established and defined pursuant to section 94 of the Bermuda Constitution Order 1968.

These financial statements are not summary consolidated financial statements of the Bermuda Government. Separate audited financial statements are prepared for all other Government organizations.

These financial statements are prepared in accordance with the legislative requirements as outlined in sections 5 and 32A of the Public Treasury (Administration and Payments) Act 1969 and amendments.

The Government adheres to the general practice of using a Consolidated Fund as its general operating fund. Schedules 10 to 14 provide information concerning the operations, tangible capital assets, capital expenses of individual Government departments and funds and agencies comprising the Fund.

## **3. Summary of Significant Accounting Policies**

The recommendations of the Public Sector Accounting Board and the Accounting Standards Board of 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) are the source for the disclosure basis of accounting.

The preparation of financial statements in accordance with the disclosed basis of accounting requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the 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 year. Actual results could differ from these estimates.

**Government of Bermuda – Consolidated Fund  
Notes to the Financial Statements  
March 31, 2010**

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### **3. Summary of Significant Accounting Policies (cont'd)**

The significant accounting policies are as follows:

#### **(a) Method**

The financial statements are prepared on the accrual basis of accounting.

#### **(b) Revenue**

Revenues are accounted for in the fiscal year in which the transactions or events occurred that gave rise to the revenues.

Revenues not practicably measurable until cash is received are accounted for upon receipt.

Amounts received or receivable prior to the end of the year, which relate to revenues that will be earned in a subsequent fiscal year, are reported as deferred revenue.

#### **(c) Expenses**

Expenses are accounted for in the fiscal year that goods and services are acquired, a liability is incurred or grant payments are due.

Contributions to Government funds and agencies are expensed in the year the expenditure is made.

Classification of expenses between current account items and capital account items follows the classification in the Approved Estimates.

#### **(d) Interdepartmental Revenues and Expenses**

Interdepartmental revenues and expenses are not eliminated but have been identified as explained in Note 14(c).

#### **(e) Financial Assets**

Financial assets are resources that can be used to discharge existing liabilities or finance future operations. They include cash and cash equivalents, accounts receivable, amounts due from Government funds and agencies, long-term receivables and investment in QUANGO.

Accounts receivable are recorded at cost. A valuation allowance is recorded when collection of the receivable is considered doubtful.

Long-term receivables are recorded at unamortized cost.

Investment in QUANGO is recorded at cost.

**Government of Bermuda – Consolidated Fund**  
**Notes to the Financial Statements**  
**March 31, 2010**

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### **3. Summary of Significant Accounting Policies (cont'd)**

#### **(f) Non-Financial Assets**

Non-Financial assets are resources that are employed for future services. They include tangible capital assets, prepaid supplies and prepaid expenses. The costs of acquiring land, buildings, equipment and other capital property are capitalized as tangible capital assets and are amortized over the estimated useful lives of the assets. Where original acquisition documents were difficult to retrieve, the Book Value Calculator (BVC), developed by the Chief Appraiser of Public Works and Government Services Canada (as modified by them to address the Bermuda Government situation), was used to establish reasonable estimates of the Net Book Values in order to develop opening balances.

Other tangible capital assets that do not meet the minimum threshold requirements for their respective asset class have continued to be charged to capital expenses in the year of purchase, which is consistent with prior years. These expenses are currently classified as capital development and capital acquisition expenses on the Statement of Operations and Accumulated Deficit. Included in the capital development and capital acquisition are other significant items: capital grants, repairs and maintenance, professional fees and other items which are expensed as they are incurred. Tangible capital assets that have not yet been disclosed include historical treasures.

Amortization is recorded on a straight-line basis for all assets, according to the following:

Buildings	40 years
Betterments	Remaining life or lease period of the related asset
Building Systems	7 years
Vehicles & Heavy Equipment	
\$10,000 to \$99,999	5 years
\$100,000 and above	7 years
Light Equipment, Boats & Vessels	
\$10,000 to \$99,999	5 years
\$100,000 and above	10 years
Leased Equipment	3 - 5 years
Computer Hardware	3 years
Computer Software	10 years
Furniture & Fixtures	7 years
Office Equipment	5 years

**Government of Bermuda – Consolidated Fund  
Notes to the Financial Statements  
March 31, 2010**

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### **3. Summary of Significant Accounting Policies (cont'd)**

Plant, Machinery & Equipment	10 – 30 years
Infrastructure	10 – 40 years

The Ministry of Works and Engineering is primarily responsible for Government's tangible capital assets. Amortization expense is reported under that Ministry. Since amortization is a non-cash expense, it is removed for appropriation reporting purposes.

Assets under construction relate to the development of buildings, betterments, vehicles and vessels. Upon completion, the balance of assets under construction will be transferred to tangible capital assets and amortized based on the appropriate useful life.

Prepaid supplies are comprised of spare parts and supplies that are held for future program delivery and are not intended for resale. They are valued at cost. Prepaid supplies that no longer have service potential are valued at the lower of cost or net realizable value. Items for which the costs are not readily available have been valued using management's best estimates of original cost based on available information.

#### **(g) Liabilities**

Liabilities are recorded for financial obligations to organizations and individuals occurring as a result of transactions and events arising on or before the year-end. They occur as a result of contracts, agreements and legislation in force at year-end that require the Government to repay borrowings or to pay for goods and services acquired or provided on or before the year-end. Liabilities also include grant payments due where no direct value is received in return.

#### **(h) Translation of Foreign Currencies**

The financial statements are reported in Bermuda dollars. The Bermuda dollar is valued at par with the United States dollar. Assets and liabilities denominated in foreign currencies are translated at the exchange rate prevailing at the year-end date. Revenues and expenses originating in foreign currencies are translated at the exchange rate in effect on the date the specific transactions occurred. Translation gains and losses are included in the Statement of Operations and Accumulated Deficit.

### **4. Approved Estimates of the Government of Bermuda**

#### **(a) Budget Process**

Annually, the Government presents a Budget ("Estimates") of expected revenues and expenditures for the following fiscal year.

The Government's spending Estimates for the fiscal year commencing April 1, 2009 were presented to the Members of the Legislature by the Minister of Finance.

**Government of Bermuda – Consolidated Fund  
Notes to the Financial Statements  
March 31, 2010**

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**4. Approved Estimates of the Government of Bermuda (cont'd)**

The estimates outline the spending plans of each Ministry/Department submitted for approval to the Legislature in the Appropriations Act.

The Estimates referred to in the financial statement schedules are from the original Approved Estimates of Revenue and Expenditure for the fiscal year 2009/10 and do not reflect changes arising from the tabling of Supplementary Estimates, except for the Adjusted Estimates referred to in Schedule 15 which include the original Approved Estimates and any tabled Supplementary Estimates.

**(b) Comparison of Expenses to Estimates for Expenditure**

The Ministry of Finance prepares annual Estimates on the modified cash basis. These financial statements are prepared on an accrual basis. Due to the difference in accounting, Schedule 15 restates actual expenses to the modified cash basis for comparative and analytical purposes against the adjusted estimates. The most significant differences are as follows:

- (i) Bad Debts – For financial statement purposes, a provision is established and expensed for accounts receivable where collection is doubtful. For budget purposes, no such provision is made.
- (ii) Pension – The financial statement pension-related expense is explained in Note 9. For budget purposes, pension expense is equal to its funding requirements.
- (iii) Government Borrowing Sinking Fund (Note 5) – Transfers to the Sinking Fund are recorded as cash transfers. For budget purposes, the Sinking Fund contribution is considered expenditure.
- (iv) Compensated Absences – Certain Government employees are entitled to pre-retirement leave benefits, as explained in Note 8. For budget purposes, retirement pay is estimated based on anticipated salary spending for the current year.

**5. Government Borrowing Sinking Fund**

Effective March 31, 1993, the Government Borrowing Sinking Fund (GBSF) was established as a separate legal entity for the repayment of government borrowing under the provisions of the Government Loans Act 1978, as amended.

During each financial year, the Fund must pay to the GBSF 2.5% of the public debt outstanding in the Fund at the end of the preceding year. Under section 12AA of the Government Loans Act 1978 as amended, the Minister may, by Order, suspend the annual contribution for a period of twelve months.



**Government of Bermuda – Consolidated Fund**  
**Notes to the Financial Statements**  
**March 31, 2010**

---

## **5. Government Borrowing Sinking Fund (cont'd)**

The GBSF assets may only be applied to reduce, cancel or pay interest on public debt. The assets are invested in accordance with the Public Funds Act 1954 and are shown as a reduction of debt issued on the Fund's Statement of Financial Position.

The following is a schedule of projected contributions to the GBSF by the Fund up to March 31, 2015, based on estimated debt levels to March 31, 2011:

	<b>2010</b>
	<b>\$</b>
2011	28,625,000
2012	25,750,000
2013	25,750,000
2014	25,750,000
2015	25,750,000

Under the provisions of Section 12AA of the Government Loans Act 1978, as amended, the Government suspended the GBSF contribution for the fiscal year end 2010. The contributions for fiscal years 2010 and 2011 are included in the contribution for fiscal year 2011.

Under the provisions of Section 12A (1) (a.1) of the Government Loans Act 1978, as amended, the Government paid the interest on the outstanding public debt for the fiscal year end 2010 from the GBSF.

Separate audited financial statements are prepared for the GBSF which readers should refer to for further information.

## **6. Contingencies Fund**

On March 14, 1979 the House of Assembly passed a resolution to withdraw \$1 million from the Fund to set up a Contingencies Fund under the provisions of Section 10(1) of the Public Treasury (Administration and Payments) Act 1969, as amended.

The purpose of the Contingencies Fund is to allow the Minister of Finance to authorize urgent and unforeseen expenditures up to \$1 million prior to the approval of the Legislature by supplementary estimate. The Contingencies Fund balance is not segregated from general operating cash and cash equivalents and accumulated deficit.

**Government of Bermuda – Consolidated Fund**  
**Notes to the Financial Statements**  
**March 31, 2010**

---

## **7. Unemployment Insurance Fund**

The Unemployment Insurance Fund (the Insurance Fund) was established March 18, 2002 by amendment to the Public Treasury (Administration and Payments) Act 1969 under the provisions of Section 10B. The Legislature authorized \$1 million to be set aside within the Fund to set up the Insurance Fund.

The Minister of Finance will pay amounts approved by the Legislature as Government's contribution to the Insurance Fund. Monies paid into the Insurance Fund will be invested in accordance with the Public Funds Act 1954 and the interest earned on such investments will be paid into the Insurance Fund. As of March 31, 2010, no amounts have been paid into the Insurance Fund.

## **8. Compensated Absences**

Certain Government employees are entitled to paid retirement leave under the various union agreements that exist with the Government. Paid retirement leave is available to those eligible employees with a minimum of ten years credited service, who are retiring on the basis of age. The leave is paid at the salary level immediately preceding the date of retirement, to a maximum eligibility of twelve weeks.

An actuarial valuation of the Government's obligation for retirement leave was extrapolated to March 31, 2010, using similar various long-term assumptions as the Public Service Superannuation Fund pension plan (Note 9). The valuation determined that the accrued benefit obligation for retirement leave is currently \$21,336,602 (2009 - \$19,586,264), as defined in the table below.

	2010	2009
	\$	\$
Accrued benefit obligation, beginning of year	19,586,264	18,010,709
Amortization of experience loss	80,974	80,974
Current period benefit cost	1,011,619	970,378
Interest accrued	1,341,654	1,242,062
Less: Benefit payments	<u>(683,909)</u>	<u>(717,859)</u>
Accrued benefit obligation, end of year	<u>21,336,602</u>	<u>19,586,264</u>

**Government of Bermuda – Consolidated Fund  
Notes to the Financial Statements  
March 31, 2010**

---

## **9. Pensions and Other Retirement Benefits**

### **(a) Contributory Defined Benefit Pension Plans**

The Government administers contributory defined benefit pension plans for substantially all of its employees, quasi-autonomous non-governmental organization (QUANGO) employees and all ministers and members of the Legislature. There are two plans currently in operation – the Public Service Superannuation Fund (PSSF) and the Ministers and Members of the Legislature Pensions Fund (MMLPF).

For the PSSF, a service pension is available with a minimum of eight years credited service. Subject to exceptions as outlined in the Public Service Superannuation Act 1981, it is based on the number of years of service times 1.5% of the salary payable immediately preceding the date of retirement. Additional benefits are provided to special groups such as police, prison wardens, fire service and regiment employees.

For the MMLPF, a service pension is generally available to contributors who have reached age 60 and have served for at least 8 years, or to contributors who have reached age 55 and have served for at least 20 years. The rate of pension is 3/1000<sup>th</sup> of the monthly salary payable to a minister, member or officer, on the date on which the contributor becomes entitled to receive a pension, for each month of service rendered up to a maximum of 25 years. Cost of living increases are calculated by reference to the Consumer Price Index on a biennial basis.

Employees contribute 8.0% of their basic salary for PSSF and Ministers and Members contribute 12.5% of their salary for MMLPF. The Government matches the participant's contribution in each plan. The amount of Government contributions made during the year for each plan was as follows: PSSF 2010 - \$31,576,054 (2009 - \$30,937,337), MMLPF 2010 - \$454,038 (2009 - \$446,060). The Public Service Superannuation Act 1981 and the Ministers and Members of the Legislature (Salaries and Pensions) Act 1981, as amended, provide that, if at any time the funds are insufficient to meet the payments chargeable against them, the deficiency shall be made up out of the Consolidated Fund.

### **(b) Pension Liability**

The pension liability is calculated on an actuarial basis. Actuarial valuations are performed triennially using the projected benefit method, pro-rated on services. An actuarial valuation was performed on both the PSSF and the MMLPF as at March 31, 2008, the results were then extrapolated to March 31, 2010, using the same assumptions, to produce the estimates included in these financial statements.

Actuarial valuations are based on a number of assumptions about future events, such as inflation rates, interest rates, wage and salary increases, employee turnover and mortality. The assumptions used reflect Government's best estimates of expected long-term rates and short-term forecasts.

**Government of Bermuda – Consolidated Fund**  
**Notes to the Financial Statements**  
**March 31, 2010**

---

## **9. Pensions and Other Retirement Benefits (cont'd)**

The most significant assumptions are that the average investment return will be greater than the average rate of salary increase by approximately 2.25% (prior valuation – 2.25%) and the cost of living increase will average 3.0% (prior valuation - 3.0%) per annum.

The 1994 Group Annuity Mortality Table was used for the mortality assumption.

For the PSSF, pension fund assets consist primarily of listed stocks and bonds, short-term investment funds, hedge funds and private equity investments. Market-related asset values, which recognize the differences between the actual return on assets and the expected return on assets over a period of five years, have been used to determine the pension liability and pension-related expenses for the PSSF.

Due to the fluctuation in the market place, a 15% corridor has been imposed in the market-related value by the Government to ensure the market-related value is not significantly higher or lower than the market value of the assets. The market-related value of assets for the PSSF was \$437,542,000 as at March 31, 2010 (2009 - \$360,551,315) compared to a real market value of \$424,814,565 (2009 - \$313,522,883).

For the MMLPF, there is no difference between the market value of plan assets and the market-related value. As at March 31, 2010, the value was \$9,390,333 (2009 – \$8,496,421). The actual return on plan assets during the year was 31% (2009 – (24.8%)) for the PSSF and 7.0 % (2009 - 7.0%) for the MMLPF.

As at March 31, 2010, \$2,797,004 was due to the PSSF in respect of contributions received in excess of benefits paid by the Fund (2009 – \$5,960,246).

### **(c) Non-Contributory Defined Benefit Pension Plan**

The Bermuda Department of Tourism North America Retirement Plan (BDTRP) provides retirement, disability and death benefits for Department of Tourism employees residing in North America.

At a meeting of the Bermuda Department of Tourism Overseas Pension Plan Trustees on February 19, 2009, the decision was taken to wind down the plan effective March 31, 2009. The actuarial report treated the plan as if all benefits were paid by March 31, 2009 and therefore carried a zero fund balance for the year ending in 2009.

### **(d) Pension-Related Expenses**

Pension-related expenditure recognized by the Consolidated Fund comprises the cost of pension benefits earned by employees during the year, interest on the pension benefit liability (net of interest on pension plan assets) and amortization of the Government's share of any experience gains or losses, less contributions made by the employees. The estimated total cost of the Government's share of plan amendments related to past service is expensed in the year the plan is amended. The pension-related expense is

**Government of Bermuda – Consolidated Fund**  
**Notes to the Financial Statements**  
**March 31, 2010**

---

**9. Pensions and Other Retirement Benefits (cont'd)**

disclosed in Note 9(h) and included in Schedule 9 as a component of retirement benefit expenditures.

A net unamortized experience loss of \$159,693,000 (2009 - \$245,511,000) is reported in the schedule below. The amount comprises a total unamortized experience loss on the pension liability of \$140,410,000 (2009 - \$168,880,000) and a total unamortized experience loss on the asset valuation of \$19,283,000 (2009 - \$76,631,000). The period of amortization is ten years.

Aggregate information about the PSSF and MMLPF is in the following tables.

**(e) Funded Status of Plans**

**For the year ended March 31**

	<b>2010</b>	<b>2009</b>
	<b>Actual</b>	<b>Actual</b>
	<b>\$</b>	<b>\$</b>
<b>Pension Liability</b>		
Accrued Benefit Obligation		
PSSF	1,291,640,000	1,221,261,000
MMLPF	30,815,000	28,933,000
	<u>1,322,455,000</u>	<u>1,250,194,000</u>
Net Fund Assets		
PSSF	(437,542,000)	(360,551,000)
MMLPF	(9,390,000)	(8,496,000)
	<u>(446,932,000)</u>	<u>(369,047,000)</u>
Net Unamortized Experience Loss		
PSSF	<u>(159,693,000)</u>	<u>(245,511,000)</u>
<b>Pension Liability</b>		
PSSF	694,405,000	615,199,000
MMLPF	21,425,000	20,437,000
Carried Forward to Note 9 (h)	<u>715,830,000</u>	<u>635,636,000</u>

**Government of Bermuda – Consolidated Fund**  
**Notes to the Financial Statements**  
**March 31, 2010**

---

**9. Pensions and Other Retirement Benefits (cont'd)**

For the year ended March 31	2010 Actual \$	2009 Actual \$
<b>Pension-Related Expense</b>		
Cost of Pension Benefits	46,674,000	43,825,100
Employee Contributions	(32,030,092)	(31,356,381)
Interest on Pension Liability	58,173,117	51,385,836
<b>Amortization of Experience Gains &amp; Losses</b>		
2001 Experience Gain	-	(2,196,870)
2002 Experience Loss	573,592	573,592
2003 Experience Loss	3,418,847	3,418,847
2004 Experience Loss	21,908,086	21,908,086
2005 Experience Loss	2,048,199	2,048,199
2006 Experience Loss	595,574	595,574
2007 Experience Gain	(351,626)	(351,626)
2008 Experience Loss	5,243,035	5,243,035
2009 Experience Loss	7,608,893	-
Carried forward to Note 9 (h)	<u>113,861,625</u>	<u>95,093,392</u>

**(f) Contributory Pension Fund**

The Contributory Pension Fund (CPF) was established under the Contributory Pensions Act 1970 and subsequent amendments.

The purpose of the CPF is to provide old age pension, disability and death benefits for persons satisfying certain contribution, citizenship and residency requirements.

Contributions to the CPF are compulsory for persons employed in Bermuda, the self-employed and employers.

**Government of Bermuda – Consolidated Fund  
Notes to the Financial Statements  
March 31, 2010**

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**9. Pensions and Other Retirement Benefits (cont'd)**

There is no legislative provision for the Fund to provide for any shortfall if, at any time, the CPF has insufficient funds to meet its current legislated obligations.

**(g) Retirement Benefits Other than Pensions – Employee Health Insurance Plan**

The Government administers a health care plan, the Government Employees Health Insurance Fund (GEHI), for substantially all of its employees, quasi-autonomous non-governmental organization (QUANGO) employees, all ministers and members of the Legislature and retirees. The GEHI Fund provides medical insurance for retirees and eligible dependents with the Government matching the participant's contribution to the plan. In 2002 the Government adopted accrual accounting for the GEHI plan.

An actuarial calculation of the Government's obligations for retirement benefits other than pensions was performed for accounting purposes at March 31, 2010, using various long-term assumptions, based on the valuation performed as at March 31, 2008.

The discount rate used in determining the accumulated post-retirement benefit obligation was 6.5%. The assumed health-care cost trend rate used was 8.5% (2009 - 9.0%). This will be reducing by 0.5% per annum to 5.0% (2017) per annum. The 1994 Group Annuity Mortality Table was used for the mortality assumption. The value accrues a liability in respect of the matching premium paid by government under the insurance arrangement in respect of retired employees. The calculation is based on the projected benefit method pro-rated on service.

Aggregate information about the health care plan is in the table below.

	2010 \$	2009 \$
Accrued benefit obligation at beginning of year	245,996,783	227,383,530
Current period benefit cost	8,981,428	8,433,266
Interest accrued	16,117,398	14,900,590
Less: Benefit payments	<u>(5,055,046)</u>	<u>(4,720,603)</u>
Accrued benefit obligation at end of year	<u>266,040,563</u>	<u>245,996,783</u>
Expected accrued benefit obligation at end of year	266,040,563	245,996,783
Actual accrued benefit obligation at end of year	<u>266,040,563</u>	<u>245,996,783</u>
Experience loss	<u>-</u>	<u>-</u>



**Government of Bermuda – Consolidated Fund**  
**Notes to the Financial Statements**  
**March 31, 2010**

---

**9. Pensions and Other Retirement Benefits (cont'd)**

Expected average remaining service life	12 years	12 years
Annual amortization	\$4,707,852	\$4,707,852

**Liability for retirement benefits recorded in the statement of financial position**

	<b>2010</b>	<b>2009</b>
	<b>\$</b>	<b>\$</b>
Accrued benefit obligation, end of year	266,040,563	245,996,783
Unamortized experience losses	<u>(42,515,697)</u>	<u>(47,223,549)</u>
Liability for retirement benefits (Note 9(h))	<u>223,524,866</u>	<u>198,773,234</u>

**Expenses recorded in statement of operations and accumulated deficit**

	<b>2010</b>	<b>2009</b>
	<b>\$</b>	<b>\$</b>
Current period benefit cost	8,981,428	8,433,266
Amortization of experience losses	<u>4,707,852</u>	<u>4,707,852</u>
Retirement benefit expense	13,689,280	13,141,118
Retirement benefit interest expense	<u>16,117,398</u>	<u>14,900,591</u>
Total expenses related to retirement benefits (Note 9(h))	<u>29,806,678</u>	<u>28,041,709</u>

**(h) Accrued Pensions and Retirement Benefits Liability and Expense Summary**

	<b>2010</b>	<b>2009</b>
	<b>\$</b>	<b>\$</b>
Pensions (Note 9(e))	715,830,000	635,636,000
Retirement Benefits other than		
Pensions – Health Insurance Plan (Note 9(g))	<u>223,524,866</u>	<u>198,773,234</u>
Total Pensions and Retirement Benefits Liability	<u>939,354,866</u>	<u>834,409,234</u>
Pensions (Note 9(e))	113,861,625	95,093,392
Retirement Benefits other than		
Pensions – Health Insurance Plan (Note 9(g))	<u>29,806,678</u>	<u>28,041,709</u>
Total Pensions and Retirement Benefits Expenditure	<u>143,668,303</u>	<u>123,135,101</u>



**Government of Bermuda – Consolidated Fund  
Notes to the Financial Statements  
March 31, 2010**

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## **10. Contingent Liabilities**

### **(a) Guarantees**

In August 1994, the Government introduced the National Education Guarantee Scheme to provide qualifying students with financial guarantees on bank loans for post-secondary education. The repayment of principal and accrued interest is guaranteed by the Government. In the event of default by the student, the banks will call on the guarantee contract. At March 31, 2010, \$542,367 (2009 - \$792,230) is outstanding on guaranteed student loans with local banks.

### **(b) Claims and Potential Claims**

The Government is subject to claims and potential claims related to breach of contract, damages to persons and property and like items. The effect of legal claims cannot be determined until they are settled or dismissed. No liability has been admitted and no provision for claims is included in the financial statements. Any resulting losses will be recorded and charged to operations in the year an amount can reasonably be determined.

The total of specific amounts claimed or potential settlements which are under litigation or possible litigation as at March 31, 2010 is \$11,020,168 (2009 - \$9,543,553).

### **(c) Base Lands Clean Up**

The Government recognizes that there will be a cost for restoration of the land at the bases formerly occupied by the US military. It is anticipated that such costs would include removal of hazardous materials and clean-up.

A liability of \$26,250,000 has been accrued, which is an estimate of the costs of the clean-up and remediation at the three former major base land sites. The estimated range is \$32 million to \$40 million, which includes an approximate 20% contingency of the total.

The cost for Southside (estimated at \$10.5 million, with a range of \$10.5 million to \$20 million; \$6.5 million for work already performed has been deducted from the lower end of the estimated range) involves demolition of buildings beyond refurbishment and removal of asbestos. The cost for clean-up of Tudor Hill (estimated at \$1 million with a range of \$1 million to \$2 million) is for removal of asbestos and demolition of buildings on the site. Clean-up of Morgan's Point is estimated at \$14.75 million (with a range of \$15 million to \$18 million); \$3 million of that amount is the estimated amount required to remove immediate environmental hazards and the remainder is for fuel storage tanks, removal and remediation of asbestos as well as demolition of derelict buildings.

This estimate was developed in 2003, based on orders of cost which were developed from unit rates used for clean-up at Southside and budget estimates from consultants hired by potential developers at the Morgan's Point site. In 2008, the Government also had a registered professional engineer conduct an independent review and estimate which fell within the original range.

**Government of Bermuda – Consolidated Fund  
Notes to the Financial Statements  
March 31, 2010**

---

**10. Contingent Liabilities (cont'd)**

The Government is considering a land swap for a portion of the Baselands. A request for proposal was issued in July 2009 with proposed cleanup standards. The registered professional engineer independently estimated that if this proposal was to be contracted, it would cost the Government \$14 million to \$25 million in addition to the amounts already accrued.

As no terms have been agreed on the condition of the land to be swapped and the proposal has not been contracted, the accrual has not been adjusted.

**(d) Bank of N.T. Butterfield Guarantee Agreement**

On June 12, 2009, the Government assisted The Bank of N.T. Butterfield & Son Limited (BNTB) in raising qualifying Tier 1 capital via a perpetual preference share offering of US\$200 million.

Accordingly the Government provided the commitment that if the full \$200 million Preference Share Offering was not achieved on or prior to June 30, 2009, the Government would purchase no later than June 30, 2009 such number of Preference Shares as was sufficient to ensure that the Bank realized aggregate proceeds equal to and not less than US\$200 million. As the offering was fully subscribed, no such Government purchase was necessary.

On June 22, 2009, the Government entered into a Preference Shares Guarantee Agreement with the Bank of N.T. Butterfield & Son Limited and others. The Government has guaranteed payment of 100% of the liquidation value of the outstanding Preferred Shares in the event of any voluntary or involuntary liquidation, dissolution or winding up of the affairs of BNTB during the term of the Guarantee. Also, the Government will act as a guarantor for the dividend payments relating to the Preferred Shares issuance. Should the BNTB fail to declare and pay dividends in any quarterly dividend period during the term of the Guarantee, the Government will pay such dividends at 8% per annum.

Pursuant to the Preference Share Offering, the BNTB pays to the Government a fee of 1% per annum on the liquidation value of then outstanding Preference Shares issued to third party investors. The Government was in receipt of 4,279,601 warrants issued by the Bank to purchase a number of non-voting common shares of BNTB having an aggregate market price equal to US\$30 million. The initial exercise price for the warrants and the price for determining the number of common shares of BNTB subject to the warrants was \$7.01 per common share. During this fiscal year there have been several corporate events yielding a new quantity of warrants of 4,150,773.72 and a new exercise price of \$3.614. Per the valuation model run for March 31, 2010, the value of the warrants is \$0.209 per warrant which represents a total value of \$867,512.

**Government of Bermuda – Consolidated Fund  
Notes to the Financial Statements  
March 31, 2010**

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## **11. Non-Contractual Operational Commitments**

The Government has ongoing commitments to fund a variety of programs for public welfare including health, education, social services, protection of persons and properties, and management of natural resources. The following is an analysis of the future, non-contractual, operational commitments:

	<b>2010</b>
	<b>\$</b>
2011	9,125,707
2012	9,156,823
2013	5,883,086
2014	5,304,480
2015	300,000
2016 and subsequent	<u>1,830,000</u>
Total Future Operational Commitments	<u><u>31,600,096</u></u>

## **12. Contractual Commitments**

### **(a) Capital Leases**

The average period of capitalized leased office machines is 3 years. Leases are capitalized based on the discounted rate of 6.04% and amortized on a straight-line basis over the period of the lease.

The following is an analysis of the leases:

	<b>2010</b>	<b>2009</b>
	<b>\$</b>	<b>\$</b>
Present value of lease cost	4,250,453	2,998,260
Less: Accumulated amortization	<u>(3,098,887)</u>	<u>(2,021,419)</u>
Present value of leases payable	<u><u>1,151,566</u></u>	<u><u>976,841</u></u>

**Government of Bermuda – Consolidated Fund**  
**Notes to the Financial Statements**  
**March 31, 2010**

---

## 12. Contractual Commitments (cont'd)

The following is a schedule of discounted future minimum lease payments under leases expiring up to March 31, 2015:

	<b>2010</b>
	<b>\$</b>
2011	488,717
2012	341,275
2013	145,311
2014	103,631
2015	63,877
Add: Discounted Amount	<u>8,755</u>
Present value of lease obligation	<u>1,151,566</u>

### (b) Contractual Obligations

The nature of government activity results in some large multi-year contracts and agreements of various sizes and importance. Any financial obligations resulting from these are recorded as a liability when the terms of these contracts and agreements for the acquisition of goods and services or the provision of transfer payments are met.

The following is an analysis of estimated future expenditures related to these contractual obligations:

	<b>2010</b>
	<b>\$</b>
2011	68,555,663
2012	16,347,261
2013	5,340,014
2014	4,066,162
2015	3,286,207
2016 and subsequent	<u>7,135,894</u>
Total Contractual Obligations	<u>104,731,201</u>

**Government of Bermuda – Consolidated Fund  
Notes to the Financial Statements  
March 31, 2010**

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## **12. Contractual Commitments (cont'd)**

### **(c) Operating Leases**

The Government rents premises under operating leases which expire at certain dates.

The following is an analysis of the future minimum operating lease payments:

	<b>2010</b>
	<b>\$</b>
2011	10,752,629
2012	8,237,798
2013	6,219,718
2014	5,430,752
2015	4,496,412
2016 and subsequent	<u>13,208,730</u>
 Total Future Minimum Operating Lease Payments	 <u><u>48,346,039</u></u>

## **13. Supplementary Estimates and Virements (Transfers)**

Section 96(3) of the Bermuda Constitution Order 1968 allows for Supplementary Estimates in respect of any fiscal year it is found that (a) the amount appropriated by the appropriation law for any purpose is insufficient or that a need has arisen for expenditure for a purpose for which no amount has been appropriated by that law; or (b) moneys have been expended for any purpose in excess of the amount appropriated for that purpose by the appropriation law or for a purpose to which no amount has been appropriated by that law, a supplementary estimate, showing the sum required or spent, shall be laid before the House of Assembly. Section 96(4) of the Bermuda Constitution Order 1968 requires that a Supplementary Appropriation Bill be introduced into the Legislature as soon as practical after year end of the year that supplementary estimates have been necessary.

The Public Treasury (Administration and Payments) Amendment Act 2004 allows a Permanent Secretary or a Head of Department to transfer a part of a Department's approved budget to another Department within the same Ministry, subject to the consent of the Minister of Finance. Virements do not increase the overall appropriation amount but facilitate the redeployment of approved budget resources after the start of a financial year.

**Government of Bermuda – Consolidated Fund**  
**Notes to the Financial Statements**  
**March 31, 2010**

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### **13. Supplementary Estimates and Virements (Transfers) (cont'd)**

During the year \$23,046,550 in Supplementary Estimates were approved and spent which consisted of \$22,079,950 for current expenditure and \$966,600 for capital expenditure.

During the year \$50,613,528 in virements were approved and transferred which consisted of \$15,452,114 for current expenditure and \$35,161,414 for capital expenditure.

#### **(a) Current Expenditures**

The following outstanding supplementary estimates and virements for current expenditures require final approval.

	<b>Supplementary Estimates before Virements</b>	<b>Virements (Transfers)</b>	<b>Supplementary Estimates for Appropriation</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>
2010	35,777,923	13,408,617	22,369,306
2009	43,710,198	20,347,368	23,362,830
2008	34,787,803	13,639,729	21,148,074
2007	62,450,045	14,910,944	47,539,101
2006	10,843,929	4,673,594	6,170,335
2005	67,480,637	7,110,154	60,370,483
2004	5,095,706	-	5,095,706
2003	2,443,551	-	2,443,551
2002	935,237	-	935,237
	<u>263,525,029</u>	<u>74,090,406</u>	<u>189,434,623</u>

#### **(b) Capital Expenditures**

The following outstanding supplementary estimates for capital expenditures require final approval.

**Government of Bermuda – Consolidated Fund**  
**Notes to the Financial Statements**  
**March 31, 2010**

---

**13. Supplementary Estimates and Virements (Transfers) (cont'd)**

	<b>Supplementary Estimates</b>
	<b>\$</b>
2010	389,116
2009*	10,394,547
2008**	32,470,107
2007	1,701,029
2006	1,277,525
2005	1,285,594
2004	190,675
2003	271,974
2002	<u>20,397</u>
	<u>48,000,964</u>

\* - Technical supplementary 2009 - \$5,651,408

\*\* - Technical supplementary 2008 - \$25,428,761

A Technical Supplementary applies when total expenditure for a capital development project has not exceeded its Total Authorized Figure (TAF) (Schedule 16).

**14. Related Party Transactions**

**(a) Funds**

The Fund is related to the Government Employees Health Insurance Fund ("GEHI"), the Contributory Pension Fund ("CPF"), the Ministers and Members of the Legislature Pensions Fund ("MMLPF"), the Bermuda Department of Tourism North America Retirement Plan ("BDTRP"), the Public Service Superannuation Fund ("PSSF"), the Confiscated Assets Fund, the Government Borrowing Sinking Fund, the Health Insurance Fund, the Mutual Re-insurance Fund and the Government Reserves Fund.

The financial activities of these funds are reported separately in each fund's financial statements. The Fund provides accounting and certain administrative services to these funds. These transactions are in the normal course of operations and are measured at the appropriate exchange amount. The other activities represent the net position of contributions payable to the funds and expenses paid out of the Fund on behalf of the funds. Schedules 3 and 3(a) display details of unpaid balances due from and due to the



**Government of Bermuda – Consolidated Fund  
Notes to the Financial Statements  
March 31, 2010**

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**14. Related Party Transactions (cont'd)**

funds which have arisen from normal operating activities. The rate of interest accruing on the balances is 7% per annum.

**(b) QUANGOs and Other Related Organizations**

The Fund is related to certain quasi-autonomous non-governmental organizations ("QUANGOs") and other controlled organizations. QUANGOs are government businesses which have been established under their respective legislative incorporation acts. Other government-related organizations are organizations that are controlled by government either by the possession of shares or voting rights or by some other means.

The Fund enters into transactions with the QUANGOs and other related organizations in the normal course of business which are measured at the exchange amount, which is the amount of consideration established and agreed upon by the related parties.

Schedules 3 and 3(a) include details of balances due from and due to these entities which have arisen from normal operating activities. During the year, no interest was charged and/or incurred from or to the Fund and the various QUANGOs and other related organizations.

**(i) Bermuda Monetary Authority (BMA)**

In accordance with Section 8 (3) of the Bermuda Monetary Authority Act 1969, the BMA pays a portion of its net profit (historically 50%) to the Consolidated Fund of the Government.

On March 19, 2010, the Minister of Finance, at the request of the BMA, granted consent to transfer the BMA's net income for the fiscal year ended December 31, 2009 into its general reserves, in accordance with Section 8 of the Bermuda Monetary Act 1969.

**(ii) West End Development Corporation Guarantee (WEDCO)**

On April 1, 2009, the Minister of Finance consented to the borrowing of \$10 million by WEDCO from the Capital G Bank to facilitate the completion of the new Sewage Treatment Plant at Dockyard.

The Minister of Finance further approved the guarantee given by the Ministry of Works and Engineering to repay the indebtedness by way of annual payments to WEDCO until all indebtedness to the Capital G Bank has been fully discharged. The first annual payment of \$1,870,678 due to the Capital G Bank will be made on May 30, 2010.



**Government of Bermuda – Consolidated Fund  
Notes to the Financial Statements  
March 31, 2010**

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## **14. Related Party Transactions (cont'd)**

### **(iii) Bermuda Land Development Company Limited (BLDC)**

On November 12, 1996 (date of inception), the Government purchased 2,500,000 common shares of BLDC. The shares are valued at par \$1 each and are held in trust by the Minister of Finance.

On November 12, 1996 (date of inception), the Government purchased 2,500,000 common shares of BLDC. The shares are valued at par \$1 each and are held in trust by the Minister of Works and Engineering.

### **(c) Interdepartmental Transactions**

Interdepartmental transactions are those transactions in which revenues and expenses are generated between Government departments and/or Ministries. These revenues and the related expenses should be eliminated from the Fund's figures. As per Note 3(d), interdepartmental revenues and expenses are not eliminated. However all interdepartmental revenues and expenses have been identified and are shown in Schedules 10(a) and 11(a), respectively.

### **(d) Other**

The Government provided a letter of comfort to the Bank of Butterfield (the "Bank") on behalf of the Bermuda Housing Corporation ("BHC") dated July 13, 2000 which states, "To the extent that the BHC operates programmes which do not break even, the Government appropriates annual grants which enable BHC to comply with its legislation."

In 2000, the BHC entered into a facility for which drawdowns of up to \$25 million was available until December 31, 2001. As of July 2010, the facility has been fully repaid (2009 - \$2.7 million).

The BHC has received operating grants of \$6,250,000 (2009 - \$6,000,000) and capital grants of \$25,000,000 (2009 - \$22,500,000) from the Government during the year.

## **15. Tangible Capital Asset Recognition**

As disclosed in note 3(f), infrastructure has now been recognized in the financial statements as at April 1, 2008. The assets in these classes purchased prior to April 1, 2008 have been recognized at amortized value. The recognition of the amortized value of these capital assets has been offset by an adjustment to the accumulated deficit, as disclosed in the Statement of Operations and Accumulated Deficit, excluded from the purchase of assets in the Statement of Cash Flow, and included at gross values in Schedule 12.

**Government of Bermuda – Consolidated Fund  
Notes to the Financial Statements  
March 31, 2010**

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## **16. Bank Overdraft**

On October 30, 2009, the Government arranged a new overdraft facility with the Bank of N.T. Butterfield & Son Limited ("BNTB") of \$10 million which expires on October 31, 2010. The facility bears interest at 1% per annum below BNTB's base rate.

On March 31, 2010 the Government arranged a new overdraft facility with the Bank of Bermuda, HSBC ("HSBC") of \$100 million. The facility expires on September 30, 2010. The daily charges applied to overdrawn balances is 1% above HSBC's base rate. Unauthorized overdraft balances are charged at 7.50% over the HSBC's base rate.

## **17. Restatement of Prior Periods**

### **(a) Correction of an Accounting Error**

As disclosed in note 14(b)(iii), the purchase of 5,000,000 common shares of the Bermuda Land Development Company Limited ("BLDC") in prior years should have been recorded and disclosed in accordance with PS3040 of the Public Sector Accounting Board Standards. As a result of this correction, the prior years' portfolio investments have been increased by \$5,000,000.

The prior years' portfolio investments and Accumulated Deficit have been restated accordingly.

### **(b) Change in Accounting Principle**

Section PS 3510 of the Public Sector Accounting Board Standards requires that revenue derived from taxes legislated by the Bermuda Government are to be recognized as revenue when the taxable event occurs. Annual taxes collected by the Government cannot therefore be deferred to subsequent reporting periods.

The Government changed its accounting policy so as not to defer revenue pertaining to taxes and non-refundable fees and licences, as legislated, to subsequent periods. All tax, non-refundable fees and licences remitted to the Government will be recorded as revenue in the period collected. As a result of this change in accounting principle, the prior year's liability has been reduced by \$57,228,529 and the revenue has been reduced by \$2,061,623.

The prior year's Deferred Revenue and Accumulated Deficit have been restated accordingly.

### **(a) Portfolio Investments (Correction of Accounting Error)**

As previously stated (March 31, 2009)	\$0
As restated:	\$5,000,000

**Government of Bermuda – Consolidated Fund**  
**Notes to the Financial Statements**  
**March 31, 2010**

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**17. Restatement of Prior Periods (cont'd)**

(b) Deferred Revenue (Change in Accounting Principle)

As previously stated (March 31, 2009)	\$87,139,725
As restated:	\$29,911,196

(c) Revenue (Change in Accounting Principle)

As previously stated (March 31, 2009)	\$952,866,165
As restated:	\$950,804,542

Accumulated Deficit, End of Year

As previously stated (March 31, 2009)	\$719,885,494
As restated:	\$657,656,965

**18. Subsequent Events**

**(a) Increase in Borrowing Limit**

Effective April 1, 2010, the Government increased the legislated borrowing limit from \$1 billion to \$1.25 billion.

**(b) Increase in Borrowing**

On June 14, 2010, the Government entered into a Term Loan Agreement with HSBC Bank Bermuda Limited for a bridge loan facility of up to \$200 million expiring December 14, 2010. The proceeds of this bridge loan facility were to refinance the existing \$200 million outstanding revolving credit facility dated June 17, 2005 with the Bank of America. Interest is calculated using the 1 month LIBOR rate plus a margin of 1% per annum for the first three months of the term and 1.5% per annum for the next three months of the term. Interest is payable on advances in arrears.

On July 13, 2010, the Government entered into a public bond offering in the international debt capital markets authorizing the issue and sale of \$500 million of 10-year, fixed rate bonds priced at par. The coupon and yield of the bonds are 5.603% per annum. The bonds are due in July 2020 and interest is payable semi-annually. The proceeds of these bonds will be used to repay the bridge loan facility, the overdraft facilities (Note 16) and to fund capital expenditure programs.

**Government of Bermuda – Consolidated Fund  
Notes to the Financial Statements  
March 31, 2010**

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**18. Subsequent Events (cont'd)**

**(c) Overdraft Facilities**

On May 26, 2010 the overdraft facility of \$10 million (see Note 16) with the Bank of N.T. Butterfield & Son Limited ("BNTB") was increased to \$50 million to expire on June 30, 2010 at which time it would revert back to \$10 million.

On June 28, 2010, the facility was increased to \$100 million to expire on July 31, 2010 at which time it would revert back to \$10 million with an expiry date of January 31, 2011. The daily charges applied to overdrawn balances remained at 1% above BNTB's base rate.

**(d) Purchase of Dockyard Camber (Wharf) from WEDCO**

On May 27, 2010, the Government initiated the procedural and legislative steps required to effectively reverse the conveyance of the New Dockyard Camber to WEDCO which took place on May 7, 2009. The intention of the Government is to have the necessary legislation passed in the Legislature to affect the conveyance of the wharf from WEDCO back to the Government for the total consideration of \$1 for the fiscal year end March 31, 2011.

The value of the wharf of \$58 million was expensed during the current year as a capital development item. Upon conveyance back to the Government, the wharf will be capitalized in the Infrastructure asset class under tangible capital assets at its original value.

**19. Comparative Figures**

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

# Government of Bermuda - Consolidated Fund

## Schedule 1: Accounts Receivable

As at March 31	2010	2009
	Actual	Actual
	\$	\$
Office of the Tax Commissioner	145,157,452	140,190,885
Airport Operations	3,706,367	4,091,341
Telecommunications	3,610,284	3,416,149
Registrar of Companies	3,129,992	2,498,461
Fire Services	2,746,752	654,057
Post Office	2,629,803	2,722,115
Customs	2,397,245	1,314,251
Operations & Engineering	2,319,827	2,271,446
Department of Education	1,663,845	1,632,493
Judicial Department	1,370,077	1,862,550
Works & Engineering	1,251,359	1,846,974
Health Department	1,087,644	831,841
Accountant General	512,620	(39,771)
Lands, Buildings & Surveys	355,607	231,858
Maritime Administration	311,225	414,757
Conservation Services	213,366	190,909
Public Transportation Board	210,122	144,252
Marine & Ports Services	165,206	206,782
Police	128,916	145,574
Tourism	127,013	202,858
Environmental Protection	116,785	114,839
Human Resources	102,299	201,908
Transport Control Department	98,318	6,750
Civil Aviation	75,587	29,879
Financial Assistance	65,633	-
Registry General	60,139	87,311
Child & Family Services	29,576	22,700
Parks	6,207	13,337
Attorney General	1,177	-
Libraries	997	1,975
Ministry of Education, Telecom, & E- Com HQ	438	-
Cabinet Office	-	132,273
Immigration	-	1,969
Youth, Sport & Recreation	-	324
E-Commerce	-	196
Department of Public Prosecutions	-	-
Cultural Affairs	-	-
Ministry of Community and Cultural Affairs	-	(47)
	<b>173,651,878</b>	<b>165,443,196</b>
Less: Provision for Doubtful Accounts	<b>31,064,972</b>	<b>28,616,386</b>
	<b>142,586,906</b>	<b>136,826,810</b>

# **Government of Bermuda - Consolidated Fund** **Schedule 2: Prepaid Supplies**

<b>As at March 31</b>	<b>2010</b>	<b>2009</b>
	<b>Actual</b>	<b>Actual</b>
	<b>\$</b>	<b>\$</b>
Works & Engineering	7,293,186	5,963,936
Public Transportation Board	4,601,809	4,469,804
Marine & Ports Services	1,916,174	1,609,780
Police	1,381,414	1,588,092
Defence	731,516	704,159
Department of Education	699,411	484,407
Corrections	412,450	426,069
Health	393,905	256,146
Conservations Services	115,781	110,101
Immigration	80,722	54,803
Transport Control Department	54,003	-
Post Office	39,519	40,644
	<b>17,719,890</b>	<b>15,707,941</b>
Less: Provision for Obsolescence	<b>1,299,788</b>	<b>1,062,890</b>
	<b>16,420,102</b>	<b>14,645,051</b>

**Government of Bermuda - Consolidated Fund**  
**Schedule 3: Due From Gov't Funds and Agencies**

<b>As at March 31</b>	<b>2010</b>	<b>2009</b>
	<b>Actual</b>	<b>Actual</b>
	<b>\$</b>	<b>\$</b>
Government Employees Health Insurance Fund	8,491,044	10,005,933
Government Borrowing Sinking Fund	6,520,212	-
Health Insurance Fund	4,288,644	2,053,837
Bermuda Hospitals Board	2,590,249	2,282,266
Golf Courses	722,984	834,851
Bermuda Monetary Authority	662,624	1,517,470
Government Reserves Fund	592,566	501,808
West End Development Corporation	375,801	1,244,086
Bermuda Housing Corporation	292,706	368,124
Bermuda College	204,429	213,722
Pembroke Parish Council	98,570	-
Bermuda Land Development Company	93,308	142,592
CedarBridge Academy	43,690	104,444
Bermuda Small Business Development Corporation	27,299	16,359
Financial Intelligence Agency	24,099	-
Bermuda Health Council	23,014	32,000
Pension Commission	20,775	12,600
Berkeley Institute	20,708	-
Parish Councils	15,084	16,492
Bermuda Housing Trust	10,762	8,700
Whitney Institute	4,501	-
Sandys Secondary Middle School	3,198	-
St. George's Preparatory School	1,456	-
Bermuda Educators Council	1,005	-
National Sports Centre	527	171
Confiscated Assets Fund	-	2,545,959
Tourism North America Retirement Plan	-	105,093
	<b>25,129,255</b>	<b>22,006,507</b>

**Government of Bermuda - Consolidated Fund**  
**Schedule 3(a): Due to Gov't Funds and Agencies**

<b>As at March 31</b>	<b>2010</b>	<b>2009</b>
	<b>Actual</b>	<b>Actual</b>
	<b>\$</b>	<b>\$</b>
Bermuda Hospitals Board	11,549,085	3,120,185
Ministers and Members Pensions Fund	11,030,310	8,608,473
Government Borrowing Sinking Fund	10,375,000	-
Contributory Pension Fund	6,333,082	42,429,184
Health Insurance Fund	6,174,511	1,460
Public Service Superannuation Fund	2,797,004	5,960,247
Confiscated Assets Fund	2,445,699	-
Bermuda Housing Corporation	329,916	329,916
Bermuda Small Business Development Corporation	13,312	3,800
West End Development Corporation	6,981	6,981
Bermuda Land Development Company	5,142	5,142
Golf Courses	1,943	1,943
Bermuda College	1,672	1,672
Pembroke Parish Council	-	18,011
	<b>51,063,657</b>	<b>60,487,014</b>

**Government of Bermuda - Consolidated Fund**  
**Schedule 4: Long-Term Receivables**

As at March 31	2010	2009
	Actual	Actual
	\$	\$
Customs Duty	1,122,934	1,129,538
Student Loans and Teacher Training Awards	1,108,497	1,126,206
	<b>2,231,431</b>	<b>2,255,744</b>

**Government of Bermuda - Consolidated Fund**  
**Schedule 5: Accounts Payable and Accrued Liabilities**

As at March 31	2010	2009
	Actual	Actual
	\$	\$
Department Trade Accounts	47,555,512	72,161,984
Base Land Clean Up	26,250,000	26,250,000
Employees' Leave Entitlements	16,460,750	14,963,231
Deposits Held	12,788,800	12,452,488
Interest on Debt	11,752,761	4,894,375
Teachers' Salaries & Leave Entitlements	9,626,176	8,723,463
Salaries, Wages and Benefits	7,136,653	9,282,576
Leases Payable	1,142,811	627,632
	<b>132,713,463</b>	<b>149,355,749</b>



# **Government of Bermuda - Consolidated Fund** **Schedule 6: Deferred Revenue**

As at March 31	2010	2009
	Actual	Restated (Note 17)
	\$	\$
Transport Control Department	17,894,750	17,793,025
Civil Aviation	6,858,966	6,000,019
Immigration	3,776,674	4,718,735
Marine & Ports Services	880,561	592,983
Post Office	430,091	430,571
Police	120,988	56,668
Lands, Buildings & Surveys	89,886	91,132
Environmental Protection	89,407	87,067
Health Department	36,071	40,380
Tourism	33,940	33,435
Parks	22,286	21,627
Youth, Sport & Recreation	17,753	24,100
Maritime Administration	11,250	21,354
Community & Cultural Affairs	-	100
	30,262,623	29,911,196

**Government of Bermuda - Consolidated Fund**  
**Schedule 7: Interest Bearing Debt - Net of Sinking Fund**

As at March 31

	2010	2009
	Actual	Actual
	\$	\$
<b>Senior Notes Due 2014 - US\$</b>		
Issue Date: June 10, 2004		
Interest: 5.39% payable semi-annually		
June 10 and December 10		
Notes Due: June 10, 2014	75,000,000	75,000,000
<b>Loan Facility - US\$</b>		
Issue Date: June 17, 2005		
Interest: LIBOR + .11% payable on rollover date		
Facility Fee: .04% per annum payable quarterly		
Notes Due: June 17, 2010	200,000,000	200,000,000
<b>Senior Notes Due 2022 - US\$</b>		
Issue Date: December 4, 2007		
Interest: 5.73% payable semi-annually		
June 4 and December 4		
Notes Due: December 4, 2022	140,000,000	140,000,000
<b>Senior Notes Due 2014 - US\$</b>		
Issue Date: May 21, 2009		
Interest: 6.55% payable semi-annually		
May 21 and November 21		
Notes Due: May 21, 2014	45,000,000	-
<b>Senior Notes Due 2016 - US\$</b>		
Issue Date: May 21, 2009		
Interest: 6.98% payable semi-annually		
May 21 and November 21		
Notes Due: May 21, 2016	30,000,000	-
<b>Senior Notes Due 2019 - US\$</b>		
Issue Date: May 21, 2009		
Interest: 7.38% payable semi-annually		
May 21 and November 21		
Notes Due: May 21, 2019	100,000,000	-
<b>Senior Notes Due 2016- US\$</b>		
Issue Date: November 10, 2009		
Interest: 5.27% payable semi-annually		
November 10 and May 10		
Notes Due: November 10, 2016	60,000,000	-
<b>Senior Notes Due 2019 - US\$</b>		
Issue Date: November 10, 2009		
Interest: 5.93% payable semi-annually		
November 10 and May 10		
Notes Due: November 10, 2019	80,000,000	-
	<b>730,000,000</b>	<b>415,000,000</b>
Less: Sinking Fund	<b>64,487,481</b>	<b>79,780,761</b>
	<b>665,512,519</b>	<b>335,219,239</b>

# **Government of Bermuda - Consolidated Fund** **Schedule 8: Revenue By Type**

For the year ended March 31	2010 Original Estimates	2010 Actual	2009 Restated (Note 17)
	\$	\$	\$
<b>Taxes &amp; Duties</b>			
Payroll Tax	350,000,000	349,034,583	356,525,572
Customs Duty	242,565,000	219,037,073	224,160,285
Land Tax	50,000,000	48,510,988	45,810,432
Stamp Duty	49,710,000	31,646,611	46,194,035
Passenger Tax	30,570,000	29,261,780	29,750,110
Non-Bermudian Land Acquisition Tax	13,000,000	13,794,308	15,813,424
Foreign Currency Purchase Tax	16,000,000	13,791,576	14,464,731
Hotel Occupancy Tax	11,500,000	7,320,672	11,102,667
Corporate Services Tax	3,500,000	3,294,048	3,717,881
Betting Tax	1,400,000	2,176,419	956,789
Timesharing Tax	230,000	265,711	233,268
	768,475,000	718,133,769	748,729,194
<b>Fees, Permits &amp; Licences</b>			
International Companies	56,045,000	59,384,743	62,392,852
Vehicle Licences & Registration	25,963,000	26,870,299	27,172,435
Registration of Aircraft	16,175,000	15,844,222	13,069,058
Telecommunications	12,500,000	12,813,345	13,793,437
Air Terminal & Aviation	11,681,000	11,244,879	11,121,680
Immigration	14,141,000	10,853,886	11,767,828
Bus Transportation	7,728,000	8,256,401	8,010,617
Postal Services	7,127,000	5,617,250	6,064,975
Local Companies	3,000,000	5,319,720	3,233,331
Registration of Shipping	2,950,000	3,466,451	3,658,811
Water	4,105,000	3,415,590	3,211,873
Services to Seaborne Shipping	2,895,000	2,621,171	2,447,348
Solid Waste Services	2,900,000	2,474,513	2,715,535
Other Customs Fees & Charges	2,435,000	2,382,636	809,130
Rentals	2,492,000	2,070,903	2,614,941
Trade and Service Mark	1,511,000	1,577,084	1,545,007
Wharfage	1,535,000	1,389,682	1,817,057
Ferry Services	1,989,000	1,297,594	1,929,933
Planning Fees and Searches	2,200,000	1,084,627	1,654,626
Companies Licences	352,000	461,380	562,286
Liquor Licences	320,000	317,745	344,455
Plant Production and Marketing Centre	425,000	179,071	442,825
Insurance Fees	-	53,125	27,447
	180,469,000	178,996,317	180,407,487
<b>Other Revenue</b>			
Other	12,192,000	13,902,186	13,792,959
Fines & Forfeitures	5,285,000	3,549,132	3,575,187
Investment Income	3,200,000	2,687,141	3,481,966
Bermuda Monetary Authority	-	-	817,749
	20,677,000	20,138,459	21,667,861
<b>TOTAL REVENUE</b>	<b>969,621,000</b>	<b>917,268,545</b>	<b>950,804,542</b>

# Government of Bermuda - Consolidated Fund Schedule 9: Current Expense By Type

For the year ended March 31	2010 Original Estimates	2010 Actual	2009 Actual
	\$	\$	\$
<b>Employees</b>			
Salaries	343,857,000	316,355,323	310,817,003
Retirement Benefit Expenses	-	143,668,303	123,135,101
Wages	78,056,000	99,711,253	101,258,816
Employer Overhead	64,382,000	28,121,604	29,820,088
Other Personnel Costs	9,074,000	11,060,107	5,155,334
Training	9,828,000	7,274,332	7,956,002
Compensated Absences	-	1,750,338	1,575,555
	505,197,000	607,941,260	579,717,899
<b>Operations</b>			
Grants & Contributions	244,659,000	261,142,697	234,920,291
Professional Services	96,871,000	111,959,586	95,455,877
Amortization	-	37,330,814	33,937,967
Interest on Debt	490,000	34,778,977	21,827,266
Materials & Supplies	33,491,000	34,081,682	37,042,547
Repairs & Maintenance	19,873,000	22,440,910	23,384,615
Energy	20,819,000	19,057,460	23,785,687
Rentals	17,007,000	17,037,476	16,644,439
Advertising & Promotion	17,346,000	14,114,207	16,850,147
Insurance	11,189,000	11,958,754	11,571,448
Communications	9,775,000	10,147,572	9,608,650
Transport	7,353,000	6,667,107	6,587,995
Other	3,895,000	6,064,195	4,698,891
Travel	6,321,000	5,033,659	6,439,319
Clothing & Uniforms	2,642,000	2,648,179	2,566,236
Bad Debts	-	2,174,394	7,973,426
Equipment	1,422,000	1,945,989	2,066,408
Bank Charges & Commissions	-	828,054	637,843
Capital Recharges	-	-	55,104
Receipts Credited to Programmes	(31,462,000)	(30,518,010)	(23,578,982)
	461,691,000	568,893,702	532,475,174
<b>TOTAL CURRENT EXPENSE</b>	966,888,000	1,176,834,962	1,112,193,073

**Government of Bermuda - Consolidated Fund**  
**Schedule 10: Revenue By Ministry / Department**

For the year ended March 31	2010 Original Estimates	2010 Actual	2009 Restated (Note 17)
	\$	\$	\$
<b>Non-Ministry Departments</b>			
01 Governor & Staff	-	-	1,479
05 Office of the Auditor General	716,000	511,998	724,400
63 Parliamentary Registrar	134,000	119,985	138,508
	850,000	631,983	864,387
<b>Cabinet Office Departments</b>			
09 Cabinet Office	-	7,653	3,956
14 Department of Statistics	-	25	5,109
15 Department of Management Services	-	-	15
19 Department of Archives	9,000	4,092	4,304
26 Department of Human Resources	-	7,773	270
30 Marine & Ports Services	5,675,000	4,721,051	5,171,435
31 Airport Operations	12,839,000	12,039,565	12,798,878
33 Tourism	-	37,988	58,346
34 Transport Control Department	25,965,000	26,869,546	27,180,148
35 Public Transportation Board	7,726,000	8,312,232	8,048,521
57 Civil Aviation	16,200,000	15,892,081	13,096,598
73 Maritime Administration	2,950,000	3,457,021	3,658,313
	71,364,000	71,349,027	70,025,893
<b>Ministry of Justice</b>			
02 Legislature	2,000	1,267	1,126
03 Judicial Department	8,717,000	6,811,419	8,955,597
04 Attorney-General's Chambers	-	1,799	5,784
75 Department of Public Prosecutions	-	-	1,790
	8,719,000	6,814,485	8,964,297
<b>Ministry of Finance</b>			
10 Ministry of Finance HQ	-	1,383,467	784
11 Accountant-General	3,260,000	2,820,129	5,410,247
12 Customs	246,605,000	223,358,477	227,250,063
28 Department of Social Insurance	-	-	42,360
38 Office of the Tax Commissioner	509,775,000	482,540,955	503,841,115
39 Registrar of Companies	60,305,000	66,102,733	66,905,341
	819,945,000	776,205,761	803,449,910
<b>Ministry of Education</b>			
17 Department of Education	220,000	193,455	208,177
	220,000	193,455	208,177
<b>Ministry of Health</b>			
21 Ministry of Health HQ	-	-	144,382
22 Health Department	1,993,000	1,598,153	2,565,158
91 Health Insurance	-	3,000	-
	1,993,000	1,601,153	2,709,540

**Government of Bermuda - Consolidated Fund**  
**Schedule 10: Revenue By Ministry / Department (cont'd)**

For the year ended March 31	2010 Original Estimates	2010 Actual	2009 Restated (Note 17)
	\$	\$	\$
<b>Ministry of Environment &amp; Sport</b>			
20 Youth, Sport & Recreation	947,000	835,317	771,010
32 Department of Planning	2,385,000	1,184,094	1,762,874
49 Land Valuation	-	-	1,063
50 Ministry of the Environment & Sports	18,000	25,275	28,130
68 Parks	277,000	217,060	166,400
69 Conservations Services	935,000	634,261	992,771
72 Environmental Protection	475,000	532,075	523,387
	5,037,000	3,428,082	4,245,635
<b>Ministry of Culture &amp; Social Rehabilitation</b>			
18 Libraries	22,000	11,619	15,079
23 Child & Family Services	197,000	4,394	224,711
52 Community and Cultural Affairs	257,000	216,714	253,848
55 Financial Assistance	-	53,278	60,852
56 Human Affairs	-	1,219	2,223
71 Ministry of Culture and Social Rehabilitation HQ	-	500	3,589
74 Court Services	-	(192)	199
88 National Drug Control	36,000	36,113	18,766
	512,000	323,645	579,267
<b>Ministry of Labour, Home Affairs &amp; Housing</b>			
06 Defence	-	36,380	66,066
07 Police	465,000	549,541	632,950
27 Immigration	27,141,000	24,659,274	27,586,082
45 Fire Services	1,140,000	2,134,924	849,097
60 Labour & Training	113,000	138,200	2,604
83 Ministry of Labour, Home Affairs & Housing HQ	-	256	78
	28,859,000	27,518,575	29,136,877
<b>Ministry of Energy, Telecommunications &amp; E-Commerce</b>			
13 Post Office	7,188,000	5,587,330	6,105,397
29 Registry General	1,718,000	1,770,318	1,766,658
42 Rent Commissioner	1,000	270	1,199
43 Information Technology Office	-	2,783	2,499
46 Telecommunications	12,500,000	12,760,859	13,794,276
	21,407,000	20,121,560	21,670,029
<b>Ministry of Works &amp; Engineering</b>			
36 Works & Engineering HQ	110,000	163,758	143,863
81 Lands, Buildings & Surveys	2,000,000	1,568,251	2,115,922
82 Operations & Engineering	8,605,000	7,348,810	6,690,745
	10,715,000	9,080,819	8,950,530
<b>TOTAL REVENUE</b>	969,621,000	917,268,545	950,804,542

**Government of Bermuda - Consolidated Fund**  
**Schedule 10(a): Interdepartmental Revenue By Ministry / Department**

For the year ended March 31			
	2010 Interdepartmental Revenue	2010 Gross Revenue Actual	2010 Net Revenue
	\$	\$	\$
<b>Non-Ministry Departments</b>			
05 Office of the Auditor General	11,382	511,998	500,616
63 Parliamentary Registrar	887	119,985	119,098
	12,269	631,983	619,714
<b>Cabinet Office Departments</b>			
09 Cabinet Office	-	7,653	7,653
14 Department of Statistics	3,055	25	(3,030)
19 Archives	-	4,092	4,092
26 Human Resources	-	7,773	7,773
30 Marine & Ports Services	444	4,721,051	4,720,607
31 Airport Operations	52,115	12,039,565	11,987,450
33 Tourism	60,219	37,988	(22,231)
34 Transport Control Department	19,962	26,869,546	26,849,584
35 Public Transportation Board	134,544	8,312,232	8,177,688
57 Civil Aviation	-	15,892,081	15,892,081
73 Maritime Administration	190	3,457,021	3,456,831
	270,529	71,349,027	71,078,498
<b>Ministry of Justice</b>			
02 Legislature	-	1,267	1,267
03 Judicial Department	21,278	6,811,419	6,790,141
04 Attorney-General's Chambers	-	1,799	1,799
	21,278	6,814,485	6,793,207
<b>Ministry of Finance</b>			
10 Ministry of Finance HQ	-	1,383,467	1,383,467
11 Accountant-General	33	2,820,129	2,820,096
12 Customs	2,238,591	223,358,477	221,119,886
28 Social Insurance	1,000	-	(1,000)
38 Office of the Tax Commissioner	72,075	482,540,955	482,468,880
39 Registrar of Companies	-	66,102,733	66,102,733
	2,311,699	776,205,761	773,894,062
<b>Ministry of Education</b>			
17 Department of Education	1,487	193,455	191,968
	1,487	193,455	191,968
<b>Ministry of Health</b>			
22 Health Department	61,259	1,598,153	1,536,894
91 Health Insurance	756	3,000	2,244
	62,015	1,601,153	1,539,138

**Government of Bermuda - Consolidated Fund**  
**Schedule 10(a): Interdepartmental Revenue By Ministry / Dept (cont'd)**

For the year ended March 31			
	2010 Interdepartmental Revenue	2010 Gross Revenue Actual	2010 Net Revenue
	\$	\$	\$
<b>Ministry of Environment &amp; Sport</b>			
20 Youth, Sport & Recreation	16,385	835,317	818,932
32 Department of Planning	-	1,184,094	1,184,094
50 Ministry of the Environment	-	25,275	25,275
68 Parks	1,283	217,060	215,777
69 Conservation Services	-	634,261	634,261
72 Environmental Protection	1,902	532,075	530,173
	19,570	3,428,082	3,408,512
<b>Ministry of Culture &amp; Social Rehabilitation</b>			
18 Libraries	-	11,619	11,619
23 Child & Family Services	5,964	4,394	(1,570)
52 Community and Cultural Affairs	705	216,714	216,009
55 Financial Assistance	-	53,278	53,278
56 Human Affairs	500	1,219	719
71 Ministry of Culture and Social Rehab HQ	-	500	500
74 Department of Court Services	266	(192)	(458)
88 National Drug Control	4,168	36,113	31,945
	11,603	323,645	312,042
<b>Ministry of Labour, Home Affairs &amp; Housing</b>			
06 Defence	-	36,380	36,380
07 Police	-	549,541	549,541
25 Corrections	603	-	(603)
27 Immigration	6,360	24,659,274	24,652,914
45 Fire Services	2,690	2,134,924	2,132,234
60 Labour & Training	-	138,200	138,200
83 Ministry of Labour, Home Affairs & Housing HQ	-	256	256
	9,653	27,518,575	27,508,922
<b>Ministry of Telecommunications &amp; E-Commerce</b>			
13 Post Office	31,680	5,587,330	5,555,650
29 Registry General	1,496	1,770,318	1,768,822
42 Rent Commissioner	-	270	270
43 Information Technology Office	-	2,783	2,783
46 Telecommunications	800	12,760,859	12,760,059
	33,976	20,121,560	20,087,584
<b>Ministry of Works &amp; Engineering</b>			
36 Works & Engineering	221,771	163,758	(58,013)
81 Lands, Buildings & Surveys	48,000	1,568,251	1,520,251
82 Operations & Engineering	573,318	7,348,810	6,775,492
	843,089	9,080,819	8,237,730
<b>TOTAL REVENUE</b>	<b>3,597,168</b>	<b>917,268,545</b>	<b>913,671,377</b>



**Government of Bermuda - Consolidated Fund**  
**Schedule 11: Current Expense By Ministry / Department**

For the year ended March 31	2010 Original Estimates	2010 Actual	2009 Actual
	\$	\$	\$
<b>Non-Ministry Departments</b>			
01 Governor & Staff	1,695,000	1,976,550	2,117,102
05 Office of the Auditor General	2,973,000	2,894,881	2,922,352
08 Public Service Commission	81,000	76,963	71,993
63 Parliamentary Registrar	739,000	784,492	586,263
85 Ombudsman's Office	698,000	706,854	683,513
92 Internal Audit	-	-	-
	6,186,000	6,439,740	6,381,223
<b>Cabinet Office Departments</b>			
09 Cabinet Office	6,479,000	9,192,349	8,422,706
14 Department of Statistics	3,571,000	3,050,427	2,577,742
15 Department of Management Services	-	-	776,600
19 Department of Archives	1,745,000	1,506,166	1,574,682
26 Department of Human Resources	6,431,000	4,948,137	3,789,124
30 Marine & Ports Services	22,357,000	21,405,714	22,739,219
31 Airport Operations	20,861,000	24,029,902	22,729,114
33 Tourism	32,148,000	31,851,942	35,802,291
34 Transport Control Department	7,860,000	6,644,214	4,929,404
35 Public Transportation Board	19,454,000	22,977,183	23,112,257
48 Transport Headquarters	1,284,000	1,324,832	1,274,588
51 Department of Communication & Information	2,618,000	2,613,016	2,469,680
57 Civil Aviation	4,998,000	6,952,887	5,387,392
73 Maritime Administration	1,733,000	1,643,061	1,594,042
	131,539,000	138,139,830	137,178,841
<b>Ministry of Justice</b>			
02 Legislature	4,780,000	5,041,314	4,616,168
03 Judicial Department	8,452,000	8,212,012	8,146,699
04 Attorney-General's Chambers	4,964,000	4,313,791	4,267,699
75 Department of Public Prosecutions	2,927,000	2,186,258	2,330,275
87 Ministry of Justice HQ	3,349,000	4,430,723	3,871,852
	24,472,000	24,184,098	23,232,693
<b>Ministry of Finance</b>			
10 Ministry of Finance HQ	12,963,000	11,982,769	12,386,670
11 Accountant-General	75,060,000	83,671,136	82,000,905
Retirement Benefit Expenses	-	106,695,970	87,763,661
12 Customs	21,740,000	18,648,270	17,863,714
28 Department of Social Insurance	4,424,000	8,046,591	15,322,980
38 Office of the Tax Commissioner	3,607,000	5,009,071	3,606,714
39 Registrar of Companies	3,964,000	4,076,891	2,857,043
58 Interest on Debt	-	29,978,210	18,186,394
	121,758,000	268,108,908	239,988,081
<b>Ministry of Education</b>			
17 Department of Education	128,436,000	133,919,495	129,231,983
41 Bermuda College	20,702,000	20,702,204	20,289,671
	149,138,000	154,621,699	149,521,654
<b>Ministry of Health</b>			
21 Ministry of Health HQ	16,834,000	18,473,155	8,505,980
22 Health Department	32,558,000	29,134,608	28,023,696
24 Hospitals	122,954,000	132,239,483	119,242,771
91 Health Insurance	5,457,000	10,263,994	-
	177,803,000	190,111,240	155,772,447

**Government of Bermuda - Consolidated Fund**  
**Schedule 11: Current Expense By Ministry / Department (cont'd)**

For the year ended March 31	2010 Original Estimates	2010 Actual	2009 Actual
	\$	\$	\$
<b>Ministry of Environment &amp; Sports</b>			
20 Youth, Sport & Recreation	13,476,000	12,390,391	15,467,811
32 Department of Planning	4,337,000	3,788,824	3,835,120
49 Land Valuation	857,000	621,702	652,127
50 Ministry of the Environment & Sports	863,000	1,133,689	1,296,226
68 Parks	11,146,000	10,804,712	11,493,137
69 Conservations Services	5,538,000	5,064,698	5,484,041
72 Environmental Protection	3,845,000	3,730,335	3,733,058
	40,062,000	37,534,351	41,961,520
<b>Ministry of Culture &amp; Social Rehabilitation</b>			
18 Libraries	2,436,000	2,659,614	2,451,199
23 Child & Family Services	17,832,000	19,495,400	17,714,911
52 Community & Cultural Affairs	6,515,000	4,950,232	4,373,513
55 Financial Assistance	28,374,000	33,079,127	24,428,616
56 Human Affairs	4,377,000	3,125,995	3,619,718
71 Ministry of Culture and Social Rehabilitation HQ	4,459,000	3,659,957	3,807,857
74 Department of Court Services	5,280,000	4,233,937	4,486,575
86 Ministry of Community & Cultural Affairs	-	-	(8,699)
88 National Drug Control	4,734,000	3,789,847	5,174,818
	74,007,000	74,994,109	66,048,508
<b>Ministry of Labour, Home Affairs &amp; Housing</b>			
06 Defence	8,601,000	8,917,032	8,844,684
07 Police	60,541,000	70,563,276	71,604,334
25 Corrections	29,472,000	29,492,975	28,867,590
27 Immigration	5,959,000	5,447,535	5,873,734
45 Fire Services	15,794,000	12,970,241	11,964,141
53 Bermuda Housing Corporation	7,250,000	7,250,000	6,000,000
54 Security Services & Delegated Affairs	491,000	412,185	296,732
60 Labour & Training	7,220,000	7,131,510	7,430,816
83 Ministry of Labour, Home Affairs & Housing HQ	2,213,000	1,993,517	3,979,986
	137,541,000	144,178,271	144,862,017
<b>Ministry of Energy Telecommunications &amp; E-Commerce</b>			
13 Post Office	14,861,000	14,967,726	14,749,496
29 Registry General	2,139,000	1,696,455	1,810,287
42 Rent Commissioner	657,000	567,539	562,483
43 Information Technology Office	8,359,000	8,276,712	7,570,126
46 Telecommunications	2,170,000	2,885,534	2,758,410
67 E-Commerce	1,263,000	1,083,406	895,747
84 E-Government	1,380,000	1,190,941	995,653
89 Energy	1,508,000	588,621	555,278
90 Ministry of Energy, Telecommunications and E-Commerce	553,000	611,353	395,307
	32,890,000	31,868,287	30,292,787
<b>Ministry of Works &amp; Engineering</b>			
36 Works & Engineering	7,023,000	6,224,949	12,483,447
80 Architectural Design & Construction	1,513,000	1,052,947	879,780
81 Lands, Buildings & Surveys	26,415,000	24,401,224	27,331,549
82 Operations & Engineering	36,541,000	37,644,495	42,320,559
Amortization	-	37,330,814	33,937,967
	71,492,000	106,654,429	116,953,302
<b>TOTAL CURRENT EXPENSE</b>	966,888,000	1,176,834,962	1,112,193,073

**Government of Bermuda - Consolidated Fund**  
**Schedule 11(a): Interdepartmental Current Expense By Ministry/Department**

For the year ended March 31	2010 Interdepartmental Expense	2010 Actual Gross Expense	2010 Net Expense
	\$	\$	\$
<b>Non-Ministry Departments</b>			
01 Governor & Staff	7,540	1,976,550	1,969,010
05 Office of the Auditor General	17,506	2,894,881	2,877,375
08 Public Service Commission	-	76,963	76,963
63 Parliamentary Registrar	-	784,492	784,492
85 Ombudsman's Office	914	706,854	705,940
	<b>25,960</b>	<b>6,439,740</b>	<b>6,413,780</b>
<b>Cabinet Office Departments</b>			
09 Cabinet Office	5,187	9,192,349	9,187,162
14 Department of Statistics	16,547	3,050,427	3,033,880
19 Department of Archives	2,562	1,506,166	1,503,604
26 Department of Human Resources	2,425	4,948,137	4,945,712
30 Marine & Ports	27,425	21,405,714	21,378,289
31 Airport Operations	31,009	24,029,902	23,998,893
33 Department of Tourism	82,303	31,851,942	31,769,639
34 Transport Control Department	26,643	6,644,214	6,617,571
35 Public Transportation Board	1,304,426	22,977,183	21,672,757
48 Ministry of Transport HQ	-	1,324,832	1,324,832
51 Dept. of Communication & Information	1,803	2,613,016	2,611,213
57 Civil Aviation	4,238	6,952,887	6,948,649
73 Maritime Administration	800	1,643,061	1,642,261
	<b>1,505,368</b>	<b>138,139,830</b>	<b>136,634,462</b>
<b>Ministry of Justice</b>			
02 Legislature	20,782	5,041,314	5,020,532
03 Judicial Department	2,431	8,212,012	8,209,581
04 Attorney-General's Chambers	-	4,313,791	4,313,791
75 Department of Public Prosecutions	262	2,186,258	2,185,996
87 Ministry of Justice HQ	-	4,430,723	4,430,723
	<b>23,475</b>	<b>24,184,098</b>	<b>24,160,623</b>
<b>Ministry of Finance</b>			
10 Ministry of Finance HQ	310	11,982,769	11,982,459
11 Accountant-General	5,642	83,671,136	83,665,494
Retirement Benefit Expenses	-	106,695,970	106,695,970
12 Customs	41,225	18,648,270	18,607,045
28 Department of Social Insurance	1,279	8,046,591	8,045,312
38 Office of the Tax Commissioner	2,957	5,009,071	5,006,114
39 Registrar of Companies	1,668	4,076,891	4,075,223
58 Interest on Debt	-	29,978,210	29,978,210
	<b>53,081</b>	<b>268,108,908</b>	<b>268,055,827</b>
<b>Ministry of Education</b>			
17 Department of Education	122,557	133,919,495	133,796,938
41 Bermuda College	-	20,702,204	20,702,204
	<b>122,557</b>	<b>154,621,699</b>	<b>154,499,142</b>

## Appendix 2

## Government of Bermuda - Consolidated Fund

## Schedule 11(a): Interdepartmental Current Expense By Ministry/Department (cont'd)

For the year ended March 31

	2010 Interdepartmental Expense	2010 Actual Gross Expense	2010 Net Expense
	\$	\$	\$
<b>Ministry of Health</b>			
21 Ministry of Health HQ	1,363	18,473,155	18,471,792
22 Health Department	188,483	29,134,608	28,946,125
24 Hospitals	-	132,239,483	132,239,483
91 Health Insurance	-	10,263,994	10,263,994
	189,846	190,111,240	189,921,394
<b>Ministry of Environment &amp; Sports</b>			
20 Youth, Sport & Recreation	128,640	12,390,391	12,261,751
32 Department of Planning	461	3,788,824	3,788,363
49 Land Valuation	-	621,702	621,702
50 Ministry of the Environment HQ	7,531	1,133,689	1,126,158
68 Parks	129,380	10,804,712	10,675,332
69 Conservations Services	18,058	5,064,698	5,046,640
72 Environmental Protection	2,872	3,730,335	3,727,463
	286,942	37,534,351	37,247,409
<b>Ministry of Culture &amp; Social Rehabilitation</b>			
18 Libraries	2,254	2,659,614	2,657,360
23 Child & Family Services	41,669	19,495,400	19,453,731
52 Community & Cultural Affairs	3,446	4,950,232	4,946,786
55 Financial Assistance	41,480	33,079,127	33,037,647
56 Human Affairs	3,413	3,125,995	3,122,582
86 Ministry of Community & Cultural Affairs HQ	-	3,659,957	3,659,957
71 Ministry of Social Rehabilitation HQ	4,341	4,233,937	4,229,596
74 Court Services	12,603	-	(12,603)
88 National Drug Control	2,370	3,789,847	3,787,477
	111,576	74,994,109	74,882,533
<b>Ministry of Labour, Home Affairs &amp; Housing</b>			
06 Defence	7,599	8,917,032	8,909,433
07 Police	220,145	70,563,276	70,343,131
25 Corrections	120,588	29,492,975	29,372,387
27 Immigration	5,124	5,447,535	5,442,411
45 Fire Services	2,735	12,970,241	12,967,506
53 Bermuda Housing Corporation	-	7,250,000	7,250,000
54 Security Services & Delegated Affairs	-	412,185	412,185
60 Labour & Training	526	7,131,510	7,130,984
83 Ministry of Labour, Home Affairs & Housing HQ	20	1,993,517	1,993,497
	356,737	144,178,271	143,821,534
<b>Ministry of Energy, Telecommunications &amp; E-Commerce</b>			
13 Post Office	9,261	14,967,726	14,958,465
29 Registry General	1,115	1,696,455	1,695,340
42 Rent Commissioner	750	567,539	566,789
43 Information Technology Office	657	8,276,712	8,276,055
46 Telecommunications	255	2,885,534	2,885,279
67 E-Commerce	1,326	1,083,406	1,082,080
84 E-Government	-	1,190,941	1,190,941
89 Energy	-	588,621	588,621
90 Ministry of Energy, Telecommunications & E-Commerce HQ	-	611,353	611,353
	13,364	31,868,287	31,854,923
<b>Ministry of Works &amp; Engineering</b>			
36 Works & Engineering	902,092	6,224,949	5,322,857
80 Architectural Design & Construction	-	1,052,947	1,052,947
81 Lands, Buildings & Surveys	3,055	24,401,224	24,398,169
82 Operations & Engineering	3,115	37,644,495	37,641,380
Amortization	-	37,330,814	37,330,814
	908,262	106,654,429	105,746,167
<b>TOTAL CURRENT EXPENSE</b>	<b>3,597,168</b>	<b>1,176,834,962</b>	<b>1,173,237,794</b>

Government of Bermuda - Consolidated Fund  
Schedule 12: Schedule of Tangible Capital Assets and Assets under Construction

As at March 31, 2010

s at March 31, 2010		COST				ACCUMULATED AMORTIZATION				31-Mar-10 Net Book Value	31-Mar-09 Net Book Value
Estimated Useful Life	Opening Balance	Additions	Disposals & Adjustments	Closing Balance	Opening Balance	Amortization Expense	Disposals & Adjustments	Closing Balance			
Tangible Capital Assets											
Land	Indefinite	45,636,778	-	-	45,636,778	-	-	-	-	45,636,778	45,636,778
Buildings & Betterments	40 years	482,791,663	5,203,639	89,280	488,084,602	(108,604,406)	(13,170,593)	(3,625)	(121,784,704)	366,299,898	374,187,197
Infrastructure	Varied	114,012,282	7,517,343	3,894,700	125,424,325	(7,937,397)	(6,100,363)	(687,083)	(14,724,843)	110,899,482	106,074,885
Vehicles & Heavy Equipment	Varied	77,157,553	10,022,329	(3,244,817)	83,935,065	(54,147,373)	(6,904,603)	3,177,285	(57,874,691)	26,060,374	23,010,180
Vessels	Varied	41,943,000	29,800	(360,000)	41,612,800	(25,777,432)	(2,617,424)	360,000	(28,034,856)	13,577,944	16,165,568
Computer Software	10 years	10,401,589	7,992,580	-	18,394,169	(1,626,910)	(1,112,256)	-	(2,739,166)	15,655,003	8,774,679
Office Equipment	5 years	8,035,972	1,606,138	(65,801)	9,576,309	(3,260,847)	(1,626,893)	21,641	(4,866,099)	4,710,210	4,775,125
Computer Hardware	3 years	6,355,575	892,642	-	7,248,217	(4,467,807)	(1,420,700)	-	(5,878,507)	1,369,710	1,897,768
Capital Leases	3 - 5 years	2,998,260	1,281,184	(26,990)	4,250,454	(2,021,419)	(700,421)	(377,046)	(3,098,886)	1,151,568	976,841
Furniture & Fixtures	7 years	3,130,845	739,193	(21,617)	3,848,421	(1,042,521)	(488,558)	-	(1,531,079)	2,317,342	2,088,324
Plant, Machinery & Equipment	Varied	46,250,793	510,458	-	46,761,251	(30,574,488)	(3,183,003)	-	(33,757,491)	13,003,760	15,676,305
Total Tangible Capital Assets		838,714,330	35,795,306	262,755	874,772,391	(239,450,680)	(37,330,814)	2,491,172	(274,290,322)	600,482,069	599,263,650
Assets under Construction		112,730,687	70,044,256	(84,155,582)	98,619,361	-	-	-	-	98,619,361	112,730,687

**Government of Bermuda - Consolidated Fund**  
**Schedule 13: Capital Development Expense By Ministry / Department**

For the year ended March 31	2010	2009
	Actual	Actual
	\$	\$
<b>Cabinet Office Departments</b>		
31 Airport Operations	897,898	3,873,937
33 Tourism	3,000,000	2,065,656
34 Transport Control Department	-	(697,606)
35 Public Transportation Board	-	2,537
48 Transport Headquarters	58,014,803	96,095
51 Department of Communication & Information	-	22,470
	<b>61,912,701</b>	<b>5,363,089</b>
<b>Ministry of Justice</b>		
02 Legislature	112,604	95,969
03 Judicial Department	2,975	235
	<b>115,579</b>	<b>96,204</b>
<b>Ministry of Finance</b>		
10 Ministry of Finance HQ	906	-
11 Accountant-General	-	72,896
	<b>906</b>	<b>72,896</b>
<b>Ministry of Education</b>		
17 Department of Education	633,762	9,207,157
	<b>633,762</b>	<b>9,207,157</b>
<b>Ministry of Environment &amp; Sport</b>		
20 Youth, Sport & Recreation	17,642	15,372
50 Ministry of the Environment & Sports	46,527	267,026
68 Parks	239,968	637,358
69 Conservations Services	204,601	176,081
72 Environmental Protection	26,533	60,420
	<b>535,271</b>	<b>1,156,257</b>
<b>Ministry of Health</b>		
22 Health Department	1,032,120	8,076,795
24 Hospitals	120,000	3,129,659
	<b>1,152,120</b>	<b>11,206,454</b>
<b>Ministry of Labour, Home Affairs &amp; Housing</b>		
06 Defence	63,053	730,258
07 Police	148,698	375,630
25 Corrections	154,378	49,526
45 Fire Services	69,585	171,372
54 Security Services & Delegated Affairs	28,738	29,491
83 Ministry of Labour, Home Affairs & Housing HQ	25,326,236	23,776,084
	<b>25,790,688</b>	<b>25,132,361</b>
<b>Ministry of Energy, Telecommunications &amp; E-Commerce</b>		
46 Telecommunications	350,870	1,388,834
	<b>350,870</b>	<b>1,388,834</b>
<b>Ministry of Works &amp; Engineering</b>		
36 Works & Engineering	7,235,904	8,566,480
80 Architectural Design & Construction	-	17,914
81 Lands, Buildings & Surveys	-	30,752
82 Operations & Engineering	137,141	507,304
	<b>7,373,045</b>	<b>9,122,450</b>
<b>TOTAL CAPITAL DEVELOPMENT</b>	<b>97,864,942</b>	<b>62,745,702</b>

**Government of Bermuda - Consolidated Fund**  
**Schedule 14: Capital Acquisition Expense By Ministry / Department**

For the year ended March 31	2010	2009
	Actual	Actual
	\$	\$
<b>Non-Ministry Departments</b>		
05 Office of the Auditor General	14,418	8,670
63 Parliamentary Registrar	11,837	-
85 Ombudsman's Office	9,000	-
	<b>35,255</b>	<b>8,670</b>
<b>Cabinet Office Departments</b>		
09 Cabinet Office	182,191	-
14 Department of Statistics	20,581	105,255
15 Department of Management Services	-	636
19 Department of Archives	10,199	22,347
26 Department of Human Resources	49,861	-
30 Marine & Ports Services	45,829	61,724
31 Airport Operations	542,398	599,646
34 Transport Control Department	16,660	141,209
35 Public Transportation Board	274,331	682,605
51 Department of Communication & Information	-	-
57 Civil Aviation	72,010	132,842
	<b>1,214,060</b>	<b>1,746,264</b>
<b>Ministry of Justice</b>		
02 Legislature	37,097	-
03 Judicial Department	178,098	6,147
04 Attorney-General's Chambers	40,809	-
87 Ministry of Justice HQ	-	73,321
	<b>256,004</b>	<b>79,468</b>
<b>Ministry of Finance</b>		
10 Ministry of Finance HQ	29,713	29,322
11 Accountant-General	-	446,010
12 Customs	62,753	51,037
38 Office of the Tax Commissioner	22,705	62,138
39 Registrar of Companies	4,124	24,494
	<b>119,295</b>	<b>613,001</b>
<b>Ministry of Education, Sports &amp; Recreation</b>		
17 Department of Education	1,682,934	2,065,104
	<b>1,682,934</b>	<b>2,065,104</b>
<b>Ministry of Health</b>		
21 Ministry of Health HQ	-	65,456
22 Health Department	(450,039)	740,942
	<b>(450,039)</b>	<b>806,398</b>

**Government of Bermuda - Consolidated Fund**  
**Schedule 14: Capital Acquisition Expense By Ministry / Department**  
**(cont'd)**

For the year ended March 31	2010	2009
	Actual	Actual
	\$	\$
<b>Ministry of Environment &amp; Sport</b>		
20 Youth, Sport & Recreation	5,759	4,530
32 Department of Planning	-	9,310
49 Land Valuation	9,375	(9,125)
50 Ministry of Environment & Sports	2,679	-
68 Parks	16,199	74,807
69 Conservations Services	3,875	36,259
72 Environmental Protection	8,000	-
	<b>45,887</b>	<b>115,781</b>
<b>Ministry of Culture &amp; Social Rehabilitation</b>		
18 Libraries	16,936	49,343
23 Child & Family Services	10,400	17,225
52 Community & Cultural Affairs	-	57,005
55 Financial Assistance	29,141	56,868
56 Human Affairs	2,300	108,917
74 Court Services	-	1,302
88 National Drug Control	45,038	81,087
	<b>103,815</b>	<b>371,747</b>
<b>Ministry of Labour, Home Affairs &amp; Housing</b>		
06 Defence	140,931	70,556
07 Police	439,666	1,478,069
25 Department of Corrections	(4,900)	41,215
27 Immigration	4,018	150,604
45 Fire Services	508,108	442,695
60 Labour & Training	-	-
	<b>1,087,823</b>	<b>2,183,139</b>
<b>Ministry of Energy, Telecommunications &amp; E-Commerce</b>		
13 Post Office	61,097	130,836
43 Information Technology Office	3,409,859	3,208,003
46 Telecommunications	-	2,815
67 E-Commerce	-	30,000
84 E-Government	188,070	601,668
	<b>3,659,026</b>	<b>3,973,322</b>
<b>Ministry of Works &amp; Engineering</b>		
36 Works & Engineering	41,467	81,300
81 Lands, Buildings & Surveys	29,843	44,800
	<b>71,310</b>	<b>126,100</b>
<b>TOTAL CAPITAL ACQUISITION</b>	<b>7,825,370</b>	<b>12,088,994</b>



**Government of Bermuda - Consolidated Fund**  
**Schedule 15: Current Expenditure - Estimates Compared to Expenses**

For the year ended March 31, 2010

	Expenses	Expenditure *	Adjusted Estimates **	Under (Over) Spent
	\$	\$	\$	\$
<b>Non-Ministry Departments</b>				
01 Governor & Staff	1,976,550	1,976,550	1,695,280	(281,270)
05 Office of the Auditor General	2,894,881	2,894,881	2,948,518	53,637
08 Public Service Commission	76,963	76,963	81,077	4,114
63 Parliamentary Registrar	784,492	784,492	739,331	(45,161)
85 Ombudsman's Office	706,854	706,854	697,835	(9,019)
	6,439,740	6,439,740	6,162,041	(277,699)
<b>Cabinet Office Departments</b>				
09 Cabinet Office	9,192,349	9,192,349	7,824,265	(1,368,084)
14 Department of Statistics	3,050,427	3,050,427	3,221,353	170,926
15 Department of Management Services	-	-	-	-
19 Department of Archives	1,506,166	1,506,166	1,570,275	64,109
26 Department of Human Resources	4,948,137	4,948,137	5,610,543	662,406
30 Marine & Ports	21,405,714	21,550,995	21,757,313	206,318
31 Airport Operations	24,029,902	23,875,289	20,860,663	(3,014,626)
33 Department of Tourism	31,851,942	31,851,942	31,723,067	(128,875)
34 Transport Control Department	6,644,214	6,644,214	6,885,329	241,115
35 Public Transportation Board	22,977,183	22,968,387	19,453,586	(3,514,801)
48 Ministry of Transport HQ	1,324,832	1,324,832	1,334,003	9,171
51 Dept. of Communication & Information	2,613,016	2,613,016	2,618,416	5,400
57 Civil Aviation	6,952,887	6,953,372	6,997,590	44,218
73 Maritime Administration	1,643,061	1,613,728	1,682,626	68,898
	138,139,830	138,092,854	131,539,029	(6,553,825)
<b>Ministry of Justice</b>				
02 Legislature	5,041,314	5,041,314	5,129,873	88,559
03 Judicial Department	8,212,012	8,216,368	8,451,669	235,301
04 Attorney-General's Chambers	4,313,791	4,313,791	4,589,193	275,402
75 Department of Public Prosecutions	2,186,258	2,186,258	2,627,138	440,880
87 Ministry of Justice HQ	4,430,723	4,430,723	3,673,755	(756,968)
	24,184,098	24,188,454	24,471,628	283,174
<b>Ministry of Finance</b>				
10 Ministry of Finance HQ	11,982,769	11,982,769	12,087,980	105,211
11 Accountant-General	83,671,136	83,687,314	80,377,885	(3,309,429)
Retirement Benefit Expenses	106,695,970	-	-	-
12 Customs	18,648,270	18,600,357	19,569,099	968,742
28 Social Insurance	8,046,591	8,046,591	7,034,230	(1,012,361)
38 Office of the Tax Commissioner	5,009,071	3,146,132	3,607,258	461,126
39 Registrar of Companies	4,076,891	3,760,909	3,624,455	(136,454)
58 Interest on Debt	29,978,210	1,694,715	1,700,000	5,285
59 Sinking Fund Contribution	-	-	-	-
	268,108,908	130,918,787	128,000,907	(2,917,879)
<b>Ministry of Education</b>				
17 Department of Education	133,919,495	132,830,956	128,436,239	(4,394,717)
41 Bermuda College	20,702,204	20,702,204	20,702,204	-
	154,621,699	153,533,160	149,138,443	(4,394,717)
<b>Ministry of Health</b>				
21 Ministry of Health HQ	18,473,155	18,473,155	18,935,651	462,496
22 Health Department	29,134,608	29,002,111	31,129,801	2,127,690
24 Hospitals	132,239,483	132,239,483	137,953,924	5,714,441
91 Health Insurance	10,263,994	10,263,994	5,456,724	(4,807,270)
	190,111,240	189,978,743	193,476,100	3,497,357

\* Adjusted for Non-Budgeted, Non-Cash Items

\*\* Includes all Approved Supplementary amounts during the year

**Government of Bermuda - Consolidated Fund**  
**Schedule 15: Current Expenditure - Estimates Compared to Expenses (cont'd)**

For the year ended March 31, 2010

	Expenses	Expenditure*	Adjusted Estimates **	Under (Over) Spent
	\$	\$	\$	\$
<b>Ministry of the Environment &amp; Sports</b>				
20 Youth, Sport & Recreation	12,390,391	12,390,391	13,475,464	1,085,073
32 Department of Planning	3,788,824	3,788,824	4,117,972	329,148
49 Land Valuation	621,702	621,702	707,328	85,626
50 Ministry of the Environment HQ	1,133,689	1,133,689	1,231,246	97,557
68 Parks	10,804,712	10,804,712	11,146,203	341,491
69 Conservations Services	5,064,698	4,896,433	5,538,401	641,968
72 Environmental Protection	3,730,335	3,748,913	3,845,045	96,132
	37,534,351	37,384,664	40,061,659	2,676,995
<b>Ministry of Culture &amp; Social Rehabilitation</b>				
18 Libraries	2,659,614	2,659,007	2,436,297	(222,710)
23 Child & Family Services	19,495,400	19,495,400	18,311,405	(1,183,995)
52 Community & Cultural Affairs	4,950,232	4,950,232	4,839,843	(110,389)
55 Financial Assistance	33,079,127	33,013,494	32,054,722	(958,772)
56 Human Affairs	3,125,995	3,125,995	3,079,994	(46,001)
71 Ministry of Social Rehabilitation	3,659,957	3,659,957	3,743,447	83,490
74 Court Services	4,233,937	4,233,937	4,415,373	181,436
86 Ministry of Community & Cultural Affairs HQ	-	-	-	-
88 National Drug Control	3,789,847	3,789,847	4,452,301	662,454
	74,994,109	74,927,869	73,333,382	(1,594,487)
<b>Ministry of Labour, Home Affairs &amp; Housing</b>				
06 Defence	8,917,032	8,917,032	8,696,308	(220,724)
07 Police	70,563,276	70,556,649	60,540,624	(10,016,025)
25 Corrections	29,492,975	29,492,975	29,471,837	(21,138)
27 Immigration	5,447,535	5,447,535	5,959,342	511,807
45 Fire Services	12,970,241	12,970,241	15,793,937	2,823,696
53 Bermuda Housing Corporation	7,250,000	7,250,000	7,250,000	-
54 Security Services & Delegated Affairs	412,185	412,185	490,696	78,511
60 Labour & Training	7,131,510	7,131,510	7,219,781	88,271
83 Ministry of Labour, Home Affairs & Housing HQ	1,993,517	1,993,517	2,118,421	124,904
	144,178,271	144,171,644	137,540,946	(6,630,698)
<b>Ministry of Energy, Telecommunications &amp; E-Commerce</b>				
13 Post Office	14,967,726	14,967,726	14,860,582	(107,144)
29 Registry General	1,696,455	1,696,455	2,139,113	442,658
42 Rent Commissioner	567,539	567,539	637,218	69,679
43 Information Technology Office	8,276,712	8,276,712	8,449,499	172,787
46 Telecommunications	2,885,534	2,892,359	2,979,718	87,359
67 E-Commerce	1,083,406	1,083,406	1,188,264	104,858
84 E-Government	1,190,941	1,190,941	1,380,263	189,322
89 Energy	588,621	588,621	657,804	69,183
90 Ministry of Energy, Telecommunications and E-Commerce	611,353	611,353	597,816	(13,537)
	31,868,287	31,875,112	32,890,277	1,015,165
<b>Ministry of Works &amp; Engineering</b>				
36 Works & Engineering	6,224,949	6,341,905	7,022,559	680,654
80 Architectural Design & Construction	1,052,947	1,052,947	1,213,221	160,274
81 Lands, Buildings & Surveys	24,401,224	24,395,774	25,715,370	1,319,596
82 Operations & Engineering	37,644,495	37,639,568	37,541,115	(98,453)
Amortization	37,330,814	-	-	-
	106,654,429	69,430,194	71,492,265	2,062,071
<b>TOTAL CURRENT EXPENDITURE</b>	<b>1,176,834,962</b>	<b>1,000,941,221</b>	<b>988,106,677</b>	<b>(12,834,543)</b>

**Government of Bermuda - Consolidated Fund**  
**Schedule 16: Commitments - Legislated**

For the year ended March 31	2010	2009
	Actual	Actual
	\$	\$

**Unspent Capital Appropriations**

In accordance with Section 6 of the Appropriations Act 2009, unspent capital appropriations for incomplete capital projects to be carried forward to future years are as follows:

Capital Development	12,928,068	12,825,532
Capital Acquisition	5,265,875	4,963,805
	<b>18,193,943</b>	<b>17,789,337</b>

**Total Authorized Funding**

Total Authorized Funding represents the estimated total cost of capital development projects and is subject to the voting of supply by the Legislature. Estimated future expenditure for continuing capital development projects is as follows:

Total Authorized Funding	1,113,698,911	960,616,583
Projects Completed during the year	(225,744,688)	(35,046,200)
Approved Supplementary Estimate	966,600	26,187,200
Revised Total Authorized Funding	888,920,823	951,757,583
Appropriated Capital Development	(446,756,520)	(548,305,964)
<b>Unappropriated Capital Development Commitments</b>	<b>442,164,303</b>	<b>403,451,619</b>

# **Government of Bermuda - Consolidated Fund** **Schedule 17: Public Debt - Legislated Limit**

<b>As at March 31</b>	<b>2010</b>	<b>2009</b>
	<b>Actual</b>	<b>Actual</b>
	<b>\$</b>	<b>\$</b>

The Government Loans Act 1978, as amended, defines public debt as debt owed or guaranteed by the Consolidated Fund.

Section 2A(1) of the Act limits public debt (net of sinking fund assets) to \$1 billion.

Debt (Schedule 7)	<b>730,000,000</b>	415,000,000
Bank of NT Butterfield Guarantee	<b>200,000,000</b>	-
Overdraft Facility Drawdown (Note 16)	<b>93,409,873</b>	147,250,826
WEDCO Loan Guarantee (Note 14 (b)(ii))	<b>10,000,000</b>	-
National Education Guarantees (Note 10(a))	<b>542,367</b>	792,230
	<b>1,033,952,240</b>	563,043,056
Less:		
Sinking Fund (Schedule 7)	<b>64,487,481</b>	79,780,761
Public Debt	<b>969,464,759</b>	483,262,295
Legislated Limit	<b>1,000,000,000</b>	1,000,000,000
<b>Available Limit</b>	<b>30,535,241</b>	516,737,705



GOVERNMENT OF BERMUDA

The Cabinet Office

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Department of Communication and Information**FOR IMMEDIATE RELEASE***4 February ~2.00 pm***CONTACT**

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Email: [balottimore@gov.bm](mailto:balottimore@gov.bm)**~ Consolidated Fund Financial Statements 2010 ~**

In accordance with Government's commitment to effect ongoing improvements in its Public Accounts and in reporting to Parliament, Premier and Minister of Finance, the Hon. Paula A. Cox, JP, MP today tabled audited financial statements relating to the Consolidated Fund for the year-ended March 31, 2010.

The Consolidated Fund is the general operating fund of the Bermuda Government through which Government conducts the majority of its financial transactions.

The Consolidated Fund financial statements report the operations, financial position and changes in financial position that result from the activities of the Government. This includes the accounts of the Senate, the House of Assembly, all Government departments and offices and all courts.

For the third consecutive year, the annual accounts of the Consolidated Fund of the Government of Bermuda were given a qualified audit opinion. The qualification in this and the prior year was based on the Auditor General's opinion that there were serious deficiencies in internal controls in the management of certain capital development projects. She stated that these deficiencies led her to question the appropriateness of certain transactions and the underlying value of the assets at March 31, 2010. She went on to say that without the benefit of an independent professional valuation she was still unable to determine whether adjustments might be necessary.

Premier Cox informed Parliament that the detailed reasons for the qualification on the accounts will be included in the Auditor-General's Annual report when it is tabled.

## Appendix 3

Subsequent to the tabling of this document, normal Parliamentary procedures would be followed:

- The reports referred to the Public Accounts Committee for review.
- The Committee tabling its report with recommendations
- The Minister of Finance issuing a formal response, in writing, on behalf of the Government.

Should any Ministries finances be queried, the process will also allow for separate Ministerial Statements to be given by relevant Ministers on any financial shortcomings noted in the Report.

Premier Cox said, “The Government fully understands, respects and values the Office of the Auditor General. The Government will work with the Auditor General and take the required steps to ensure that this qualification is removed in the future, in the same manner they did when actions were taken on qualified accounts in 2000 and on other previous occasions.”

It must be noted that the 2009-2010 budget estimates, made in February 2009, were against the background of an array of very challenging economic and financial circumstances.

The global economy was in recession and there was sustained turmoil in world capital and financial markets. There was also a lack of confidence within the banking and financial sectors despite the most determined efforts of G8 leaders and policy-makers. Governments around the world were acting decisively and aggressively to implement monetary and fiscal policies aimed at preventing a free fall in the economy.

These circumstances must be considered when scrutinizing the Consolidated Fund Financial Statements for 2010.

### **Highlights of the Consolidated Fund Financial Statements 2010 are as follows:**

The total revenue raised by the Consolidated Fund for fiscal 2009/10 was approximately \$917.3 million, representing a decrease of \$33.5 million (3.53%) from fiscal 2008/09 for which balances have been restated. This was lower than original budget estimates by approximately \$52.4 million (5.40%). The most significant generators of revenues for fiscal 2009/10 were Payroll Taxes accounting for \$349 million or 38.1% (2009 - \$356.5 million or 37.4%) and Customs Duty accounting for \$219.0 million or 23.9% (2009 - \$224.2 million or 23.5%). Revenues were below budget in 2009-2010 mainly due to shortfalls in Customs Duty (\$23.6 million below), Stamp Duty (\$18.1 million below), Hotel Occupancy Tax (\$4.2 million below), and Immigration Receipts (\$3.3 million below).

Current expenses for fiscal 2009/10 were \$1.177 billion (2009 - \$1.112 billion). The three largest components of current expenses were: employee costs; grants and contributions;

and professional services. Total employee costs were \$607.9 million or 51.7% (2009 - \$579.7 million or 52.1%) of total expenses. Included in this amount is \$143.7 million (2009 - \$123.1 million) of non-cash retirement benefit expenses. Grants and contributions were \$261.1 million or 22.2% (2009 - \$234.9 million or 21.1%) and professional services were \$111.9 million or 9.5% (2009 - \$95.5 million or 8.6%).

Premier Cox stated that financial payments for professional services are often confused with payments to overseas consultants. For clarity, she explained this expenditure of \$111.9 covered all government contracts including cleaning, security, legal aid, Works and Engineering maintenance, contracted services for the Department of Airport Operations, health insurance portability claims, war pensioner medical claims and other 'locally' contracted services.

The total current expenditure on a modified cash basis for fiscal year 2009-2010, was \$1.0 billion, which was \$31.3 million higher than original budget estimates. Expenditures increased due to the following:

- unanticipated increases in police salaries from arbitrated awards and overtime;
- above budget expenditure on substitute and para-professional's salaries;
- increased expenditure on Government's health subsidy programme for the youth, aged and indigent

Total capital account cash expenditure was \$125.5 million; \$25 million lower than the original budget estimates. Capital development expenditure was \$10 million below original budget estimates while capital acquisitions were \$15 million below the original budget.

A further look reveals the closing Net Book Value of Tangible Capital Assets for the year was \$600 million (2009 - \$599.3 million). Included in the net additions of \$36 million (2009 - \$163 million) was a net transfer of \$14.1 million from Assets under Construction (2009 - \$88.0 million) to completed projects.

Net Public Debt, which excludes guarantees and is net of the Sinking Fund, increased by \$276.4 million (2009 - \$205.3 million) during fiscal 2009/10 standing at \$758.9 million at the end of the year. The escalation was mainly due to the Government issuing \$315 million in various Senior Notes, whose proceeds were used to fund Government's capital expenditure programme and repay overdraft facilities with local financial institutions.

As noted previously the Government raised \$315 million in long-term debt this fiscal year. The Notes were issued in different tranches in order to maintain a balanced maturity structure and to allow for earlier repayment of some of the Notes using funds in the Sinking Fund when they fall due.

When raising funds in the capital markets, the most important objective is to provide the government with stable financing at minimal cost under the prevailing market conditions.

## Appendix 3

The credit market turmoil in the fall of 2008 increased the cost of credit to all time highs, surpassing previous highs by 50%. Coupon levels on debt climbed to levels not seen since the mid 1990. The dramatic increase was primarily due to investor caution; however these costs have now lowered to pre-crisis levels, and should lower the cost of future Government borrowing.

It is important to note that in all cases the debt issued in 2009 was priced in line with comparable sovereign issues.

When including guarantees, net public debt was \$969.5 million (2009 – 483.3). As at March 31, 2010 Government guarantees total \$210.5 million, which includes the Butterfield preference share offering (\$200 million), a loan guarantee to WEDCO (\$10 million) and student loans which are guaranteed by the Government. These amounts are contingent liabilities to the Government and are not included on the Government's balance sheet; rather they are note-disclosed in the Financial Statements of the Consolidated Fund.

The actual net debt to GDP ratio at March 31, 2010 was about 13.6 %.

Bermuda's debt, despite recent increases in public debt as a percentage of GDP, is still moderate when compared to other countries and remains one of the lowest, debt policy ratios amongst developed modern economies. For example Bermuda's debt ratios are more than 40% **below** the median for the Fitch rated 'AA' category median, which includes sovereigns rated 'AA-', 'AA' and 'AA+'." Bermuda's 13.6% debt to GDP ratio is also 52% below the median debt to GDP ratios of similarly rated advanced industrial countries which is about 66.0%.

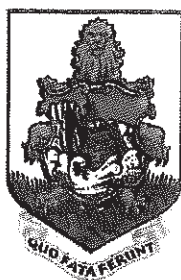
The statements of the Consolidated Fund provide valuable information on the financial position of the Government and the public is encouraged to examine them.

There is no doubt that the global recession is having a negative impact on Government finances worldwide and Bermuda is not unique in facing the economic challenges that are being faced globally.

To clearly illustrate the severity of the financial crisis on government finances worldwide, one should examine the sharp increases in budget deficits of OECD countries from 2008 to 2009. In 2008 the average budget deficit of OECD countries was 3.5 per cent of GDP. In 2009 this increased to 8.2 per cent of GDP, a staggering 134 per cent increase. In the eurozone over the same period, this statistic increased from 2 per cent, to 6.1 per cent of GDP, an increase of 205 per cent.

"I wish to assure the public that the Government is sensitive to the challenges which may arise when deficits reach short term peaks, however the Government is moving ahead with a credible plan for long-term fiscal consolidation in order to reduce public debt and to keep the country on a sustainable fiscal path," Premier Cox concluded.





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### INDEPENDENT AUDITOR'S REPORT

To the House of Assembly, the Governor and the Senate

#### **Report on the Financial Statements**

I have audited the accompanying financial statements of the Consolidated Fund of the Government of Bermuda, which comprise the statement of financial position as at March 31, 2011, and the statements of operations and accumulated deficit, change in net debt and cash flow 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 principles 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 qualified audit opinion.

### **Basis for Qualified Opinion**

I qualified my auditor's opinion on the financial statements of the Consolidated Fund for the year ended March 31, 2010, on the basis of serious deficiencies in internal control over the management of various capital development projects. These deficiencies led me to question the appropriateness of certain transactions and the underlying value of tangible capital assets as at March 31, 2010. As a consequence of last year's qualification, and without the benefit of an independent professional valuation, I am still unable to determine whether adjustments might be necessary to tangible capital assets and accumulated deficit as at March 31, 2011.

### **Qualified Opinion**

In my opinion, except for the effect of adjustments which I might have determined necessary had I been able to satisfy myself with respect to the balances of tangible capital assets, assets under construction and accumulated deficit referred to in the preceding paragraph, the financial statements present fairly, in all material respects, the financial position of the Consolidated Fund of the Government of Bermuda as at March 31, 2011, and the results of its operations, the changes in its net debt, and its cash flows for the year then ended in accordance with public sector accounting standards generally accepted in Bermuda and Canada.

### **Other matter**

As permitted by Section 6 of the Audit Act 1990, I may include in my auditor's report any other comments arising out of the accounts that I consider appropriate.

I wish to draw attention to the increased incidences of non-compliance with the Government of Bermuda's Financial Instructions which form the standard for financial controls of the Government. Although these incidences of non-compliance did not lead me to qualify my audit opinion for the current year, it is important that the Government adhere to its internal control framework.

### **Usefulness of these Financial Statements is Limited**

As described in Note 2, these financial statements represent the financial transactions of the Consolidated Fund and have been prepared primarily to provide accountability for the financial resources appropriated by the Legislature of Bermuda. These financial statements are not summary financial statements of the Government of Bermuda. Significant financial activities of the Government occur outside the Consolidated Fund. As such, the financial statements of the Consolidated Fund for the year ended March 31, 2011 do not represent the full nature and extent of the overall financial affairs and resources of the Government of Bermuda.



Hamilton, Bermuda  
February 7, 2012

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



GOVERNMENT OF BERMUDA

Ministry of Finance

**Government of Bermuda  
Consolidated Fund  
Statement of Responsibility for the Financial Statements  
March 31, 2011**

The Accountant General, subject to the general direction and control of the Minister of Finance, is responsible for the preparation of the financial statements of the Consolidated Fund.

The financial statements of the Consolidated Fund are prepared by the Accountant General in accordance with the requirements of governing legislation. The financial statements are based upon information provided by Government departments and, where necessary, information is based upon best estimates and judgement.

In order to fulfill accounting and reporting responsibilities, the Accountant General maintains systems of financial management and internal control to provide reasonable assurance that transactions are properly authorised by the Legislature, executed in accordance with prescribed regulations and properly recorded to maintain accountability of public money and safeguard the assets and properties under Government administration.

The audited financial statements are tabled before the Legislature annually and are referred to the Public Accounts Committee, which reports to the Legislature on the results of its examination together with any recommendations it may have with respect to the financial statements and accompanying audit opinion.

On behalf of the Government of Bermuda.

Anthony Manders, CGA  
Acting Financial Secretary  
Ministry of Finance

Joyce Hayward, CPA  
Accountant-General  
Ministry of Finance

Hamilton, Bermuda  
February 3, 2012

# Government of Bermuda - Consolidated Fund Statement of Financial Position

As at March 31		2011	2010
		Actual	Restated (Note 17)
		\$	\$
<b>Liabilities</b>	<b><u>Schedule</u></b>		
Bank Overdraft (Note 16)		<b>57,490,260</b>	93,409,873
Accounts Payable and Accrued Liabilities	5	<b>146,366,433</b>	137,606,507
Deferred Revenue	6	<b>34,142,751</b>	30,262,623
		<b>237,999,444</b>	261,279,003
Interest Bearing Debt - Net of Sinking Fund	7	<b>944,491,502</b>	665,512,519
Pensions and Other Employee Future Benefits			
- Pensions and Retirement Benefits Note 9(g))		<b>1,049,575,594</b>	939,354,866
- Compensated Absences (Note 8)		<b>21,995,987</b>	21,336,602
		<b>1,071,571,581</b>	960,691,468
<b>Other Liabilities</b>			
Due to Government Funds and Agencies	3(a)	<b>49,787,833</b>	50,391,478
<b>Total Liabilities</b>		<b>2,303,850,360</b>	1,937,874,468
<b>Financial Assets</b>			
Cash and Cash Equivalents		<b>10,993,022</b>	19,531,018
Accounts Receivable	1	<b>166,636,860</b>	142,586,906
Due from Government Funds and Agencies	3	<b>18,113,855</b>	20,190,549
Long-Term Receivables	4	<b>1,904,335</b>	2,231,431
Investment in Quango (Notes 3(e) & 14(b))		<b>5,000,000</b>	5,000,000
<b>Total Financial Assets</b>		<b>202,648,072</b>	189,539,904
<b>Net Debt</b>		<b>2,101,202,288</b>	1,748,334,564
<b>Non-Financial Assets</b>			
Tangible Capital Assets (Notes 3(f) & 15)	12	<b>727,752,452</b>	600,482,069
Assets under Construction (Note 3(f))	12	<b>59,272,927</b>	98,619,361
Inventories for Consumption	2	<b>14,976,960</b>	16,420,102
Prepaid Expenses		<b>3,473,625</b>	4,751,754
<b>Total Non-Financial Assets</b>		<b>805,475,964</b>	720,273,286
<b>Accumulated Deficit</b>		<b>1,295,726,324</b>	1,028,061,278

Contingent Liabilities, Non-Contractual Operational Commitments and Contractual Commitments (Notes 10, 11, 12 and Schedule 16)

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

# Government of Bermuda - Consolidated Fund Statement of Operations and Accumulated Deficit

For the year ended March 31		2011 Original Estimates	2011 Actual	2010 Restated (Note 17)
		\$	\$	\$
	<u>Schedule</u>			
<b>Revenue</b>	8,10	1,058,812,000	<b>996,728,405</b>	917,940,724
<b>Expenses</b>				
Current	9,11	1,058,317,000	<b>1,272,650,610</b>	1,177,203,384
Capital Development (Note 17)	13		<b>31,647,283</b>	107,864,942
Capital Acquisition	14		<b>4,215,873</b>	7,825,370
			<b>1,308,513,766</b>	1,292,893,696
<b>Annual Deficit</b>			<b>(311,785,361)</b>	(374,952,972)
<b>Accumulated Deficit, Beginning of Year</b>			<b>(1,028,061,278)</b>	(657,656,965)
Recognition of Tangible Capital Assets (Note 15)			<b>44,120,315</b>	4,011,987
Correction of Error (Note 17)			-	536,672
<b>Accumulated Deficit, End of Year</b>			<b>(1,295,726,324)</b>	(1,028,061,278)

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

# **Government of Bermuda - Consolidated Fund Statement of Change in Net Debt**

<b>For the year ended March 31</b>	<b>2011</b>	<b>2010</b>
	<b>Actual</b>	<b>Restated (Note 17)</b>
	<b>\$</b>	<b>\$</b>
Annual Deficit	<b>(311,785,361)</b>	<b>(374,952,972)</b>
Change Due to Tangible Capital Assets:		
Net Additions to Tangible Capital Assets	<b>(126,306,791)</b>	<b>(34,537,246)</b>
Net Reductions in Assets under Construction	<b>39,346,434</b>	<b>14,111,326</b>
Amortization of Tangible Capital Assets	<b>43,156,723</b>	<b>37,330,814</b>
Total Change Due to Tangible Capital Assets	<b>(43,803,634)</b>	<b>16,904,894</b>
Net Reductions in (Additions to) Inventories for Consumption	<b>1,443,142</b>	<b>(1,775,051)</b>
Net Reductions in Prepaid Expenses	<b>1,278,129</b>	<b>1,650,250</b>
Total Change Due to Inventories for Consumption and Prepaid Expenses	<b>2,721,271</b>	<b>(124,801)</b>
<b>Increase in Net Debt</b>	<b>(352,867,724)</b>	<b>(358,172,879)</b>
<b>Net Debt, Beginning of Year</b>	<b>(1,748,334,564)</b>	<b>(1,390,698,357)</b>
Correction of Error (Note 17)	-	536,672
<b>Net Debt, End of Year</b>	<b>(2,101,202,288)</b>	<b>(1,748,334,564)</b>

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



# Government of Bermuda - Consolidated Fund

## Statement of Cash Flow

For the year ended March 31	2011	2010
	Actual	Restated (Note 17)
	\$	\$
<b>Operating Activities</b>		
Annual Deficit	(311,785,361)	(374,952,972)
Items not affecting cash:		
Amortization of Tangible Capital Assets	43,156,723	37,330,814
Increase in Pension and Retirement Benefits Liability	110,220,728	104,945,632
Increase in Compensated Absences Liability	659,385	1,750,338
Decrease in Non-Cash Working Capital	(6,888,484)	(25,001,305)
Cash Applied to Operating Activities	(164,637,009)	(255,927,493)
<b>Capital Activities</b>		
Net Additions to Tangible Capital Assets	(126,306,791)	(34,537,246)
Net Reductions in Assets under Construction	39,346,434	14,111,326
Cash Applied to Capital Activities	(86,960,357)	(20,425,920)
<b>Financing Activities</b>		
Debt issues	500,000,000	315,000,000
Debt retirement	(200,000,000)	-
(Increase) Decrease in Sinking Fund	(21,021,017)	15,293,280
Cash Provided By Financing Activities	278,978,983	330,293,280
<b>Net Increase in Cash and Cash Equivalents</b>	<b>27,381,617</b>	<b>53,939,867</b>
<b>Cash and Cash Equivalents, Beginning of Year</b>	<b>(73,878,855)</b>	<b>(127,818,722)</b>
<b>Cash and Cash Equivalents, End of Year</b>	<b>(46,497,238)</b>	<b>(73,878,855)</b>
Cash and Cash Equivalents, End of Year		
Cash and Cash Equivalents	10,993,022	19,531,018
Bank Overdraft	(57,490,260)	(93,409,873)
<b>Cash and Cash Equivalents, End of Year</b>	<b>(46,497,238)</b>	<b>(73,878,855)</b>

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

## **Government of Bermuda – Consolidated Fund**

### **Notes to the Financial Statements**

### **March 31, 2011**

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#### **1. Authority**

The Consolidated Fund (the “Fund”) operates under the authority of the Bermuda Constitution Order 1968 and amendments, and the Public Treasury (Administration and Payments) Act 1969 and amendments.

All public money is paid into the Fund and legislative authority must be obtained for any expenditure out of the Fund.

The Legislature provides authority to make payments out of the Fund in annual Appropriation Acts, Supplementary Estimates and other statutes. Unused spending authority for current account appropriations lapses at the end of the fiscal year. Unused spending authority for uncompleted capital projects is carried forward to subsequent fiscal years, subject to the approval of the Minister of Finance.

#### **2. Reporting Entity**

The Fund’s financial statements report the financial position, results of operations, change in net debt and cash flow resulting from the activities of the Fund only, which comprise the accounts of the Senate, the House of Assembly, all Government departments and offices (including the Public Service Commission) and all courts. The Fund is established and defined pursuant to section 94 of the Bermuda Constitution Order 1968.

These financial statements are not summary consolidated financial statements of the Bermuda Government. Separate audited financial statements are prepared for all other Government organizations.

These financial statements are prepared in accordance with the legislative requirements as outlined in sections 5 and 32A of the Public Treasury (Administration and Payments) Act 1969 and amendments.

The Government adheres to the general practice of using a Consolidated Fund as its general operating fund. Schedules 10 to 14 provide information concerning the operations, tangible capital assets and capital expenses of individual Government departments and funds and agencies comprising the Fund.

#### **3. Summary of Significant Accounting Policies**

The recommendations of the Public Sector Accounting Board and the Accounting Standards Board of 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) are the source for the disclosure basis of accounting.

The preparation of financial statements in accordance with the disclosed basis of accounting requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the 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 year. Actual results could differ from these estimates.



**Government of Bermuda – Consolidated Fund  
Notes to the Financial Statements  
March 31, 2011**

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### **3. Summary of Significant Accounting Policies (cont'd)**

The significant accounting policies are as follows:

#### **(a) Method**

The financial statements are prepared on the accrual basis of accounting.

#### **(b) Revenue**

Revenues are accounted for in the fiscal year in which the transactions or events occurred that gave rise to the revenues.

Revenues not practicably measurable until cash is received are accounted for upon receipt.

Amounts received or receivable prior to the end of the year, which relate to revenues that will be earned in a subsequent fiscal year, are reported as deferred revenue.

#### **(c) Expenses**

Expenses are accounted for in the fiscal year that goods and services are acquired, a liability is incurred or grant payments are due.

Contributions to Government funds and agencies are expensed in the year the expenditure is made.

Classification of expenses between current account items and capital account items follows the classification in the Approved Estimates.

#### **(d) Interdepartmental Revenues and Expenses**

Interdepartmental revenues and expenses are not eliminated but have been identified as explained in Note 14(c).

#### **(e) Financial Assets**

Financial assets are resources that can be used to discharge existing liabilities or finance future operations. They include cash and cash equivalents, accounts receivable, amounts due from Government funds and agencies, long-term receivables and investment in QUANGO.

Accounts receivable are recorded at cost. A valuation allowance is recorded when collection of the receivable is considered doubtful.

Long-term receivables are recorded at unamortized cost.

Investment in QUANGO is recorded at cost.

**Government of Bermuda – Consolidated Fund**  
**Notes to the Financial Statements**  
**March 31, 2011**

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### **3. Summary of Significant Accounting Policies (cont'd)**

#### **(f) Non-Financial Assets**

Non-Financial assets are resources that are employed for future services. They include tangible capital assets, assets under construction, inventories for consumption and prepaid expenses. The costs of acquiring land, buildings, equipment and other capital property are capitalized as tangible capital assets and are amortized over the estimated useful lives of the assets. Where original acquisition documents were difficult to retrieve, the Book Value Calculator (“BVC”), developed by the Chief Appraiser of Public Works and Government Services Canada (as modified by them to address the Bermuda Government situation), was used to establish reasonable estimates of the Net Book Values in order to develop opening balances.

Other tangible capital assets that do not meet the minimum threshold requirements for their respective asset class have continued to be charged to capital expenses in the year of purchase, which is consistent with prior years. These expenses are currently classified as capital development and capital acquisition expenses on the Statement of Operations and Accumulated Deficit. Included in the capital development and capital acquisition expenses are other significant items: capital grants, repairs and maintenance, professional fees and other items which are expensed as they are incurred. Tangible capital assets that have not yet been disclosed include historical treasures.

Amortization is recorded on a straight-line basis for all assets, according to the following:

Buildings	2- 40 years
Leasehold Improvements	Remaining life or lease period of the related asset
Betterments	Remaining life or lease period of the related asset
Vehicles & Heavy Equipment	
\$3,000 to \$99,999	5 years
\$100,000 and above	7 years
Boats & Vessels	
\$10,000 to \$99,999	5 years
\$100,000 and above	10 years
Leased Equipment	3 years
Computer Hardware	
\$3,000 to \$99,999	3 years
\$100,000 and above	7 years

All laptops and desktop computers are capitalized

**Government of Bermuda – Consolidated Fund  
Notes to the Financial Statements  
March 31, 2011**

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### **3. Summary of Significant Accounting Policies (cont'd)**

Computer Software	
\$20,000 and above	10 years
Furniture & Fixtures	
\$3,000 and above	7 years
Office Equipment	
\$3,000 and above	5 years
Plant, Machinery & Equipment	
\$50,000 and above	10 – 30 years
Infrastructure	
\$50,000 to \$199,999	10 years
\$200,000 and above	40 years

\* Dollar threshold are based on per unit values with the exception of Furniture and Fixtures.

The Ministry of Public Works is primarily responsible for Government's tangible capital assets. Amortization expense is reported under that Ministry. Since amortization is a non-cash expense, it is removed for appropriation reporting purposes.

Assets under construction relate to the development of buildings, betterments, vehicles, computer hardware, computer software, infrastructure, office equipment and vessels. Upon completion, the balance of assets under construction will be transferred to tangible capital assets and amortized based on the appropriate useful life.

Inventories for consumption are comprised of spare parts and supplies that are held for future program delivery and are not intended for resale. They are valued at cost. Inventories for consumption that no longer have service potential are valued at the lower of cost or net realizable value. Items for which the costs are not readily available have been valued using management's best estimates of original cost based on available information.

#### **(g) Liabilities**

Liabilities are recorded for financial obligations to organizations and individuals occurring as a result of transactions and events arising on or before the year-end. They occur as a result of contracts, agreements and legislation in force at year-end that require the Government to repay borrowings or to pay for goods and services acquired or provided on or before the year-end. Liabilities also include grant payments due where no direct value is received in return.

**Government of Bermuda – Consolidated Fund  
Notes to the Financial Statements  
March 31, 2011**

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**3. Summary of Significant Accounting Policies (cont'd)**

**(h) Translation of Foreign Currencies**

The financial statements are reported in Bermuda dollars. The Bermuda dollar is valued at par with the United States dollar. Assets and liabilities denominated in foreign currencies are translated at the exchange rate prevailing at the year-end date. Revenues and expenses originating in foreign currencies are translated at the exchange rate in effect on the date the specific transactions occurred. Translation gains and losses are included in the Statement of Operations and Accumulated Deficit.

**(i) Measurement Uncertainty**

Estimates are used to accrue revenues and expenses in circumstances where the actual accrued revenues and expenses are unknown at the time the financial statements are prepared. Uncertainty in the determination of the amount at which an item is recognized in the financial statements is known as measurement uncertainty. Such uncertainty exists when there is a variance between the recognized amount and another reasonable amount, as there is whenever estimates are used.

Measurement uncertainty in these financial statements exists in the accrual of individual and corporate payroll and land taxes, accruals for pension obligations, accruals for environmental obligations, allowances for doubtful receivables and accruals for liabilities through actuarial valuations.

The nature of the uncertainty related to the accruals for pension obligations arise because actual results may differ significantly from the Government's best estimates of expected results based on variables such as earnings on the pension investments, salary increases and the life expectancy of the participants. The uncertainty related to the accrual of environmental obligations is based upon the identification of all sites where environmental damages have occurred that are the Government's responsibilities to mitigate and the quantification of what the actual liability will be based upon impact studies. Uncertainty concerning the allowance for doubtful revenue is based upon actual collectability and changes in economic conditions.

While management's best estimates have been used for reporting items subject to measurement uncertainty, it is possible that changes in future condition in the near term could require a material change in the valuation of the reported amounts. Near term is defined as a period of time not to exceed one year from the date of the financial statements.

**4. Approved Estimates of the Government of Bermuda**

**(a) Budget Process**

Annually, the Government presents a Budget ("Estimates") of expected revenues and expenditures for the following fiscal year.

**Government of Bermuda – Consolidated Fund  
Notes to the Financial Statements  
March 31, 2011**

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#### **4. Approved Estimates of the Government of Bermuda (cont'd)**

The Government's spending Estimates for the fiscal year commencing April 1, 2010 were presented to the Members of the Legislature by the Minister of Finance.

The Estimates outline the spending plans of each Ministry/Department submitted for approval to the Legislature in the Appropriations Act.

The Estimates referred to in the financial statement schedules are from the original Approved Estimates of Revenue and Expenditure for the fiscal year 2010/11 and do not reflect changes arising from the tabling of Supplementary Estimates, except for the Adjusted Estimates referred to in Schedule 15 which include the original Approved Estimates and any tabled Supplementary Estimates.

##### **(b) Comparison of Expenses to Estimates for Expenditure**

The Ministry of Finance prepares annual Estimates on the modified cash basis. These financial statements are prepared on an accrual basis. Due to the difference in accounting, Schedule 15 restates actual expenses to the modified cash basis for comparative and analytical purposes against the adjusted estimates. The most significant differences are as follows:

- (i) Bad Debts – For financial statements purposes, a provision is established and expensed for accounts receivable where collection is doubtful. For budget purposes, no such provision is made.
- (ii) Pension – The financial statement pension-related expense is explained in Note 9. For budget purposes, pension expense is equal to its funding requirements.
- (iii) Government Borrowing Sinking Fund (Note 5) – Transfers to the Sinking Fund are recorded as cash transfers. For budget purposes, the Sinking Fund contribution is considered expenditure.
- (iv) Compensated Absences – Certain Government employees are entitled to paid retirement leave, as explained in Note 8. For budget purposes, retirement pay is estimated based on anticipated salary spending for the current year.

#### **5. Government Borrowing Sinking Fund**

Effective March 31, 1993, the Government Borrowing Sinking Fund ("GBSF") was established as a separate legal entity for the repayment of government borrowing under the provisions of the Government Loans Act 1978, as amended.

During each financial year, the Fund must pay to the GBSF 2.5% of the public debt outstanding in the Fund at the end of the preceding year. Under section 12AA of the Government Loans Act 1978 as amended, the Minister may, by Order, suspend the annual contribution for a period of twelve months.

**Government of Bermuda – Consolidated Fund**  
**Notes to the Financial Statements**  
**March 31, 2011**

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## **5. Government Borrowing Sinking Fund (cont'd)**

The GBSF assets may only be applied to reduce, cancel or pay interest on public debt. The assets are invested in accordance with the Public Funds Act 1954 and are shown as a reduction of debt issued on the Fund's Statement of Financial Position.

The following is a schedule of projected contributions to the GBSF by the Fund up to March 31, 2016, based on estimated debt levels to March 31, 2012:

	<b>2011</b>
	<b>\$</b>
2012	25,750,000
2013	30,750,000
2014	30,750,000
2015	30,750,000
2016	30,750,000

Separate audited financial statements are prepared for the GBSF to which readers should refer for further information.

## **6. Contingencies Fund**

On March 14, 1979 the House of Assembly passed a resolution to withdraw \$1 million from the Fund to set up a Contingencies Fund under the provisions of Section 10(1) of the Public Treasury (Administration and Payments) Act 1969, as amended.

The purpose of the Contingencies Fund is to allow the Minister of Finance to authorize urgent and unforeseen expenditures up to \$1 million prior to the approval of the Legislature by supplementary estimate. The Contingencies Fund balance is not segregated from general operating cash and cash equivalents and accumulated deficit.

## **7. Unemployment Insurance Fund**

The Unemployment Insurance Fund ("Insurance Fund") was established March 18, 2002 by amendment to the Public Treasury (Administration and Payments) Act 1969 under the provisions of Section 10B. The Legislature authorized \$1 million to be set aside within the Fund to set up the Insurance Fund.

**Government of Bermuda – Consolidated Fund**  
**Notes to the Financial Statements**  
**March 31, 2011**

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## **7. Unemployment Insurance Fund (cont'd)**

The Minister of Finance will pay amounts approved by the Legislature as Government's contribution to the Insurance Fund. Monies paid into the Insurance Fund will be invested in accordance with the Public Funds Act 1954 and the interest earned on such investments will be paid into the Insurance Fund. At the time it was anticipated that an unemployment insurance scheme would be established to make periodic payments to unemployed persons.

## **8. Compensated Absences**

Certain Government employees are entitled to paid retirement leave under the various union agreements that exist with the Government. Paid retirement leave is available to those eligible employees with a minimum of ten years credited service, who are retiring on the basis of age. The leave is paid at the salary level immediately preceding the date of retirement, to a maximum eligibility of twelve weeks.

An actuarial valuation of the Government's obligation for retirement leave was extrapolated to March 31, 2011, using similar various long-term assumptions as the Public Service Superannuation Fund pension plan (Note 9). The valuation determined that the accrued benefit obligation for retirement leave is currently \$21,995,987 (2010-\$21,336,602), as defined in the table below.

	<b>2011</b>	<b>2010</b>
	<b>\$</b>	<b>\$</b>
Accrued benefit obligation, beginning of year	21,336,602	19,586,264
Amortization of experience loss	60,754	80,974
Current period benefit cost	1,148,450	1,011,619
Interest accrued	1,397,769	1,341,654
Benefit payments	<u>(1,947,588)</u>	<u>(683,909)</u>
Accrued benefit obligation, end of year	<u>21,995,987</u>	<u>21,336,602</u>

## **9. Pensions and Other Retirement Benefits**

### **(a) Contributory Defined Benefit Pension Plans**

The Government administers contributory defined benefit pension plans for substantially all of its employees, quasi-autonomous non-governmental organization ("QUANGO") employees and all ministers and members of the Legislature. There are two plans currently in operation – the Public Service Superannuation Fund ("PSSF") and the Ministers and Members of the Legislature Pensions Fund ("MMLPF").

**Government of Bermuda – Consolidated Fund**  
**Notes to the Financial Statements**  
**March 31, 2011**

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## **9. Pensions and Other Retirement Benefits (cont'd)**

For the PSSF, a service pension is available with a minimum of eight years credited service. Subject to exceptions as outlined in the Public Service Superannuation Act 1981, it is based on the number of years of service times 1.5% of the salary payable immediately preceding the date of retirement. Additional benefits are provided to special groups such as police, prison wardens, fire service and regiment employees.

For the MMLPF, a service pension is generally available to contributors who have reached age 60 and have served for at least 8 years, or to contributors who have reached age 55 and have served for at least 20 years. The rate of pension is  $\frac{3}{1000}$ <sup>th</sup> of the monthly salary payable to a minister, member or officer, on the date on which the contributor becomes entitled to receive a pension, for each month of service rendered up to a maximum of 25 years. Cost of living increases are calculated by reference to the Consumer Price Index on a biennial basis.

Employees contribute 8.0% of their basic salary for PSSF and Ministers and Members contribute 12.5% of their salary for MMLPF. The Government matches the participant's contribution in each plan. The amount of Government contributions made during the year for each plan was as follows: PSSF - \$32,588,714 (2010 - \$31,576,054), MMLPF - \$485,071 (2010 - \$454,038). The Public Service Superannuation Act 1981 and the Ministers and Members of the Legislature (Salaries and Pensions) Act 1981, as amended, provide that, if at any time the funds are insufficient to meet the payments chargeable against them, the deficiency shall be made up out of the Consolidated Fund.

### **(b) Pension Liability**

Normally, the pension liability is calculated on an actuarial basis. Actuarial valuations are performed triennially using the projected benefit method, pro-rated on services. For the prior fiscal year end March 31, 2010, an actuarial valuation was performed on both the PSSF and the MMLPF as at March 31, 2008. The results were then extrapolated to March 31, 2010 using the same assumptions, to produce the estimates included in the financial statements. For the fiscal year end March 31, 2011, an actuarial valuation was performed on both the PSSF and the MMLPF as at March 31, 2010, the results were then extrapolated to March 31, 2011, using the same assumptions, to produce estimates in these financial statements. The difference between the extrapolation as at March 31, 2010 and the actuarial valuation as at March 31, 2010 has resulted in a valuation adjustment in the Accrued Benefit Obligation as at March 31, 2010 (Note 9(g)). This adjustment reflects a change in accounting estimate which will be reflected in the current year as per Public Sector Accounting Standard PS 2120.28.

Actuarial valuations are based on a number of assumptions about future events, such as inflation rates, interest rates, wage and salary increases, employee turnover and mortality. The assumptions used reflect Government's best estimates of expected long-term rates and short-term forecasts.

The most significant assumptions are that the average investment return will be greater than the average rate of salary increase by approximately 2.25% (prior valuation – 2.25%) and the cost of living increase will average 3.0% (prior valuation - 3.0%) per annum.



**Government of Bermuda – Consolidated Fund**  
**Notes to the Financial Statements**  
**March 31, 2011**

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## **9. Pensions and Other Retirement Benefits (cont'd)**

The 1994 Group Annuity Mortality Table was used for the mortality assumption.

For the PSSF, pension fund assets consist primarily of listed stocks and bonds, short-term investment funds, hedge funds and private equity investments. Market-related asset values, which recognize the differences between the actual return on assets and the expected return on assets over a period of five years, have been used to determine the pension liability and pension-related expenses for the PSSF.

The market-related value of assets for the PSSF was \$468,985,435 as at March 31, 2011 (2010 - \$437,542,000) compared to a real market value of \$486,693,676 (2010 - \$424,814,565).

For the MMLPF, there is no difference between the market value of plan assets and the market-related value. As at March 31, 2011, the value was \$10,200,192 (2010 - \$9,332,612). The actual return on plan assets during the year was 14.67% (2010 - 31%) for the PSSF and 7.25% (2010 - 7.0%) for the MMLPF.

As at March 31, 2011, \$4,366,587 was due to the PSSF in respect of contributions received in excess of benefits paid by the Fund (2010 - \$ 2,797,004).

### **(c) Pension-Related Expenses**

Pension-related expenses recognized by the Consolidated Fund comprise the cost of pension benefits earned by employees during the year, interest on the pension benefit liability (net of interest on pension plan assets) and amortization of the Government's share of any experience gains or losses, less contributions made by the employees. The estimated total cost of the Government's share of plan amendments related to past service is expensed in the year the plan is amended. The pension-related expense is disclosed in Note 9(g) and included in Schedule 9 as a component of retirement benefit expenses.

A net unamortized experience loss of \$146,266,000 (2010 - \$159,693,000) is reported in the schedule below. The amount comprises a total unamortized experience loss on the pension liability of \$130,183,000 (2010 - \$140,410,000) and a total unamortized experience loss on the asset valuation of \$16,083,000 (2010 - \$19,283,000). The period of amortization is ten years.

Aggregate information about the PSSF and MMLPF is in the following tables.

**Government of Bermuda – Consolidated Fund**  
**Notes to the Financial Statements**  
**March 31, 2011**

---

**9. Pensions and Other Retirement Benefits (cont'd)**

**(d) Funded Status of Plans**

**For the year ended March 31**

	<b>2011</b>	<b>2010</b>
	<b>Actual</b>	<b>Actual</b>
	<b>\$</b>	<b>\$</b>
<b>Pension Liability</b>		
Accrued Benefit Obligation		
PSSF	1,393,994,000	1,291,640,000
MMLPF	31,526,000	30,815,000
	<u>1,425,520,000</u>	<u>1,322,455,000</u>
Net Fund Assets		
PSSF	(468,985,000)	(437,542,000)
MMLPF	(10,298,000)	(9,390,000)
	<u>(479,283,000)</u>	<u>(446,932,000)</u>
Net Unamortized Experience Loss		
PSSF	<u>(146,266,000)</u>	<u>(159,693,000)</u>
Pension Liability		
PSSF	778,743,000	694,405,000
MMLPF	21,228,000	21,425,000
Carried Forward to Note 9 (g)	<u>799,971,000</u>	<u>715,830,000</u>

**Government of Bermuda – Consolidated Fund**  
**Notes to the Financial Statements**  
**March 31, 2011**

---

**9. Pensions and Other Retirement Benefits (cont'd)**

For the year ended March 31	2011 Actual \$	2010 Actual \$
Cost of Pension Benefits	54,379,221	46,674,000
Employee Contributions	(33,073,785)	(32,030,092)
Interest on Pension Liability	59,570,564	58,173,117

**Amortization of Experience Gains & Losses**

2002 Experience Loss	-	573,592
2003 Experience Loss	3,418,847	3,418,847
2004 Experience Loss	21,908,086	21,908,086
2005 Experience Loss	2,048,199	2,048,199
2006 Experience Loss	595,574	595,574
2007 Experience Gain	(351,626)	(351,626)
2008 Experience Loss	5,243,035	5,243,035
2009 Experience Loss	7,608,893	7,608,893
2010 Experience Gain	(2,547,908)	-
Carried forward to Note 9 (g)	<u>118,799,100</u>	<u>113,861,625</u>

**(e) Contributory Pension Fund**

The Contributory Pension Fund ("CPF") was established under the Contributory Pensions Act 1970 and subsequent amendments.

The purpose of the CPF is to provide old age pension, disability and death benefits for persons satisfying certain contribution, citizenship and residency requirements.

Contributions to the CPF are compulsory for persons employed in Bermuda, the self-employed and employers.

There is no legislative provision for the Fund to provide for any shortfall if, at any time, the CPF has insufficient funds to meet its current legislated obligations.

**Government of Bermuda – Consolidated Fund**  
**Notes to the Financial Statements**  
**March 31, 2011**

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## **9. Pensions and Other Retirement Benefits (cont'd)**

### **(f) Retirement Benefits Other than Pensions – Employee Health Insurance Plan**

An actuarial calculation of the Government's obligations for retirement benefits other than pensions was performed for accounting purposes at March 31, 2011, using various long-term assumptions, based on the valuation performed as at March 31, 2010. The previous valuation was performed as at March 31, 2008.

The Government administers a health care plan, the Government Employees Health Insurance Fund ("GEHI"), for substantially all of its employees, QUANGO employees, all ministers and members of the Legislature and retirees. The GEHI Fund provides medical insurance for retirees and eligible dependents with the Government matching the participant's contribution to the plan. In 2002 the Government adopted accrual accounting for the GEHI plan.

The discount rate used in determining the accumulated post-retirement benefit obligation was 6.5%. The assumed health-care cost trend rate used was 9.0% (2010 - 8.5%). This will be reducing by 0.5% per annum to 5.0% (2019) per annum. The 1994 Group Annuity Mortality Table was used for the mortality assumption. The value accrues a liability in respect of the matching premium paid by government under the insurance arrangement in respect of retired employees. The calculation is based on the projected benefit method pro-rated on service.

Aggregate information about the health care plan is in the table below.

	<b>2011</b>	<b>2010</b>
	<b>\$</b>	<b>\$</b>
Accrued benefit obligation at beginning of year	266,040,563	245,996,783
Valuation adjustment (Note 9(b))	7,840,911	-
Adjusted accrued benefit obligation at beginning of year	273,881,474	245,996,783
Current period benefit cost	9,545,153	8,981,428
Interest accrued	17,894,088	16,117,398
Benefit payments	(6,720,775)	(5,055,046)
Accrued benefit obligation at end of year	<u>294,599,940</u>	<u>266,040,563</u>
Expected accrued benefit obligation at end of year	294,599,940	266,040,563
Actual accrued benefit obligation at end of year	<u>294,599,940</u>	<u>266,040,563</u>
Experience loss	<u>-</u>	<u>-</u>

**Government of Bermuda – Consolidated Fund**  
**Notes to the Financial Statements**  
**March 31, 2011**

---

**9. Pensions and Other Retirement Benefits (cont'd)**

Expected average remaining service life	12 years	12 years
Annual amortization	\$5,361,262	\$4,707,852

**Liability for retirement benefits recorded in the statement of financial position**

	<b>2011</b>	<b>2010</b>
	<b>\$</b>	<b>\$</b>
Accrued benefit obligation, end of year	294,599,940	266,040,563
Unamortized experience losses	<u>(44,995,346)</u>	<u>(42,515,697)</u>
Liability for retirement benefits (Note 9(g))	<u>249,604,594</u>	<u>223,524,866</u>

**Expenses recorded in statement of operations and accumulated deficit**

	<b>2011</b>	<b>2010</b>
	<b>\$</b>	<b>\$</b>
Current period benefit cost	9,545,143	8,981,428
Amortization of experience losses	<u>5,361,262</u>	<u>4,707,852</u>
Retirement benefit expense	14,906,405	13,689,280
Retirement benefit interest expense	<u>17,894,088</u>	<u>16,117,398</u>
Total expenses related to retirement benefits (Note 9(g))	<u>32,800,493</u>	<u>29,806,678</u>

**(g) Accrued Pensions and Retirement Benefits Liability and Expense Summary**

	<b>2011</b>	<b>2010</b>
	<b>\$</b>	<b>\$</b>
Pensions (Note 9(d))	799,971,000	715,830,000
Retirement Benefits other than Pensions – Health Insurance Plan (Note 9(f))	<u>249,604,594</u>	<u>223,524,866</u>
Total Pensions and Retirement Benefits Liability	<u>1,049,575,594</u>	<u>939,354,866</u>
Pensions (Note 9(d))	118,799,100	113,861,625
Retirement Benefits other than Pensions – Health Insurance Plan (Note 9(f))	<u>32,800,493</u>	<u>29,806,678</u>
Total Pensions and Retirement Benefits Expense	<u>151,599,593</u>	<u>143,668,303</u>

**Government of Bermuda – Consolidated Fund**  
**Notes to the Financial Statements**  
**March 31, 2011**

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## **10. Contingent Liabilities**

### **(a) Guarantees**

#### **(i) National Education Guarantee Scheme**

In August 1994, the Government introduced the National Education Guarantee Scheme to provide qualifying students with financial guarantees on bank loans for post-secondary education. The repayment of principal and accrued interest is guaranteed by the Government. In the event of default by the student, the banks will call on the guarantee contract. At March 31, 2011, \$356,895 (2010 - \$542,367) is outstanding on guaranteed student loans with local banks.

#### **(ii) West End Development Corporation Guarantee (“WEDCO”)**

On April 1, 2009, the Minister of Finance consented to the borrowing of \$10 million by WEDCO from the Capital G Bank to facilitate the completion of the new Sewage Treatment Plant at Dockyard.

The Minister of Finance further approved the guarantee given by the Ministry of Public Works to repay the indebtedness by way of annual payments to WEDCO until all indebtedness to the Capital G Bank has been fully discharged.

The Ministry of Public Works further guarantees and will make good any default on the part of WEDCO in the payment of the loan to Capital G Bank and all related interest fees and charges due as a result of default by WEDCO until all indebtedness to the Capital G Bank has been fully discharged.

#### **(iii) Bank of N.T. Butterfield Guarantee Agreement**

On June 12, 2009, the Government assisted The Bank of N.T. Butterfield & Son Limited (“BNTB”) in raising qualifying Tier 1 capital via a perpetual preference share offering of US\$200 million.

Accordingly the Government provided the commitment that if the full \$200 million Preference Share Offering was not achieved on or prior to June 30, 2009, the Government would purchase no later than June 30, 2009 such number of Preference Shares as was sufficient to ensure that the Bank realized aggregate proceeds equal to and not less than US\$200 million. As the offering was fully subscribed, no such Government purchase was necessary.

On June 22, 2009, the Government entered into a Preference Shares Guarantee Agreement with the BNTB and others. The Government has guaranteed payment of 100% of the liquidation value of the outstanding Preferred Shares in the event of any voluntary or involuntary liquidation, dissolution or winding up of the affairs of BNTB during the term of the Guarantee. Also, the Government will act as a guarantor for the dividend payments relating to the Preferred Shares issuance. Should the BNTB fail to declare and pay dividends in any quarterly dividend

**Government of Bermuda – Consolidated Fund**  
**Notes to the Financial Statements**  
**March 31, 2011**

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## **10. Contingent Liabilities (cont'd)**

period during the term of the Guarantee, the Government will pay such dividends at 8% per annum.

Pursuant to the Preference Share Offering, the BNTB pays to the Government a fee of 1% per annum on the liquidation value of then outstanding Preference Shares issued to third party investors. The Government was in receipt of 4,279,601 warrants issued by the Bank to purchase a number of non-voting common shares of BNTB having an aggregate market price equal to US\$30 million. The initial exercise price for the warrants and the price for determining the number of common shares of BNTB subject to the warrants was \$7.01 per common share. The quantity of warrants remained at 4,150,773.72 with an exercise price of \$3.614. Per the valuation model run for March 31, 2011, the value of the warrants is \$0.157 (2010 - \$0.209) per warrant which represents a total value of \$651,671 (2010 - \$867,512).

### **(iv) Bermuda Hospitals Board Guarantee (“BHB”)**

On December 1, 2010, the Minister of Finance provided an irrevocable Guarantee Agreement to Paget Health Services Limited on behalf of the BHB to facilitate the completion of the New Hospital Project (“NHP”) of the King Edward VII Memorial Hospital in Paget.

The design and construction related costs of the new facility are approximately \$247 million. Once construction is completed in 2014, annual service payments will commence for a period of thirty years, consisting of principal, interest, construction, lifecycle and hard facilities maintenance. A portion of the annual service payment is indexed over the thirty year period to allow for changes in the cost of living and other related facility costs.

The Guarantee Agreement guarantees the payment obligations of the BHB to Paget Health Services Limited by the Government as required by the lenders.

### **(b) Claims and Potential Claims**

The Government is subject to claims and potential claims related to breach of contract, damages to persons and property and like items. The effect of legal claims cannot be determined until they are settled or dismissed. No liability has been admitted and no provision for claims is included in the financial statements. Any resulting losses will be recorded and charged to operations in the year an amount can reasonably be determined.

The total of specific amounts claimed or potential settlements which are under litigation or possible litigation as at March 31, 2011 is \$12,502,395 (2010 - \$11,020,168).

**Government of Bermuda – Consolidated Fund  
Notes to the Financial Statements  
March 31, 2011**

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**10. Contingent Liabilities (cont'd)**

**(c) Base Lands Clean Up**

The Government recognizes that there will be a cost for restoration of the land at the bases formerly occupied by the US military. It is anticipated that such costs would include removal of hazardous materials and clean-up.

A liability of \$26,250,000 has been accrued, which is an estimate of the costs of the clean-up and remediation at the three former major base land sites. The estimated range is \$32 million to \$40 million, which includes an approximate 20% contingency of the total.

The cost for Southside (estimated at \$10.5 million, with a range of \$10.5 million to \$20 million; \$6.5 million for work already performed has been deducted from the lower end of the estimated range) involves demolition of buildings beyond refurbishment and removal of asbestos. The cost for clean-up of Tudor Hill (estimated at \$1 million with a range of \$1 million to \$2 million) is for removal of asbestos and demolition of buildings on the site.

Clean-up of Morgan's Point is estimated at \$14.75 million (with a range of \$15 million to \$18 million); \$3 million of that amount is the estimated amount required to remove immediate environmental hazards and the remainder is for removal of fuel storage tanks, removal and remediation of asbestos as well as demolition of derelict buildings.

This estimate was developed in 2003, based on orders of cost which were developed from unit rates used for clean-up at Southside and budget estimates from consultants hired by potential developers at the Morgan's Point site. In 2008, the Government also hired a registered professional engineer to conduct an independent review and provide an estimate to compare to the prior estimate which fell within the original range.

A request for proposal was issued in July 2009 with proposed cleanup standards. The registered professional engineer independently estimated that if this proposal was to be contracted, it would cost the Government \$14 million to \$25 million in addition to the amounts already accrued.

In September 2010, the Government signed the Morgan's Point Exchange Agreement with Southlands Limited and Morgan's Point Limited. The agreement calls for the exchange of 12.454 hectares of land owned by Southlands Ltd. located in Warwick for 66.82 acres of freehold land at Morgan's Point in Southampton. Furthermore, the agreement provides Morgan's Point Limited, as the Developer, to develop an additional 128.46 acres of Leasehold property at Morgan's Point as further detailed in the Morgan's Point Land Development Agreement also signed in September 2010 amongst the same parties.

Article 6 of the Morgan's Point Exchange Agreement states the Bermuda Government is still responsible for the remediation of the Morgan's Point property to a standard deemed reasonably acceptable to the Developer.

As no terms have been agreed on the remediation of the land and the proposal has not been contracted, the accrual has not been adjusted.



**Government of Bermuda – Consolidated Fund  
Notes to the Financial Statements  
March 31, 2011**

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## **10. Contingent Liabilities (cont'd)**

### **(d) Hotel Payroll Tax Relief**

On February 21, 2009, the Government entered into a Memorandum of Understanding (“MoU”) with the Bermuda Hotel Association to provide exemptions for applicable hotels from the payment of payroll tax. The assessment of the exemption was to be done quarterly and, if applicable, would allow for the full exemption of the quarterly payroll tax.

The Hotel Concessions Act 2000 allows for the deferral of payroll tax for hotels which undergo development deemed to be in the national interest of Bermuda as if it is determinable that the development will, among other considerations:

- benefit the tourism industry and the economy;
- create employment and entrepreneurial opportunities for Bermudians;
- encourage local development, or;
- employ and train Bermudians.

The concessions are granted at the discretion of the Minister of Finance for those hotels that apply for the concessions. The Hotel Concessions Act 2000 permits an exemption, either in part or in full, of the payroll tax not exceeding five years from the hotel’s opening date.

The concession afforded to the Hotels is non-refundable and in instances where the payroll tax is deemed null and void due to the MoU, the concession remains as a contra-revenue amount to be applied against any future payroll tax incurred by those hotels.

The Government is obligated to recognize the effect of the concessions when payroll tax is actually incurred unless they are dismissed by the Minister of Finance. No liability has been admitted and no provision for collectibility is included in the financial statements. Any resulting losses of payroll tax will be recorded and charged to operations in the year the payroll tax is effective.

The total of the concessions that could be applied against any future payroll tax incurred by the applicable hotels as at March 31, 2011 is \$1,201,500.

### **(e) Air Service Agreements**

#### **(i) WestJet**

On June 1, 2010, the Government (“Guarantor”) entered into a Revenue Guaranty Agreement with WestJet. In consideration of the revenue guaranty provided by the Guarantor, WestJet agrees to operate three (3) times weekly service between Toronto and Bermuda for the period November 1, 2010 to April 30, 2011 (“Guaranty Period”).

The Government has guaranteed that WestJet will receive the minimum 10% operating margin for the scheduled service during the Guaranty Period. Upon the completion of the Guaranty Period, WestJet shall calculate the fully allocated

**Government of Bermuda – Consolidated Fund**  
**Notes to the Financial Statements**  
**March 31, 2011**

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**10. Contingent Liabilities (cont'd)**

profit margin consistent with the reporting process historically utilized by WestJet in determining route profitability (the "Profit Margin"). Additionally, WestJet shall deliver an operational report summarizing route specific traffic statistics, revenues, fully operating costs, profit margins, and funds required to achieve 10% profit margin to Guarantor (the "Report"). If the Profit Margin exceeds 10% during the Guaranty Period, no payment is due to WestJet. If the Profit Margin fails to reach 10% in the Guaranty Period, the Government shall pay to WestJet the difference between the actual Profit Margin and the amount of additional earnings that would hence result in a 10% Profit Margin within thirty (30) days of receipt of the Report to a maximum of \$1,450,000 USD.

The Government has established and delivered to WestJet an irrevocable Letter of Credit ("LOC") which came into effect April 14, 2010 issued by Bank of Bermuda, HSBC ("HSBC") in the amount of US\$500,000.

**(ii) American Airlines Inc.**

On November 18, 2010, the Government ("Guarantor") entered into an Air Service Agreement with American Airlines Inc. In consideration of the Air Service Agreement provided by the Government, American Airlines shall provide regular scheduled passenger Air Service between Miami International Airport and Bermuda International Airport in both directions effective November 18, 2010 through November 17, 2011. The Government has guaranteed payment to American of any revenue shortfall during the Air Service Period, if the Total Revenue as defined in the contract, from the provision of the Air Service is less than the Minimum Revenue Requirement as set forth in the contract.

In consideration of the Air Service provided by American Airlines, the Government has established and delivered an irrevocable LOC issued by HSBC in the amount of US\$1,500,000 which came into effect February 25, 2010.

**Government of Bermuda – Consolidated Fund**  
**Notes to the Financial Statements**  
**March 31, 2011**

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## **11. Non-Contractual Operational Commitments**

The Government has ongoing commitments to fund a variety of programs for public welfare including health, education, social services, protection of persons and properties, and management of natural resources. The following is an analysis of the future, non-contractual, operational commitments:

	<b>2011</b>
	<b>\$</b>
2012	117,358,918
2013	5,895,216
2014	5,313,146
2015	300,000
2016	1,830,000
2017 and subsequent	-
Total Future Operational Commitments	<u>130,697,280</u>

## **12. Contractual Commitments**

### **(a) Capital Leases**

The average period of capitalized leased office machines is 3 years. Leases are capitalized based on the discounted rate of 6.04% and amortized on a straight-line basis over the period of the lease.

The following is an analysis of the leases:

	<b>2011</b>	<b>2010</b>
	<b>\$</b>	<b>\$</b>
Present value of lease cost	4,351,940	4,250,453
Less: Accumulated amortization	<u>(3,560,100)</u>	<u>(3,098,887)</u>
Present value of leases payable	<u>791,840</u>	<u>1,151,566</u>

**Government of Bermuda – Consolidated Fund**  
**Notes to the Financial Statements**  
**March 31, 2011**

---

## **12. Contractual Commitments (cont'd)**

The following is a schedule of discounted future minimum lease payments under leases expiring up to March 31, 2015:

	<b>2011</b>
	<b>\$</b>
2012	356,170
2013	195,836
2014	115,130
2015	63,877
Add: Discounted Amount	<u>60,827</u>
Present value of lease obligation	<u><u>791,840</u></u>

### **(b) Contractual Obligations**

The nature of government activity results in some large multi-year contracts and agreements of various sizes and importance. Any financial obligations resulting from these are recorded as a liability when the terms of these contracts and agreements for the acquisition of goods and services or the provision of transfer payments are met.

The following is an analysis of estimated future expenditures related to these contractual obligations:

	<b>2011</b>
	<b>\$</b>
2012	40,862,033
2013	7,169,407
2014	4,352,977
2015	3,622,559
2016	5,009,082
2017 and subsequent	<u>-</u>
Total Contractual Obligations	<u><u>61,016,058</u></u>

## **12. Contractual Commitments (cont'd)**

### **(c) Operating Leases**

The Government rents premises under operating leases which expire at certain dates.

The following is an analysis of the future minimum operating lease payments:

	<b>2011</b>
	<b>\$</b>
2012	8,883,736
2013	6,083,146
2014	4,789,630
2015	4,058,841
2016	3,703,717
2017 and subsequent	<u>23,497,034</u>
Total Future Minimum Operating Lease Payments	<u><u>51,016,104</u></u>

## **13. Supplementary Estimates and Virements (Transfers)**

Section 96(3) of the Bermuda Constitution Order 1968 allows for Supplementary Estimates in respect of any fiscal year it is found that (a) the amount appropriated by the appropriation law for any purpose is insufficient or that a need has arisen for expenditure for a purpose for which no amount has been appropriated by that law; or (b) moneys have been expended for any purpose in excess of the amount appropriated for that purpose by the appropriation law or for a purpose to which no amount has been appropriated by that law, a supplementary estimate, showing the sum required or spent, shall be laid before the House of Assembly. Section 96(4) of the Bermuda Constitution Order 1968 requires that a Supplementary Appropriation Bill be introduced into the Legislature as soon as practical after year end of the year that supplementary estimates have been necessary.

The Public Treasury (Administration and Payments) Amendment Act 2004 allows a Permanent Secretary or a Head of Department to transfer a part of a Department's approved budget to another Department within the same Ministry, subject to the consent of the Minister of Finance. Virements do not increase the overall appropriation amount but facilitate the redeployment of approved budget resources after the start of a financial year.

**Government of Bermuda – Consolidated Fund  
Notes to the Financial Statements  
March 31, 2011**

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**13. Supplementary Estimates and Virements (Transfers) (cont'd)**

Final Supplementary Estimates for the periods 2003-2010 were approved in the House of Assembly on March 28, 2011.

During the year \$49,969,000 (2010 - \$23,046,550) in Supplementary Estimates were approved and spent which consisted of \$49,969,000 (2010 - \$22,079,950) for current expenditure and \$0 (2010 - \$966,600) for capital expenditure.

During the year \$12,352,977 (2010 - \$50,613,528) in virements were approved and transferred which consisted of \$8,570,017 (2010 - \$15,452,114) for current expenditure and \$3,782,960 (2010 - \$35,161,414) for capital expenditure.

Additional expenditures of \$23,517,956 (2010 - \$22,758,422) were incurred in excess of amounts appropriated by the Ministry and will require final approval, which consisted of \$22,634,452 (2010 - \$22,369,306) for current expenditure and \$883,504 (2010 - \$389,116) for capital expenditure.

Additional virements of \$30,086,119 (2010 - \$22,587,344) require final approval and transfer, which consisted of \$23,111,814 (2010 - \$13,408,617) for current expenditure and \$6,974,305 (2010 - \$9,178,727) for capital expenditure.

**14. Related Party Transactions**

**(a) Funds**

The Fund is related to the GEHI Fund, the Contributory Pension Fund ("CPF"), the MMLPF, the Bermuda Department of Tourism North America Retirement Plan ("BDTRP"), the PSSF, the Confiscated Assets Fund, the Government Borrowing Sinking Fund, the Health Insurance Fund, the Mutual Re-insurance Fund and the Government Reserves Fund.

The financial activities of these funds are reported separately in each fund's financial statements. The Fund provides accounting and certain administrative services to these funds. These transactions are in the normal course of operations and are measured at the appropriate exchange amount. The other activities represent the net position of contributions payable to the funds and expenses paid out of the Fund on behalf of the funds. Schedules 3 and 3(a) display details of unpaid balances due from and due to the funds which have arisen from normal operating activities. The rate of interest accruing on the balances is 7% per annum.

**Government of Bermuda – Consolidated Fund  
Notes to the Financial Statements  
March 31, 2011**

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## **14. Related Party Transactions (cont'd)**

### **(b) QUANGOs and Other Related Organizations**

The Fund is related to certain quasi-autonomous non-governmental organizations (“QUANGOs”) and other government controlled organizations. QUANGOs are government businesses which have been established under their respective legislative incorporation acts. Other government-related organizations are organizations that are controlled by government either by the possession of shares or voting rights or by some other means.

The Fund enters into transactions with the QUANGOs and other related organizations in the normal course of business which are measured at the exchange amount, which is the amount of consideration established and agreed upon by the related parties.

Schedules 3 and 3(a) include details of balances due from and due to these entities which have arisen from normal operating activities. During the year, no interest was charged and/or incurred from or to the Fund and the various QUANGOs and other related organizations.

#### **(i) Bermuda Monetary Authority (“BMA”)**

In accordance with Section 8 (3) of the Bermuda Monetary Authority Act 1969, the BMA pays a portion of its net profit (historically 50%) to the Consolidated Fund of the Government.

The BMA did not report a net profit for the year ended December 31, 2010 thus no transfer was required to be made to the Consolidated Fund.

#### **(ii) Bermuda Land Development Company Limited (“BLDC”)**

On November 12, 1996 (date of inception), the Government purchased 2,500,000 common shares of BLDC. The shares are valued at par \$1 each and are held in trust by the Minister of Finance.

On November 12, 1996 (date of inception), the Government purchased 2,500,000 common shares of BLDC. The shares are valued at par \$1 each and are held in trust by the Minister of Public Works.

### **(c) Interdepartmental Transactions**

Interdepartmental transactions are those transactions in which revenues and expenses are generated between Government departments and/or Ministries. These revenues and

**Government of Bermuda – Consolidated Fund  
Notes to the Financial Statements  
March 31, 2011**

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## **14. Related Party Transactions (cont'd)**

the related expenses should be eliminated from the Fund's figures. As per Note 3(d), interdepartmental revenues and expenses are not eliminated. However all interdepartmental revenues and expenses have been identified and are shown in Schedules 10(a) and 11(a), respectively.

## **15. Tangible Capital Asset Recognition**

As disclosed in note 3(f), infrastructure has now been recognized in the financial statements as at April 1, 2008. The assets in these classes purchased prior to April 1, 2008 have been recognized at amortized value. The recognition of the amortized value of these capital assets has been offset by an adjustment to the accumulated deficit, as disclosed in the Statement of Operations and Accumulated Deficit, excluded from the purchase of assets in the Statement of Cash Flow, and included at gross values in Schedule 12.

## **16. Bank Overdraft**

As at March 31, 2011 the Government has an overdraft facility agreement at the Bank of NT Butterfield ("BNTB") of \$40 million which expires on January 31, 2012.

As at March 31, 2011, the Government has an overdraft facility agreement at the Bank of Bermuda, HSBC ("HSBC") of \$20 million which expires on January 18, 2012. The daily charges applied to overdrawn balances is 1% above HSBC's base rate. Unauthorized overdraft balances are charged at 7.50% over the bank's base rate.

## **17. Restatement of Prior Period**

### **(a) Correction of an Error**

Section PS 3410 of the Public Sector Accounting Board Standards requires that a government transfer with stipulations should be recognized by a Government recipient as revenue in the period the transfer is authorized.

During the period October 2009 to March 2010, the Government transferred \$672,179 from the Confiscated Assets Fund to the Consolidated Fund in order to finance the ongoing assembly of the X-Ray equipment located at H.M. Customs. The transaction was recorded as an obligation to refund the Confiscated Assets Fund instead of as grant revenue. As a result of this correction, the prior year's obligation to the Confiscated Assets Fund has been decreased by \$672,179.



**Government of Bermuda – Consolidated Fund**  
**Notes to the Financial Statements**  
**March 31, 2011**

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## **17. Restatement of Prior Period (cont'd)**

The prior year's Due to Confiscated Assets Fund, Revenue, and Accumulated Deficit have been restated accordingly.

### **Due to Confiscated Assets Fund (Correction of an Error)**

As previously stated (March 31, 2010)	\$2,445,699
As restated	\$1,773,520

### **Revenue (Correction of an Error)**

As previously stated (March 31, 2010)	\$917,268,545
As restated	\$917,940,724

## **(b) Correction of an Error**

In January 2006, the Government paid \$536,572 towards the acquisition and construction of ten Manufactured Homes from Clayton Waycross Homes in Georgia in the United States to assist the less fortunate in Bermuda. The cost of the homes was authorized to be reimbursed to the Consolidated Fund by the Government Reserves Fund in that year. The reimbursement was never recorded. As a result of this correction, the prior year's receivable from the Government Reserves Fund has been increased by \$536,672.

The prior year's Due from Government Reserves Fund and Accumulated Deficit have been restated accordingly.

### **Due from Government Reserve Fund (Correction of an Error)**

As previously stated (March 31, 2010)	\$592,566
As restated	\$1,129,238

## **(c) Change in Accounting Principle**

Section PS 3310 of the Public Sector Accounting Board Standards requires that the amount of a guaranteed loan that is expected to be repaid from future government assistance should be accounted for as a liability and an expense in the statement of operations in the period when a direct relationship can be established between the repayment of the loan and the government's funding to the borrower

The Government changed its accounting policy so as to accrue the liability of the loan guarantee for the loan for WEDCO (see Note 10 (a) (ii)) in the prior year end when the loan and the guarantee agreement were signed. As a result of this correction, the prior year's liabilities and expenses have been increased by \$10,368,422.

**Government of Bermuda – Consolidated Fund**  
**Notes to the Financial Statements**  
**March 31, 2011**

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## **17. Restatement of Prior Period (cont'd)**

The prior year's Liabilities, Expenses, Capital Development Expenses, and Accumulated Deficit have been restated accordingly.

### Accounts Payable (Change in Accounting Principle)

As previously stated (March 31, 2010)	\$132,713,463
As restated	\$143,081,885

### Current Expenses (Change in Accounting Principle)

As previously stated (March 31, 2010)	\$1,176,834,962
As restated	\$1,177,203,384

### Capital Development Expenses (Change in Accounting Principle)

As previously stated (March 31, 2010)	\$97,864,942
As restated	\$107,864,942

### Accumulated Deficit, End of Year

As previously stated (March 31, 2010)	\$1,018,901,707
As restated	\$1,028,061,278

## **18. Increase in Borrowing Limit**

Effective April 1, 2010, the Government increased the legislated borrowing limit from \$1 billion to \$1.25 billion.

## **19. Increase in Borrowing**

On July 13, 2010, the Government entered into a public bond offering in the international debt capital markets authorizing the issue and sale of \$500 million of 10-year, fixed rate bonds priced at par. The coupon and yield of the bonds are 5.603% per annum.

The bonds are due in July 2020 and interest is payable semi-annually. The proceeds of these bonds were used to repay the \$200 million bridge loan facility with HSBC and to fund capital expenditure programs.

**Government of Bermuda – Consolidated Fund**  
**Notes to the Financial Statements**  
**March 31, 2011**

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## **20. Subsequent Events**

### **(a) Unemployment Insurance Fund**

In July 2011 the Government amended the Public Treasury (Administration and Payments) Act 1969 in order to make further provision for the Unemployment Insurance Fund. The Act has been amended to provide for payments out of the Fund to be made at the direction of the Minister of Finance for the purpose of assisting unemployed persons.

### **(b) Increase in Borrowing**

On May 18, 2011, the Government entered into a Term Loan Agreement with BNTB loan facility of \$200 million. The purpose of the loan facility was to replace the existing overdraft facility and for financing capital projects. Interest charged on each loan was 4.95% per annum. The facility has been fully utilized as a result of the following draw downs:

<u>Tranche</u>	<u>Date</u>	<u>Amount</u>
A	May 27, 2011	\$70,000,000
B	June 27, 2011	\$50,000,000
C	August 16, 2011	\$50,000,000
D	September 26, 2011	<u>\$30,000,000</u>
	Total	<u>\$200,000,000</u>

### **(c) Overdraft Facilities**

On December 29, 2011 the overdraft facility of \$20 million (see Note 16) with the HSBC was increased to \$50 million to expire on March 31, 2012 at which time it would revert back to \$20 million. The daily charges applied to overdrawn balances remained at 1% above HSBC's base rate.

On November 16, 2011 the Government signed a \$50 million overdraft facility with the BNTB which expires on March 31, 2012. The daily charge is 1.2% per annum above the Bank's Bermuda Dollar Base Rate.

## **21. Comparative Figures**

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

## Government of Bermuda - Consolidated Fund

### Schedule 1: Accounts Receivable

As at March 31	2011	2010
	Actual	Actual
	\$	\$
Office of the Tax Commissioner	182,218,897	145,157,452
Registrar of Companies	3,761,285	3,129,992
Operations & Engineering	3,642,490	2,319,827
Airport Operations	3,556,516	3,706,367
Judicial Department	3,176,345	1,370,077
Telecommunications	2,975,324	3,610,284
Customs	2,681,816	2,397,245
Post Office	2,456,497	2,629,803
Fire Services	2,437,573	2,746,752
Department of Education	1,478,712	1,663,845
Health Department	1,191,239	1,087,644
Works & Engineering	1,063,450	1,251,359
Lands, Buildings & Surveys	640,979	355,607
Accountant General	631,573	512,620
Conservation Services	280,056	213,366
Maritime Administration	224,288	311,225
Environmental Protection	207,900	116,785
Public Transportation Board	191,751	210,122
Human Resources	183,852	102,299
Marine & Ports Services	179,724	165,206
Civil Aviation	167,456	75,587
Police	119,776	128,916
Registry General	61,720	60,139
Financial Assistance	59,810	65,633
Transport Control Department	49,282	98,318
Child & Family Services	22,403	29,576
Ministry of Environment & Sports	16,500	-
Parks	6,027	6,207
Libraries	1,723	997
Tourism	1,404	127,013
Attorney General	1,177	1,177
Youth, Sport & Recreation	330	-
Parliamentary Registrar	50	-
Ministry of Energy, Telecom, & E- Com HQ	-	438
	<b>213,687,925</b>	<b>173,651,878</b>
Less: Provision for Doubtful Accounts	<b>47,051,065</b>	<b>31,064,972</b>
	<b>166,636,860</b>	<b>142,586,906</b>

## Government of Bermuda - Consolidated Fund

### Schedule 2: Inventories for Consumption

As at March 31	2011	2010
	Actual	Actual
	\$	\$
Works & Engineering	5,814,378	7,293,186
Public Transportation Board	4,105,916	4,601,809
Marine & Ports Services	2,491,369	1,916,174
Police	1,434,700	1,381,414
Department of Education	903,481	699,411
Defence	751,113	731,516
Health	473,097	393,905
Corrections	408,590	412,450
Immigration	141,422	80,722
Conservations Services	84,512	115,781
Transport Control Department	53,409	54,003
Post Office	28,195	39,519
	<b>16,690,182</b>	<b>17,719,890</b>
Less: Provision for Obsolescence	<b>1,713,222</b>	<b>1,299,788</b>
	<b>14,976,960</b>	<b>16,420,102</b>

**Government of Bermuda - Consolidated Fund**  
**Schedule 3: Due From Gov't Funds and Agencies**

<b>As at March 31</b>	<b>2011</b>	<b>2010</b>
	<b>Actual</b>	<b>Restated (Note 17)</b>
	<b>\$</b>	<b>\$</b>
Health Insurance Fund	7,236,525	4,288,644
Government Borrowing Sinking Fund	6,575,219	6,520,212
Confiscated Assets Fund	4,476,320	-
Bermuda Hospitals Board	3,649,982	2,590,249
Bermuda Monetary Authority	1,119,846	662,624
Golf Courses	824,711	722,984
West End Development Corporation	382,019	375,801
Bermuda College	307,128	204,429
Bermuda Housing Corporation	288,724	292,706
Pembroke Parish Council	96,899	98,570
CedarBridge Academy	92,836	43,690
Bermuda Land Development Company	91,508	93,308
Pension Commission	40,137	20,775
Financial Intelligence Agency	32,186	24,099
Bermuda Small Business Development Corporation	30,199	27,299
Berkeley Institute	23,490	20,708
Parish Councils	18,846	15,084
National Sports Centre	14,445	527
Bermuda Housing Trust	11,423	10,762
Tourism North America Retirement Plan	10,000	-
Bermuda Health Council	9,959	23,014
Sandy Secondary Middle School	8,238	3,198
Whitney Institute	6,270	4,501
St. George's Preparatory School	2,032	1,456
Bermuda Educators Council	1,438	1,005
Government Employees Health Insurance Fund	-	3,015,666
Government Reserves Fund	-	1,129,238
	<b>25,350,380</b>	<b>20,190,549</b>
Less: Provision for Doubtful Accounts	<b>7,236,525</b>	<b>-</b>
	<b>18,113,855</b>	<b>20,190,549</b>

**Government of Bermuda - Consolidated Fund**  
**Schedule 3(a): Due to Gov't Funds and Agencies**

<b>As at March 31</b>	<b>2011</b>	<b>2010</b>
	<b>Actual</b>	<b>Restated (Note 17)</b>
	<b>\$</b>	<b>\$</b>
Bermuda Hospitals Board	22,121,357	11,549,085
Ministers and Members Pensions Fund	10,472,058	11,030,310
Contributory Pension Fund	9,359,040	6,333,082
Public Service Superannuation Fund	4,366,587	2,797,004
Government Reserves Fund	1,144,857	-
Government Employees Health Insurance Fund	961,770	-
Bermuda Tourism Overseas Pension Plan	701,256	-
Health Insurance Fund	640,970	6,174,511
West End Development Corporation	6,981	6,981
Bermuda Land Development Company	5,142	5,142
Bermuda Small Business Development Corporation	3,800	13,312
Golf Courses	1,943	1,943
Bermuda College	1,672	1,672
Bermuda Housing Corporation	400	329,916
Government Borrowing Sinking Fund	-	10,375,000
Confiscated Assets Fund	-	1,773,520
	<b>49,787,833</b>	<b>50,391,478</b>

## Government of Bermuda - Consolidated Fund

### Schedule 4: Long-Term Receivables

As at March 31	2011	2010
	Actual	Actual
	\$	\$
Student Loans and Teacher Training Awards	1,060,508	1,108,497
Customs Duty	843,827	1,122,934
	1,904,335	2,231,431

## Government of Bermuda - Consolidated Fund

### Schedule 5: Accounts Payable and Accrued Liabilities

As at March 31	2011	2010
	Actual	Restated (Note 17)
	\$	\$
Department Trade Accounts	43,720,679	42,080,134
Base Lands Clean Up	26,250,000	26,250,000
Employees' Leave Entitlements	18,788,777	16,460,750
Interest on Debt	17,174,018	12,121,183
Deposits Held	15,564,893	12,788,800
Teachers' Salaries & Leave Entitlements	9,089,152	9,626,176
Guarantee Payable to WEDCO (Note 10(a))	8,571,429	10,000,000
Salaries, Wages and Benefits	6,476,471	7,136,653
Leases Payable	731,014	1,142,811
	146,366,433	137,606,507

## Government of Bermuda - Consolidated Fund

### Schedule 6: Deferred Revenue

As at March 31	2011	2010
	Actual	Actual
	\$	\$
Transport Control Department	17,706,189	17,894,750
Civil Aviation	10,681,720	6,858,966
Immigration	3,904,163	3,776,674
Marine & Ports Services	942,532	880,561
Post Office	423,994	430,091
Police	145,727	120,988
Environmental Protection	109,836	89,407
Lands, Buildings & Surveys	90,812	89,886
Parks	46,278	22,286
Health Department	44,818	36,071
Youth, Sport & Recreation	27,837	17,753
Tourism	18,845	33,940
Maritime Administration	-	11,250
	<b>34,142,751</b>	<b>30,262,623</b>



**Government of Bermuda - Consolidated Fund**  
**Schedule 7: Interest Bearing Debt - Net of Sinking Fund**

<b>As at March 31</b>		
	<b>2011</b>	<b>2010</b>
	<b>Actual</b>	<b>Actual</b>
	<b>\$</b>	<b>\$</b>
<b>Senior Notes Due 2014 - US\$</b>		
Issue Date: June 10, 2004		
Interest: 5.39% payable semi-annually		
June 10 and December 10		
Notes Due: June 10, 2014	<b>75,000,000</b>	75,000,000
<b>Senior Notes Due 2022 - US\$</b>		
Issue Date: December 4, 2007		
Interest: 5.73% payable semi-annually		
June 4 and December 4		
Notes Due: December 4, 2022	<b>140,000,000</b>	140,000,000
<b>Senior Notes Due 2014 - US\$</b>		
Issue Date: May 21, 2009		
Interest: 6.55% payable semi-annually		
May 21 and November 21		
Notes Due: May 21, 2014	<b>45,000,000</b>	45,000,000
<b>Senior Notes Due 2016 - US\$</b>		
Issue Date: May 21, 2009		
Interest: 6.98% payable semi-annually		
May 21 and November 21		
Notes Due: May 21, 2016	<b>30,000,000</b>	30,000,000
<b>Senior Notes Due 2019 - US\$</b>		
Issue Date: May 21, 2009		
Interest: 7.38% payable semi-annually		
May 21 and November 21		
Notes Due: May 21, 2019	<b>100,000,000</b>	100,000,000
<b>Senior Notes Due 2016- US\$</b>		
Issue Date: November 10, 2009		
Interest: 5.27% payable semi-annually		
November 10 and May 10		
Notes Due: November 10, 2016	<b>60,000,000</b>	60,000,000
<b>Senior Notes Due 2019 - US\$</b>		
Issue Date: November 10, 2009		
Interest: 5.93% payable semi-annually		
November 10 and May 10		
Notes Due: November 10, 2019	<b>80,000,000</b>	80,000,000
<b>Senior Notes Due 2020 - US\$</b>		
Issue Date: July 13, 2010		
Interest: 5.60% payable semi-annually		
January 20 and July 20		
Notes Due: July 20, 2020	<b>500,000,000</b>	-
<b>Loan Facility - US\$</b>		
Issue Date: June 17, 2005		
Interest: LIBOR + .11% payable on rollover date		
Facility Fee: .04% per annum payable quarterly		
Notes Due: June 17, 2010	-	200,000,000
	<b>1,030,000,000</b>	730,000,000
Less: Sinking Fund	<b>85,508,498</b>	64,487,481
	<b>944,491,502</b>	665,512,519

## Government of Bermuda - Consolidated Fund

### Schedule 8: Revenue By Type

For the year ended March 31	2011 Original Estimates	2011 Actual	2010 Restated (Note 17)
	\$	\$	\$
<b>Taxes &amp; Duties</b>			
Payroll Tax	427,145,000	<b>423,049,799</b>	349,034,583
Customs Duty	232,560,000	<b>195,807,157</b>	219,037,073
Land Tax	50,000,000	<b>49,131,169</b>	48,510,988
Stamp Duty	45,561,000	<b>35,362,265</b>	31,646,611
Passenger Tax	26,070,000	<b>32,345,082</b>	29,261,780
Foreign Currency Purchase Tax	29,000,000	<b>24,712,350</b>	13,791,576
Non-Bermudian Land Acquisition Tax	11,000,000	<b>15,397,432</b>	13,794,308
Hotel Occupancy Tax	9,500,000	<b>7,028,453</b>	7,320,672
Corporate Services Tax	3,600,000	<b>3,298,216</b>	3,294,048
Betting Tax	1,400,000	<b>1,365,234</b>	2,176,419
Timesharing Tax	200,000	<b>56,903</b>	265,711
	<b>836,036,000</b>	<b>787,554,060</b>	718,133,769
<b>Fees, Permits &amp; Licences</b>			
International Companies	67,833,000	<b>61,455,783</b>	59,384,743
Vehicle Licences & Registration	28,006,000	<b>26,582,795</b>	26,870,299
Registration of Aircraft	19,860,000	<b>17,393,790</b>	15,844,222
Telecommunications	12,700,000	<b>12,498,062</b>	12,813,345
Immigration	16,956,000	<b>10,212,606</b>	10,853,886
Air Terminal & Aviation	11,505,000	<b>9,985,287</b>	11,244,879
Bus Transportation	8,016,000	<b>8,345,834</b>	8,256,401
Postal Services	7,255,000	<b>5,455,532</b>	5,617,250
Water	4,738,000	<b>5,081,512</b>	3,415,590
Registration of Shipping	3,000,000	<b>3,545,808</b>	3,466,451
Solid Waste Services	3,520,000	<b>3,481,115</b>	2,474,513
Local Companies	3,117,000	<b>3,320,615</b>	5,319,720
Services to Seaborne Shipping	2,678,000	<b>2,708,111</b>	2,621,171
Rentals	2,498,000	<b>2,014,078</b>	2,070,903
Other Customs Fees & Charges	2,060,000	<b>1,911,627</b>	2,382,636
Trade and Service Mark	1,383,000	<b>1,689,651</b>	1,577,084
Wharfage	1,535,000	<b>1,637,275</b>	1,389,682
Planning Fees and Searches	1,194,000	<b>1,355,786</b>	1,084,627
Ferry Services	1,930,000	<b>1,123,546</b>	1,297,594
Companies Licences	471,000	<b>347,487</b>	461,380
Liquor Licences	350,000	<b>319,125</b>	317,745
Plant Production and Marketing Centre	425,000	<b>126,441</b>	179,071
Insurance Fees	-	<b>121,600</b>	53,125
	<b>201,030,000</b>	<b>180,713,466</b>	178,996,317
<b>Other Revenue</b>			
Other	13,919,000	<b>21,599,480</b>	14,574,365
Fines & Forfeitures	4,327,000	<b>4,151,439</b>	3,549,132
Investment Income	3,500,000	<b>2,709,960</b>	2,687,141
	<b>21,746,000</b>	<b>28,460,879</b>	20,810,638
<b>TOTAL REVENUE</b>	<b>1,058,812,000</b>	<b>996,728,405</b>	917,940,724

# Government of Bermuda - Consolidated Fund

## Schedule 9: Current Expense By Type

For the year ended March 31	2011 Original Estimates	2011 Actual	2010 Restated (Note 17)
	\$	\$	\$
<b>Employees</b>			
Salaries	343,168,000	302,299,743	285,837,313
Retirement Benefit Expenses	-	151,599,593	143,668,303
Wages	81,519,000	99,274,093	99,711,253
Employer Overhead	71,707,000	29,539,151	28,121,604
Other Personnel Costs	10,247,000	10,707,145	11,060,107
Training	11,210,000	5,665,893	7,274,332
Compensated Absences	-	659,385	1,750,338
	517,851,000	599,745,003	577,423,250
<b>Operations</b>			
Grants & Contributions	243,504,000	277,155,948	261,142,697
Professional Services	99,845,000	119,069,697	111,959,586
Interest on Debt	39,100,000	58,728,649	35,147,399
Amortization	-	43,156,723	37,330,814
Materials & Supplies	30,218,000	32,857,391	34,081,682
Repairs & Maintenance	21,203,000	21,886,848	22,440,910
Energy	21,608,000	20,120,149	19,057,460
Bad Debts	-	19,614,898	2,174,394
Advertising & Promotion	19,737,000	19,224,464	14,114,207
Rentals	18,526,000	18,125,043	17,037,476
Insurance	11,557,000	12,977,250	11,958,754
Communications	9,129,000	10,636,735	10,147,572
Transport	2,298,000	6,829,739	6,667,107
Travel	6,287,000	5,016,775	5,033,659
Other	3,576,000	2,940,435	6,064,195
Clothing & Uniforms	2,617,000	2,165,129	2,648,179
Equipment	1,442,000	1,431,226	1,945,989
Bank Charges & Commissions	-	968,508	828,054
Transfer to Other Funds	28,625,000	-	-
Receipts Credited to Programmes	(18,806,000)	-	-
	540,466,000	672,905,607	599,780,134
<b>TOTAL CURRENT EXPENSE</b>	1,058,317,000	1,272,650,610	1,177,203,384

# Government of Bermuda - Consolidated Fund

## Schedule 10: Revenue By Ministry / Department

For the year ended March 31	2011 Original Estimates	2011 Actual	2010 Restated (Note 17)
	\$	\$	\$
<b>Non-Ministry Departments</b>			
05 Office of the Auditor General	790,000	577,061	511,998
63 Parliamentary Registrar	250,000	262,740	119,985
01 Governor & Staff	-	9,526	-
92 Internal Audit	-	1,456	-
02 Legislature	2,000	-	1,267
	1,042,000	850,783	633,250
<b>Cabinet Office Departments</b>			
19 Department of Archives	5,000	4,546	4,092
09 Cabinet Office	-	2,520	7,653
14 Department of Statistics	-	-	25
26 Department of Human Resources	-	-	7,773
	5,000	7,066	19,543
<b>Ministry of Tourism &amp; Transport</b>			
34 Transport Control Department	28,007,000	26,574,443	26,869,546
57 Civil Aviation	19,885,000	17,434,950	15,892,081
31 Airport Operations	12,555,000	11,127,278	12,039,565
35 Public Transportation	8,016,000	8,360,301	8,312,232
30 Marine & Ports Services	5,785,000	4,977,227	4,721,051
73 Maritime Administration	3,000,000	3,561,986	3,457,021
33 Tourism	38,000	315,119	37,988
	77,286,000	72,351,304	71,329,484
<b>Ministry of Justice</b>			
03 Judicial Department	8,929,000	12,009,231	6,811,419
87 Ministry of Justice HQ	-	2,643,590	-
75 Department of Public Prosecutions	-	95,974	-
04 Attorney-General's Chambers	-	1,065	1,799
	8,929,000	14,749,860	6,813,218
<b>Ministry of Finance</b>			
38 Office of the Tax Commissioner	588,226,000	568,719,993	482,540,955
12 Customs	236,225,000	202,640,880	224,030,656
39 Registrar of Companies	72,010,000	65,834,010	66,102,733
11 Accountant-General	3,560,000	3,956,259	2,820,129
10 Ministry of Finance HQ	2,000,000	2,002,267	1,383,467
	902,021,000	843,153,409	776,877,940
<b>Ministry of Education</b>			
17 Department of Education	220,000	189,689	193,455
	220,000	189,689	193,455
<b>Ministry of Health</b>			
22 Health Department	2,043,000	2,445,376	1,598,153
91 Health Insurance	-	137,717	3,000
	2,043,000	2,583,093	1,601,153

**Government of Bermuda - Consolidated Fund**  
**Schedule 10: Revenue By Ministry / Department (cont'd)**

For the year ended March 31	2011 Original Estimates	2011 Actual	2010 Restated (Note 17)
	\$	\$	\$
<b>Ministry of the Environment &amp; Sports</b>			
32 Department of Planning	1,316,000	1,460,863	1,184,094
20 Youth, Sport & Recreation	664,000	876,053	835,317
72 Environmental Protection	765,000	782,179	532,075
69 Conservations Services	935,000	591,201	634,261
68 Parks	253,000	210,301	217,060
50 Ministry of the Environment & Sports HQ	18,000	17,513	25,275
49 Land Valuation	-	15	-
	3,951,000	3,938,125	3,428,082
<b>Ministry of Culture &amp; Social Rehabilitation</b>			
88 National Drug Control	36,000	699,712	36,113
52 Community and Cultural Affairs	249,000	211,073	216,714
55 Financial Assistance	-	139,135	53,278
23 Child & Family Services	82,000	93,371	4,394
18 Libraries	22,000	16,330	11,619
56 Human Affairs	-	5,616	1,219
71 Ministry of Culture and Social Rehabilitation HQ	-	720	500
74 Court Services	-	(2,564)	(192)
	389,000	1,163,393	323,645
<b>Ministry of Labour, Home Affairs &amp; Housing</b>			
27 Immigration	27,956,000	25,606,754	24,659,274
07 Police	465,000	470,554	549,541
06 Defence	-	90,748	36,380
60 Labour & Training	113,000	24,994	138,200
83 Ministry of Labour, Home Affairs & Housing HQ	-	-	256
45 Fire Services	711,000	(280,281)	2,134,924
	29,245,000	25,912,769	27,518,575
<b>Ministry of Energy, Telecommunications &amp; E-Commerce</b>			
46 Telecommunications	12,700,000	12,450,556	12,760,859
13 Post Office	7,315,000	5,608,905	5,587,330
29 Registry General	1,587,000	1,942,960	1,770,318
43 Information Technology Office	-	2,706	2,783
42 Rent Commissioner	1,000	170	270
	21,603,000	20,005,297	20,121,560
<b>Ministry of Works &amp; Engineering</b>			
82 Operations & Engineering	9,968,000	10,137,810	7,348,810
81 Lands, Buildings & Surveys	2,000,000	1,589,582	1,568,251
36 Works & Engineering HQ	110,000	96,225	163,758
	12,078,000	11,823,617	9,080,819
<b>TOTAL REVENUE</b>	1,058,812,000	996,728,405	917,940,724

# **Government of Bermuda - Consolidated Fund** **Schedule 10(a): Interdepartmental Revenue By Ministry / Department**

For the year ended March 31	2011 Interdepartmental Revenue	2011 Gross Revenue Actual	2011 Net Revenue
	\$	\$	\$
<b>Non-Ministry Departments</b>			
05 Office of the Auditor General	48,000	577,061	529,061
63 Parliamentary Registrar	-	262,740	262,740
01 Governor & Staff	7,240	9,526	2,286
92 Internal Audit	-	1,456	1,456
	55,240	850,783	795,543
<b>Cabinet Office Departments</b>			
19 Department of Archives	32	4,546	4,514
09 Cabinet Office	-	2,520	2,520
26 Department of Human Resources	155	-	(155)
	187	7,066	6,879
<b>Ministry of Tourism &amp; Transport</b>			
34 Transport Control Department	15,507	26,574,443	26,558,936
57 Civil Aviation	-	17,434,950	17,434,950
31 Airport Operations	52,000	11,127,278	11,075,278
35 Public Transportation	120,827	8,360,301	8,239,474
30 Marine & Ports Services	1,985	4,977,227	4,975,242
73 Maritime Administration	-	3,561,986	3,561,986
33 Tourism	34,736	315,119	280,383
	225,055	72,351,304	72,126,249
<b>Ministry of Justice</b>			
03 Judicial Department	20,259	12,009,231	11,988,972
87 Ministry of Justice HQ	-	2,643,590	2,643,590
75 Department of Public Prosecutions	-	95,974	95,974
04 Attorney-General's Chambers	-	1,065	1,065
	20,259	14,749,860	14,729,601
<b>Ministry of Finance</b>			
38 Office of the Tax Commissioner	100,603	568,719,993	568,619,390
12 Customs	1,307,902	202,640,880	201,332,978
39 Registrar of Companies	-	65,834,010	65,834,010
11 Accountant-General	6,959	3,956,259	3,949,300
10 Ministry of Finance HQ	-	2,002,267	2,002,267
	1,415,464	843,153,409	841,737,945
<b>Ministry of Education</b>			
17 Department of Education	657	189,689	189,032
	657	189,689	189,032
<b>Ministry of Health</b>			
22 Health Department	1,755	2,445,376	2,443,621
91 Health Insurance	-	137,717	137,717
	1,755	2,583,093	2,581,338

**Government of Bermuda - Consolidated Fund**  
**Schedule 10(a): Interdepartmental Revenue By Ministry / Department**

For the year ended March 31	2011 Interdepartmental Revenue	2011 Gross Revenue Actual	2011 Net Revenue
<b>Ministry of the Environment &amp; Sports</b>			
32 Department of Planning	1,391	<b>1,460,863</b>	1,459,472
20 Youth, Sport & Recreation	9,442	<b>876,053</b>	866,611
72 Environmental Protection	128	<b>782,179</b>	782,051
69 Conservations Services	1,066	<b>591,201</b>	590,135
68 Parks	-	<b>210,301</b>	210,301
50 Ministry of the Environment & Sports HQ	569	<b>17,513</b>	16,944
49 Land Valuation	-	<b>15</b>	15
	12,596	<b>3,938,125</b>	3,925,529
<b>Ministry of Culture &amp; Social Rehabilitation</b>			
88 National Drug Control	-	<b>699,712</b>	699,712
52 Community and Cultural Affairs	1,603	<b>211,073</b>	209,470
55 Financial Assistance	18,017	<b>139,135</b>	121,118
23 Child & Family Services	1,376	<b>93,371</b>	91,995
18 Libraries	-	<b>16,330</b>	16,330
56 Human Affairs	130	<b>5,616</b>	5,486
71 Ministry of Culture and Social Rehabilitation HQ	-	<b>720</b>	720
74 Court Services	150	<b>(2,564)</b>	(2,714)
	21,276	<b>1,163,393</b>	1,142,117
<b>Ministry of Labour, Home Affairs &amp; Housing</b>			
27 Immigration	5,193	<b>25,606,754</b>	25,601,561
07 Police	3,193	<b>470,554</b>	467,361
06 Defence	-	<b>90,748</b>	90,748
60 Labour & Training	464	<b>24,994</b>	24,530
45 Fire Services	16,337	<b>(280,281)</b>	(296,618)
	25,187	<b>25,912,769</b>	25,887,582
<b>Ministry of Energy, Telecommunications &amp; E-Commerce</b>			
46 Telecommunications	-	<b>12,450,556</b>	12,450,556
13 Post Office	5,063	<b>5,608,905</b>	5,603,842
29 Registry General	1,785	<b>1,942,960</b>	1,941,175
43 Information Technology Office	6,609	<b>2,706</b>	(3,903)
42 Rent Commissioner	-	<b>170</b>	170
	13,457	<b>20,005,297</b>	19,991,840
<b>Ministry of Works &amp; Engineering</b>			
82 Operations & Engineering	771,070	<b>10,137,810</b>	9,366,740
81 Lands, Buildings & Surveys	65,100	<b>1,589,582</b>	1,524,482
36 Works & Engineering HQ	13,472	<b>96,225</b>	82,753
	849,642	<b>11,823,617</b>	10,973,975
<b>TOTAL REVENUE</b>	2,640,775	<b>996,728,405</b>	994,087,630

**Government of Bermuda - Consolidated Fund**  
**Schedule 11: Current Expense By Ministry / Department**

For the year ended March 31	2011 Original Estimates	2011 Actual	2010 Restated (Note 17)
	\$	\$	\$
<b>Non-Ministry Departments</b>			
02 Legislature	4,904,000	5,010,289	5,041,314
05 Office of the Auditor General	3,305,000	3,275,930	2,894,881
92 Internal Audit	1,734,000	1,426,496	1,993
01 Governor & Staff	1,705,000	1,625,140	1,976,550
63 Parliamentary Registrar	1,151,000	820,028	784,492
85 Ombudsman's Office	713,000	703,911	706,854
08 Public Service Commission	81,000	84,918	76,963
	13,593,000	12,946,712	11,483,047
<b>Cabinet Office Departments</b>			
09 Cabinet Office	6,848,000	8,425,922	9,190,356
14 Department of Statistics	6,120,000	4,876,199	3,050,427
26 Department of Human Resources	6,196,000	4,713,009	4,948,137
51 Department of Communication & Information	2,678,000	2,440,610	2,613,016
19 Department of Archives	1,729,000	1,589,385	1,506,166
	23,571,000	22,045,125	21,308,102
<b>Ministry of Tourism &amp; Transport</b>			
33 Tourism	38,149,000	34,785,263	31,851,942
31 Airport Operations	20,833,000	23,851,661	24,029,902
35 Public Transportation	19,775,000	23,266,513	22,977,183
30 Marine & Ports Services	22,510,000	22,393,151	21,405,714
57 Civil Aviation	7,901,000	7,682,316	6,952,887
34 Transport Control Department	7,548,000	6,533,528	6,644,214
48 Ministry of Tourism & Transport HQ	2,657,000	2,589,954	1,324,832
73 Maritime Administration	1,732,000	1,605,678	1,643,061
	121,105,000	122,708,064	116,829,735
<b>Ministry of Justice</b>			
03 Judicial Department	8,452,000	9,111,153	8,212,012
87 Ministry of Justice HQ	3,399,000	8,310,563	4,430,723
04 Attorney-General's Chambers	4,924,000	4,081,156	4,313,791
75 Department of Public Prosecutions	2,917,000	2,374,099	2,186,258
	19,692,000	23,876,971	19,142,784
<b>Ministry of Finance</b>			
Retirement Benefit Expenses	-	110,880,113	106,695,970
11 Accountant-General	82,455,000	86,436,679	84,039,558
58 Interest on Debt	38,400,000	55,297,892	29,978,210
12 Customs	21,740,000	20,000,981	18,648,270
38 Office of the Tax Commissioner	3,680,000	13,334,160	5,009,071
10 Ministry of Finance HQ	12,983,000	12,634,572	11,982,769
28 Department of Social Insurance	4,424,000	9,695,046	8,046,591
39 Registrar of Companies	3,875,000	3,020,548	4,076,891
59 Sinking Fund Contribution	28,625,000	-	-
	196,182,000	311,299,991	268,477,330
<b>Ministry of Education</b>			
17 Department of Education	120,138,000	125,978,285	133,919,495
41 Bermuda College	19,869,000	19,869,313	20,702,204
16 Ministry of Education HQ	3,127,000	2,575,119	-
	143,134,000	148,422,717	154,621,699
<b>Ministry of Health</b>			
24 Hospitals	125,199,000	150,184,153	132,239,483
22 Health Department	32,460,000	30,507,599	29,134,608
91 Health Insurance	5,489,000	20,273,623	10,263,994
21 Ministry of Health HQ	18,098,000	15,291,715	18,473,155
	181,246,000	216,257,090	190,111,240



**Government of Bermuda - Consolidated Fund**  
**Schedule 11: Current Expense By Ministry / Department (cont'd)**

For the year ended March 31	2011 Original Estimates	2011 Actual	2010 Restated (Note 17)
	\$	\$	\$
<b>Ministry of the Environment &amp; Sports</b>			
20 Youth, Sport & Recreation	12,475,000	11,800,910	12,390,391
68 Parks	11,146,000	11,067,157	10,804,712
69 Conservations Services	5,538,000	5,113,670	5,064,698
32 Department of Planning	4,336,000	3,909,764	3,788,824
72 Environmental Protection	3,845,000	3,827,780	3,730,335
50 Ministry of the Environment & Sports HQ	908,000	782,056	1,133,689
49 Land Valuation	812,000	641,902	621,702
	39,060,000	37,143,239	37,534,351
<b>Ministry of Culture &amp; Social Rehabilitation</b>			
55 Financial Assistance	28,662,000	37,375,262	33,079,127
23 Child & Family Services	17,680,000	19,697,021	19,495,400
88 National Drug Control	6,109,000	5,955,074	3,789,847
52 Community & Cultural Affairs	4,599,000	4,532,386	4,950,232
74 Court Services	5,293,000	4,481,303	4,233,937
71 Ministry of Culture and Social Rehabilitation HQ	4,871,000	4,289,232	3,659,957
56 Human Affairs	3,231,000	2,947,721	3,125,995
18 Libraries	2,369,000	2,351,345	2,659,614
	72,814,000	81,629,344	74,994,109
<b>Ministry of Labour, Home Affairs &amp; Housing</b>			
07 Police	65,705,000	71,816,859	70,563,276
25 Corrections	30,163,000	30,482,512	29,492,975
45 Fire Services	15,497,000	13,977,270	12,970,241
06 Defence	8,310,000	7,997,556	8,917,032
60 Labour & Training	8,613,000	7,047,234	7,131,510
53 Bermuda Housing Corporation	7,750,000	7,000,000	7,250,000
27 Immigration	5,659,000	5,746,988	5,447,535
83 Ministry of Labour, Home Affairs & Housing HQ	1,738,000	1,848,098	1,993,517
54 Security Services & Delegated Affairs	74,000	15,529	412,185
	143,509,000	145,932,046	144,178,271
<b>Ministry of Energy, Telecommunications &amp; E-Commerce</b>			
13 Post Office	15,142,000	14,921,680	14,967,726
43 Information Technology Office	8,593,000	8,467,015	8,276,712
46 Telecommunications	2,170,000	3,236,371	2,885,534
29 Registry General	2,179,000	1,789,691	1,696,455
84 E-Government	1,380,000	1,042,179	1,190,941
67 E-Commerce	1,263,000	998,673	1,083,406
89 Energy	888,000	696,945	588,621
90 Ministry of Energy, Telecommunications and E-Commerce HQ	618,000	531,907	611,353
42 Rent Commissioner	657,000	525,360	567,539
	32,890,000	32,209,821	31,868,287
<b>Ministry of Works &amp; Engineering</b>			
82 Operations & Engineering	36,541,000	41,970,884	37,644,495
81 Lands, Buildings & Surveys	26,415,000	24,639,914	24,401,224
36 Works & Engineering HQ	7,052,000	7,255,901	6,224,949
80 Architectural Design & Construction	1,513,000	1,156,068	1,052,947
Amortization	-	43,156,723	37,330,814
	71,521,000	118,179,490	106,654,429
<b>TOTAL CURRENT EXPENSE</b>	1,058,317,000	1,272,650,610	1,177,203,384

**Government of Bermuda - Consolidated Fund**  
**Schedule 11(a): Interdepartmental Current Expense By Ministry/Department**

For the year ended March 31	2011 Interdepartmental Expense	2011 Actual Gross Expense	2011 Net Expense
	\$	\$	\$
<b>Non-Ministry Departments</b>			
02 Legislature	20,026	5,010,289	4,990,263
05 Office of the Auditor General	26,325	3,275,930	3,249,605
01 Governor & Staff	165	1,625,140	1,624,975
92 Internal Audit	12,075	1,426,496	1,414,421
63 Parliamentary Registrar	-	820,028	820,028
85 Ombudsman's Office	1,644	703,911	702,267
08 Public Service Commission	-	84,918	84,918
	60,235	12,946,712	12,886,477
<b>Cabinet Office Departments</b>			
09 Cabinet Office	25,133	8,425,922	8,400,789
14 Department of Statistics	38,517	4,876,199	4,837,682
26 Department of Human Resources	19,343	4,713,009	4,693,666
51 Department of Communication & Information	2,874	2,440,610	2,437,736
19 Department of Archives	496	1,589,385	1,588,889
	86,363	22,045,125	21,958,762
<b>Ministry of Tourism &amp; Transport</b>			
33 Tourism	32,620	34,785,263	34,752,643
31 Airport Operations	1,141	23,851,661	23,850,520
35 Public Transportation	191,874	23,266,513	23,074,639
30 Marine & Ports Services	41,059	22,393,151	22,352,092
57 Civil Aviation	90	7,682,316	7,682,226
34 Transport Control Department	4,106	6,533,528	6,529,422
48 Ministry of Tourism & Transport HQ	791	2,589,954	2,589,163
73 Maritime Administration	15,895	1,605,678	1,589,783
	287,576	122,708,064	122,420,488
<b>Ministry of Justice</b>			
03 Judicial Department	-	9,111,153	9,111,153
87 Ministry of Justice HQ	24,057	8,310,563	8,286,506
04 Attorney-General's Chambers	-	4,081,156	4,081,156
75 Department of Public Prosecutions	330	2,374,099	2,373,769
	24,387	23,876,971	23,852,584
<b>Ministry of Finance</b>			
11 Accountant-General	8,024	86,436,679	86,428,655
58 Interest on Debt	-	55,297,892	55,297,892
12 Customs	79,585	20,000,981	19,921,396
38 Office of the Tax Commissioner	7,680	13,334,160	13,326,480
10 Ministry of Finance HQ	-	12,634,572	12,634,572
28 Department of Social Insurance	51,047	9,695,046	9,643,999
39 Registrar of Companies	50	3,020,548	3,020,498
Retirement Benefit Expenses	-	110,880,113	110,880,113
	146,386	311,299,991	311,153,605
<b>Ministry of Education</b>			
17 Department of Education	93,171	125,978,285	125,885,114
41 Bermuda College	-	19,869,313	19,869,313
16 Ministry of Education HQ	-	2,575,119	2,575,119
	93,171	148,422,717	148,329,546
<b>Ministry of Health</b>			
24 Hospitals	-	150,184,153	150,184,153
22 Health Department	155,601	30,507,599	30,351,998
91 Health Insurance	96	20,273,623	20,273,527
21 Ministry of Health HQ	30,898	15,291,715	15,260,817
	186,595	216,257,090	216,070,495

**Government of Bermuda - Consolidated Fund**  
**Schedule 11(a): Interdepartmental Current Expense By Ministry/Department**

For the year ended March 31

	2011 Interdepartmental Expense	2011 Actual Gross Expense	2011 Net Expense
	\$	\$	\$
<b>Ministry of the Environment &amp; Sports</b>			
20 Youth, Sport & Recreation	149,178	11,800,910	11,651,732
68 Parks	193,654	11,067,157	10,873,503
69 Conservations Services	8,659	5,113,670	5,105,011
32 Department of Planning	-	3,909,764	3,909,764
72 Environmental Protection	1,950	3,827,780	3,825,830
50 Ministry of the Environment & Sports	3,015	782,056	779,041
49 Land Valuation	90	641,902	641,812
	356,546	37,143,239	36,786,693
<b>Ministry of Culture &amp; Social Rehabilitation</b>	Appendix 4		
55 Financial Assistance	-	37,375,262	37,361,558
23 Child & Family Services	25,368	19,697,021	19,671,653
88 National Drug Control	616	5,955,074	5,954,458
52 Community & Cultural Affairs	11,148	4,532,386	4,521,238
74 Department of Court Services	6,098	4,481,303	4,475,205
71 Ministry of Culture and Social Rehabilitation HQ	4,520	4,289,232	4,284,712
56 Human Affairs	1,627	2,947,721	2,946,094
18 Libraries	467	2,351,345	2,350,878
	63,548	81,629,344	81,565,796
<b>Ministry of Labour, Home Affairs &amp; Housing</b>			
07 Police	296,113	71,816,859	71,520,746
25 Corrections	227,472	30,482,512	30,255,040
45 Fire Services	34,530	13,977,270	13,942,740
06 Defence	14,926	7,997,556	7,982,630
60 Labour & Training	29,804	7,047,234	7,017,430
53 Bermuda Housing Corporation	-	7,000,000	7,000,000
27 Immigration	1,181	5,746,988	5,745,807
83 Ministry of Labour, Home Affairs & Housing HQ	-	1,848,098	1,848,098
54 Security Services & Delegated Affairs	-	15,529	15,529
	604,026	145,932,046	145,328,020
<b>Ministry of Energy Telecommunications &amp; E-Commerce</b>			
13 Post Office	10,338	14,921,680	14,911,342
43 Information Technology Office	249	8,467,015	8,466,766
46 Telecommunications	6,822	3,236,371	3,229,549
29 Registry General	-	1,789,691	1,789,691
84 E-Government	29	1,042,179	1,042,150
67 E-Commerce	29	998,673	998,644
89 Energy	58	696,945	696,887
90 Ministry of Energy, Telecommunications and E-Commerce	-	531,907	531,907
42 Rent Commissioner	-	525,360	525,360
	17,525	32,209,821	32,192,296
<b>Ministry of Works &amp; Engineering</b>			
82 Operations & Engineering	29	41,970,884	41,970,855
81 Lands, Buildings & Surveys	1,433	24,639,914	24,638,481
36 Works & Engineering	712,955	7,255,901	6,542,946
80 Architectural Design & Construction	-	1,156,068	1,156,068
Amortization	-	43,156,723	43,156,723
	714,417	118,179,490	117,465,073
<b>TOTAL CURRENT EXPENSE</b>	2,640,775	1,272,650,610	1,270,009,835

**Government of Bermuda - Consolidated Fund**  
**Schedule 12: Schedules of Tangible Capital Assets and Assets under Construction**  
**As at March 31, 2011**

	Estimated Useful Life	COST				ACCUMULATED AMORTIZATION				31-Mar-11 Net Book Value	31-Mar-10 Net Book Value
		Opening Balance	Additions	Disposals & Adjustments	Closing Balance	Opening Balance	Amortization Expense	Disposals & Adjustments	Closing Balance		
Tangible Capital Assets											
Land	Indefinite	45,636,778	-	-	45,636,778	-	-	-	-	45,636,778	45,636,778
Buildings & Betterments	2-40 years	488,084,602	97,895,374	-	585,979,976	(121,784,704)	(14,739,037)	-	(136,523,741)	449,456,235	366,299,898
Infrastructure	10-40 years	125,424,325	45,742,268	-	171,166,593	(14,724,843)	(10,990,045)	-	(25,714,888)	145,451,705	110,699,482
Vehicles & Heavy Equipment	5-7 years	83,935,065	3,763,970	(779,572)	86,919,463	(57,874,691)	(7,149,756)	773,074	(64,251,373)	22,868,090	26,060,374
Vessels	5-10 years	41,612,800	235,940	-	41,848,740	(28,034,856)	(2,615,837)	-	(30,650,693)	11,198,047	13,577,944
Computer Software	10 years	18,394,169	4,945,400	-	23,339,569	(2,739,166)	(2,249,331)	-	(4,988,497)	18,351,072	15,855,003
Office Equipment	5 years	9,576,309	5,429,038	-	15,005,347	(4,866,099)	(1,950,066)	-	(6,816,165)	8,189,182	4,710,210
Computer Hardware	3 - 7 years	7,248,217	4,827,117	-	12,075,334	(5,878,507)	(1,296,461)	-	(7,174,968)	4,900,366	1,369,710
Capital Leases	3 - 5 years	4,250,454	152,421	(50,933)	4,351,942	(3,098,866)	(479,770)	18,557	(3,560,099)	791,843	1,151,568
Furniture & Fixtures	7 years	3,848,421	424,429	-	4,272,850	(1,531,079)	(549,906)	-	(2,080,985)	2,191,865	2,317,342
Plant, Machinery & Equipment	10 - 30 years	46,761,251	7,050,023	-	53,811,274	(33,757,491)	(1,136,514)	-	(34,894,005)	18,917,269	13,003,760
Total Tangible Capital Assets		874,772,391	170,465,980	(830,505)	1,044,407,866	(274,290,322)	(43,156,723)	791,631	(316,655,414)	727,752,452	600,482,099
Assets under Construction		98,619,361	74,537,683	(113,884,117)	59,272,927	-	-	-	-	59,272,927	98,619,361

**Government of Bermuda - Consolidated Fund**  
**Schedule 13: Capital Development Expense By Ministry / Department**

For the year ended March 31	2011 Actual	2010 Restated (Note 17)
	\$	\$
<b>Non Ministry Departments</b>		
02 Legislature	8,914	112,604
	<b>8,914</b>	<b>112,604</b>
<b>Cabinet Office Departments</b>		
51 Department of Communication & Information	(2,654)	-
	<b>(2,654)</b>	<b>-</b>
<b>Ministry of Justice</b>		
03 Judicial Department	-	2,975
	<b>-</b>	<b>2,975</b>
<b>Ministry of Finance</b>		
10 Ministry of Finance HQ	-	906
	<b>-</b>	<b>906</b>
<b>Ministry of Education</b>		
17 Department of Education	1,002,271	633,762
	<b>1,002,271</b>	<b>633,762</b>
<b>Ministry of the Environment &amp; Sports</b>		
68 Parks	279,656	239,968
69 Conservations Services	151,623	204,601
72 Environmental Protection	94,684	26,533
50 Ministry of the Environment & Sports	14,153	46,527
20 Youth, Sport & Recreation	1,281	17,642
	<b>541,397</b>	<b>535,271</b>
<b>Ministry of Tourism &amp; Transport</b>		
33 Tourism	4,502,930	3,000,000
48 Ministry of Tourism & Transport HQ	1,559,911	58,014,803
31 Airport Operations	839,925	897,898
	<b>6,902,766</b>	<b>61,912,701</b>
<b>Ministry of Health</b>		
24 Hospitals	10,743,129	120,000
22 Health Department	149,294	1,032,120
	<b>10,892,423</b>	<b>1,152,120</b>
<b>Ministry of Labour, Home Affairs &amp; Housing</b>		
83 Ministry of Labour, Home Affairs & Housing HQ	3,846,277	25,326,236
25 Corrections	137,139	154,378
07 Police	82,018	148,698
45 Fire Services	58,585	69,585
54 Security Services & Delegated Affairs	180	28,738
06 Defence	-	63,053
	<b>4,124,199</b>	<b>25,790,688</b>
<b>Ministry of Energy, Telecommunications &amp; E-Commerce</b>		
46 Telecommunications	183,615	350,870
	<b>183,615</b>	<b>350,870</b>
<b>Ministry of Works &amp; Engineering</b>		
82 Operations & Engineering	4,655,396	10,137,141
81 Lands, Buildings & Surveys	3,060,198	-
80 Architectural Design & Construction	141,540	-
36 Works & Engineering	137,218	7,235,904
	<b>7,994,352</b>	<b>17,373,045</b>
<b>TOTAL CAPITAL DEVELOPMENT</b>	<b>31,647,283</b>	<b>107,864,942</b>

# **Government of Bermuda - Consolidated Fund** **Schedule 14: Capital Acquisition Expense By Ministry / Department**

For the year ended March 31	2011	2010
	Actual	Actual
	\$	\$
<b>Non-Ministry Departments</b>		
92 Internal Audit	2,670	-
63 Parliamentary Registrar	-	11,837
85 Ombudsman's Office	-	9,000
05 Office of the Auditor General	(4,285)	14,418
02 Legislature	(44,488)	37,097
	(46,103)	72,352
<b>Cabinet Office Departments</b>		
26 Department of Human Resources	10,488	49,861
51 Department of Communication & Information	8,028	-
14 Department of Statistics	7,308	20,581
19 Department of Archives	6,110	10,199
09 Cabinet Office	1,603	182,191
	33,537	262,832
<b>Ministry of Justice</b>		
04 Attorney-General's Chambers	116,169	40,809
03 Judicial Department	21,715	178,098
87 Ministry of Justice HQ	6,198	-
	144,082	218,907
<b>Ministry of Finance</b>		
12 Customs	63,275	62,753
39 Registrar of Companies	47,993	4,124
10 Ministry of Finance HQ	25,163	29,713
11 Accountant-General	20,571	-
38 Office of the Tax Commissioner	13,700	22,705
	170,702	119,295
<b>Ministry of Education, Sports &amp; Recreation</b>		
17 Department of Education	686,936	1,682,934
	686,936	1,682,934
<b>Ministry of Health</b>		
22 Health Department	226,714	(450,039)
	226,714	(450,039)
<b>Ministry of Tourism &amp; Transport</b>		
30 Marine & Ports Services	111,451	45,829
57 Civil Aviation	40,282	72,010
34 Transport Control Department	13,588	16,660
31 Airport Operations	3,263	542,398
35 Public Transportation	-	274,331
	168,584	951,228

**Government of Bermuda - Consolidated Fund**  
**Schedule 14: Capital Acquisition Expense By Ministry / Department**  
**(cont'd)**

For the year ended March 31	2011	2010
	Actual	Actual
	\$	\$
<b>Ministry of the Environment &amp; Sports</b>		
69 Conservations Services	12,194	3,875
72 Environmental Protection	5,750	8,000
68 Parks	819	16,199
20 Youth, Sport & Recreation	424	5,759
49 Land Valuation	-	9,375
50 Ministry of the Environment & Sports HQ	-	2,679
	<b>19,187</b>	<b>45,887</b>
<b>Ministry of Culture &amp; Social Rehabilitation</b>		
55 Financial Assistance	26,969	29,141
18 Libraries	4,556	16,936
56 Human Affairs	262	2,300
23 Child & Family Services	-	10,400
88 National Drug Control	-	45,038
	<b>31,787</b>	<b>103,815</b>
<b>Ministry of Labour, Home Affairs &amp; Housing</b>		
07 Police	744,193	439,666
27 Immigration	86,515	4,018
45 Fire Services	44,014	508,108
25 Department of Corrections	21,311	(4,900)
06 Defence	9,923	140,931
	<b>905,956</b>	<b>1,087,823</b>
<b>Ministry of Energy, Telecommunications &amp; E-Commerce</b>		
43 Information Technology Office	1,329,296	3,409,859
13 Post Office	203,010	61,097
84 E-Government	193,615	188,070
	<b>1,725,921</b>	<b>3,659,026</b>
<b>Ministry of Works &amp; Engineering</b>		
36 Works & Engineering	142,987	41,467
81 Lands, Buildings & Surveys	5,583	29,843
	<b>148,570</b>	<b>71,310</b>
<b>TOTAL CAPITAL ACQUISITION</b>	<b>4,215,873</b>	<b>7,825,370</b>

**Government of Bermuda - Consolidated Fund**  
**Schedule 15: Current Expenditure - Estimates Compared to Expenses**

For the year ended March 31, 2011

	Expenses	Expenditure *	Adjusted Estimates **	Under (Over) Spent
	\$	\$	\$	\$
<b>Non-Ministry Departments</b>				
02 Legislature	5,010,289	5,010,289	4,923,756	(86,533)
05 Office of the Auditor General	3,275,930	3,275,930	3,184,518	(91,412)
01 Governor & Staff	1,625,140	1,625,140	1,704,617	79,477
92 Internal Audit	1,426,496	1,426,496	1,390,533	(35,963)
63 Parliamentary Registrar	820,028	820,028	1,074,067	254,039
85 Ombudsman's Office	703,911	703,911	712,692	8,781
08 Public Service Commission	84,918	84,918	81,077	(3,841)
	12,946,712	12,946,712	13,071,260	124,548
<b>Cabinet Office Departments</b>				
09 Cabinet Office	8,425,922	8,425,922	7,695,143	(730,779)
14 Department of Statistics	4,876,199	4,876,199	5,348,454	472,255
26 Department of Human Resources	4,713,009	4,713,009	5,151,698	438,689
51 Dept. of Communication & Information	2,440,610	2,440,610	2,486,874	46,264
19 Department of Archives	1,589,385	1,589,385	1,679,498	90,113
	22,045,125	22,045,125	22,361,667	316,542
<b>Ministry of Tourism &amp; Transport</b>				
33 Tourism	34,785,263	34,785,263	35,488,800	703,537
31 Airport Operations	23,851,661	23,833,980	22,785,233	(1,048,747)
35 Public Transportation	23,266,513	23,114,070	20,325,000	(2,789,070)
30 Marine & Ports	22,393,151	22,333,631	23,855,313	1,521,682
57 Civil Aviation	7,682,316	7,657,649	7,663,827	6,178
34 Transport Control Department	6,533,528	6,533,528	6,598,032	64,504
48 Ministry of Tourism & Transport HQ	2,589,954	2,589,954	2,657,148	67,194
73 Maritime Administration	1,605,678	1,606,053	1,732,100	126,047
	122,708,064	122,454,128	121,105,453	(1,348,675)
<b>Ministry of Justice</b>				
03 Judicial Department	9,111,153	8,285,859	8,261,598	(24,261)
87 Ministry of Justice HQ	8,310,563	5,864,690	4,268,775	(1,595,915)
04 Attorney-General's Chambers	4,081,156	4,081,156	4,324,246	243,090
75 Department of Public Prosecutions	2,374,099	2,374,099	2,836,591	462,492
	23,876,971	20,605,804	19,691,210	(914,594)
<b>Ministry of Finance</b>				
Retirement Benefit Expenses	110,880,113	-	-	-
11 Accountant-General	86,436,679	86,422,236	82,454,767	(3,967,469)
58 Interest on Debt	55,297,892	55,297,892	56,300,000	1,002,108
12 Customs	20,000,981	20,000,981	21,738,494	1,737,513
38 Office of the Tax Commissioner	13,334,160	3,315,234	3,679,922	364,688
10 Ministry of Finance HQ	12,634,572	12,634,572	13,382,747	748,175
28 Department of Social Insurance	9,695,046	9,695,046	9,220,031	(475,015)
39 Registrar of Companies	3,020,548	2,704,553	3,429,553	725,000
59 Sinking Fund Contribution	-	28,760,000	28,625,000	(135,000)
	311,299,991	218,830,514	218,830,514	-
<b>Ministry of Education</b>				
17 Department of Education	125,978,285	125,840,820	120,138,383	(5,702,437)
41 Bermuda College	19,869,313	19,869,313	19,869,313	-
16 Ministry of Education HQ	2,575,119	2,575,119	3,127,123	552,004
	148,422,717	148,285,252	143,134,819	(5,150,433)
<b>Ministry of Health</b>				
24 Hospitals	150,184,153	150,184,153	140,221,645	(9,962,508)
22 Health Department	30,507,599	30,507,599	32,685,430	2,177,831
91 Health Insurance	20,273,623	13,037,099	7,743,925	(5,293,174)
21 Ministry of Health HQ	15,291,715	15,291,715	17,872,962	2,581,247
	216,257,090	209,020,566	198,523,962	(10,496,604)

\* Adjusted for Non-Budgeted, Non-Cash Items

\*\* Includes all Approved Supplementary amounts during the year



## Government of Bermuda - Consolidated Fund

## Schedule 15: Current Expenditure - Estimates Compared to Expenses (cont'd)

For the year ended March 31, 2011

	Expenses	Expenditure*	Adjusted Estimates **	Under (Over) Spent
	\$	\$	\$	\$
<b>Ministry of the Environment &amp; Sports</b>				
20 Youth, Sport & Recreation	11,800,910	11,800,910	12,280,948	480,038
68 Parks	11,067,157	11,067,157	10,826,738	(240,419)
69 Conservations Services	5,113,670	5,113,670	5,255,343	141,673
32 Department of Planning	3,909,764	3,909,764	4,082,855	173,091
72 Environmental Protection	3,827,780	3,699,541	3,728,117	28,576
50 Ministry of the Environment HQ	782,056	782,056	813,758	31,702
49 Land Valuation	641,902	641,902	712,691	70,789
	37,143,239	37,015,000	37,700,450	685,450
<b>Ministry of Culture &amp; Social Rehabilitation</b>				
55 Financial Assistance	37,375,262	37,375,262	38,656,610	1,281,348
23 Child & Family Services	19,697,021	19,697,021	18,014,231	(1,682,790)
88 National Drug Control	5,955,074	5,330,074	5,953,513	623,439
52 Community & Cultural Affairs	4,532,386	4,532,386	4,599,011	66,625
74 Court Services	4,481,303	4,481,303	5,293,210	811,907
71 Ministry of Social Rehabilitation	4,289,232	4,289,232	4,690,923	401,691
56 Human Affairs	2,947,721	2,947,721	3,205,801	258,080
18 Libraries	2,351,345	2,351,179	2,393,981	42,802
	81,629,344	81,004,178	82,807,280	1,803,102
<b>Ministry of Labour, Home Affairs &amp; Housing</b>				
07 Police	71,816,859	71,738,797	65,704,834	(6,033,963)
25 Corrections	30,482,512	30,482,512	31,362,790	880,278
45 Fire Services	13,977,270	13,977,270	15,126,997	1,149,727
06 Defence	7,997,556	7,997,556	8,310,364	312,808
60 Labour & Training	7,047,234	7,047,234	7,412,910	365,676
53 Bermuda Housing Corporation	7,000,000	7,000,000	7,750,000	750,000
27 Immigration	5,746,988	5,746,988	5,784,742	37,754
83 Ministry of Labour, Home Affairs & Housing HQ	1,848,098	1,848,098	1,982,872	134,774
54 Security Services & Delegated Affairs	15,529	15,529	73,880	58,351
	145,932,046	145,853,984	143,509,389	(2,344,595)
<b>Ministry of Energy, Telecommunications &amp; E-Commerce</b>				
13 Post Office	14,921,680	14,921,680	15,142,209	220,529
43 Information Technology Office	8,467,015	8,467,015	8,762,796	295,781
46 Telecommunications	3,236,371	3,236,371	2,299,718	(936,653)
29 Registry General	1,789,691	1,789,691	2,129,114	339,423
84 E-Government	1,042,179	1,042,179	1,260,263	218,084
67 E-Commerce	998,673	998,673	1,203,174	204,501
89 Ministry of Energy, Telecommunications and E-Commerce HQ	696,945	696,945	818,213	121,268
90 Ministry of Energy, Telecommunications and E-Commerce	531,907	531,907	617,574	85,667
42 Rent Commissioner	525,360	525,360	657,218	131,858
	32,209,821	32,209,821	32,890,279	680,458
<b>Ministry of Works &amp; Engineering</b>				
82 Operations & Engineering	41,970,884	41,451,434	36,541,118	(4,910,316)
81 Lands, Buildings & Surveys	24,639,914	24,524,711	26,415,369	1,890,658
36 Works & Engineering	7,255,901	6,769,134	7,052,090	282,956
80 Architectural Design & Construction	1,156,068	1,156,068	1,513,221	357,153
Amortization	43,156,723	-	-	-
	118,179,490	73,901,347	71,521,798	(2,379,549)
<b>TOTAL CURRENT EXPENDITURE</b>	<b>1,272,650,610</b>	<b>1,124,172,431</b>	<b>1,105,148,081</b>	<b>(19,024,350)</b>

\* Adjusted for Non-Budgeted, Non-Cash Items

\*\* Includes all Approved Supplementary amounts during the year

## Government of Bermuda - Consolidated Fund

### Schedule 16: Commitments - Legislated

For the year ended March 31	2011	2010
	Actual	Actual
	\$	\$

#### Unspent Capital Appropriations

In accordance with Section 6 of the Appropriations Act 2010, unspent capital appropriations for incomplete capital projects to be carried forward to future years are as follows:

Capital Development	<b>9,402,418</b>	12,928,068
Capital Acquisition	<b>8,210,178</b>	5,265,875
	<b>17,612,596</b>	18,193,943

#### Total Authorized Funding

Total Authorized Funding represents the estimated total cost of capital development projects and is subject to the voting of supply by the Legislature. Estimated future expenditure for continuing capital development projects is as follows:

Total Authorized Funding	<b>1,029,096,754</b>	1,113,698,911
Projects Completed during the year	<b>(58,750,601)</b>	(225,744,688)
Approved Supplementary Estimate	-	966,600
Revised Total Authorized Funding	<b>970,346,153</b>	888,920,823
Appropriated Capital Development	<b>(529,369,862)</b>	(446,756,520)
<b>Unappropriated Capital Development Commitments</b>	<b>440,976,291</b>	442,164,303

## Government of Bermuda - Consolidated Fund

### Schedule 17: Public Debt - Legislated Limit

As at March 31	2011	2010
	Actual	Actual
	\$	\$
Debt (Schedule 7)	1,030,000,000	730,000,000
Overdraft Facility Drawdown (Note 16)	57,490,260	93,409,973
Bank of NT Butterfield Guarantee *	-	200,000,000
WEDCO Loan Guarantee *	-	10,000,000
National Education Guarantee *	-	542,367
	1,087,490,260	1,033,952,340
Less:		
Sinking Fund (Schedule 7)	85,508,498	64,487,481
Public Debt	1,001,981,762	969,464,859
Legislated Limit	1,250,000,000	1,000,000,000
<b>Available Limit</b>	<b>248,018,238</b>	<b>30,535,141</b>

\* Removed from Public Debt as a result of the change in legislation definition in 2011. They are no longer considered Public Debt but are disclosed as Contingent Liabilities in Note 10(a).





GOVERNMENT OF BERMUDA

The Cabinet Office

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Department of Communication and Information**FOR IMMEDIATE RELEASE***17 February ~2.00 pm***CONTACT****~ Consolidated Fund Financial Statements 2011 ~**

Premier and Minister of Finance, the Hon. Paula A. Cox, JP, MP today tabled audited financial statements relating to the Consolidated Fund for the year-ended March 31, 2011.

The Consolidated Fund is the general operating fund of the Bermuda Government through which Government conducts the majority of its financial transactions.

The Consolidated Fund financial statements report the operations, financial position and changes in financial position that result from the activities of the Government. This includes the accounts of the Senate, the House of Assembly, all Government departments and offices and all courts.

For the fourth consecutive year, the annual accounts of the Consolidated Fund of the Government of Bermuda were given a qualified audit opinion. The qualification in this and the prior year was based on the Auditor General's opinion that there were serious deficiencies in internal controls in the management of certain capital development projects.

The general public should note that the detailed reasons for the qualification on the accounts will be included in the Auditor-General's Annual Report for 2011 when it is tabled.

Subsequent to the tabling of the Auditor-General's Annual Report for 2011 normal Parliamentary procedures would be followed:

- The report referred to the Public Accounts Committee for review;
- The Committee tabling its report with recommendations;
- The Minister of Finance issuing a formal response, in writing, on behalf of the Government.

Where individual Ministry practices are queried, the relevant Ministers will separately provide information by way of Ministerial Statements and other documentation.

Premier Cox said, “The Government recognizes that the Auditor General’s recommendations provide the opportunity to refine and enhance Government processes. The Government will work with the Auditor General and take the required steps to ensure that this qualification is removed in the future, in the same manner we did when actions were taken on qualified accounts in 2000 and on other previous occasions”.

The Auditor General has, for the first time, included an explanatory paragraph as an ‘other matter’ which discusses the increased incidents of non-compliance with the Government of Bermuda’s Financial Instructions. This ‘other matter’ does not form the basis of the qualification of the Auditor General’s opinion.

Premier Cox stated “That as Minister of Finance, I have spent a considerable amount of my time fighting for Bermuda’s credibility around the world, and we have made good progress. The introduction of the Good Governance Bill in July 2011 underscores our commitment to enact measures geared to strengthen financial accountability in Government and to enhance our governance framework. We wish to communicate a strong and clear message to the public that Government has zero tolerance for behavior and practices that do not accord with the highest standards of good governance. Also the establishment of the Office of Project Management and Procurement will facilitate the adoption of consistent practice for the procurement of goods and services, and the management of major projects for all areas of the Government of Bermuda. The benefits include developing consistent policies and processes and obtaining the best value for money for the Government of Bermuda.”

The Government understands the importance of timely financial information. As the Minister of Finance I consider it essential that all Government entities have their annual financial statements prepared and audited within six months of year-end. The delay in issuing the Consolidated Fund Financial Statements for 2011 is not an ideal situation and the Accountant General and her staff will work intensely with the Office of the Auditor General to provide the audited Accounts of the Consolidated Fund in a timelier basis.

It is important to note that when the 2010/11 budget estimates were made in February 2010, it was against the background of an array of very challenging economic and financial circumstances. Following the financial crisis that swept the world beginning in 2008, the broad consensus of economists and policymakers was that the global economy was again expanding. However at this juncture, the National Economy of Bermuda was still struggling to overcome the adverse effects of the recession.

In 2010, the Bermuda economy contracted by 0.7 per cent measured in current market prices, when adjusted for inflation, the level of economic activity or real GDP decreased by 1.9 per cent. Employment fell by 3.6 per cent and the official unemployment rate was

6.0 per cent in accordance with the 2010 Census. Total employment continued to shrink at a decelerating pace in 2011. Several of the major economic indicators such as air visitor arrivals, construction activity and retail sales declined in 2010.

Going into fiscal year 2010\_11 the Government's fiscal position had been significantly weakened by the ongoing recession.

- The revenue out-turn for 2010 was projected to be below 2009 and without tax increases the revenue for 2010-11 was expected to contract further.
- Additional current account expenditures had to be absorbed by the Consolidated Fund in 2010-11 which represented - interest on long-term debt (which was paid from the Sinking Fund in 2009\_10) and additional expenses for drug treatment (which had been paid from the Confiscated Assets Fund)

In the Government's view, with the fundamentally weak fiscal position, it was important to support public sector spending in support of the long-term health of the economy and in order to pay for the increased public services desired by the public; accordingly the Government strengthened its tax base by increasing various taxes.

The Government increased payroll tax, foreign currency purchase tax, stamp duty on estates, vehicle licensing fees and the biennial review of government fees. The result of these actions was a \$78.6 million increase in revenues when compared to 2010. But equally important is that the tax increases helped Government maintain critical services for the poor and vulnerable of our society whose reliance on the Government increases in times of crisis. The welfare of our people must never be neglected.

When scrutinizing the Consolidated Fund Financial Statements for 2011 it is important that the above-mentioned circumstances be considered.

Financial highlights of the Consolidated Fund Financial Statements 2011 are as follows:

The total revenue raised by the Consolidated Fund for fiscal 2010/11 was approximately \$996.7 million, representing an increase of \$78.7 million (8.6%) from fiscal 2009/10 for which balances have been restated. The primary reason for the increase was due to increases in rates for payroll tax, foreign currency purchase tax, stamp duty on estates, vehicle licensing fees and the biennial review of government fees. This was lower than original budget estimates by approximately \$62.1 million (5.9%). The most significant generators of revenues for fiscal 2010/11 were Payroll Taxes accounting for \$423.0 million or 42.4% (2010 - \$349.0 million or 38.1%) and Customs Duty accounting for \$195.8 million or 18.5% (2010 - \$219.0 million or 19.6%). Revenues were below budget in 2010-2011 mainly due to shortfalls in Customs Duty (\$36.7 million below), Stamp Duty (\$10.0 million below), Immigration Receipts (\$6.7 million below), International Companies Fees (\$6.4 million below) and Payroll Tax and Foreign Currency Purchase tax that were both (\$4 million below).

Current expenses for fiscal 2010/11 were \$1.273 billion (2009 - \$1.177 billion). The three largest components of current expenses were: employee costs; grants and contributions; and professional services. Total employee costs were \$599.7 million or 47.1% of total expenses (2010 - \$577.4 million or 49.0%). Included in this amount is \$151.6 million (2010 - \$143.7 million) of non-cash retirement benefit expenses. Grants and contributions were \$277.1 million or 21.8% (2010 - \$261.1 million or 22.2%) and professional services were \$119.1 million or 9.4% (2010 - \$111.9 million or 9.5%). Interest on long term debt was \$58.7 million or 4.6% (2010 - \$35.1 or 3.0%). Total current expenditure on a modified cash basis, which are shown on Schedule 15, were \$1.124 billion, which was \$65.8 (6.2%) million higher than original budget estimates of \$1.058 million.

Expenditures were above budget in 2010-2011 primarily due to the following items:

- above budget expenditure on substitute and para-professional's salaries - \$5 million;
- increased expenditure on Government's health subsidy programme for the youth, aged and indigent - \$35 million;
- Interest on long-term debt - \$18;
- Increase expenditure for Financial Assistance and Child Day Care Allowance - \$9 million;
- Additional expenditure on the War Veterans Programme - \$5 million.

Premier Cox stated that financial payments for professional services are often confused with payments to overseas consultants. For clarity, she explained this expenditure of \$119.1 covered all government contracts including cleaning, security, legal aid, Works and Engineering maintenance, contracted services for the Department of Airport Operations, health insurance portability claims, war pensioner medical claims and other 'locally' contracted services.

Total capital account cash expenditure was \$120.5 million, which was \$23 million lower than the original budget estimates. Capital development expenditure was \$17 million below original budget while capital acquisitions were \$7 million below original budget.

A further look reveals the closing closing Net Book Value of Tangible Capital Assets for the year was \$727.7 million, an increase of \$127 million over the 2010 value of \$600.4 million. Included in the net additions of \$169.6 million (2010 - \$36 million) was a net transfer of \$113.9 million from Assets under Construction for 2010/11. This was primarily due to the completion of the Magistrates Court Building.

Net Public Debt, which excludes guarantees and is net of the Sinking Fund, increased by \$243.0 million (2010 - \$276.8 million) during fiscal 2010/11 standing at \$1.0 billion at the end of the year. This represents a 32% increase from fiscal 2009/2010. The escalation was mainly due to the Government issuing a public bond offering in the international debt capital markets authorizing the issue and sale of a very successful \$500 million 10-year, fixed rate bonds priced at par. The coupon and yield of the bonds are 5.60% per annum. The proceeds of this issue was used to repay the amounts outstanding a maturing



\$200 million credit facility, repay short-term indebtedness with local banks which totaled approximately \$140 million and to fund capital expenditure programs and for other budgeted governmental purposes.

While many countries saw their ability to raise funds curtailed in 2010, Bermuda had the opposite experience, finding a receptive audience for its first offering in the public bond market.

The actual net debt to GDP ratio at March 31, 2010 was about 17.4 %.

It is relevant to note that despite recent increases in debt levels the level of public debt as a percentage of GDP is still moderate when compared to other countries and remains one of the lowest, debt policy ratios amongst developed modern economies.

During 2010/11 \$25,750,000 was contributed to the Sinking Fund.

The fiscal 2010/11 actuarial valuations resulted in a net liability for pensions and retirement benefits of \$1.05 billion, representing a 11.7% increase from fiscal 2009/10. The majority of this liability relates to the Public Service Superannuation Fund (PSSF).

The public may be aware that the Government has already started to address the inherited problems associated with the PSSF. Based on actuarial advice, commencing in 2006, PSSF contribution rates were increased from 5% to 8% and 9.5% for regular members and uniformed officers respectively. This was part of a funding strategy to place the PSSF on a more stable financial footing and to attend to some longstanding PSSF specific issues that have had a significant impact on the financial position of the PSSF.

The increase in pension contributions was only the first step in fixing this inherited problem and Government must still address the unfunded liability incurred from prior non-contributory service and prior inadequate contributions. This Government's policy has been to reduce the inherited unfunded liability through a series of special contributions and a sound investment strategy that best meets the PSSF's financial objectives. Going forward we will continue this policy in a manner which is responsible, transparent and fair.

I wish to assure current and future pensioners and the general Bermuda population that the Government is sensitive to the challenges facing pension plans of this nature and will continue to monitor the financial position of the Fund to ensure that the Fund remains viable in the long-term.

The statements of the Consolidated Fund provide valuable information on the financial position of the Government and the public is encouraged to examine them.

There is no doubt that the global recession is having a negative impact on Government finances worldwide and Bermuda is not unique in facing the economic challenges that are being faced globally.

“I wish to assure the public that the Government is sensitive to the challenges which may arise when deficits reach short term peaks, however the Government is moving ahead with a credible plan for medium-term fiscal consolidation in order to reduce public debt and to keep the country on a sustainable fiscal path,” Premier Cox concluded.



## *Office of the Auditor General*

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### INDEPENDENT AUDITOR'S REPORT

To the House of Assembly, the Governor and the Senate

I have audited the accompanying financial statements of the Consolidated Fund of the Government of Bermuda, which comprise the statement of financial position as at March 31, 2012, and the statements of operations and accumulated deficit, change in net debt and cash flow 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 qualified audit opinion.

### **Basis for Qualified Opinion**

I qualified my auditor's opinion on the financial statements of the Consolidated Fund for the year ended March 31, 2011, on the basis of serious deficiencies in internal control over the management of various capital development projects. These deficiencies led me to question the appropriateness of certain transactions and the underlying value of tangible capital assets as at March 31, 2011. As a consequence of last year's qualification, and without the benefit of an independent professional valuation, I am still unable to determine whether adjustments might be necessary to tangible capital assets and accumulated deficit as at March 31, 2012.

### **Qualified Opinion**

In my opinion, except for the effect of adjustments which I might have determined necessary had I been able to satisfy myself with respect to the balances of tangible capital assets and accumulated deficit referred to in the preceding paragraph, the financial statements present fairly, in all material respects, the financial position of the Consolidated Fund of the Government of Bermuda as at March 31, 2012, and the results of its operations, the changes in its net debt, and its cash flows for the year then ended in accordance with public sector accounting standards generally accepted in Bermuda and Canada.

### **Other matters**

As permitted by Section 6 of the Audit Act 1990, I may include in my auditor's report any other comments arising out of the accounts that I consider appropriate.

#### *Increasing Net Debt*

Without qualifying my opinion, I wish to draw attention to the level of net debt which increased by \$347 million to \$2.4 billion as of March 31, 2012. Government needs to take concerted action to address this fiscal challenge.

#### *Incidences of non-compliance with the Government of Bermuda's Financial Instructions*

Also, without qualifying my opinion, I wish to draw attention to several incidences of non-compliance with the Government of Bermuda's Financial Instructions which form the standard for financial controls for the Government. Although these incidences of non-compliance did not lead me to qualify my audit opinion for the current year, it is important that the Government adhere to its internal control framework.

#### *Usefulness of these Financial Statements is Limited*

As described in Note 2, these financial statements represent the financial transactions of the Consolidated Fund and have been prepared primarily to provide accountability for the financial resources appropriated by the Legislature of Bermuda. These financial statements are not summary financial statements of the Government of Bermuda. Significant financial activities of the Government occur outside the Consolidated Fund. As such, the financial statements of the Consolidated Fund for the year ended March 31, 2012 do not represent the full nature and extent of the overall financial affairs and resources of the Government of Bermuda.

Hamilton, Bermuda  
November 7, 2012



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





GOVERNMENT OF BERMUDA

Ministry of Finance

**Government of Bermuda  
Consolidated Fund  
Statement of Responsibility for the Financial Statements  
March 31, 2012**

The Accountant General, subject to the general direction and control of the Minister of Finance, is responsible for the preparation of the financial statements of the Consolidated Fund.

The financial statements of the Consolidated Fund are prepared by the Accountant General in accordance with the requirements of governing legislation. The financial statements are based upon information provided by Government departments and, where necessary, information is based upon best estimates and judgement.

In order to fulfill accounting and reporting responsibilities, the Accountant General maintains systems of financial management and internal control to provide reasonable assurance that transactions are properly authorised by the Legislature, executed in accordance with prescribed regulations and properly recorded to maintain accountability of public money and safeguard the assets and properties under Government administration.

The audited financial statements are tabled before the Legislature annually and are referred to the Public Accounts Committee, which reports to the Legislature on the results of its examination together with any recommendations it may have with respect to the financial statements and accompanying audit opinion.

On behalf of the Government of Bermuda.

Anthony Manders, CGA  
Acting Financial Secretary  
Ministry of Finance

Joyce Hayward, CA  
Accountant-General  
Ministry of Finance

Hamilton, Bermuda  
November 7, 2012

# Government of Bermuda - Consolidated Fund Statement of Financial Position

As at March 31		2012	2011
		Actual	Restated (Note 20)
		\$	\$
<b>Liabilities</b>	<u>Schedule</u>		
Bank Overdraft (Note 16)		120,720,014	57,490,260
Accounts Payable and Accrued Liabilities	5	154,068,571	146,366,433
Deferred Revenue	6	34,045,465	34,142,751
		<b>308,834,050</b>	237,999,444
Interest Bearing Debt - Net of Sinking Fund	7	1,115,252,919	944,491,502
Pensions and Other Employee Future Benefits			
- Pensions and Retirement Benefits (Note 9(g))		1,126,225,368	1,015,453,966
- Compensated Absences (Note 8)		24,321,023	21,995,987
		<b>1,150,546,391</b>	1,037,449,953
<b>Other Liabilities</b>			
Due to Government Funds and Agencies	3(a)	40,751,629	50,942,015
<b>Total Liabilities</b>		<b>2,615,384,989</b>	2,270,882,914
<b>Financial Assets</b>			
Cash and Cash Equivalents		24,018,677	10,993,022
Accounts Receivable	1	138,971,513	166,636,860
Due from Government Funds and Agencies	3	30,722,901	18,113,855
Long-Term Receivables	4	1,522,619	1,904,335
Investment in Quango (Notes 3(e) & 14(b))		5,000,000	5,000,000
<b>Total Financial Assets</b>		<b>200,235,710</b>	202,648,072
<b>Net Debt</b>		<b>2,415,149,279</b>	2,068,234,842
<b>Non-Financial Assets</b>			
Tangible Capital Assets (Notes 3(f) & 15)	11	751,450,187	727,752,452
Assets under Construction (Note 3(f))	11	40,101,565	59,272,927
Inventories for Consumption	2	13,573,803	14,976,960
Prepaid Expenses		4,035,002	3,473,625
<b>Total Non-Financial Assets</b>		<b>809,160,557</b>	805,475,964
<b>Accumulated Deficit</b>		<b>1,605,988,722</b>	<b>1,262,758,878</b>
Contingent Liabilities, Non-Contractual Operational Commitments and Contractual Commitments (Notes 10, 11, 12 and Schedule 13)			

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

# Government of Bermuda - Consolidated Fund Statement of Operations and Accumulated Deficit

For the year ended March 31		2012	2011
		Actual*	Restated (Note 20)
		\$	\$
	<u>Schedule</u>		
<b>Revenue</b>	8, 9		
<b>Taxes &amp; Duties</b>			
Payroll Tax		344,702,370	423,049,799
Customs Duties		180,696,578	195,807,157
Other Taxes and Duties		76,557,477	87,220,853
Land Tax		52,312,877	49,131,169
Passenger Tax		35,068,899	32,345,082
<b>Total Taxes &amp; Duties</b>		689,338,201	787,554,060
Fees, Permits & Licenses		195,733,293	180,713,466
Other Revenue		25,644,452	25,750,919
Investment Income		3,465,694	2,709,960
<b>Total Revenue</b>		914,181,640	996,728,405
<b>Expenses</b>	10		
Economic Development		414,270,904	433,116,776
Health		207,131,607	237,071,273
National Security		168,963,434	165,417,323
Education		149,415,777	157,159,158
Pensions and Retirement Benefits Expenses		113,096,438	110,880,113
Social Services & Assistance		72,662,704	79,401,304
Interest on Debt		67,592,428	55,297,892
Other General Government Services		64,278,192	70,169,927
<b>Total Expenses</b>		1,257,411,484	1,308,513,766
<b>Annual Deficit</b>		(343,229,844)	(311,785,361)
<b>Accumulated Deficit, Beginning of Year</b>		(1,262,758,878)	(1,028,061,278)
Recognition of Tangible Capital Assets (Note 15)		-	44,120,315
Correction of Estimate (Note 20)		-	34,121,628
Correction of Error (Note 20)		-	(1,154,182)
<b>Accumulated Deficit, End of Year</b>		(1,605,988,722)	(1,262,758,878)

\* Estimates against these actuals are provided for revenue in Schedules 8 and 9 and for current expenses in Schedules 10(a) and 10(b) for appropriation purposes.

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

## Government of Bermuda - Consolidated Fund Statement of Change in Net Debt

For the year ended March 31	2012	2011
	Actual	Restated (Note 20)
	\$	\$
Annual Deficit	(343,229,844)	(311,785,361)
Change Due to Tangible Capital Assets:		
Net Additions to Tangible Capital Assets	(70,242,398)	(126,306,791)
Net Reductions in Assets under Construction	19,171,362	39,346,434
Amortization of Tangible Capital Assets	46,544,662	43,156,723
Total Change Due to Tangible Capital Assets	(4,526,374)	(43,803,634)
Net Reductions in Inventories for Consumption	1,403,157	1,443,142
Net (Additions to) Reductions in Prepaid Expenses	(561,376)	1,278,129
Total Change Due to Inventories for Consumption and Prepaid Expenses	841,781	2,721,271
<b>Increase in Net Debt</b>	<b>(346,914,437)</b>	<b>(352,867,724)</b>
<b>Net Debt, Beginning of Year</b>	<b>(2,068,234,842)</b>	<b>(1,748,334,564)</b>
Correction of Estimate (Note 20)	-	34,121,628
Correction of Error (Note 20)	-	(1,154,182)
<b>Net Debt, End of Year</b>	<b>(2,415,149,279)</b>	<b>(2,068,234,842)</b>

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



# Government of Bermuda - Consolidated Fund

## Statement of Cash Flow

For the year ended March 31	2012	2011
	Actual	Restated (Note 20)
	\$	\$
<b>Operating Activities</b>		
Annual Deficit	(343,229,844)	(311,785,361)
Items not affecting cash:		
Amortization of Tangible Capital Assets	46,544,662	43,156,723
Increase in Pension and Retirement Benefits Liability (Note 20(b))	110,771,402	110,220,728
Increase in Compensated Absences Liability	2,325,036	659,385
Increase (Decrease) in Non-Cash Working Capital	13,694,264	(6,888,484)
Cash Applied to Operating Activities	(169,894,480)	(164,637,009)
<b>Capital Activities</b>		
Net Additions to Tangible Capital Assets	(70,242,398)	(126,306,791)
Net Reductions in Assets under Construction	19,171,362	39,346,434
Cash Applied to Capital Activities	(51,071,036)	(86,960,357)
<b>Financing Activities</b>		
Debt issues	200,000,000	500,000,000
Increase in Sinking Fund	(29,238,583)	(21,021,017)
Debt retirement	-	(200,000,000)
Cash Provided By Financing Activities	170,761,417	278,978,983
<b>Net (Decrease) Increase in Cash and Cash Equivalents</b>	<b>(50,204,099)</b>	<b>27,381,617</b>
<b>Cash and Cash Equivalents, Beginning of Year</b>	<b>(46,497,238)</b>	<b>(73,878,855)</b>
<b>Cash and Cash Equivalents, End of Year</b>	<b>(96,701,337)</b>	<b>(46,497,238)</b>
Cash and Cash Equivalents, End of Year		
Cash and Cash Equivalents	24,018,677	10,993,022
Bank Overdraft	(120,720,014)	(57,490,260)
<b>Cash and Cash Equivalents, End of Year</b>	<b>(96,701,337)</b>	<b>(46,497,238)</b>

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

**Government of Bermuda – Consolidated Fund**  
**Notes to the Financial Statements**  
**March 31, 2012**

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## **1. Authority**

The Consolidated Fund (the “Fund”) operates under the authority of the Bermuda Constitution Order 1968 and amendments, and the Public Treasury (Administration and Payments) Act 1969 and amendments.

All public money is paid into the Fund and legislative authority must be obtained for any expenditure out of the Fund.

The Legislature provides authority to make payments out of the Fund in annual Appropriation Acts, Supplementary Estimates and other statutes. Unused spending authority for current account appropriations lapses at the end of the fiscal year. Unused spending authority for uncompleted capital projects is carried forward to subsequent fiscal years, subject to the approval of the Minister of Finance.

## **2. Reporting Entity**

The Fund’s financial statements report the financial position, results of operations, change in net debt and cash flow resulting from the activities of the Fund only, which comprise the accounts of the Senate, the House of Assembly, all Government departments and offices (including the Public Service Commission) and all courts. The Fund is established and defined pursuant to section 94 of the Bermuda Constitution Order 1968.

These financial statements are not summary consolidated financial statements of the Bermuda Government. Separate audited financial statements are prepared for all other Government organizations.

These financial statements are prepared in accordance with the legislative requirements as outlined in sections 5 and 32A of the Public Treasury (Administration and Payments) Act 1969 and amendments.

The Government adheres to the general practice of using a Consolidated Fund as its general operating fund. Schedules 8 to 11 provide information concerning the operations, tangible capital assets and capital expenses of individual Government departments and funds and agencies comprising the Fund.

## **3. Summary of Significant Accounting Policies**

The recommendations of the Public Sector Accounting Board and the Accounting Standards Board of 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) are the source for the disclosure basis of accounting.

The preparation of financial statements in accordance with the disclosed basis of accounting requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues

**Government of Bermuda – Consolidated Fund  
Notes to the Financial Statements  
March 31, 2012**

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### **3. Summary of Significant Accounting Policies (cont'd)**

and expenses during the year. Actual results could differ from these estimates.

The significant accounting policies are as follows:

#### **(a) Method**

The financial statements are prepared on the accrual basis of accounting.

#### **(b) Revenue**

Revenues are accounted for in the fiscal year in which the transactions or events occurred that gave rise to the revenues.

Revenues not practicably measurable until cash is received are accounted for upon receipt.

Amounts received or receivable prior to the end of the year, which relate to revenues that will be earned in a subsequent fiscal year, are reported as deferred revenue.

#### **(c) Expenses**

Expenses are accounted for in the fiscal year that goods and services are acquired, a liability is incurred or grant payments are due.

Contributions to Government funds and agencies are expensed in the year the expenditure is made.

Classification of expenses between current account items and capital account items follows the classification in the Approved Estimates.

#### **(d) Interdepartmental Revenues and Expenses**

Interdepartmental revenues and expenses are not eliminated but have been identified as explained in Note 14(c).

#### **(e) Financial Assets**

Financial assets are resources that can be used to discharge existing liabilities or finance future operations. They include cash and cash equivalents, accounts receivable, amounts due from Government funds and agencies, long-term receivables and investment in QUANGO.

Accounts receivable are recorded at cost. A valuation allowance is recorded when collection of the receivable is considered doubtful.

Long-term receivables are recorded at unamortized cost.

Investment in QUANGO is recorded at cost.

**Government of Bermuda – Consolidated Fund**  
**Notes to the Financial Statements**  
**March 31, 2012**

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### **3. Summary of Significant Accounting Policies (cont'd)**

#### **(f) Non-Financial Assets**

Non-Financial assets are resources that are employed for future services. They include tangible capital assets, assets under construction, inventories for consumption and prepaid expenses. The costs of acquiring land, buildings, equipment and other capital property are capitalized as tangible capital assets and are amortized over the estimated useful lives of the assets. Where original acquisition documents were difficult to retrieve, the Book Value Calculator ("BVC"), developed by the Chief Appraiser of Public Works and Government Services Canada (as modified by them to address the Bermuda Government situation), was used to establish reasonable estimates of the Net Book Values in order to develop opening balances.

Other tangible capital assets that do not meet the minimum threshold requirements for their respective asset class have continued to be charged to capital expenses in the year of purchase, which is consistent with prior years. These expenses are currently classified as capital development and capital acquisition expenses on Schedule 10, Expenses by Program. Included in the capital development and capital acquisition expenses are other significant items: capital grants, repairs and maintenance, professional fees and other items which are expensed as they are incurred. Tangible capital assets that have not yet been disclosed include historical treasures.

Amortization is recorded on a straight-line basis for all assets, according to the following:

Buildings	40 years
Leasehold Improvements	Remaining life or lease period of the related asset
Betterments	Remaining life or lease period of the related asset
Heavy Equipment	
\$10,000 to \$99,999	5 years
\$100,000 and above	7 years
Vehicles	
2 – 3 Wheeled Vehicles	
\$3,000	5 years
4 or More Wheeled Vehicles	
\$0 - 99,999	5 years
\$100,000 and above	7 years

**Government of Bermuda – Consolidated Fund  
Notes to the Financial Statements  
March 31, 2012**

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### **3. Summary of Significant Accounting Policies (cont'd)**

Boats & Vessels	
\$10,000 to \$99,999	5 years
\$100,000 and above	10 years
Leased Equipment	
\$3,000 and above	3 years
Computer Hardware	
\$3,000 to \$99,999	3 years
\$100,000 and above	7 years
All laptops and desktop computers are capitalized	
Computer Software	
\$20,000 and above	10 years
Furniture & Fixtures	
\$3,000 and above	7 years
Office Equipment	
\$3,000 and above	5 years
Plant, Machinery & Equipment	
\$50,000 and above	10 – 30 years
Infrastructure	
\$50,000 to \$199,999	10 years
\$200,000 and above	40 years

The Ministry of Government Estates and Information Services is primarily responsible for Government's tangible capital assets. In prior years, amortization was reported as a single expense item of this Ministry. Amortization expense is now reported under the respective Ministries. Since amortization is a non-cash expense, it is removed for appropriation reporting purposes.

Assets under construction relate to the development of buildings, betterments, vehicles, computer hardware, computer software, infrastructure, office equipment and vessels. Upon completion, the balance of assets under construction will be transferred to tangible capital assets and amortized based on the appropriate useful life.

Tangible capital assets that have historical or cultural value, including works of art, historical documents, and historical and cultural artifacts, are not recognised as tangible capital assets in these financial statements because a reasonable estimate of the future benefits associated with such property cannot be made.

Inventories for consumption are comprised of spare parts and supplies that are held for

**Government of Bermuda – Consolidated Fund**  
**Notes to the Financial Statements**  
**March 31, 2012**

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### **3. Summary of Significant Accounting Policies (cont'd)**

future program delivery and are not intended for resale. They are valued at cost. Inventories for consumption that no longer have service potential are valued at the lower of cost or net realizable value. Items for which the costs are not readily available have been valued using management's best estimates of original cost based on available information.

#### **(g) Liabilities**

Liabilities are recorded for financial obligations to organizations and individuals occurring as a result of transactions and events arising on or before the year-end. They occur as a result of contracts, agreements and legislation in force at year-end that require the Government to repay borrowings or to pay for goods and services acquired or provided on or before the year-end. Liabilities also include grant payments due where no direct value is received in return.

#### **(h) Translation of Foreign Currencies**

The financial statements are reported in Bermuda dollars. The Bermuda dollar is valued at par with the United States dollar. Assets and liabilities denominated in foreign currencies are translated at the exchange rate prevailing at the year-end date. Revenues and expenses originating in foreign currencies are translated at the exchange rate in effect on the date the specific transactions occurred. Translation gains and losses are included in the Statement of Operations and Accumulated Deficit.

#### **(i) Measurement Uncertainty**

Estimates are used to accrue revenues and expenses in circumstances where the actual accrued revenues and expenses are unknown at the time the financial statements are prepared. Uncertainty in the determination of the amount at which an item is recognized in the financial statements is known as measurement uncertainty. Such uncertainty exists when there is a variance between the recognized amount and another reasonable amount, as there is whenever estimates are used.

Measurement uncertainty in these financial statements exists in the accrual of individual and corporate payroll and land taxes, accruals for pension obligations, accruals for environmental obligations, allowances for doubtful receivables and accruals for liabilities through actuarial valuations.

The nature of the uncertainty related to the accruals for pension obligations arise because actual results may differ significantly from the Government's best estimates of expected results based on variables such as earnings on the pension investments, salary increases and the life expectancy of the participants. The uncertainty related to the accrual of environmental obligations is based upon the identification of all sites where environmental damages have occurred that are the Government's responsibilities to mitigate and the quantification of what the actual liability will be based upon impact studies. Uncertainty concerning the allowance for doubtful revenue is based upon actual collectability and changes in economic conditions.

**Government of Bermuda – Consolidated Fund**  
**Notes to the Financial Statements**  
**March 31, 2012**

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### **3. Summary of Significant Accounting Policies (cont'd)**

While management's best estimates have been used for reporting items subject to measurement uncertainty, it is possible that changes in future condition in the near term could require a material change in the valuation of the reported amounts. Near term is defined as a period of time not to exceed one year from the date of the financial statements.

#### **(j) Risk Management of Public Debt**

Funds are borrowed in both domestic and foreign capital markets by issuing Bermuda Government senior notes and using bank loans and other credit facilities. This borrowing activity is used to fund government capital expenditure programs and other budgeted governmental operations. These transactions result in exposure to four types of risk: interest rate risk, foreign exchange rate risk, credit risk and liquidity risk.

Interest rate risk is the risk that debt servicing costs will increase due to changes in interest rates. This risk is managed by issuing debt securities as predominately fixed rates of interest rather than floating rates of interest for fixed terms.

Foreign exchange rate risk is the risk that debt servicing costs will increase due to a decline of the Bermuda dollar relative to other currencies. This risk is managed by maintaining a preference for debt that is issued predominately in United States ("US") dollars. The Bermuda dollar is pegged to the US dollar to eliminate the impact of any fluctuations in the exchange rates between the two.

Credit risk is the risk that a loss might occur from the failure of another party to meet its obligations under a derivative financial instrument contract. The risk is managed by issuing debt securities that have no derivatives as the underlying securities. The debt instruments are senior notes of the Bermuda Government and loan facilities with a domestic lender.

Liquidity risk is the risk that financial commitments will not be met over the short term. This risk is managed through the establishment of the Government Borrowing Sinking Fund as a separate legal entity for the repayment of government debt and to pay interest charged on long-term public debt under the provisions of the Government Loans Act 1978.

### **4. Approved Estimates of the Government of Bermuda**

#### **(a) Budget Process**

Annually, the Government presents a Budget ("Estimates") of expected revenues and expenditures for the following fiscal year.

The Government's spending Estimates for the fiscal year commencing April 1, 2011 were presented to the Members of the Legislature by the Minister of Finance.

**Government of Bermuda – Consolidated Fund**  
**Notes to the Financial Statements**  
**March 31, 2012**

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#### **4. Approved Estimates of the Government of Bermuda (cont'd)**

The Estimates outline the spending plans of each Ministry/Department submitted for approval to the Legislature in the Appropriations Act.

The Estimates referred to in the financial statement schedules are from the original Approved Estimates of Revenue and Expenditure for the fiscal year 2011/12 and do not reflect changes arising from the tabling of Supplementary Estimates, except for the Adjusted Estimates referred to in Schedule 12 which include the original Approved Estimates and any tabled Supplementary Estimates.

##### **(b) Comparison of Expenses to Estimates for Expenditure**

The Ministry of Finance prepares annual Estimates on the modified cash basis. These financial statements are prepared on an accrual basis. Due to the difference in accounting, Schedule 12 restates actual expenses to the modified cash basis for comparative and analytical purposes against the adjusted estimates. The most significant differences are as follows:

- (i) Bad Debts – For financial statement purposes, a provision is established and expensed for accounts receivable where collection is doubtful. For budget purposes, no such provision is made.
- (ii) Pension – The financial statement pension-related expense is explained in Note 9. For budget purposes, pension expense is equal to its funding requirements.
- (iii) Government Borrowing Sinking Fund (Note 5) – Transfers to the Sinking Fund are recorded as cash transfers against long-term debt. For budget purposes, the Sinking Fund contribution is considered expenditure.
- (iv) Compensated Absences – Certain Government employees are entitled to paid retirement leave, as explained in Note 8. For budget purposes, retirement pay is estimated based on anticipated salary spending for the current year.
- (v) Amortization – For financial statement purposes, annual amortization of tangible capital assets is expensed based on the respective assets as explained in Note 3(f). For budget purposes, amortization is not considered expenditure.
- (vi) Environment Liability – As explained in Note 10(c), the Government has recognized a cost of restoration of land. For budget purposes, the liability established is not considered expenditure.

#### **5. Government Borrowing Sinking Fund**

Effective March 31, 1993, the Government Borrowing Sinking Fund (“GBSF”) was established as a separate legal entity for the repayment of government borrowing under the provisions of the Government Loans Act 1978, as amended.



**Government of Bermuda – Consolidated Fund**  
**Notes to the Financial Statements**  
**March 31, 2012**

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**5. Government Borrowing Sinking Fund (cont'd)**

During each financial year, the Fund must pay to the GBSF 2.5% of the public debt outstanding in the Fund at the end of the preceding year. Under section 12AA of the Government Loans Act 1978 as amended, the Minister may, by Order, suspend the annual contribution for a period of twelve months.

<b>2011</b>		<b>2012</b>	
<b>\$</b>		<b>\$</b>	
<b>Sinking Fund</b>	<b>Contributions</b>	<b>Earnings</b>	<b>Sinking Fund</b>
85,508,499	25,781,041	3,457,541	114,747,081

The GBSF assets may only be applied to reduce, cancel or pay interest on public debt. The assets are invested in accordance with the Public Funds Act 1954 and are shown as a reduction of debt issued on the Fund's Statement of Financial Position.

The assets of the GBSF are comprised of the following:

	<b>2012</b>	<b>2011</b>
	<b>\$</b>	<b>\$</b>
Fixed Term Deposits	121,267,293	92,083,718

The following is a schedule of projected contributions to the GBSF by the Fund up to March 31, 2017, based on estimated debt levels to March 31, 2013:

	<b>2012</b>
	<b>\$</b>
2013	30,750,000
2014	37,625,000
2015	37,625,000
2016	37,625,000
2017	37,625,000

Separate audited financial statements are prepared for the GBSF to which readers should refer for further information.

**Government of Bermuda – Consolidated Fund**  
**Notes to the Financial Statements**  
**March 31, 2012**

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## **6. Contingencies Fund**

On March 14, 1979 the House of Assembly passed a resolution to withdraw \$1 million from the Fund to set up a Contingencies Fund under the provisions of Section 10(1) of the Public Treasury (Administration and Payments) Act 1969, as amended.

The purpose of the Contingencies Fund is to allow the Minister of Finance to authorize urgent and unforeseen expenditures up to \$1 million prior to the approval of the Legislature by supplementary estimate. The Contingencies Fund balance is not segregated from general operating cash and cash equivalents and accumulated deficit.

## **7. Unemployment Insurance Fund**

The Unemployment Insurance Fund ("Insurance Fund") was established March 18, 2002 by amendment to the Public Treasury (Administration and Payments) Act 1969 under the provisions of Section 10B. The Legislature authorized \$1 million to be set aside within the Fund to set up the Insurance Fund.

The Minister of Finance will pay amounts approved by the Legislature as Government's contribution to the Insurance Fund. Monies paid into the Insurance Fund will be invested in accordance with the Public Funds Act 1954 and the interest earned on such investments will be paid into the Insurance Fund.

On August 10, 2011 the Government amended the Public Treasury (Administration and Payments) Act 1969 in order to make further provision about the Unemployment Insurance Fund. The Act has been amended to provide for payments out of the Fund to be made at the direction of the Minister of Finance for the purpose of assisting unemployed persons.

## **8. Compensated Absences**

Certain Government employees are entitled to paid retirement leave under the various union agreements that exist with the Government. Paid retirement leave is available to those eligible employees with a minimum of ten years credited service, who are retiring on the basis of age. The leave is paid at the salary level immediately preceding the date of retirement, to a maximum eligibility of twelve weeks.

An actuarial valuation of the Government's obligation for retirement leave was performed to March 31, 2012, using similar various long-term assumptions as the Public Service Superannuation Fund pension plan (Note 9). The valuation determined that the accrued benefit obligation for retirement leave is currently \$24,321,023 (2011- \$21,995,987), as defined in the table below.

**Government of Bermuda – Consolidated Fund**  
**Notes to the Financial Statements**  
**March 31, 2012**

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## 8. Compensated Absences (cont'd)

	2012 \$	2011 \$
Accrued benefit obligation, beginning of year	21,995,987	21,336,602
Amortization of experience loss	60,754	60,754
Current period benefit cost	1,197,259	1,148,450
Interest accrued	1,487,885	1,397,769
Benefit payments	(420,862)	(1,947,588)
	<hr/>	<hr/>
Accrued benefit obligation, end of year	24,321,023	21,995,987

## 9. Pensions and Other Retirement Benefits

### (a) Contributory Defined Benefit Pension Plans

The Government administers contributory defined benefit pension plans for substantially all of its employees, quasi-autonomous non-governmental organization ("QUANGO") employees and all ministers and members of the Legislature. There are two plans currently in operation – the Public Service Superannuation Fund ("PSSF") and the Ministers and Members of the Legislature Pensions Fund ("MMLPF").

For the PSSF, a service pension is available with a minimum of eight years credited service. Subject to exceptions as outlined in the Public Service Superannuation Act 1981, it is based on the number of years of service times 1.5% of the salary payable immediately preceding the date of retirement. Additional benefits are provided to special groups such as police, prison wardens, fire service and regiment employees.

For the MMLPF, a service pension is generally available to contributors who have reached age 60 and have served for at least 8 years, or to contributors who have reached age 55 and have served for at least 20 years. The rate of pension is 3/1000<sup>th</sup> of the monthly salary payable to a minister, member or officer, on the date on which the contributor becomes entitled to receive a pension, for each month of service rendered up to a maximum of 25 years. Cost of living increases are calculated by reference to the Consumer Price Index on a biennial basis.

Employees contribute 8.0% of their basic salary for PSSF and Ministers and Members contribute 12.5% of their salary for MMLPF. The Government matches the participant's contribution in each plan. The amount of Government contributions made during the year for each plan was as follows: PSSF - \$33,338,006 (2011 - \$32,588,714), MMLPF - \$526,528 (2011 - \$485,071). The Public Service Superannuation Act 1981 and the Ministers and Members of the Legislature (Salaries and Pensions) Act 1981, as amended, provide that, if at any time the funds are insufficient to meet the payments chargeable against them, the deficiency shall be made up out of the Consolidated Fund.

**Government of Bermuda – Consolidated Fund**  
**Notes to the Financial Statements**  
**March 31, 2012**

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## **9. Pensions and Other Retirement Benefits (cont'd)**

### **(b) Pension Liability**

Normally, the pension liability is calculated on an actuarial basis. Actuarial valuations are performed triennially using the projected benefit method, pro-rated on services. An actuarial valuation was performed on both the PSSF and the MMLPF as at March 31, 2012 using the same assumptions, to produce the estimates included in the financial statements.

Actuarial valuations are based on a number of assumptions about future events, such as inflation rates, interest rates, wage and salary increases, employee turnover and mortality. The assumptions used reflect Government's best estimates of expected long-term rates and short-term forecasts.

The most significant assumptions are that the average investment return will be greater than the average rate of salary increase by approximately 2.25% (prior valuation – 2.25%) and the cost of living increase will average 3.0% (prior valuation - 3.0%) per annum.

The 1994 Group Annuity Mortality Table was used for the mortality assumption.

For the PSSF, pension fund assets consist primarily of listed stocks and bonds, short-term investment funds, hedge funds and private equity investments. Market-related asset values, which recognize the differences between the actual return on assets and the expected return on assets over a period of five years, have been used to determine the pension liability and pension-related expenses for the PSSF.

The market-related value of assets for the PSSF was \$492,045,167 as at March 31, 2012 (2011 - \$468,985,435) compared to a real market value of \$502,261,171 (2011 - \$486,693,676).

For the MMLPF, there is no difference between the market value of plan assets and the market-related value. As at March 31, 2012, the value was \$10,990,884 (2011 – \$10,242,303). The actual return on plan assets during the year was 3.65% (2011 – 14.67%) for the PSSF and 7.17% (2011 - 7.25%) for the MMLPF.

As at March 31, 2012, \$2,563,962 (2011 – \$4,366,587) was due to the PSSF in respect of contributions received in excess of benefits paid by the Fund (Schedule 3(a)). As at March 31, 2012, \$10,789,460 (2011 – \$10,472,058) was due to the MMLPF in respect of contributions received in excess of benefits paid by the Fund (Schedule 3(a)).

### **(c) Pension-Related Expenses**

Pension-related expenses recognized by the Consolidated Fund comprise the cost of pension benefits earned by employees during the year, interest on the pension benefit liability (net of interest on pension plan assets) and amortization of the Government's share of any experience gains or losses, less contributions made by the employees. The

**Government of Bermuda – Consolidated Fund**  
**Notes to the Financial Statements**  
**March 31, 2012**

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**9. Pensions and Other Retirement Benefits (cont'd)**

estimated total cost of the Government's share of plan amendments related to past service is expensed in the year the plan is amended. The pension-related expense is disclosed in Note 9(g) and included in Schedule 10(a) as a component of retirement benefit expenses.

A net unamortized experience loss of \$119,885,000 (2011 - \$146,266,000) is reported in the schedule below. The amount comprises a total unamortized experience loss on the pension liability of \$100,356,000 (2011 - \$130,183,000) and a total unamortized experience loss on the asset valuation of \$19,529,000 (2011 - \$16,083,000). The period of amortization is ten years.

Aggregate information about the PSSF and MMLPF is in the following tables.

**(d) Funded Status of Plans**

**For the year ended March 31**

	<b>2012</b>	<b>2011</b>
	<b>Actual</b>	<b>Actual</b>
	<b>\$</b>	<b>\$</b>
<b>Pension Liability</b>		
Accrued Benefit Obligation		
PSSF	1,475,141,000	1,393,994,000
MMLPF	33,539,000	31,526,000
	<u>1,508,680,000</u>	<u>1,425,520,000</u>
Net Fund Assets		
PSSF	(492,045,000)	(468,985,000)
MMLPF	(10,991,000)	(10,298,000)
	<u>(503,036,000)</u>	<u>(479,283,000)</u>
Net Unamortized Experience Loss		
PSSF	<u>(119,885,000)</u>	<u>(146,266,000)</u>
<b>Pension Liability</b>		
PSSF	863,211,000	778,743,000
MMLPF	22,548,000	21,228,000
Carried Forward to Note 9 (g)	<u>885,759,000</u>	<u>799,971,000</u>

**Government of Bermuda – Consolidated Fund**  
**Notes to the Financial Statements**  
**March 31, 2012**

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**9. Pensions and Other Retirement Benefits (cont'd)**

<b>For the year ended March 31</b>	<b>2012</b>	<b>2011</b>
	<b>Actual</b>	<b>Actual</b>
	<b>\$</b>	<b>\$</b>
Cost of Pension Benefits	56,588,100	54,379,221
Employee Contributions	(33,864,500)	(33,073,785)
Interest on Pension Liability	62,950,921	59,570,564

**Amortization of Experience Gains & Losses**

2003 Experience Loss	-	3,418,847
2004 Experience Loss	21,908,086	21,908,086
2005 Experience Loss	2,048,199	2,048,199
2006 Experience Loss	595,574	595,574
2007 Experience Gain	(351,626)	(351,626)
2008 Experience Loss	5,243,035	5,243,035
2009 Experience Loss	7,608,893	7,608,893
2010 Experience Gain	(2,547,908)	(2,547,908)
2011 Experience Loss	442,686	-
Carried forward to Note 9 (g)	120,621,460	118,799,100

**Value of Obligations Relating to Benefits for the Pension Plans**

The value of obligations relating to benefits for the pensions plan at a given date is determined using the actuarial projections prorated on service, taking into account, among other things, the most probable long-term economic assumption made by the Government.

**Government of Bermuda – Consolidated Fund**  
**Notes to the Financial Statements**  
**March 31, 2012**

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## 9. Pensions and Other Retirement Benefits (cont'd)

Main economic assumptions used:

	<b>PSSF</b> <b>(%)</b>	<b>MMLPF</b> <b>(%)</b>
Inflation Rate	3.00	3.00
Discount Rate for Obligations	6.50	6.50
Salary Escalation Rate	4.25	3.50

Changes in these assumptions may lead to a material increase or decrease in the value of the obligations relating to vested benefits. The following tables, which take the main assumptions into account, show the potential impact of a difference of 1.00% in the value of the obligations for the two pension plans, PSSF and MMLPF. The tables also show the impact of a one-year difference in life expectancy, considering that, according to current assumptions, the life expectancy of beneficiaries aged 60 is 21.8 years for men and 25.6 years for women.

Impact of changes on the main assumptions on the value of obligations relating to PSSF benefits as at March 31, 2012:

<b>Assumption</b>	<b>Change</b>	<b>Impact on ABO</b> <b>(\$)</b>	<b>Impact on ABO</b> <b>(%)</b>
Discount rate	1.0% increase	(172,563,100)	(11.7)
	1.0% decrease	216,032,000	14.6
Salary increase rate	1.0% increase	58,753,100	4.0
	1.0% decrease	(52,745,900)	(3.6)
Inflation	1.0% increase	143,768,700	9.7
	1.0% decrease	(122,630,200)	(8.3)
Life expectancy	1 year increase	38,146,600	2.6
	1 year decrease	(35,856,800)	(2.4)

**Government of Bermuda – Consolidated Fund**  
**Notes to the Financial Statements**  
**March 31, 2012**

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## 9. Pensions and Other Retirement Benefits (cont'd)

Impact of changes on the main assumptions on the value of obligations relating to MMLPF benefits as at March 31, 2012:

<b>Assumption</b>	<b>Change</b>	<b>Impact on ABO (\$)</b>	<b>Impact on ABO (%)</b>
Discount rate	1.0% increase	(3,544,600)	(10.6)
	1.0% decrease	4,281,300	12.8
Salary increase rate	1.0% increase	932,700	2.8
	1.0% decrease	(877,900)	(2.6)
Inflation	1.0% increase	3,346,400	10.0
	1.0% decrease	(2,888,500)	(8.6)
Life expectancy	1 year increase	1,397,500	4.2
	1 year decrease	(1,231,100)	(3.7)

### (e) Contributory Pension Fund

The Contributory Pension Fund (“CPF”) was established under the Contributory Pensions Act 1970 and subsequent amendments.

The purpose of the CPF is to provide old age pension, disability and death benefits for persons satisfying certain contribution, citizenship and residency requirements.

Contributions to the CPF are compulsory for persons employed in Bermuda, the self-employed and employers.

There is no legislative provision for the Fund to provide for any shortfall if, at any time, the CPF has insufficient funds to meet its current legislated obligations.

### (f) Retirement Benefits Other than Pensions – Employee Health Insurance Plan

The Government administers a health care plan, the Government Employees Health Insurance Fund (“GEHI”), for substantially all of its employees, QUANGO employees, all ministers and members of the Legislature and retirees. The GEHI Fund provides medical insurance for retirees and eligible dependents with the Government matching the participants’ contribution to the plan. In 2002 the Government adopted accrual accounting for the GEHI plan.

An actuarial calculation of the Government’s obligations for retirement benefits other than pensions was performed for accounting purposes at March 31, 2012, using various long-term assumptions.



**Government of Bermuda – Consolidated Fund**  
**Notes to the Financial Statements**  
**March 31, 2012**

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## 9. Pensions and Other Retirement Benefits (cont'd)

The discount rate used in determining the accumulated post-retirement benefit obligation was 6.5%. The assumed health-care cost trend rate used was 9.0% (2011 - 9.0%). This will be reducing by 0.5% per annum (from 2014) to 5.0% per annum (to 2022). The 1994 Group Annuity Mortality Table was used for the mortality assumption. The value accrues a liability in respect of the matching premium paid by government under the insurance arrangement in respect of retired employees. The calculation is based on the projected benefit method pro-rated on service.

Aggregate information about the health care plan is in the table below.

	2012 \$	2011 \$
Accrued benefit obligation at beginning of year	254,254,613	266,040,563
Curtailment of Pension Benefit (Note 20(b))	-	(37,882,936)
Valuation adjustment	-	7,840,911
Adjusted accrued benefit obligation at beginning of year	254,254,613	235,998,538
Current period benefit cost	10,165,588	9,545,153
Interest accrued	16,647,332	15,431,697
Benefit payments	(6,449,217)	(6,720,775)
Accrued benefit obligation at end of year	274,618,316	254,254,613
Expected accrued benefit obligation at end of year	274,618,316	254,254,613
Actual accrued benefit obligation at end of year	249,883,817	254,254,613
Experience gain	24,734,499	-

**Government of Bermuda – Consolidated Fund**  
**Notes to the Financial Statements**  
**March 31, 2012**

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**9. Pensions and Other Retirement Benefits (cont'd)**

	<b>2012</b>	<b>2011</b>
Expected average remaining service life	12 years	12 years
Annual amortization	4,619,699	\$4,619,699

**Liability for retirement benefits recorded in the statement of financial position**

	<b>2012</b>	<b>2011</b>
	<b>\$</b>	<b>\$</b>
Accrued benefit obligation, end of year	249,883,817	254,254,613
Unamortized experience losses	<u>(9,417,449)</u>	<u>(38,771,647)</u>
Liability for retirement benefits (Note 9(g))	<u>240,466,368</u>	<u>215,482,966</u>

**Expenses recorded in statement of operations and accumulated deficit**

	<b>2012</b>	<b>2011</b>
	<b>\$</b>	<b>\$</b>
Current period benefit cost	10,165,588	9,545,143
Amortization of experience losses	<u>4,619,699</u>	<u>4,619,699</u>
Retirement benefit expense	14,785,287	14,164,842
Retirement benefit interest expense	<u>16,647,332</u>	<u>15,431,697</u>
Total expenses related to retirement benefits (Note 9(g))	<u>31,432,619</u>	<u>29,596,539</u>

**(g) Accrued Pensions and Retirement Benefits Liability and Expense Summary**

	<b>2012</b>	<b>2011</b>
	<b>\$</b>	<b>\$</b>
Pensions (Note 9(d))	885,759,000	799,971,000
Retirement Benefits other than Pensions – Health Insurance Plan (Note 9(f))	<u>240,466,368</u>	<u>215,482,966</u>
Total Pensions and Retirement Benefits Liability	<u>1,126,225,368</u>	<u>1,015,453,966</u>
Pensions (Note 9(d))	120,621,460	118,799,100
Retirement Benefits other than Pensions – Health Insurance Plan (Note 9(f))	<u>31,432,619</u>	<u>29,596,539</u>
Total Pensions and Retirement Benefits Expense	<u>152,054,079</u>	<u>148,395,639</u>

**Government of Bermuda – Consolidated Fund**  
**Notes to the Financial Statements**  
**March 31, 2012**

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## **10. Contingent Liabilities**

### **(a) Guarantees**

#### **(i) National Education Guarantee Scheme**

In August 1994, the Government introduced the National Education Guarantee Scheme to provide qualifying students with financial guarantees on bank loans for post-secondary education. The repayment of principal and accrued interest is guaranteed by the Government. In the event of default by the student, the banks will call on the guarantee contract. At March 31, 2012, \$179,760 (2011 - \$356,895) is outstanding on guaranteed student loans with local banks.

#### **(ii) West End Development Corporation (“WEDCO”) Guarantee**

On April 1, 2009, the Minister of Finance consented to the borrowing of \$10 million by WEDCO from the Capital G Bank to facilitate the completion of the new Sewage Treatment Plant at Dockyard.

The Minister of Finance further approved the guarantee given by the Ministry of Public Works to repay the indebtedness by way of annual payments to WEDCO until all indebtedness to the Capital G Bank has been fully discharged.

The Ministry of Public Works further guarantees and will make good any default on the part of WEDCO in the payment of the loan to Capital G Bank and all related interest fees and charges due as a result of default by WEDCO until all indebtedness to the Capital G Bank has been fully discharged. At March 31, 2012, \$7,142,858 (2011 - \$8,571,429) is outstanding on WEDCO's indebtedness to Capital G (Schedule 5).

#### **(iii) Bank of N.T. Butterfield Guarantee Agreement**

On June 12, 2009, the Government assisted The Bank of N.T. Butterfield & Son Limited (“BNTB”) in raising qualifying Tier 1 capital via a perpetual preference share offering of US\$200 million.

Accordingly the Government provided the commitment that if the full \$200 million Preference Share Offering was not achieved on or prior to June 30, 2009, the Government would purchase no later than June 30, 2009 such number of Preference Shares as was sufficient to ensure that the Bank realized aggregate proceeds equal to and not less than US\$200 million. As the offering was fully subscribed, no such Government purchase was necessary.

On June 22, 2009, the Government entered into a Preference Shares Guarantee Agreement with the BNTB and others. The Government has guaranteed payment of 100% of the liquidation value of the outstanding Preferred Shares in the event of any voluntary or involuntary liquidation, dissolution or winding up of the affairs of BNTB during the term of the Guarantee. Also, the Government will act as a guarantor for the dividend payments relating to the Preferred Shares issuance. Should the BNTB fail to declare and pay dividends in any quarterly dividend

**Government of Bermuda – Consolidated Fund**  
**Notes to the Financial Statements**  
**March 31, 2012**

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## **10. Contingent Liabilities (cont'd)**

period during the term of the Guarantee, the Government will pay such dividends at 8% per annum.

Pursuant to the Preference Share Offering, the BNTB pays to the Government a fee of 1% per annum on the liquidation value of then outstanding Preference Shares issued to third party investors. The Government was in receipt of 4,279,601 warrants issued by the Bank to purchase a number of non-voting common shares of BNTB having an aggregate market price equal to US\$30 million. The initial exercise price for the warrants and the price for determining the number of common shares of BNTB subject to the warrants was \$7.01 per common share. The quantity of warrants remained at 4,150,773.72 with an exercise price of \$3.614. Per the valuation model run for March 31, 2012, the value of the warrants is \$0.08 (2011 - \$0.157) per warrant which represents a total value of \$332,062 (2011 - \$651,671).

### **(iv) Bermuda Hospitals Board (“BHB”) Guarantee**

On December 1, 2010, the Minister of Finance provided an irrevocable Guarantee Agreement to Paget Health Services Limited on behalf of the BHB to facilitate the completion of the New Hospital Project of the King Edward VII Memorial Hospital in Paget.

The design and construction related costs of the new facility are approximately \$247 million. Once construction is completed in 2014, annual service payments will commence for a period of thirty years, consisting of principal, interest, construction, lifecycle and hard facilities maintenance. A portion of the annual service payment is indexed over the thirty year period to allow for changes in the cost of living and other related facility costs.

The Guarantee Agreement guarantees the payment obligations of the BHB to Paget Health Services Limited by the Government as required by the lenders.

### **(b) Claims and Potential Claims**

The Government is subject to claims and potential claims related to breach of contract, damages to persons and property and like items. The effect of legal claims cannot be determined until they are settled or dismissed. No liability has been admitted and no provision for claims is included in the financial statements. Any resulting losses will be recorded and charged to operations in the year an amount can reasonably be determined.

The total of specific amounts claimed or potential settlements which are under litigation or possible litigation as at March 31, 2012 is \$11,703,246 (2011 - \$12,502,395).

**Government of Bermuda – Consolidated Fund**  
**Notes to the Financial Statements**  
**March 31, 2012**

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## **10. Contingent Liabilities (cont'd)**

### **(c) Base Lands Clean Up**

The Government recognizes that there will be a cost for restoration of the land at the bases formerly occupied by the US military. It is anticipated that such costs would include removal of hazardous materials and clean-up.

A liability of \$40,250,000 (2011 - \$26,250,000) has been accrued, which is an estimate of the costs of the clean-up and remediation at the three former major base land sites. The estimated range is \$37.5 million to \$56.5 million.

The cost for Southside (estimated at \$10.5 million, with a range of \$10.5 million to \$20 million; \$6.5 million for work already performed has been deducted from the lower end of the estimated range) involves demolition of buildings beyond refurbishment and removal of asbestos.

The cost for clean-up of Tudor Hill (estimated at \$1 million with a range of \$1 million to \$2 million) is for removal of asbestos and demolition of buildings on the site.

Clean-up of Morgan's Point is estimated at \$28.75 million (with a range of \$26 million to \$34.5 million) to remove environmental hazards and fuel storage tanks, removal and remediation of asbestos, as well as demolition of derelict buildings. This accrual was increased by \$14 million in the current year.

The prior year's estimate was originally developed in 2003, based on orders of cost which were developed from unit rates used for clean-up at Southside and budget estimates from consultants hired by potential developers at the Morgan's Point site. The Government had a registered professional engineer conduct an independent review of the estimates in 2008, 2010 and 2012.

A request for proposal was issued by the Government in July 2009 with proposed cleanup standards for Morgan's Point. The registered professional engineer independently estimated in 2010 that if this proposal was to be contracted, it would cost the Government \$14 million to \$25 million in addition to the amounts already accrued.

The Government signed the Morgan's Point Exchange Agreement with Southlands Limited and Morgan's Point Limited. The agreement exchanged 12.454 hectares of land owned by Southlands Ltd., located in Warwick, for 66.82 acres of freehold land at Morgan's Point in Southampton. Furthermore, the agreement provides Morgan's Point Limited, as the Developer, the ability to develop an additional 128.46 acres of Leasehold property at Morgan's Point, as further detailed in the Morgan's Point Land Development Agreement, also signed and dated April 8, 2011, amongst the same parties.

Article 6 of the Morgan's Point Land Development Agreement, states the Bermuda Government is still responsible for the remediation of the Morgan's Point property to international standards deemed reasonably acceptable to the Developer. These standards are met in the RFP issued in 2009. Therefore, an additional \$14 million has been accrued in the current year to ensure the liability is within the range of the estimates developed. The registered professional engineer independently currently estimates that if this proposal was to be contracted, it would cost the Government \$34.5 million, which is the maximum of the range disclosed above.

**Government of Bermuda – Consolidated Fund**  
**Notes to the Financial Statements**  
**March 31, 2012**

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## **10. Contingent Liabilities (cont'd)**

### **(d) Hotels Concession Act 2000 and the Memorandum of Understanding between the Minister of Finance and the Bermuda Hotel Association**

On February 21, 2009, the Government entered into a Memorandum of Understanding (“MoU”) with the Bermuda Hotel Association to provide exemptions for applicable hotels from the payment of payroll tax. The assessment of the exemption was to be done quarterly and, if applicable, would allow for the full exemption of the quarterly payroll tax. This MoU has been extended to March 31, 2013.

The Hotels Concession Act 2000 allows for the full or partial exemption from or deferral of payroll tax, land tax and hotel occupancy tax for hotels which undergo development deemed to be in the national economic interest of Bermuda as if it is determinable that the development will, among other considerations:

- benefit the tourism industry and the economy;
- create employment and entrepreneurial opportunities for Bermudians;
- encourage local development, or;
- employ and train Bermudians.

The concessions are granted at the discretion of the Minister of Tourism with the written agreement of the Minister of Finance for those hotels that apply for the concessions. The Hotels Concession Act 2000 permits an exemption from, either in part or in full, or deferral of the payroll tax, land tax and hotel occupancy tax for a period not exceeding five years from the hotel's opening date.

The concession afforded to the hotels is non-refundable and in instances where the payroll tax is deemed null and void due to the MoU, the concession remains as a contra-revenue amount to be applied against any future payroll tax incurred by those hotels.

The Government is obligated to recognize the effect of the concessions when payroll tax is actually incurred unless they are dismissed by the Minister of Finance. No liability has been admitted and no provision for collectibility is included in the financial statements. Any resulting losses of payroll tax will be recorded and charged to operations in the year the payroll tax is effective.

The total of the hotel concessions as at March 31, 2012 is \$3,069,262 (2011 - \$1,201,500) which may be applied against any future payroll tax incurred (\$2,252,510) and future hotel occupancy tax incurred (\$816,752) by the applicable hotels.

### **(e) Air Service Agreements**

#### **(i) WestJet**

On November 1, 2011, the Government renewed a Revenue Guaranty Agreement with WestJet. In consideration of the revenue guaranty provided by the Guarantor, WestJet agrees to operate scheduled daily service between Toronto and Bermuda for the period November 1, 2011 to April 30, 2012 (“Guaranty Period”).

**Government of Bermuda – Consolidated Fund**  
**Notes to the Financial Statements**  
**March 31, 2012**

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## **10. Contingent Liabilities (cont'd)**

The Government has guaranteed that WestJet will receive the minimum 10% operating margin for the scheduled service during the Guaranty Period. Upon the completion of the Guaranty Period, WestJet shall calculate the fully allocated profit margin consistent with the reporting process historically utilized by WestJet in determining route profitability (the “Profit Margin”). Additionally, WestJet shall deliver an operational report summarizing route specific traffic statistics, revenues, fully operating costs, profit margins, and funds required to achieve 10% profit margin to Guarantor (the “Report”). If the Profit Margin exceeds 10% during the Guaranty Period, no payment is due to WestJet. If the Profit Margin fails to reach 10% in the Guaranty Period, the Government shall pay to WestJet the difference between the actual Profit Margin and the amount of additional earnings that would hence result in a 10% Profit Margin within thirty (30) days of receipt of the Report to a maximum of \$1,450,000 USD.

The Government has established and delivered to WestJet an irrevocable Letter of Credit (“LOC”) which came into effect April 14, 2010 issued by Bank of Bermuda, HSBC (“HSBC”) in the amount of US\$500,000.

On August 28, 2011, the Government paid \$1,266,559 to WestJet for the revenue guarantee period of November 1, 2010 to April 30, 2011. On February 15, 2012, the Government paid \$1,000,000 to WestJet for the revenue guarantee period of May 1, 2011 to October 31, 2011.

### **(ii) American Airlines Inc.**

On November 18, 2011, the Government entered into an Air Service Agreement with American Airlines Inc. In consideration of the Air Service Agreement provided by the Government, American Airlines shall provide regular scheduled passenger Air Service between Miami International Airport and Bermuda International Airport in both directions effective November 18, 2011 through November 17, 2012. The Government has guaranteed payment to American of any revenue shortfall during the Air Service Period, if the Total Revenue as defined in the contract, from the provision of the Air Service is less than the Minimum Revenue Requirement as set forth in the contract.

In consideration of the Air Service provided by American Airlines the Government has established and delivered an irrevocable LOC issued by HSBC in the amount of US\$1,500,000 which came into effect February 25, 2011.

On February 15, 2012, the Government paid \$361,536 to American Airlines for the fiscal year end November 2011 revenue shortfall.

**Government of Bermuda – Consolidated Fund**  
**Notes to the Financial Statements**  
**March 31, 2012**

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## **10. Contingent Liabilities (cont'd)**

### **(f) Operating Agreement – Pembroke Hamilton Club**

On September 18, 2008, the Government entered into an operating agreement with the Pembroke Hamilton Club for the use of its planned multi-purpose community complex. The Government agrees to pay a minimum of \$391,000 per year, for a twenty year period, for the use of the facilities. However, this agreement is only operational upon the issuance of the Completion Certificate issued by the Department of Planning. We are unable to determine when, or if, the Completion Certificate will be issued.

## **11. Non-Contractual Operational Commitments**

The Government has ongoing commitments to fund a variety of programs for public welfare including health, education, social services, protection of persons and properties, and management of natural resources. The following is an analysis of the future, non-contractual, operational commitments:

	<b>2012</b>
	<b>\$</b>
2013	5,354,805
2014	16,608,666
2015	300,000
2016	300,000
2017	300,000
2018 and subsequent	<u>1,230,000</u>
Total Future Operational Commitments	<u><u>24,093,471</u></u>



**Government of Bermuda – Consolidated Fund**  
**Notes to the Financial Statements**  
**March 31, 2012**

---

## **12. Contractual Commitments**

### **(a) Capital Leases**

The average period of capitalized leased office machines is 3 years. Leases are capitalized based on the discounted rate of 6.04% and amortized on a straight-line basis over the period of the lease.

The following is an analysis of the leases:

	<b>2012</b>	<b>2011</b>
	<b>\$</b>	<b>\$</b>
Present value of lease cost	4,602,292	4,351,940
Less: Accumulated amortization	<u>(3,903,506)</u>	<u>(3,560,100)</u>
Present value of leases payable	<u>698,786</u>	<u>791,840</u>

The following is a schedule of discounted future minimum lease payments under leases expiring up to March 31, 2016:

	<b>2012</b>
	<b>\$</b>
2013	283,395
2014	202,573
2015	81,772
2016	-
Add: Discounted Amount	<u>131,046</u>
Present value of lease obligation	<u>698,786</u>

### **(b) Contractual Obligation**

The nature of government activity results in some large multi-year contracts and agreements of various sizes and importance. Any financial obligations resulting from these are recorded as a liability when the terms of these contracts and agreements for the acquisition of goods and services or the provision of transfer payments are met.

**Government of Bermuda – Consolidated Fund**  
**Notes to the Financial Statements**  
**March 31, 2012**

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## **12. Contractual Commitments (cont'd)**

The following is an analysis of estimated future expenditures related to these contractual obligations:

	<b>2012</b>
	<b>\$</b>
2013	26,602,369
2014	3,682,879
2015	2,855,847
2016	1,657,860
2017	758,240
2018 and subsequent	<u>2,217,270</u>
 Total Contractual Obligations	 <u><u>37,774,465</u></u>

### **(c) Operating Leases**

The Government rents premises under operating leases which expire at certain dates.

The following is an analysis of the future minimum operating lease payments:

	<b>2012</b>
	<b>\$</b>
2013	12,741,533
2014	11,956,448
2015	10,152,280
2016	7,507,632
2017	4,748,934
2018 and subsequent	<u>20,731,298</u>
 Total Future Minimum Operating Lease Payments	 <u><u>67,838,125</u></u>

**Government of Bermuda – Consolidated Fund**  
**Notes to the Financial Statements**  
**March 31, 2012**

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### **13. Supplementary Estimates and Virements (Transfers)**

Section 96(3) of the Bermuda Constitution Order 1968 allows for Supplementary Estimates in respect of any fiscal year it is found that (a) the amount appropriated by the appropriation law for any purpose is insufficient or that a need has arisen for expenditure for a purpose for which no amount has been appropriated by that law; or (b) moneys have been expended for any purpose in excess of the amount appropriated for that purpose by the appropriation law or for a purpose to which no amount has been appropriated by that law, a supplementary estimate, showing the sum required or spent, shall be laid before the House of Assembly. Section 96(4) of the Bermuda Constitution Order 1968 requires that a Supplementary Appropriation Bill be introduced into the Legislature as soon as practical after year end of the year that supplementary estimates have been necessary.

The Public Treasury (Administration and Payments) Amendment Act 2004 allows a Permanent Secretary or a Head of Department to transfer a part of a Department's approved budget to another Department within the same Ministry, subject to the consent of the Minister of Finance. Virements do not increase the overall appropriation amount but facilitate the redeployment of approved budget resources after the start of a financial year.

During the year \$70,376,000 (2011 - \$49,969,000) in Supplementary Estimates were approved and spent which consisted of \$70,376,000 (2011 - \$49,969,000) for current expenditure and \$0 (2011 - \$0) for capital expenditure.

During the year \$18,668,147 (2011 - \$12,352,977) in virements were approved and transferred which consisted of \$5,867,896 (2011 - \$8,570,017) for current expenditure and \$12,800,251 (2011 - \$3,782,960) for capital expenditure.

Additional expenditures of \$33,774,412 (2011 - \$23,517,956) were incurred in excess of amounts appropriated by the Ministry and will require final approval, which consisted of \$25,330,112 (2011 - \$22,634,452) for current expenditure and \$8,444,300 (2011 - \$883,504) for capital expenditure.

Additional virements of \$11,484,831 (2011 - \$30,086,119) require final approval and transfer, which consisted of \$9,056,035 (2011 - \$23,111,814) for current expenditure and \$2,428,796 (2011 - \$6,974,305) for capital expenditure.

### **14. Related Party Transactions**

#### **(a) Funds**

The Fund is related to the GEHI Fund, the CPF, the MMLPF, the Bermuda Department of Tourism North America Retirement Plan ("BDTRP"), the PSSF, the Confiscated Assets Fund, the GBSF, the Health Insurance Fund, the Mutual Re-insurance Fund, the FutureCare Fund and the Government Reserves Fund.

**Government of Bermuda – Consolidated Fund**  
**Notes to the Financial Statements**  
**March 31, 2012**

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## **14. Related Party Transactions (cont'd)**

The financial activities of these funds are reported separately in each fund's financial statements. The Fund provides accounting and certain administrative services to these funds. These transactions are in the normal course of operations and are measured at the appropriate exchange amount. The other activities represent the net position of contributions payable to the funds and expenses paid out of the Fund on behalf of the funds. Schedules 3 and 3(a) display details of unpaid balances due from and due to the funds which have arisen from normal operating activities. The rate of interest accruing on the balances is 7% per annum.

### **(b) QUANGOs and Other Related Organizations**

The Fund is related to certain quasi-autonomous non-governmental organizations ("QUANGOs") and other government controlled organizations. QUANGOs are government businesses which have been established under their respective legislative incorporation acts. Other government-related organizations are organizations that are controlled by government either by the possession of shares or voting rights or by some other means.

The Fund enters into transactions with the QUANGOs and other related organizations in the normal course of business which are measured at the exchange amount, which is the amount of consideration established and agreed upon by the related parties.

Schedules 3 and 3(a) include details of balances due from and due to these entities which have arisen from normal operating activities. During the year, no interest was charged and/or incurred from or to the Fund and the various QUANGOs and other related organizations.

#### **(i) Bermuda Monetary Authority ("BMA")**

In accordance with Section 8 (3) of the Bermuda Monetary Authority Act 1969, the BMA pays a portion of its net profit (historically 50%) to the Consolidated Fund of the Government.

The BMA did not report a net profit for the year ended December 31, 2011, thus no transfer was required to be made to the Consolidated Fund.

#### **(ii) Bermuda Land Development Company Limited ("BLDC")**

On November 12, 1996 (date of inception), the Government purchased 2,500,000 common shares of BLDC. The shares are valued at par \$1 each and are held in trust by the Minister of Finance.

**Government of Bermuda – Consolidated Fund**  
**Notes to the Financial Statements**  
**March 31, 2012**

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## **14. Related Party Transactions (cont'd)**

On November 12, 1996 (date of inception), the Government purchased 2,500,000 common shares of BLDC. The shares are valued at par \$1 each and are held in trust by the Minister of Public Works.

### **(iii) Bermuda Housing Corporation (“BHC”)**

On July 12, 2011, the Government provided a letter of comfort to the Bank of NT Butterfield (“BNTB”) on behalf of the Bermuda Housing Corporation (“BHC”) which states, “To the extent that the BHC operates programmes which do not break even, the Government appropriates annual grants which enable BHC to comply with its legislation.”

### **(c) Interdepartmental Transactions**

Interdepartmental transactions are those transactions in which revenues and expenses are generated between Government departments and/or Ministries. These revenues and the related expenses should be eliminated from the Fund’s figures. As per Note 3(d), interdepartmental revenues and expenses are not eliminated. However, all interdepartmental revenues and expenses have been identified and are shown in Schedules 9(a) and 10(c), respectively.

## **15. Tangible Capital Asset Recognition**

As disclosed in the Statement of Operations and Accumulated Deficit as a restatement of the 2011 financial statements, sidewalks have now been recognized as a part of infrastructure in the financial statements as at April 1, 2010. The assets in these classes purchased prior to April 1, 2010 have been recognized at amortized value. The recognition of the amortized value of these capital assets has been offset by an adjustment to the accumulated deficit, as disclosed in the Statement of Operations and Accumulated Deficit, excluded from the purchase of assets in the Statement of Cash Flow, and included at gross values in Schedule 11.

## **16. Bank Overdraft**

As at March 28, 2012 the Government has an overdraft facility agreement at the Bank of NT Butterfield (“BNTB”) of \$50 million which expires on June 30, 2012. The facility bears interest at 1.20% per annum above the BNTB’s Bermuda Dollar base rate.

As at March 27, 2012, the Government has an overdraft facility agreement at the Bank of Bermuda, HSBC (“HSBC”) of \$90 million which expires on September 30, 2012. The

**Government of Bermuda – Consolidated Fund  
Notes to the Financial Statements  
March 31, 2012**

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**16. Bank Overdraft (cont'd)**

daily charges applied to overdrawn balances is 1% above HSBC's base rate. Unauthorized overdraft balances are charged at 7.50% over the bank's base rate.

**17. Temporary Loans Act (1973)**

During the current fiscal year the Government had to meet some of its borrowing requirements by increasing overdraft facilities with local financial institutions. These amounts were raised under the Government Loans Act 1978 which provides the Minister of Finance with the authority to borrow in such manner and on such terms and conditions as may be agreed with the lenders; provided overall borrowing does not exceed \$1.45 billion.

This provision is in conflict with the Temporary Loans Act 1973 which restricts the Minister of Finance to certain forms of borrowing classified as temporary loans. The definition of a temporary loan is one in which principal and interest is to be repaid to the lender not later than fifteen months after the funds are raised. The limit for temporary loans established under this Act is 10% of annual budget estimates of expenditure approved by the House of Assembly for the financial year in which the borrowing takes place.

As the overdraft facilities described in Note 16 were for terms of less than fifteen months, these facilities could be classified as temporary loans, in which case the Government would not be in compliance with Section 2 of the Temporary Loans Act 1973.

The overdraft facilities were paid off on July 3, 2012.

**18. Increase in Borrowing Limit**

Effective March 27, 2012, the Government increased the legislated borrowing limit from \$1.25 billion to \$1.45 billion.

**19. Increase in Borrowing**

On May 20 2011, the Government entered into a Term Loan Facility Agreement with Butterfield Bank of BDA\$ 200 million. The purpose of the loan facility was to replace existing overdraft facilities, with the balance used to fund capital expenditure programs and for other budgeted governmental purposes. Interest charged on the loan is 4.95% per annum. The facility has been fully utilized.

**Government of Bermuda – Consolidated Fund**  
**Notes to the Financial Statements**  
**March 31, 2012**

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## **20. Restatement of Prior Period**

### **(a) Correction of Error**

As disclosed in note 7, the establishment of the Unemployment Insurance Fund (the "Fund") in March 2002 should have been recorded and disclosed as a grant from the Government. Additionally, all ancillary transactions (bank deposits, interest and bank charges) relating to the Fund since its inception should be recorded as grants to the Fund from the Government increasing the offsetting liability account of the Fund. As a result of this correction, the prior years' Unemployment Insurance Fund liability account has been increased by \$1,154,180.

The prior years' Unemployment Insurance Fund liability and Accumulated Deficit have been restated accordingly.

Due To Unemployment Insurance Fund (Correction of Error)

As previously stated (March 31, 2011)	\$0
As restated:	\$1,154,180

### **(b) Correction of Estimate**

Prior to the commencement of the fiscal year, April 1, 2010, Government employees, who had vested in the PSSF, but had left Government employment prior to being eligible to receive the pension earned ("deferred pensioners"), were allowed, when they became eligible to receive their pension, to receive the benefit of GEHI coverage.

However, after review, it was determined that under the law, deferred pensioners are not eligible for the benefit of GEHI coverage when they reach pension eligibility.

Therefore, commencing in the fiscal year April 1, 2010, the policy was adopted that deferred pensioners would no longer automatically be entitled to GEHI coverage and this benefit would be curtailed. All pensioners receiving this benefit, after previously being a deferred pensioner, will continue to receive this benefit. This policy will not be applied retroactively.

As a result of this curtailment, all deferred pensioners have been removed from the prior year's estimate of the Retirement Benefits Other than Pensions, (note 9(f)), and the obligation has been decreased by \$34,121,628.

The prior years' Pensions and Retirement Benefits and Accumulated Deficit have been restated accordingly.

**Government of Bermuda – Consolidated Fund**  
**Notes to the Financial Statements**  
**March 31, 2012**

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## **20. Restatement of Prior Period (cont'd)**

### Pensions and Retirement Benefits (Correction of Estimate)

As previously stated (March 31, 2011)	\$1,049,575,594
As restated	\$1,015,453,966

### Accumulated Deficit (Correction of Error and Estimate)

As previously stated (March 31, 2011)	\$1,295,726,324
As restated	\$1,262,758,878

## **21. Subsequent Events**

### **(a) WEDCO Guarantee**

On April 24, 2012, the Minister of Finance consented to the borrowing of \$36 million by WEDCO from BNTB to facilitate the completion of the Infrastructure and Housing Project in Dockyard.

The Ministry of Finance further guarantees and will make good any default on the part of WEDCO in the payment of the loan to BNTB and all related interest fees and charges due as a result of default by WEDCO until all indebtedness to BNTB has been fully discharged.

### **(b) Air Service Agreement – WestJet**

On June 22, 2012, the Government paid \$1,450,000 to WestJet for the winter 2011 revenue guarantee.

### **(c) Increase in Borrowing**

On June 26, 2012, the Government entered into a public bond offering in the international debt capital markets authorizing the issue and sale of \$475 million of 10-year, fixed rate bonds priced at par. The coupon and yield of the bonds are 4.138% per annum. The bonds are due in January 2023 and interest is payable semi-annually. The proceeds of these bonds were used to repay all of our outstanding short-term indebtedness with local banks and a BD\$200 million credit facility with a local bank that would have matured in 2014, with the balance to be used to fund capital expenditure programs and for other budgeted governmental purposes.



**Government of Bermuda – Consolidated Fund  
Notes to the Financial Statements  
March 31, 2012**

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## **21. Subsequent Events (cont'd)**

### **(d) Overdraft Facilities**

On June 26, 2012 the overdraft facility of \$90 million (see Note 16) with HSBC was increased to \$170 million. On July 6, 2012 it reverted back to \$25 million, to expire on September 30, 2012. The daily charges applied to overdrawn balances remained at 1% above HSBC's base rate.

### **(e) Bermuda Housing Corporation ("BHC") Guarantee**

On October 30, 2012, the Minister of Finance granted approval to the borrowing of \$36 million by BHC from BNTB to finance the purchase of the units of phase three of the Grand Atlantic Housing Development ("Grand Atlantic") and to repay the loans advanced by the bank for Grand Atlantic phases one and two. This loan facility is for a two year duration.

The Ministry of Finance further guaranteed to make good any default on the part of BHC in the payment of the loan to BNTB and all related interest fees and charges due as a result of default by BHC until all indebtedness to BNTB has been fully discharged.

## **22. Comparative Figures**

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

## Government of Bermuda - Consolidated Fund

### Schedule 1: Accounts Receivable

As at March 31	2012	2011
	Actual	Actual
	\$	\$
Office of the Tax Commissioner	164,879,657	182,218,897
Works & Engineering	5,220,326	3,642,490
Airport Operations	4,507,169	3,556,516
Registrar of Companies	3,996,988	3,761,285
Judicial Department	3,711,821	3,176,345
Telecommunications	3,290,392	2,975,324
Fire Services	2,993,334	2,437,573
Accountant General	2,888,778	631,573
Post Office	2,307,912	2,456,497
Customs	2,176,578	2,681,816
Department of Education	1,490,174	1,478,712
Department of Health	1,389,906	1,191,239
Ministry of Public Works HQ	967,680	1,063,450
Civil Aviation	829,928	167,456
Public Lands & Buildings	809,149	640,979
Public Transportation	639,581	191,751
Conservation Services	341,422	280,056
Maritime Administration	319,264	224,288
Office of the Auditor General	233,000	-
Marine & Ports Services	210,671	179,724
Human Resources	165,657	183,852
Police	165,060	119,776
Ministry of National Security HQ	154,092	-
Environmental Protection	97,627	207,900
Financial Assistance	58,410	59,810
Registry General	56,954	61,720
Information Technology Office	44,527	-
Planning	38,711	-
Transport Control Department	35,187	49,282
Ministry of Health HQ	31,708	-
Project Management & Procurement	13,773	-
Ministry of Environment, Planning & Infrastructure Str. HQ	10,500	16,500
Tourism	8,996	1,404
Parks	6,027	6,027
Child & Family Services	3,425	22,403
Land, Surveys and Registration	3,360	-
Libraries	979	1,723
Ministry of Government Estates & Information Services HQ	964	-
Attorney General's Chambers	877	1,177
Parliamentary Registrar	50	50
Youth, Sport & Recreation	-	330
	<b>204,100,614</b>	<b>213,687,925</b>
Less: Provision for Doubtful Accounts	<b>65,129,101</b>	<b>47,051,065</b>
	<b>138,971,513</b>	<b>166,636,860</b>

# Government of Bermuda - Consolidated Fund

## Schedule 2: Inventories for Consumption

As at March 31	2012	2011
	Actual	Actual
	\$	\$
Public Transportation	3,832,110	4,105,916
Ministry of Public Works HQ	3,332,232	5,814,378
Marine & Ports Services	2,350,197	2,491,369
Works & Engineering	2,097,020	-
Police	1,424,446	1,434,700
Department of Education	1,013,486	903,481
Department of Corrections	415,396	408,590
Health	307,525	473,097
Defence	249,457	751,113
Public Lands & Buildings	173,337	-
Conservation Services	75,818	84,512
Post Office	29,373	28,195
Border Control	-	141,422
Transport Control Department	-	53,409
	<b>15,300,397</b>	16,690,182
Less: Provision for Obsolescence	<b>1,726,594</b>	1,713,222
	<b>13,573,803</b>	14,976,960

**Government of Bermuda - Consolidated Fund**  
**Schedule 3: Due From Gov't Funds and Agencies**

<b>As at March 31</b>	<b>2012</b>	<b>2011</b>
	<b>Actual</b>	<b>Actual</b>
	<b>\$</b>	<b>\$</b>
Contributory Pension Fund	13,616,130	-
Health Insurance Fund	8,969,970	7,236,525
Government Borrowing Sinking Fund	6,520,212	6,575,219
Bermuda Hospitals Board	3,013,277	3,649,982
Confiscated Assets Fund	2,783,446	4,476,320
Government Reserves Fund	1,129,106	-
Bermuda Monetary Authority	1,063,479	1,119,846
Golf Courses	897,379	824,711
CedarBridge Academy	374,976	92,836
West End Development Corporation	299,994	382,019
Bermuda Housing Corporation	279,499	288,724
Bermuda College	274,679	307,128
Bermuda Land Development Company	183,417	91,508
Pembroke Parish Council	98,408	96,899
Bermuda Health Council	55,434	9,959
Bermuda Economic Development Corporation	30,193	30,199
Financial Intelligence Agency	28,274	32,186
Pension Commission	21,145	40,137
Parish Councils	20,865	18,846
Berkeley Institute	14,397	23,490
Bermuda Housing Trust	11,368	11,423
Whitney Institute	5,111	6,270
National Sports Centre	1,298	14,445
St. George's Preparatory School	814	2,032
Department of Tourism North American Retirement Plan	-	10,000
Sandys Secondary Middle School	-	8,238
Bermuda Educators Council	-	1,438
	<b>39,692,871</b>	<b>25,350,380</b>
Less: Provision for Doubtful Accounts	<b>8,969,970</b>	<b>7,236,525</b>
	<b>30,722,901</b>	<b>18,113,855</b>

**Government of Bermuda - Consolidated Fund**  
**Schedule 3(a): Due to Gov't Funds and Agencies**

<b>As at March 31</b>	<b>2012</b>	<b>2011</b>
	<b>Actual</b>	<b>Restated (Note 20)</b>
	<b>\$</b>	<b>\$</b>
Bermuda Hospitals Board	24,984,362	22,121,357
Ministers and Members Pensions Fund	10,789,460	10,472,058
Public Service Superannuation Fund	2,563,962	4,366,587
Health Insurance Fund	1,476,397	640,970
Department of Tourism North American Retirement Plan	701,256	701,256
Bermuda Health Council	100,000	-
Sandys Secondary Middle School	65,841	-
West End Development Corporation	57,394	6,981
Bermuda Land Development Company	5,142	5,142
Bermuda Economic Development Corporation	3,800	3,800
Golf Courses	1,943	1,943
Bermuda College	1,672	1,672
Bermuda Housing Corporation	400	400
Contributory Pension Fund	-	9,359,040
Unemployment Insurance Fund	-	1,154,182
Government Reserves Fund	-	1,144,857
Government Employees Health Insurance Fund	-	961,770
	<b>40,751,629</b>	<b>50,942,015</b>

## Government of Bermuda - Consolidated Fund

### Schedule 4: Long-Term Receivables

As at March 31	2012	2011
	Actual	Actual
	\$	\$
Student Loans and Teacher Training Awards	1,090,461	1,060,508
Customs Duty	432,158	843,827
	1,522,619	1,904,335

## Government of Bermuda - Consolidated Fund

### Schedule 5: Accounts Payable and Accrued Liabilities

As at March 31	2012	2011
	Actual	Actual
	\$	\$
Base Lands Clean Up	40,250,000	26,250,000
Department Trade Accounts	39,705,206	43,720,679
Deposits Held	18,224,385	15,564,893
Employees' Leave Entitlements	17,879,671	18,788,777
Interest on Debt	17,320,437	17,174,018
Teachers' Salaries & Leave Entitlements	9,749,741	9,089,152
Guarantee Payable to WEDCO (Note 10(a))	7,142,858	8,571,429
Salaries, Wages and Benefits	3,228,533	6,476,471
Leases Payable	567,740	731,014
	154,068,571	146,366,433

## Government of Bermuda - Consolidated Fund

### Schedule 6: Deferred Revenue

As at March 31	2012	2011
	Actual	Actual
	\$	\$
Transport Control Department	17,076,161	17,706,189
Civil Aviation	11,534,493	10,681,720
Economy, Trade & Industry HQ	4,507,641	-
Post Office	419,367	423,994
Police	160,030	145,727
Environmental Protection	109,836	109,836
Public Lands & Buildings	90,812	90,812
Health Department	62,874	44,818
Parks	27,927	46,278
Youth, Sport & Recreation	27,688	27,837
Tourism	24,661	18,845
Marine & Ports Services	3,975	942,532
Border Control	-	3,904,163
	<b>34,045,465</b>	<b>34,142,751</b>

**Government of Bermuda - Consolidated Fund**  
**Schedule 7: Interest Bearing Debt - Net of Sinking Fund**

As at March 31	2012	2011
	Actual	Actual
	\$	\$
<b>Loan Facility - US\$</b>		
Issue Date: May 18, 2011		
Interest: 4.95% payable annually		
Facility Fee: 0.5% per annum payable quarterly		
Loan Due: April 30, 2014	<b>200,000,000</b>	-
<b>Senior Notes Due 2020 - US\$</b>		
Issue Date: July 13, 2010		
Interest: 5.60% payable semi-annually		
January 20 and July 20		
Notes Due: July 20, 2020	<b>500,000,000</b>	500,000,000
<b>Senior Notes Due 2019 - US\$</b>		
Issue Date: November 10, 2009		
Interest: 5.93% payable semi-annually		
November 10 and May 10		
Notes Due: November 10, 2019	<b>80,000,000</b>	80,000,000
<b>Senior Notes Due 2016 - US\$</b>		
Issue Date: November 10, 2009		
Interest: 5.27% payable semi-annually		
November 10 and May 10		
Notes Due: November 10, 2016	<b>60,000,000</b>	60,000,000
<b>Senior Notes Due 2019 - US\$</b>		
Issue Date: May 21, 2009		
Interest: 7.38% payable semi-annually		
May 21 and November 21		
Notes Due: May 21, 2019	<b>100,000,000</b>	100,000,000
<b>Senior Notes Due 2016 - US\$</b>		
Issue Date: May 21, 2009		
Interest: 6.98% payable semi-annually		
May 21 and November 21		
Notes Due: May 21, 2016	<b>30,000,000</b>	30,000,000
<b>Senior Notes Due 2014 - US\$</b>		
Issue Date: May 21, 2009		
Interest: 6.55% payable semi-annually		
May 21 and November 21		
Notes Due: May 21, 2014	<b>45,000,000</b>	45,000,000
<b>Senior Notes Due 2022 - US\$</b>		
Issue Date: December 4, 2007		
Interest: 5.73% payable semi-annually		
June 4 and December 4		
Notes Due: December 4, 2022	<b>140,000,000</b>	140,000,000
<b>Senior Notes Due 2014 - US\$</b>		
Issue Date: June 10, 2004		
Interest: 5.39% payable semi-annually		
June 10 and December 10		
Notes Due: June 10, 2014	<b>75,000,000</b>	75,000,000
	<b>1,230,000,000</b>	1,030,000,000
Less: Sinking Fund (Note 5)	<b>114,747,081</b>	85,508,498
	<b>1,115,252,919</b>	944,491,502

## Government of Bermuda - Consolidated Fund

### Schedule 8: Revenue By Type

For the year ended March 31	2012 Original Estimates	2012 Actual	2011 Actual
	\$	\$	\$
<b>Taxes &amp; Duties</b>			
Payroll Tax	350,000,000	344,702,370	423,049,799
Customs Duty	200,000,000	180,696,578	195,807,157
Land Tax	52,000,000	52,312,877	49,131,169
Passenger Tax	34,370,000	35,068,899	32,345,082
	636,370,000	612,780,724	700,333,207
<b>Other Taxes &amp; Duties</b>			
Stamp Duty	26,292,000	25,112,718	35,362,265
Foreign Currency Purchase Tax	27,000,000	23,106,834	24,712,350
Non-Bermudian Land Acquisition Tax	11,351,000	12,121,040	15,397,432
Hotel Occupancy Tax	9,500,000	10,906,607	7,028,453
Corporate Services Tax	3,600,000	3,244,309	3,298,216
Betting Tax	850,000	1,487,450	1,365,234
Timesharing Tax	200,000	578,519	56,903
	78,793,000	76,557,477	87,220,853
<b>Total Taxes &amp; Duties</b>	715,163,000	689,338,201	787,554,060
<b>Fees, Permits &amp; Licences</b>			
International Companies	68,515,000	60,479,284	61,455,783
Vehicle Licences & Registration	25,207,000	26,671,933	26,582,795
Registration of Aircraft	20,634,000	23,196,885	17,393,790
Telecommunications	15,300,000	13,661,343	12,498,062
Air Terminal & Aviation	10,748,000	10,809,825	9,985,287
Wharfage	7,750,000	8,968,804	1,637,275
Immigration	16,605,000	8,730,480	10,212,606
Bus Transportation	7,900,000	7,989,490	8,345,834
Postal Services	5,424,000	5,369,529	5,455,532
Water	4,738,000	5,180,296	5,081,512
Registration of Shipping	3,126,000	4,208,866	3,545,808
Solid Waste Services	3,520,000	4,111,317	3,481,115
Services to Seaborne Shipping	2,547,000	3,036,162	2,708,111
Local Companies	3,149,000	2,778,498	3,320,615
Rentals	2,261,000	2,493,836	2,014,078
Other Customs Fees & Charges	745,000	2,265,187	1,911,627
Ferry Services	1,314,000	1,854,422	1,123,546
Trade and Service Mark	1,381,000	1,788,790	1,689,651
Planning Fees and Searches	937,000	828,304	1,355,786
Companies Licences	475,000	595,049	347,487
Liquor Licences	351,000	326,345	319,125
Plant Production and Marketing Centre	425,000	280,906	126,441
Insurance Fees	-	107,742	121,600
	203,052,000	195,733,293	180,713,466
<b>Other Revenue</b>			
Other	14,343,000	22,821,646	21,599,480
Fines & Forfeitures	3,983,000	2,822,806	4,151,439
	18,326,000	25,644,452	25,750,919
<b>Investment Income</b>	3,500,000	3,465,694	2,709,960
	21,826,000	29,110,146	28,460,879
<b>TOTAL REVENUE</b>	940,041,000	914,181,640	996,728,405



# Government of Bermuda - Consolidated Fund

## Schedule 9: Revenue By Ministry / Department

For the year ended March 31	2012 Original Estimates	2012 Actual	2011 Actual
	\$	\$	\$
<b>Non-Ministry Departments</b>			
05 Office of the Auditor General	807,000	798,777	577,061
63 Parliamentary Registrar	252,000	177,278	262,740
01 Governor & Staff	-	7,260	9,526
92 Internal Audit	-	1,493	1,456
02 Legislature	2,000	-	-
85 Ombudsman's Office	-	(486)	-
	1,061,000	984,322	850,783
<b>Cabinet Office Departments</b>			
09 Cabinet Office	-	9,298	2,520
26 Department of Human Resources	-	60	-
14 Department of Statistics	-	(9,471)	-
	-	(113)	2,520
<b>Ministry of Transport</b>			
34 Transport Control Department	25,208,000	27,029,093	26,574,443
57 Civil Aviation	20,664,000	23,305,390	17,434,950
31 Airport Operations	11,798,000	11,971,054	11,127,278
35 Public Transportation	7,900,000	8,008,415	8,360,301
30 Marine & Ports Services	4,552,000	6,172,528	4,977,227
73 Maritime Administration	3,125,000	4,230,376	3,561,986
48 Ministry of Transport HQ	-	33,098	-
	73,247,000	80,749,954	72,036,185
<b>Ministry of Justice</b>			
03 Judicial Department	8,567,000	6,932,883	12,009,231
88 National Drug Control	64,000	48,203	699,712
87 Ministry of Justice HQ	-	32,074	2,643,590
74 Court Services	-	2,949	(2,564)
25 Department of Corrections	-	1,954	-
75 Department of Public Prosecutions	-	838	95,974
04 Attorney General's Chambers	-	113	1,065
	8,631,000	7,019,014	15,447,008
<b>Ministry of Finance</b>			
38 Office of the Tax Commissioner	499,560,000	492,874,678	568,719,993
12 Customs	209,264,000	196,995,020	202,640,880
11 Accountant General	3,500,000	3,987,122	3,956,259
10 Ministry of Finance HQ	2,000,000	2,022,465	2,002,267
28 Department of Social Insurance	-	9,225	-
	714,324,000	695,888,510	777,319,399
<b>Ministry of Education</b>			
17 Department of Education	220,000	195,366	189,689
	220,000	195,366	189,689
<b>Ministry of Health</b>			
22 Health Department	2,246,000	2,997,293	2,445,376
91 Health Insurance	-	4,500	137,717
21 Ministry of Health HQ	-	348	-
	2,246,000	3,002,141	2,583,093

# **Government of Bermuda - Consolidated Fund** **Schedule 9: Revenue By Ministry / Department (cont'd)**

For the year ended March 31	2012 Original Estimates	2012 Actual	2011 Actual
	\$	\$	\$
<b>Ministry of the Environment, Planning &amp; Infrastructure Strategy</b>			
46 Telecommunications	15,299,000	13,661,343	12,450,556
32 Department of Planning	1,047,000	1,002,073	1,460,863
72 Environmental Protection	737,000	596,664	782,179
50 Ministry of the Environment, Planning & Infr. Str. HQ	18,000	17,551	17,513
49 Land Valuation	-	530	15
97 Land, Surveys & Registration	-	455	-
42 Rent Commissioner	1,000	245	170
	17,102,000	15,278,861	14,711,296
<b>Ministry of Youth, Families, Sports &amp; Community Development</b>			
20 Youth, Sport & Recreation	779,000	902,794	876,053
52 Community and Cultural Affairs	210,000	155,384	211,073
23 Child & Family Services	90,000	109,981	93,371
71 Ministry of Youth, Families, Sports & Comm. Dev. HQ	-	7,093	720
56 Human Affairs	-	26	5,616
55 Financial Assistance	-	-	139,135
	1,079,000	1,175,278	1,325,968
<b>Ministry of National Security</b>			
27 Border Control	12,406,000	12,895,181	25,606,754
45 Fire Services	712,000	559,197	(280,281)
07 Police	477,000	501,517	470,554
06 Defence	-	23,515	90,748
83 Ministry of National Security HQ	-	12,144	-
	13,595,000	13,991,554	25,887,775
<b>Ministry of Economy, Trade &amp; Industry</b>			
94 Ministry Economy, Trade & Industry HQ	15,550,000	7,953,214	-
13 Post Office	5,453,000	5,399,814	5,608,905
60 Labour & Training	242,000	4,640	24,994
	21,245,000	13,357,668	5,633,899
<b>Ministry of Public Works</b>			
82 Works & Engineering	9,968,000	11,468,254	10,137,810
69 Conservation Services	825,000	900,512	591,201
36 Min. of Public Works HQ	122,000	750,040	96,225
68 Parks	254,000	258,456	210,301
	11,169,000	13,377,262	11,035,537
<b>Ministry of Government Estates &amp; Information Services</b>			
81 Public Lands & Buildings	1,750,000	2,086,073	1,589,582
29 Registry General	852,000	1,115,207	1,942,960
18 Libraries	14,000	17,879	16,330
19 Department of Archives	4,000	2,902	4,546
43 Information Technology Office	-	-	2,706
	2,620,000	3,222,061	3,556,124
<b>Ministry of Business Development &amp; Tourism</b>			
39 Registrar of Companies	72,738,000	64,935,135	65,834,010
95 Min. of Business Dev. & Tourism HQ	732,000	956,898	-
33 Tourism	32,000	35,929	315,119
67 E- Commerce	-	11,800	-
	73,502,000	65,939,762	66,149,129
<b>TOTAL REVENUE</b>	<b>940,041,000</b>	<b>914,181,640</b>	<b>996,728,405</b>

# Government of Bermuda - Consolidated Fund

## Schedule 9(a): Interdepartmental Revenue By Ministry / Department

For the year ended March 31	2012 Interdepartmental Revenue	2012 Gross Revenue Actual	2012 Net Revenue
	\$	\$	\$
<b>Non-Ministry Departments</b>			
05 Office of the Auditor General	-	798,777	798,777
63 Parliamentary Registrar	50	177,278	177,228
01 Governor & Staff	-	7,260	7,260
92 Internal Audit	-	1,493	1,493
02 Legislature	-	-	-
85 Ombudsman's Office	-	(486)	(486)
	50	984,322	984,272
<b>Cabinet Office Departments</b>			
09 Cabinet Office	-	9,298	9,298
26 Department of Human Resources	144	60	(84)
14 Department of Statistics	-	(9,471)	(9,471)
	144	(113)	(257)
<b>Ministry of Transport</b>			
34 Transport Control Department	-	27,029,093	27,029,093
57 Civil Aviation	-	23,305,390	23,305,390
31 Airport Operations	43,498	11,971,054	11,927,556
35 Public Transportation	22,714	8,008,415	7,985,701
30 Marine & Ports Services	84	6,172,528	6,172,444
73 Maritime Administration	16,200	4,230,376	4,214,176
48 Ministry of Transport HQ	-	33,098	33,098
	82,496	80,749,954	80,667,458
<b>Ministry of Justice</b>			
03 Judicial Department	10,643	6,932,883	6,922,240
88 National Drug Control	-	48,203	48,203
87 Ministry of Justice HQ	-	32,074	32,074
74 Court Services	-	2,949	2,949
25 Department of Corrections	5,288	1,954	(3,334)
75 Department of Public Prosecutions	-	838	838
04 Attorney General's Chambers	-	113	113
	15,931	7,019,014	7,003,083
<b>Ministry of Finance</b>			
38 Office of the Tax Commissioner	35,559	492,874,678	492,839,119
12 Customs	586,876	196,995,020	196,408,144
11 Accountant General	275	3,987,122	3,986,847
10 Ministry of Finance HQ	-	2,022,465	2,022,465
28 Department of Social Insurance	85	9,225	9,140
	622,795	695,888,510	695,265,715
<b>Ministry of Education</b>			
17 Department of Education	240	195,366	195,126
	240	195,366	195,126
<b>Ministry of Health</b>			
22 Health Department	65	2,997,293	2,997,228
91 Health Insurance	-	4,500	4,500
21 Ministry of Health HQ	-	348	348
	65	3,002,141	3,002,076

**Government of Bermuda - Consolidated Fund**  
**Schedule 9(a): Interdepartmental Revenue By Ministry / Department**

For the year ended March 31

	2012 Interdepartmental Revenue	2012 Gross Revenue Actual	2012 Net Revenue
	\$	\$	\$
<b>Ministry of the Environment, Planning &amp; Infrastructure Strategy</b>			
46 Telecommunications	1,330	13,661,343	13,660,013
32 Department of Planning	4,070	1,002,073	998,003
72 Environmental Protection	1,351	596,664	595,313
50 Ministry of the Environment, Planning & Infr. Str. HQ	500	17,551	17,051
49 Land Valuation	-	530	530
97 Land, Surveys & Registration	65	455	390
42 Rent Commissioner	-	245	245
	7,316	15,278,861	15,271,545
<b>Ministry of Youth, Families, Sports &amp; Community Development</b>			
20 Youth, Sport & Recreation	78,198	902,794	824,596
52 Community and Cultural Affairs	130	155,384	155,254
23 Child & Family Services	-	109,981	109,981
71 Ministry of Youth, Families, Sports & Comm. Dev. HQ	-	7,093	7,093
56 Human Affairs	-	26	26
55 Financial Assistance	-	-	-
	78,328	1,175,278	1,096,950
<b>Ministry of National Security</b>			
27 Border Control	4,438	12,895,181	12,890,743
45 Fire Services	3,282	559,197	555,915
07 Police	970	501,517	500,547
06 Defence	-	23,515	23,515
83 Ministry of National Security HQ	-	12,144	12,144
	8,690	13,991,554	13,982,864
<b>Ministry of Economy, Trade &amp; Industry</b>			
94 Ministry Economy, Trade & Industry HQ	-	7,953,214	7,953,214
13 Post Office	9,201	5,399,814	5,390,613
60 Labour & Training	-	4,640	4,640
	9,201	13,357,668	13,348,467
<b>Ministry of Public Works</b>			
82 Works & Engineering	706,897	11,468,254	10,761,357
69 Conservation Services	156	900,512	900,356
36 Min. of Public Works HQ	618	750,040	749,422
68 Parks	-	258,456	258,456
	707,671	13,377,262	12,669,591
<b>Ministry of Government Estates &amp; Information Services</b>			
81 Public Lands & Buildings	3,500	2,086,073	2,082,573
29 Registry General	1,170	1,115,207	1,114,037
18 Libraries	-	17,879	17,879
19 Department of Archives	-	2,902	2,902
43 Information Technology Office	94	-	(94)
	4,764	3,222,061	3,217,297
<b>Ministry of Business Development &amp; Tourism</b>			
39 Registrar of Companies	-	64,935,135	64,935,135
95 Min. of Business Dev. & Tourism HQ	-	956,898	956,898
33 Tourism	-	35,929	35,929
67 E- Commerce	-	11,800	11,800
	-	65,939,762	65,939,762
<b>TOTAL REVENUE</b>	<b>1,537,691</b>	<b>914,181,640</b>	<b>912,643,949</b>

**Government of Bermuda - Consolidated Fund**  
**Schedule 10: Expenses By Program**

For the year ended March 31		2012	2012	2012	2012	2011
		Capital	Capital	Current	Total	Total
		Development	Acquisition	Expenses	Actual	Actual
		\$	\$	\$	\$	\$
<b>Economic Development</b>						
11	Accountant General	-	26,799	85,189,099	<b>85,215,898</b>	86,457,250
82	Works & Engineering	3,423,050	-	52,244,936	<b>55,667,986</b>	46,626,280
81	Public Lands & Buildings	1,739,736	-	41,096,293	<b>42,836,029</b>	27,705,695
33	Tourism	-	-	30,207,319	<b>30,207,319</b>	39,288,193
31	Airport Operations	397,581	4,037	25,194,093	<b>25,595,711</b>	24,694,849
36	Ministry of Public Works HQ	763,149	177,844	24,270,491	<b>25,211,484</b>	7,536,106
35	Public Transportation	1,754	24,450	23,598,008	<b>23,624,212</b>	23,266,513
30	Marine & Ports Services	-	19,705	23,094,307	<b>23,114,012</b>	22,504,602
13	Post Office	48	124,836	14,181,396	<b>14,306,280</b>	15,124,690
38	Office of the Tax Commissioner	-	-	12,436,940	<b>12,436,940</b>	13,347,860
10	Ministry of Finance HQ	-	30,000	10,955,162	<b>10,985,162</b>	12,659,735
43	Information Technology Office	-	1,439,454	9,292,626	<b>10,732,080</b>	9,796,311
57	Civil Aviation	-	75,730	8,413,697	<b>8,489,427</b>	7,722,598
12	Customs	-	(88,791)	8,092,349	<b>8,003,558</b>	20,064,256
34	Transport Control Department	-	-	6,698,711	<b>6,698,711</b>	6,547,116
95	Ministry of Business Development & Tourism HQ	-	-	4,667,279	<b>4,667,279</b>	-
05	Office of the Auditor General	-	57,522	3,863,399	<b>3,920,921</b>	3,271,645
32	Department of Planning	-	-	3,634,469	<b>3,634,469</b>	3,909,764
39	Registrar of Companies	-	2,421	3,129,882	<b>3,132,303</b>	3,068,541
94	Ministry of Economy, Trade & Industry HQ	-	486	2,334,111	<b>2,334,597</b>	-
73	Maritime Administration	-	4,100	2,053,489	<b>2,057,589</b>	1,605,678
80	Project Management & Procurement	308,753	-	1,477,815	<b>1,786,568</b>	1,297,608
46	Telecommunications	98,200	-	1,620,102	<b>1,718,302</b>	3,419,986
97	Land, Surveys & Registration	-	8,535	1,343,314	<b>1,351,849</b>	-
29	Registry General	-	-	1,331,958	<b>1,331,958</b>	1,789,691
49	Land Valuation	-	11,900	1,081,219	<b>1,093,119</b>	641,902
48	Ministry of Transport HQ	23,838	-	1,037,046	<b>1,060,884</b>	4,149,865
84	E-Government	-	65,059	990,488	<b>1,055,547</b>	1,235,794
67	E-Commerce	-	-	548,186	<b>548,186</b>	998,673
96	Sustainable Development	-	-	517,396	<b>517,396</b>	-
93	Ministry of Government Estates & Inform. Services HQ	-	-	515,946	<b>515,946</b>	-
89	Energy	-	-	436,728	<b>436,728</b>	696,945
90	Energy, Telecommunications and E-Commerce HQ	-	-	(17,546)	<b>(17,546)</b>	531,907
	Amortization (Note 3(f))	-	-	-	-	43,156,723
		6,756,109	1,984,087	405,530,708	<b>414,270,904</b>	433,116,776
<b>Health</b>						
24	Hospitals	-	120,000	142,698,074	<b>142,818,074</b>	160,927,282
22	Health Department	56,086	112,184	30,325,520	<b>30,493,790</b>	30,883,607
91	Health Insurance	-	-	13,600,483	<b>13,600,483</b>	20,273,623
21	Ministry of Health HQ	-	-	11,915,339	<b>11,915,339</b>	15,291,715
28	Department of Social Insurance	-	-	8,303,921	<b>8,303,921</b>	9,695,046
		56,086	232,184	206,843,337	<b>207,131,607</b>	237,071,273
<b>National Security</b>						
07	Police	108,343	268,167	69,451,897	<b>69,828,407</b>	72,643,070
25	Corrections	80,260	3,814	29,272,748	<b>29,356,822</b>	30,640,962
45	Fire Services	36,088	56,057	17,542,550	<b>17,634,695</b>	14,079,869
27	Border Control	-	31,195	17,379,601	<b>17,410,796</b>	5,833,503
03	Judicial Department	-	27,629	8,924,865	<b>8,952,494</b>	9,132,868
06	Defence	25,324	1,776	7,442,831	<b>7,469,931</b>	8,007,479
87	Ministry of Justice HQ	-	(370)	6,998,254	<b>6,997,884</b>	8,316,761
04	Attorney General's Chambers	-	-	3,875,574	<b>3,875,574</b>	4,197,325
74	Court Services	-	8,905	3,540,614	<b>3,549,519</b>	4,481,303
75	Department of Public Prosecutions	-	-	2,550,290	<b>2,550,290</b>	2,374,099
83	Ministry of National Security HQ	-	-	1,345,028	<b>1,345,028</b>	5,709,904
54	Security Services & Delegated Affairs	-	-	(8,006)	<b>(8,006)</b>	180
		250,015	397,173	168,316,246	<b>168,963,434</b>	165,417,323
<b>Education</b>						
17	Department of Education	794,856	350,291	120,855,654	<b>122,000,801</b>	127,667,492
41	Bermuda College	-	-	18,119,000	<b>18,119,000</b>	19,869,313
60	Labour & Training	-	-	5,485,283	<b>5,485,283</b>	7,047,234
16	Ministry of Education HQ	-	-	3,810,693	<b>3,810,693</b>	2,575,119
		794,856	350,291	148,270,630	<b>149,415,777</b>	157,159,158

## Appendix 6

### Government of Bermuda - Consolidated Fund Schedule 10: Expenses By Program (cont'd)

For the year ended March 31

	2012 Capital Development	2012 Capital Acquisition	2012 Current Expenses	2012 Total Actual	2011 Total Actual
	\$	\$	\$	\$	\$
<b>Social Services &amp; Assistance</b>					
55 Financial Assistance	-	-	38,674,696	<b>38,674,696</b>	37,402,231
23 Child & Family Services	-	28,899	16,017,687	<b>16,046,586</b>	19,697,021
53 Bermuda Housing Corporation	-	-	6,587,000	<b>6,587,000</b>	7,000,000
88 National Drug Control	-	-	4,132,149	<b>4,132,149</b>	5,955,074
52 Community & Cultural Affairs	-	-	3,817,738	<b>3,817,738</b>	4,532,386
71 Ministry of Youth, Families, Sports & Comm. Dev. HQ	-	215	2,849,528	<b>2,849,743</b>	4,289,232
42 Rent Commissioner	-	-	554,792	<b>554,792</b>	525,360
	-	29,114	72,633,590	<b>72,662,704</b>	79,401,304
<b>Other General Government Services</b>					
20 Youth, Sport & Recreation	-	37,869	10,865,421	<b>10,903,290</b>	11,802,615
68 Parks	327,707	(8,209)	10,484,198	<b>10,803,696</b>	11,347,632
09 Cabinet Office	-	19,124	6,891,178	<b>6,910,302</b>	8,427,525
02 Legislature	6,544	82,772	5,520,620	<b>5,609,936</b>	4,974,715
69 Conservation Services	189,498	8,307	5,235,580	<b>5,433,385</b>	5,277,487
26 Department of Human Resources	-	(14,764)	4,013,108	<b>3,998,344</b>	4,723,497
72 Environmental Protection	24,589	-	3,233,074	<b>3,257,663</b>	3,928,214
14 Department of Statistics	-	9,865	2,765,598	<b>2,775,463</b>	4,883,507
51 Department of Communication & Information	-	56,904	2,661,882	<b>2,718,786</b>	2,445,984
18 Libraries	-	2,394	2,390,042	<b>2,392,436</b>	2,355,901
56 Human Affairs	-	-	2,251,731	<b>2,251,731</b>	2,947,983
01 Governor & Staff	-	-	1,782,323	<b>1,782,323</b>	1,625,140
19 Department of Archives	-	2,871	1,399,631	<b>1,402,502</b>	1,595,495
92 Internal Audit	-	-	1,372,206	<b>1,372,206</b>	1,429,166
63 Parliamentary Registrar	-	58,745	920,191	<b>978,936</b>	820,028
50 Ministry of the Environment, Planning & Infra. Strategy HQ	9,140	-	871,818	<b>880,958</b>	796,209
85 Ombudsman's Office	-	7,207	802,883	<b>810,090</b>	703,911
08 Public Service Commission	-	-	(45)	<b>(45)</b>	84,918
15 Department of Management Services	-	-	(3,810)	<b>(3,810)</b>	-
	557,478	263,085	63,457,629	<b>64,278,192</b>	70,169,927
<b>Interest on Debt</b>					
58 Interest on Debt	-	-	67,592,428	<b>67,592,428</b>	55,297,892
	-	-	67,592,428	<b>67,592,428</b>	55,297,892
<b>Pensions and Other Employee Future Benefits</b>					
Retirement Benefit Expenses	-	-	113,096,438	<b>113,096,438</b>	110,880,113
	-	-	113,096,438	<b>113,096,438</b>	110,880,113
<b>TOTAL EXPENSES</b>	<b>8,414,544</b>	<b>3,255,934</b>	<b>1,245,741,006</b>	<b>1,257,411,484</b>	<b>1,308,513,766</b>

# Government of Bermuda - Consolidated Fund

## Schedule 10(a): Current Expenses By Type

For the year ended March 31	2012 Original Estimates	2012 Actual	2011 Actual
	\$	\$	\$
<b>Employees</b>			
Salaries	301,276,000	<b>306,594,789</b>	302,299,743
Retirement Benefit Expenses (Note 4(b)(ii))	31,531,815	<b>152,054,080</b>	148,395,639
Wages	70,593,000	<b>85,288,493</b>	99,274,093
Employer Overhead	36,129,185	<b>31,976,564</b>	32,743,105
Training	6,520,000	<b>3,824,956</b>	5,665,893
Compensated Absences	-	<b>2,325,036</b>	659,385
Other Personnel Costs	9,250,000	<b>1,552,274</b>	10,707,145
	455,300,000	<b>583,616,192</b>	599,745,003
<b>Operations</b>			
Grants & Contributions	227,387,000	<b>274,257,810</b>	277,155,948
Professional Services	79,376,000	<b>99,198,233</b>	119,069,697
Interest on Debt	70,700,000	<b>71,067,016</b>	58,728,649
Amortization (Note 3(f))	-	<b>46,544,663</b>	43,156,723
Materials & Supplies	27,692,000	<b>27,167,645</b>	32,857,391
Energy	20,050,000	<b>20,656,630</b>	20,120,149
Bad Debts	-	<b>18,852,186</b>	19,614,898
Repairs & Maintenance	20,796,000	<b>18,343,514</b>	21,886,848
Rentals	18,383,000	<b>17,766,475</b>	18,125,043
Other	3,675,000	<b>16,014,812</b>	2,940,435
Advertising & Promotion	16,146,000	<b>15,663,553</b>	19,224,464
Insurance	12,895,000	<b>13,028,695</b>	12,977,250
Communications	9,074,000	<b>10,038,866</b>	10,636,735
Transport	6,576,000	<b>5,610,817</b>	6,829,739
Travel	5,360,000	<b>3,618,687</b>	5,016,775
Clothing & Uniforms	2,161,000	<b>2,001,481</b>	2,165,129
Bank Charges & Commissions	-	<b>1,513,402</b>	968,508
Equipment	1,128,000	<b>780,329</b>	1,431,226
Transfer to Other Funds (Note 4(b)(iii))	25,750,000	-	-
	547,149,000	<b>662,124,814</b>	672,905,607
<b>TOTAL CURRENT EXPENSES</b>	1,002,449,000	<b>1,245,741,006</b>	1,272,650,610

**Government of Bermuda - Consolidated Fund**  
**Schedule 10(b): Current Expenses By Ministry / Department**

For the year ended March 31	2012 Original Estimates \$	2012 Actual \$	2011 Actual \$
<b>Non-Ministry Departments</b>			
02 Legislature	5,367,000	5,520,620	5,010,289
05 Office of the Auditor General	4,049,000	3,863,399	3,275,930
01 Governor & Staff	1,685,000	1,782,323	1,625,140
92 Internal Audit	1,703,000	1,372,206	1,426,496
63 Parliamentary Registrar	1,035,000	920,191	820,028
85 Ombudsman's Office	826,000	802,883	703,911
08 Public Service Commission	-	-	84,918
	14,665,000	14,261,622	12,946,712
<b>Cabinet Office Departments</b>			
09 Cabinet Office	6,774,000	6,891,178	8,425,922
26 Department of Human Resources	5,577,000	4,009,253	4,713,009
14 Department of Statistics	3,243,000	2,765,598	4,876,199
51 Department of Communication & Information	2,600,000	2,661,882	2,440,610
	18,194,000	16,327,911	20,455,740
<b>Ministry of Transport</b>			
31 Airport Operations	20,501,000	25,194,093	23,851,661
35 Public Transportation	18,388,000	23,598,008	23,266,513
30 Marine & Ports Services	18,897,000	23,094,307	22,393,151
57 Civil Aviation	9,141,000	8,413,697	7,682,316
34 Transport Control Department	6,659,000	6,698,711	6,533,528
73 Maritime Administration	1,640,000	2,053,489	1,605,678
48 Ministry of Transport HQ	1,000,000	1,037,046	2,589,954
	76,226,000	90,089,351	87,922,801
<b>Ministry of Justice</b>			
25 Corrections	27,389,000	29,272,748	30,482,512
03 Judicial Department	8,049,000	8,924,865	9,111,153
87 Ministry of Justice HQ	2,956,000	6,998,254	8,310,563
88 National Drug Control	3,946,000	4,132,149	5,955,074
04 Attorney General's Chambers	4,358,000	3,875,574	4,081,156
74 Court Services	4,511,000	3,540,614	4,481,303
75 Department of Public Prosecutions	2,992,000	2,550,290	2,374,099
	54,201,000	59,294,494	64,795,860
<b>Ministry of Finance</b>			
Retirement Benefit Expenses	-	113,096,438	110,880,113
11 Accountant General	78,087,000	85,189,099	86,436,679
58 Interest on Debt	70,000,000	67,592,428	55,297,892
38 Office of the Tax Commissioner	3,515,000	12,436,940	13,334,160
10 Ministry of Finance HQ	10,581,000	10,955,162	12,634,572
28 Department of Social Insurance	5,150,000	8,303,921	9,695,046
12 Customs	7,650,000	8,092,349	20,000,981
80 Project Management & Procurement	1,300,000	1,477,815	1,156,068
59 Sinking Fund Contribution	25,750,000	-	-
	202,033,000	307,144,152	309,435,511
<b>Ministry of Education</b>			
17 Department of Education	105,544,000	120,855,654	125,978,285
41 Bermuda College	18,119,000	18,119,000	19,869,313
16 Ministry of Education HQ	4,495,000	3,810,693	2,575,119
	128,158,000	142,785,347	148,422,717
<b>Ministry of Health</b>			
24 Hospitals	123,198,000	142,698,074	150,184,153
22 Health Department	31,396,000	30,325,520	30,507,599
91 Health Insurance	4,989,000	13,600,483	20,273,623
21 Ministry of Health HQ	12,598,000	11,915,339	15,291,715
	172,181,000	198,539,416	216,257,090



**Government of Bermuda - Consolidated Fund**  
**Schedule 10(b): Current Expenses By Ministry / Department (cont'd)**

For the year ended March 31	2012 Original Estimates	2012 Actual	2011 Actual
	\$	\$	\$
<b>Ministry of the Environment Planning &amp; Infrastructure Strategy</b>			
32 Department of Planning	3,933,000	3,634,469	3,909,764
72 Environmental Protection	3,515,000	3,233,074	3,827,780
46 Telecommunications	1,529,000	1,620,102	3,236,371
97 Land, Surveys & Registration	1,802,000	1,343,314	-
49 Land Valuation	787,000	1,081,219	641,902
50 Ministry of the Environment, Planning & Infra. Strategy HQ	822,000	871,818	782,056
42 Rent Commissioner	588,000	554,792	525,360
96 Sustainable Development	515,000	517,396	-
89 Energy	754,000	436,728	696,945
	14,245,000	13,292,912	13,620,178
<b>Ministry of Youth, Families, Sports &amp; Community Development</b>			
55 Financial Assistance	27,467,000	38,674,696	37,375,262
23 Child & Family Services	17,413,000	16,017,687	19,697,021
20 Youth, Sport & Recreation	11,517,000	10,865,421	11,800,910
52 Community & Cultural Affairs	3,877,000	3,817,738	4,532,386
71 Ministry of Youth, Families, Sports & Comm. Dev. HQ	3,703,000	2,849,528	4,289,232
56 Human Affairs	2,230,000	2,251,731	2,947,721
	66,207,000	74,476,801	80,642,532
<b>Ministry of National Security</b>			
07 Police	58,203,000	69,451,897	71,816,859
45 Fire Services	12,897,000	17,542,550	13,977,270
27 Border Control	14,797,000	17,379,601	5,746,988
06 Defence	6,913,000	7,442,831	7,997,556
53 Bermuda Housing Corporation	6,587,000	6,587,000	7,000,000
83 Ministry of National Security HQ	1,445,000	1,337,022	1,863,627
	100,842,000	119,740,901	108,402,300
<b>Ministry of Economy, Trade &amp; Industry</b>			
13 Post Office	14,953,000	14,181,396	14,921,680
60 Labour & Training	6,235,000	5,485,283	7,047,234
94 Ministry of Economy, Trade & Industry HQ	2,425,000	2,334,111	-
	23,613,000	22,000,790	21,968,914
<b>Ministry of Public Works</b>			
82 Works & Engineering	33,658,000	52,244,936	41,970,884
36 Ministry of Public Works HQ	5,688,000	24,270,491	7,255,901
68 Parks	10,955,000	10,484,198	11,067,157
69 Conservation Services	5,698,000	5,235,580	5,113,670
Amortization (Note 3(f))	-	-	43,156,723
	55,999,000	92,235,205	108,564,335
<b>Ministry of Government Estates &amp; Information Services</b>			
81 Public Lands & Buildings	20,620,000	41,096,293	24,639,914
43 Information Technology Office	7,885,000	9,292,626	8,467,015
18 Libraries	2,348,000	2,390,042	2,351,345
19 Department of Archives	1,529,000	1,399,631	1,589,385
29 Registry General	1,464,000	1,331,958	1,789,691
84 E-Government	1,097,000	990,488	1,042,179
93 Ministry of Govt Estates & Information Services HQ	600,000	515,946	-
90 Energy, Telecommunications and E-Commerce HQ	-	(17,546)	531,907
	35,543,000	56,999,438	40,411,436
<b>Ministry of Business Development &amp; Tourism</b>			
33 Tourism	30,245,000	30,207,319	34,785,263
95 Ministry of Business Dev. & Tourism HQ	5,383,000	4,667,279	-
39 Registrar of Companies	3,634,000	3,129,882	3,020,548
67 E-Commerce	1,080,000	548,186	998,673
	40,342,000	38,552,666	38,804,484
<b>TOTAL CURRENT EXPENSES</b>	1,002,449,000	1,245,741,006	1,272,650,610

**Government of Bermuda - Consolidated Fund**  
**Schedule 10(c): Interdepartmental Current Expenses By Ministry/Department**

For the year ended March 31	2012 Interdepartmental Expense	2012 Actual Gross Expense	2012 Net Expense
	\$	\$	\$
<b>Non-Ministry Departments</b>			
02 Legislature	-	5,520,620	5,520,620
05 Office of the Auditor General	3,245	3,863,399	3,860,154
01 Governor & Staff	9,674	1,782,323	1,772,649
92 Internal Audit	-	1,372,206	1,372,206
63 Parliamentary Registrar	694	920,191	919,497
85 Ombudsman's Office	-	802,883	802,883
	13,613	14,261,622	14,248,009
<b>Cabinet Office Departments</b>			
09 Cabinet Office	135	6,891,178	6,891,043
26 Department of Human Resources	1,412	4,009,253	4,007,841
14 Department of Statistics	260	2,765,598	2,765,338
51 Department of Communication & Information	8,526	2,661,882	2,653,356
	10,333	16,327,911	16,317,578
<b>Ministry of Transport</b>			
31 Airport Operations	1,545	25,194,093	25,192,548
35 Public Transportation	120,143	23,598,008	23,477,865
30 Marine & Ports Services	14,762	23,094,307	23,079,545
57 Civil Aviation	16,200	8,413,697	8,397,497
34 Transport Control Department	1,422	6,698,711	6,697,289
73 Maritime Administration	1,888	2,053,489	2,051,601
48 Ministry of Transport HQ	618	1,037,046	1,036,428
	156,578	90,089,351	89,932,773
<b>Ministry of Justice</b>			
25 Corrections	196,344	29,272,748	29,076,404
03 Judicial Department	1,899	8,924,865	8,922,966
87 Ministry of Justice HQ	-	6,998,254	6,998,254
88 National Drug Control	4,800	4,132,149	4,127,349
04 Attorney General's Chambers	-	3,875,574	3,875,574
74 Court Services	8,695	3,540,614	3,531,919
75 Department of Public Prosecutions	102	2,550,290	2,550,188
	211,840	59,294,494	59,082,654
<b>Ministry of Finance</b>			
Retirement Benefit Expenses	-	113,096,438	113,096,438
11 Accountant General	2,911	85,189,099	85,186,188
58 Interest on Debt	-	67,592,428	67,592,428
38 Office of the Tax Commissioner	-	12,436,940	12,436,940
10 Ministry of Finance HQ	631	10,955,162	10,954,531
28 Department of Social Insurance	547	8,303,921	8,303,374
12 Customs	2,405	8,092,349	8,089,944
80 Project Management & Procurement	45	1,477,815	1,477,770
	6,539	307,144,152	307,137,613
<b>Ministry of Education</b>			
17 Department of Education	99,825	120,855,654	120,755,829
41 Bermuda College	-	18,119,000	18,119,000
16 Ministry of Education HQ	-	3,810,693	3,810,693
	99,825	142,785,347	142,685,522
<b>Ministry of Health</b>			
24 Hospitals	-	142,698,074	142,698,074
22 Health Department	112,628	30,325,520	30,212,892
91 Health Insurance	-	13,600,483	13,600,483
21 Ministry of Health HQ	1,609	11,915,339	11,913,730
	114,237	198,539,416	198,425,179

**Government of Bermuda - Consolidated Fund**  
**Schedule 10(c): Interdepartmental Current Expenses By Ministry/Department**

For the year ended March 31			
	2012 Interdepartmental Expense	2012 Actual Gross Expense	2012 Net Expense
	\$	\$	\$
<b>Ministry of the Environment Planning &amp; Infrastructure Strategy</b>			
32 Department of Planning	675	3,634,469	3,633,794
72 Environmental Protection	2,124	3,233,074	3,230,950
46 Telecommunications	871	1,620,102	1,619,231
97 Land, Surveys & Registration	130	1,343,314	1,343,184
49 Land Valuation	-	1,081,219	1,081,219
50 Ministry of the Environment, Planning & Infra. Strategy HQ	1,057	871,818	870,761
42 Rent Commissioner	-	554,792	554,792
96 Sustainable Development	-	517,396	517,396
89 Energy	-	436,728	436,728
	4,857	13,292,912	13,288,055
<b>Ministry of Youth, Families, Sports &amp; Community Development</b>			
55 Financial Assistance	3,265	38,674,696	38,671,431
23 Child & Family Services	7,944	16,017,687	16,009,743
20 Youth, Sport & Recreation	142,834	10,865,421	10,722,587
52 Community & Cultural Affairs	1,533	3,817,738	3,816,205
71 Ministry of Youth, Families, Sports & Comm. Dev. HQ	185	2,849,528	2,849,343
56 Human Affairs	139	2,251,731	2,251,592
	155,900	74,476,801	74,320,901
<b>Ministry of National Security</b>			
07 Police	122,020	69,451,897	69,329,877
45 Fire Services	217	17,542,550	17,542,333
27 Border Control	140	17,379,601	17,379,461
06 Defence	1,695	7,442,831	7,441,136
53 Bermuda Housing Corporation	-	6,587,000	6,587,000
83 Ministry of National Security HQ	53	1,337,022	1,336,969
	124,125	119,740,901	119,616,776
<b>Ministry of Economy, Trade &amp; Industry</b>			
13 Post Office	4,257	14,181,396	14,177,139
60 Labour & Training	-	5,485,283	5,485,283
94 Min. of Economy, Trade & Industry HQ	185	2,334,111	2,333,926
	4,442	22,000,790	21,996,348
<b>Ministry of Public Works</b>			
82 Works & Engineering	1,437	52,244,936	52,243,499
36 Min. of Public Works HQ	485,916	24,270,491	23,784,575
68 Parks	115,465	10,484,198	10,368,733
69 Conservation Services	20,741	5,235,580	5,214,839
	623,559	92,235,205	91,611,646
<b>Ministry of Government Estates &amp; Information Services</b>			
81 Public Lands & Buildings	98	41,096,293	41,096,195
43 Information Technology Office	1,602	9,292,626	9,291,024
18 Libraries	226	2,390,042	2,389,816
19 Department of Archives	-	1,399,631	1,399,631
29 Registry General	3,157	1,331,958	1,328,801
84 E-Government	-	990,488	990,488
93 Min. of Govt Estates & Inform. Svcs HQ	-	515,946	515,946
90 Energy, Telecommunications and E-Commerce HQ	-	(17,546)	(17,546)
	5,083	56,999,438	56,994,355
<b>Ministry of Business Development &amp; Tourism</b>			
33 Tourism	6,580	30,207,319	30,200,739
95 Min. of Business Dev. & Tourism HQ	-	4,667,279	4,667,279
39 Registrar of Companies	-	3,129,882	3,129,882
67 E-Commerce	180	548,186	548,006
	6,760	38,552,666	38,545,906
<b>TOTAL CURRENT EXPENSES</b>	<b>1,537,691</b>	<b>1,245,741,006</b>	<b>1,244,203,315</b>

**Government of Bermuda - Consolidated Fund**  
**Schedule 11: Schedules of Tangible Capital Assets and Assets Under Construction**  
**As at March 31, 2012**

	Estimated Useful Life	COST				ACCUMULATED AMORTIZATION				31-Mar-12 Net Book Value	31-Mar-11 Net Book Value
		Opening Balance	Additions	Disposals & Adjustments	Closing Balance	Opening Balance	Amortization Expense	Disposals & Adjustments	Closing Balance		
		\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Tangible Capital Assets											
Land	Indefinite	45,636,778	-	-	45,636,778	-	-	-	-	45,636,778	45,636,778
Buildings & Betterments	40 years	585,979,976	22,797,953	-	608,777,929	(136,523,741)	(16,423,278)	-	(152,947,019)	455,830,910	449,456,235
Infrastructure	10 - 40 Years	171,166,593	978,497	-	172,145,090	(25,714,888)	(10,758,601)	-	(36,473,489)	135,671,601	145,451,705
Vehicles & Heavy Equipment	5 - 7 Years	86,919,463	1,464,276	(51,495)	88,332,244	(64,251,373)	(6,556,280)	51,495	(70,756,158)	17,576,086	22,668,080
Vessels	5 - 10 Years	41,848,740	2,876,856	-	44,725,596	(30,650,693)	(2,631,385)	-	(33,282,078)	11,443,518	11,198,047
Computer Software	10 years	23,339,569	7,658,392	-	30,997,961	(4,988,497)	(2,691,659)	-	(7,680,156)	23,317,805	18,351,072
Office Equipment	5 years	15,005,347	328,860	-	15,334,207	(6,816,165)	(2,510,087)	-	(9,328,262)	6,007,945	8,189,182
Computer Hardware	3 - 7 years	12,075,334	1,239,483	-	13,314,817	(7,174,968)	(1,698,492)	-	(8,873,460)	4,441,357	4,900,366
Capital Leases	3 - 5 years	4,351,942	250,350	-	4,602,292	(3,560,100)	(343,405)	-	(3,903,505)	698,787	791,843
Furniture & Fixtures	7 years	4,272,850	189,050	-	4,461,900	(2,080,985)	(567,589)	-	(2,648,574)	1,813,326	2,191,865
Plant, Machinery & Equipment	10 - 30 Years	53,811,274	32,458,681	-	86,269,955	(34,894,005)	(2,363,876)	-	(37,257,881)	49,012,074	18,917,269
Total Tangible Capital Assets		1,044,407,866	70,242,398	(51,495)	1,114,598,769	(316,655,415)	(46,544,662)	51,495	(363,148,582)	751,450,187	721,752,452
Assets Under Construction		59,272,927	37,853,002	(57,024,364)	40,101,565	-	-	-	-	40,101,565	59,272,927

**Government of Bermuda - Consolidated Fund**  
**Schedule 12: Current Expenditure - Estimates Compared to Expenditures**

For the year ended March 31, 2012

	Expenses	Expenditure *	Adjusted Estimates **	Under (Over) Spent
	\$	\$	\$	\$
<b>Non-Ministry Departments</b>				
02 Legislature	5,520,620	5,499,932	5,367,094	(132,838)
05 Office of the Auditor General	3,863,399	3,834,385	3,969,460	135,075
01 Governor & Staff	1,782,323	1,781,535	1,684,965	(96,570)
92 Internal Audit	1,372,206	1,370,325	1,703,243	332,918
63 Parliamentary Registrar	920,191	905,235	1,035,001	129,766
85 Ombudsman's Office	802,883	802,588	826,240	23,652
	14,261,622	14,194,000	14,586,003	392,003
<b>Cabinet Office Departments</b>				
09 Cabinet Office	6,891,178	6,855,803	7,401,275	545,472
14 Department of Statistics	2,765,598	2,754,331	3,243,455	489,124
26 Department of Human Resources	4,009,253	3,975,581	4,949,932	974,351
51 Department of Communication & Information	2,661,882	2,610,159	2,600,013	(10,146)
	16,327,911	16,195,874	18,194,675	1,998,801
<b>Ministry of Transport</b>				
31 Airport Operations	25,194,093	22,753,745	20,501,006	(2,252,739)
35 Public Transportation	23,598,008	21,527,505	20,865,253	(662,252)
30 Marine & Ports Services	23,094,307	20,695,003	18,897,284	(1,797,719)
57 Civil Aviation	8,413,697	8,335,673	9,069,026	733,353
34 Transport Control Department	6,698,711	6,053,917	6,658,838	604,921
48 Ministry of Transport HQ	1,037,046	1,031,845	999,639	(32,206)
73 Maritime Administration	2,053,489	2,044,137	1,712,527	(331,610)
	90,089,351	82,441,825	78,703,573	(3,738,252)
<b>Ministry of Justice</b>				
03 Judicial Department	8,924,865	8,269,647	8,299,051	29,404
25 Corrections	29,272,748	29,428,888	29,653,527	224,639
87 Ministry of Justice HQ	6,998,254	6,998,254	6,536,820	(461,434)
04 Attorney General's Chambers	3,875,574	3,758,051	4,146,253	388,202
88 National Drug Control	4,132,149	4,112,141	3,946,152	(165,989)
74 Court Services	3,540,614	3,514,210	4,510,716	996,506
75 Department of Public Prosecutions	2,550,290	2,538,083	2,992,031	453,948
	59,294,494	58,619,274	60,084,550	1,465,276
<b>Ministry of Finance</b>				
Retirement Benefit Expenses	113,096,438	-	-	-
11 Accountant General	85,189,099	85,019,310	81,787,291	(3,232,019)
58 Interest on Debt	67,592,428	67,592,428	67,600,000	7,572
12 Customs	8,092,349	6,794,368	7,200,001	405,633
38 Office of the Tax Commissioner	12,436,940	3,083,473	3,165,000	81,527
80 Project Management & Procurement	1,477,815	1,467,384	1,300,362	(167,022)
10 Ministry of Finance HQ	10,955,162	10,936,937	11,381,000	444,063
28 Department of Social Insurance	8,303,921	8,259,062	6,550,000	(1,709,062)
59 Sinking Fund Contribution	-	25,726,034	25,750,000	23,966
	307,144,152	208,878,996	204,733,654	(4,145,342)
<b>Ministry of Education</b>				
17 Department of Education	120,855,654	120,063,257	116,543,600	(3,519,657)
41 Bermuda College	18,119,000	18,119,000	18,119,000	-
16 Ministry of Education HQ	3,810,693	3,810,693	4,494,693	684,000
	142,785,347	141,992,950	139,157,293	(2,835,657)
<b>Ministry of Health</b>				
24 Hospitals	13,600,483	142,698,074	141,198,050	(1,500,024)
22 Health Department	30,325,520	29,693,211	31,689,919	1,996,708
91 Health Insurance	11,915,339	11,867,037	7,988,925	(3,878,112)
21 Ministry of Health HQ	142,698,074	11,908,118	12,304,166	396,048
	198,539,416	196,166,440	193,181,060	(2,985,380)

\* Adjusted for Non-Budgeted, Non-Cash Items

\*\* Includes all Approved Supplementary amounts during the year

**Government of Bermuda - Consolidated Fund**  
**Schedule 12: Current Expenditure - Estimates Compared to Expenditures (cont'd)**

For the year ended March 31, 2012

	Expenses	Expenditure*	Adjusted Estimates **	Under (Over) Spent
	\$	\$	\$	\$
<b>Ministry of the Environment, Planning &amp; Infrastructure Strategy</b>				
32 Department of Planning	3,634,469	3,609,535	3,932,605	323,070
72 Environmental Protection	3,233,074	3,315,991	3,515,451	199,460
50 Ministry of the Environment, Planning & Infra. Strategy HQ	871,818	868,719	887,057	18,338
97 Land, Surveys & Registration	1,343,314	1,340,561	1,584,449	243,888
96 Sustainable Development	517,396	517,396	525,777	8,381
49 Land Valuation	1,081,219	1,048,329	1,049,742	1,413
89 Energy	436,728	436,728	632,962	196,234
42 Rent Commissioner	554,792	554,792	587,918	33,126
46 Telecommunications	1,620,102	1,595,762	1,528,893	(66,869)
	13,292,912	13,287,813	14,244,854	957,041
<b>Ministry of Youth, Families, Sports &amp; Community Development</b>				
20 Youth, Sport & Recreation	10,865,421	10,768,381	11,810,124	1,041,743
55 Financial Assistance	38,674,696	38,650,812	39,781,741	1,130,929
23 Child & Family Services	16,017,687	15,946,313	17,412,892	1,466,579
52 Community & Cultural Affairs	3,817,738	3,801,951	3,877,253	75,302
71 Ministry of Youth, Families, Sports & Comm. Dev. HQ	2,849,528	2,849,247	3,132,224	282,977
56 Human Affairs	2,251,731	2,169,826	2,507,463	337,637
	74,476,801	74,186,530	78,521,697	4,335,167
<b>Ministry of National Security</b>				
07 Police	69,451,897	69,060,159	66,402,978	(2,657,181)
45 Fire Services	17,542,550	13,450,681	13,897,087	446,406
06 Defence	7,442,831	6,842,386	7,213,164	370,778
53 Bermuda Housing Corporation	6,587,000	6,587,000	6,587,000	-
27 Border Control	17,379,601	16,593,935	16,832,211	238,276
83 Ministry of National Security HQ	1,337,022	1,337,022	1,410,234	73,212
	119,740,901	113,871,183	112,342,674	(1,528,509)
<b>Ministry of Economy, Trade &amp; Industry</b>				
60 Labour & Training	5,485,283	5,463,851	6,085,400	621,549
94 Ministry of Economy, Trade & Industry HQ	2,334,111	2,334,111	2,424,911	90,800
13 Post Office	14,181,396	13,989,119	14,353,385	364,266
	22,000,790	21,787,081	22,863,696	1,076,615
<b>Ministry of Public Works</b>				
68 Parks	10,484,198	10,351,467	10,954,548	603,081
69 Conservation Services	5,235,580	5,207,483	5,697,517	490,034
82 Works & Engineering	52,244,936	38,777,373	33,652,672	(5,124,701)
36 Ministry of Public Works HQ	24,270,491	11,751,596	9,192,767	(2,558,829)
	92,235,205	66,087,919	59,497,504	(6,590,415)
<b>Ministry of Government Estates &amp; Information Services</b>				
18 Libraries	2,390,042	2,362,435	2,371,321	8,886
43 Information Technology Office	9,292,626	8,147,628	7,884,515	(263,113)
29 Registry General	1,331,958	1,288,262	1,463,505	175,243
93 Ministry of Government Estates & Inform. Services HQ	515,946	515,879	624,691	108,812
84 E-Government	990,488	990,451	1,096,616	106,165
81 Public Lands & Buildings	41,096,293	24,386,012	20,619,956	(3,766,056)
90 Energy, Telecommunications and E-Commerce HQ	(17,546)	(19,869)	-	19,869
19 Department of Archives	1,399,631	1,377,506	1,481,143	103,637
	56,999,438	39,048,304	35,541,747	(3,506,557)
<b>Ministry of Business Development &amp; Tourism</b>				
33 Tourism	30,207,319	28,694,651	30,244,831	1,550,180
95 Ministry of Business Development & Tourism HQ	4,667,279	4,667,187	5,383,460	716,273
67 E-Commerce	548,186	543,576	1,080,400	536,824
39 Registrar of Companies	3,129,882	2,800,843	3,353,309	552,466
	38,552,666	36,706,257	40,062,000	3,355,743
<b>TOTAL CURRENT EXPENDITURE</b>	<b>1,245,741,006</b>	<b>1,083,464,446</b>	<b>1,071,714,980</b>	<b>(11,749,466)</b>

\* Adjusted for Non-Budgeted, Non-Cash Items

\*\* Includes all Approved Supplementary amounts during the year

## Government of Bermuda - Consolidated Fund

### Schedule 13: Commitments - Legislated

For the year ended March 31	2012	2011
	Actual	Actual
	\$	\$

#### Unspent Capital Appropriations

In accordance with Section 6 of the Appropriations Act 2011, unspent capital appropriations for incomplete capital projects to be carried forward to future years are as follows:

Capital Development	<b>18,715,029</b>	9,402,418
Capital Acquisition	<b>7,037,781</b>	8,210,178
	<b>25,752,810</b>	17,612,596

#### Total Authorized Funding

Total Authorized Funding represents the estimated total cost of capital development projects and is subject to the voting of supply by the Legislature. Estimated future expenditure for continuing capital development projects is as follows:

Total Authorized Funding	<b>962,730,796</b>	1,029,096,754
Projects Completed during the year	<b>(56,601,688)</b>	(58,750,601)
Revised Total Authorized Funding	<b>906,129,108</b>	970,346,153
Appropriated Capital Development	<b>(514,348,192)</b>	(529,369,862)
<b>Unappropriated Capital Development Commitments</b>	<b>391,780,916</b>	440,976,291

## Government of Bermuda - Consolidated Fund

### Schedule 14: Public Debt - Legislated Limit

As at March 31	2012	2011
	Actual	Actual
	\$	\$
Debt (Schedule 7)	<b>1,230,000,000</b>	1,030,000,000
Overdraft Facility Drawdown (Note 16)	<b>120,720,014</b>	57,490,260
	<b>1,350,720,014</b>	1,087,490,260
Less:		
Sinking Fund (Schedule 7)	<b>114,747,081</b>	85,508,498
Public Debt	<b>1,235,972,933</b>	1,001,981,762
Legislated Limit	<b>1,450,000,000</b>	1,250,000,000
<b>Available Limit</b>	<b>214,027,067</b>	248,018,238

The Government Loans Act 1978, as amended (2011), defines public debt as debt owed or guaranteed by the Consolidated Fund, but only if and when, and to the extent that, the guarantee obligation becomes due and payable by the Government.

Section 2A(1) of the Act limits public debt (net of sinking fund assets) to \$1.45 billion (2011 - \$1.25 billion) as amended as at March 27, 2012.



**REPORT OF THE PARLIAMENTARY  
STANDING COMMITTEE ON THE PUBLIC ACCOUNTS  
FOR THE FINANCIAL YEARS ENDED  
MARCH 31st, 2007 and MARCH 31st, 2008.**

TO HIS HONOUR THE SPEAKER AND THE MEMBERS OF THE HONOURABLE  
HOUSE OF ASSEMBLY:

The Parliamentary Standing Committee on the Public Accounts has the honour  
to submit the following Report:

**1. INTRODUCTION**

- a. Your Committee is pleased to report to the Honourable House of Assembly that we have reviewed the outstanding Annual Reports of the Auditor General, as well as the Special Report of the Auditor dated February 2009. Our deliberations have been directed to following up on the previous findings and concerns of Your Committee, and to making inquiries of Department Heads and Managers of various Government Departments and organizations relevant to issues and problems mentioned in the Auditor General's Reports for the Years 2007 and 2008. Your Committee's work is not closed on these audit reports and there will be further review of issues raised in them, particularly with respect to the new cruise ship pier at Dockyard and the new TCD facility. Since our last report, Your Committee has met on 15 occasions.
- b. The Auditor General's Report for Fiscal 2008 was tabled in the Legislature on February 12, 2010. The concerns raised in the Auditor General's Report comprised the following main areas: contravention of financial instructions; improper tendering of government contracts; and unapproved expenditures. We have also investigated the discovery of bogus cheques in Government files.

**2. QUALIFICATIONS OF OPINIONS**

- a. When auditors qualify financial statements, for whatever reason, it is a very serious matter. In the private sector such an event could easily cause confidence in a company to disintegrate and subsequently collapse. In the case of the Bermuda Government, the Auditor General has qualified both the Consolidated Fund accounts as well as the accounts of some government owned entities.

- b. It is impossible to hold Bermuda out to the rest of the world as a well run jurisdiction under these circumstances.
- c. The audit qualification of somewhat peripheral government entities is an important concern because, as we have seen in the case of the Bermuda College, the inability of the Auditor General to verify expenses totaling more than \$6 million is a matter that is very material to the public purse. Similarly, the inability to verify claims expense on the Government Employees Health Insurance Fund, to the amount of \$30 million, is proof of very serious internal control problems in those entities.
- d. However, an audit qualification within the Consolidated Fund, which is the heart of Government finances, is both serious and alarming.
- e. Your Committee recommends, once again, that an intense effort be undertaken by the Accountant General's Department to ensure that audit files are submitted on a timely and correct basis, and that other government entities are held accountable for bringing their outstanding audits up to date.

**3. MINISTRY OF WORKS & ENGINEERING (New Police/Court Building Project)**

- a. Your Committee identified a number of unsatisfactory issues, as set out below:
  - i. The bidding procedure did not follow the standard protocols. The winning bid was not complete when it was awarded.
  - ii. The advice of W&E Technical Officers was sought and given, but apparently ignored. Notwithstanding this advice, Cabinet came to a different decision, and while it is within their purview to do so, concerns arise when there appears to have been no reason or justification for the variance with the recommendations of government's own experts.
  - iii. Advance payment of \$600,000 "to assist LLC in maintaining positive cash flow."
- b. Your Committee recommends that in future, in an effort to improve transparency and remove lingering concerns, a notation should be added to the file as to why decisions made by Cabinet differed from the recommendations of technical officers.
- c. Financial Instructions were contravened through the following:
  - i. The Attorney-General did not vet the contract, as per Financial Instructions. After Lisgar's departure, a new contract was signed that was not as tight as the original, insofar as safeguards for the

- owner against cost overruns were concerned. The Attorney-General would probably have recommended a tighter contract.
- ii. Government appeared to want to show tangible progress before the December 2007 election and so the job commenced before the contract was actually signed.
  - iii. Payments inappropriately authorized by the Permanent Secretary of Works & Engineering to Landmark Lisgar without architectural approval.
- d. Your Committee reviewed the episode of the appearance of the bogus cheques payable to "E. Brown" and "D. Burgess" with regard to:
- i. How did they get into the file?
  - ii. Who had access to the file?
  - iii. Were they were actually presented to a bank for cashing?
  - iv. Were the cheques paid?
  - v. Who was the likely culprit and who had a motive?
- e. We were concerned about the suspension of the Chief Architect and we understand that upon completion of the investigation he was fully reinstated to his position in the Ministry.
- f. The withdrawal of Ministry cooperation was a sub-text of the bogus cheques episode. It appeared that emotions were running high at this time, and may have been exacerbated by incorrect legal advice provided by the late Legal Consultant to the Ministry. It was clear that failure to cooperate with the Auditor General was contrary to Section 14 of the Audit Act. The Minister subsequently reversed his position. This standoff was unfortunate and unprofessional, and should never have happened but stands to highlight the negative impact of ministerial interference.
- g. Your Committee concluded that the bogus cheques may have been placed in the file by disgruntled former members of the construction team to embarrass senior government officials.
- h. Your Committee was satisfied that the matter was fully investigated, as confirmed by Government House, and that no further action would be taken.

#### 4. SUPERVISION BY WORKS & ENGINEERING

- a. Financial Instructions require that all capital projects over \$50,000 be supervised by the building professionals at Works and Engineering. Your

Committee has noted that the resurfacing of the runway at the Bermuda Airport, the new pier at Dockyard, the renovations at public golf courses and the rebuilding of the TCD facilities all should have been under the supervision of Works and Engineering, but instead this responsibility was transferred to the Ministry of Tourism and Transport (T&T). This is the only ministry where this practice has occurred.

- b. It has been argued that T&T hired specialized expertise for the resurfacing of the airport that was not available in W&E and therefore the supervision by W&E was not appropriate. This point is valid. However, this argument is not valid for any of the other projects.
- c. Not only does W&E have the capability to supervise the other projects, W&E also provides a natural external check and counter balance to an operative department in helping to protect against "irrational exuberance." Again, this action was contrary to Financial Instructions. Your Committee concluded that a mere mention of this transfer of oversight responsibility from W&E to T&T in the notes to the Budget Book was not proper authorization for this action.
- d. Your Committee took note of the coincidence of this transfer of supervisory responsibility from W&E to T&T and the huge cost overruns on the Dockyard, Port Royal and TCD projects. The Auditor General is still investigating some of these matters and we will investigate further after receiving her report.

## 5. DEPARTMENT OF TOURISM (BDOT)

- a. Your Committee reviewed facts surrounding the contract awarded to GlobalHue as BDOT's overall advertising agency.
- b. Financial Instructions recommend that contracts to supply goods or services in excess of \$50,000 should be considered for open tender, meaning that anybody can submit a bid. From a value for money perspective, surely a \$43 million contract would justify such an approach. In this instance this was not done. Instead, a short list of agencies, which the BDOT judged had the capability to carry out the contract's responsibilities, was invited to make bids. This was not open tendering and could have precluded a qualified bidder from offering better value for money than the successful bidder.
- c. At the end of the term of the original contract to GlobalHue, the contract was renewed without any kind of ability for other agencies to bid for it.

There was no tendering process whatsoever. The contract was in fact “rolled over” in the name of “continuity.”

- d. Your Committee recommends that Financial Instructions be amended immediately to require that all contracts in excess of \$50,000 be put out to open tender. Your Committee also recommends that adhering to Financial Instructions should not be optional or discretionary. Further, your Committee recommends that there should be a series of educational seminars for department/ministry accounting officers on Financial Instructions.
- e. Moreover, the contract was not vetted by the Attorney-General, a procedure that is also required by Financial Instructions. There was an indemnification clause in the contract that should have been reciprocal but was not. This potential exposure of government to financial risks could have been avoided if the contract had been vetted by the Attorney-General's Chambers before signing.
- f. Cornerstone Media was given a subcontract by GlobalHue to distribute advertising in the media marketplace. This subcontract cost \$33 million over the period January 2006 to March 31, 2009. This contract was not tendered, and was not approved by the Attorney-General.
- g. From a value for money perspective, Cornerstone did not appear to add any value for BDOT, as GlobalHue seamlessly took over its function after the Auditor General raised the red flag about lack of documentation and higher than average markups. The arrangement with Cornerstone was indeed costly to the BDOT while adding no value.
- h. It is not clear why Cornerstone was hired in the first place or who made that decision, as GlobalHue was capable of doing that job internally at the outset.
- i. Documentation for billings was not kept, contrary to Financial Instructions. The action of the Auditor General in demanding documentation for billings and repeatedly being refused until a denial of opinion was posed as a real possibility, plus the unusually high markups that were discovered, cast a pall of suspicion over that whole arrangement. All of this could have been avoided if Financial Instructions were followed by the BDOT at the outset.
- j. Tourism remains a critical industry for Bermuda and the handling of multi-million dollar advertising budgets requires an approach that is professional and compliant with Financial Instructions. The actions of the BDOT failed to live up to these standards in these instances and failed to give Bermuda its best value for money.
- k. The Permanent Secretary for Tourism confirmed that she had not received any pressure from anyone with respect to the decisions that were taken within the Ministry regarding contract placements or roll-overs, and as such, is fully responsible for the failure to follow Financial Instructions.



**6. MINISTRY OF FINANCE (Cost Overruns)**

- a. One of the functions of the Public Accounts Committee is to review any matters that may help improve the efficiency of the public service, particularly within the context of the issue of value for money.
- b. The perennial cost overruns and “ex-post facto” budget Supplementaries are evidence of a systemic problem with the budgeting process and the discipline, or lack thereof, that follows the approval of the Estimates by Parliament.
- c. There appears to be a culture of casual regard for Parliamentary approved budget parameters throughout the Service. This trend is both unsatisfactory from a management control viewpoint as well as alarming from the viewpoint of democratic authority over public funds.
- d. Although the Ministry of Finance is supposed to exert budgetary constraints on all other ministries, your Committee has observed a sense of duality of purpose among senior staff: i.e. a concern for “delivery of service” as well as adherence to targeted budget constraints.
- e. This duality of purpose at the Finance Ministry is inappropriate and has interfered with its primary purpose: i.e. ensuring that the various ministries do not exceed their allocations.
- f. If additional money is required to meet an objective which is deemed to be a priority, surely money can be transferred from a project with a lower level of priority – without the need for a supplementary estimate.
- g. Moreover, up until recently the Financial Secretary has not had the ability to bring sanctions to bear on offending Permanent Secretaries. The resulting disregard for budgetary constraints has the same effect on costs, just as the absence of the police service's power of arrest and the absence of jails would have on the level of crime - both would be out of control.
- h. It is understood that an imminent procedure, allowing for a “Failure to adhere to budgetary constraints” to be noted on a Permanent Secretary's performance appraisal, will open up the ultimate possibility of dismissal for repeat offenders. While a useful first step, it does not appear to be very practical in bringing to bear any immediate pressure to control costs. Such sanctions would clearly be long-term in nature.
- i. Your Committee recommends that the Ministry of Finance develop more effective tools to bring about more immediate sanctions on offending ministries, as well as the will to use them.
- j. Zero Based Budgeting has not brought about the kind of budgetary discipline that was hoped for. While this procedure should allow each ministry's budget to be rebuilt from the bottom up each year, in many

cases this does not appear to be so.

- k. In defense of overruns, the Financial Secretary showed the Committee that budget supplementaries have existed for many years. The introduction of zero based budgeting, with its in-built new constraints and controls to replace incremental budgeting, was designed to, among other things, reduce or remove this problem. However, overruns continue and, in fact, have become more chronic.
- l. There also appears to be a "Silo" mentality that does not allow the bottom up budgeting process to be appropriately molded by the overall strategy set by Cabinet.
- m. There does not seem to be sufficient concern in the Finance Ministry about the increase in the size of Government and/or the civil service. The prevailing notion that the size and cost of Government should grow in proportion with GDP is a false concept. The size of Government can be measured as a percentage of GDP, but that does not mean it should be intrinsically dependent on GDP. The size of Government should be dependent on the services it is required to provide. Such services would more likely be tied to population size than to GDP. In any case, this prevailing notion is a very poor background upon which to control government spending. Such notions, particularly in the Ministry of Finance, permit the swelling of budgets and lax enforcement of those budgets.
- n. Your Committee recommends that the Ministry of Finance initiate a high level review of its policies and procedures as it relates to the efficacy of the budget process and the policing of the budget limits approved by the Legislature.

## 7. CONCLUSION

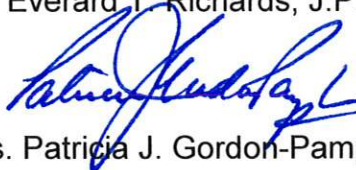
- a. Your Committee wishes to record its appreciation of the advice and co-operation of both the former Auditor General Mr. Larry T. Dennis and the current Auditor General Mrs. Heather Jacobs Matthews, and their staff throughout its deliberations; of the assistance of the various Heads of Department and their staff who appeared before your Committee; and also of the extensive work done on our behalf by the Deputy Clerk to the Legislature, Mr. Clark W. Somner.
- b. Your Committee would also like to acknowledge the contributions of former member the Hon. Zane J.S. DeSilva who served on your Committee and contributed to these deliberations.

- c. Your Committee recommends that the Minister of Finance be requested to inform the Honourable House of Assembly of the action to be taken on the points raised in this report.

ALL OF WHICH IS RESPECTFULLY SUBMITTED,



Mr. Everard T. Richards, J.P., M.P. – Chairman



Mrs. Patricia J. Gordon-Pamplin, J.P., M.P.



Mr. Walter M. Lister, J.P., M.P.



Hon. Patrice K. Minors, J.P., M.P.



Ms. Lovitta F. Foggo, J.P., M.P.

Sessions House,  
2<sup>nd</sup> July, 2010.





GOVERNMENT OF BERMUDA

**The Cabinet Office**


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 Department of Communication and Information

**Minister of Finance Response  
on the Report of the Parliamentary Standing Committee  
on the Public Accounts for the Financial Years  
Ended 31 March, 2007 and 2008**

**Introduction**

**Mr. Speaker,** I am grateful for this opportunity to respond to the Public Accounts Committee Report on the Public Accounts for the financial years ended 31 March, 2007 and 2008. This Government appreciates that this process is an important component of the financial reporting accountability cycle within Government and will fulfill its duty to ensure that Government's financial reporting is raised to its optimal level.

Mr. Speaker, although to reply to the PAC Report on the same day it is tabled is unprecedented, the strategic importance of information being in real time is so key that based on the Auditor General's Report the Ministry prepared a template to respond to the PAC in short order and I took the time to confirm with the Speaker that I could if at all permissible seek to respond immediately so that the Report and its Response could be considered in tandem- it avoids unnecessary misstatement and hysteria inducing misleading headlines, radio and television news programmes. I am grateful for the direction and assistance of the House.

Mr. Speaker, before I go into my formal response I would like to comment on the role of the Public Accounts Committee (PAC) and parliamentary procedure in general.

When the Auditor General tables a report in the House it is automatically referred to the PAC, Parliament's Standing Audit Committee. The Committee then selects the portions of the report it

wants to scrutinise and calls public servants from audited organisations to appear before it to respond to the Auditor General's findings. The PAC also reviews any other Special Auditor Reports that have been tabled, and attempts to identify financial shortcomings of the Government in light of issues raised in the Auditor General's reports. The Committee then tables its report and makes recommendations to the Government for improvements in spending practices and request that the Minister of Finance formally replies to the points raised in the Report and it is debated including input from the relevant and accountable Ministries and Ministers.

Mr. Speaker, this PAC report is an historical document. While media reporting of the PAC Report conveys a sense of immediacy, nothing could be further from the truth. Yet, too often the PAC Report is thought to represent the status quo when in fact it has been overtaken by events and real progress has occurred.

In fact usually, by the time a PAC Report is released more than two years has lapsed. Very often Government officials or boards of public sector entities – who have the fiduciary responsibility for their own accounts – have taken action already to address weaknesses or to make enhancements to financial systems and controls.

As Government we have expended considerable effort to address the outstanding recommendations of the Auditor General. We have set a realistic timetable for action and committed to effecting systemic improvements to Government's accounting and financial control systems.

Mr. Speaker, before I go into my formal response I would like to highlight some of the progress that the Government has made in improving the financial and accountability framework relating to Public Financial Management. These will be detailed in the body of the Response. While overall the progress is satisfactory though, as always, more remains to be done.

Some of the very positive measures Government has undertaken to enhance Public Financial Management are as follows:

- The Accountant General has concluded the implementation of a government accounting infrastructure that involved placing qualified accountants throughout Government at the

departmental or Ministry level, to ensure financial controls are improved and accounting needs are met;

- Co-ordination of Government's financial direction by bringing together key accounting personnel within government and in the QUANGO's for quarterly strategy meetings;
- Providing additional resources within the Accountant General's Department to improve operations, accounting systems and the internal control environment across Government;
- Re-establishment of the Internal Audit function;
- Executing a risk assessment of the entire Government of Bermuda to identify, categorise and to prioritise the risks;
- Updating of Financial Instructions;
- Establishment of the Debt Enforcement Unit;
- Timely completion of the Consolidated Fund Financial Statements (the Fund through which Government conducts the majority of its transactions);
- Focus on bringing various Public Funds and Government related entities' financial statements up to date in an auditable condition.

For ease of reference, I have adopted the same order as the PAC Report, which I attach as Annex I. Please note that the latest PAC Report relates to the years ending March 31, 2007 and 2008, clearly some of my comments may already be in the public domain.

### **Qualifications of Opinions**

Mr. Speaker, the Ministry of Finance agrees with the Committee that the qualification of financial statements is a very serious matter. The qualification on the 2008 accounts of the Consolidated Fund of the Government of Bermuda represented the first time in eight years that these accounts have been qualified. Mr. Speaker, even though the Government did not fully agree with the qualification on the accounts, this Government will take the required steps to ensure that this qualification is removed in the future; in the same manner that actions were taken when the accounts were qualified in 2000 and on other previous occasions.

Mr. Speaker, the qualification on the accounts of the Consolidated Fund should in no way reflect on Government's ability to manage the fiscal and economic affairs of the country. I would like to

unequivocally state that the current Government is capable of running the financial affairs of this Country and continue to exhibit good stewardship of the public purse and has done so since coming into office in November, 1998. In fact, Bermuda's high credit ratings attest to this.

Mr. Speaker, you will be aware that the Auditor General has tabled his Special Report setting out the reasons for the qualification in the audit report on the financial statements of the Consolidated Fund for the year ended March 31, 2008. The PAC has reviewed this Special Report and has identified issues raised in this Special Report. These items are addressed later in this report and accordingly, these points will be addressed in the relevant section of the report including input from the relevant and accountable Ministries and Ministers.

Mr. Speaker for the sake of good order and completeness I wish to note that the above qualification was based on the Auditor General's opinion that there were deficiencies in internal controls over certain expenditure, some of which related to subsequent events, after the Government's financial year-end. In the Government's view the rationale for the qualification was not persuasive, but this was an issue in the Auditor's remit, not the Government's. However I want to make it clear that the Government fully understands respects and values the role of the post of Auditor General. As mentioned above the reasons for the qualification on the accounts of the Consolidated Fund are addressed later in my response by the relevant Ministries.

Mr. Speaker, the Accountant General's Department has continually strived to bring forward the financial statement preparation of the Consolidated Fund and the Funds for which they are responsible. Currently, the financial statements for the majority of Funds falling under the responsibility of the Accountant General have been prepared up to fiscal year end 2008/09.

Government understands the importance of timely, accurate financial information across the entire public sector and is pleased that relevant government entities, such as Parish Councils, school boards and countless others are also keen to address any backlog and to deliver accurate accounts in an auditable state to the Office of the Auditor General. However, this does not equate to satisfaction or complacency. Much more needs to be done and is required by all of us who are accountable for actions that need to be accelerated across the board. As the Minister of Finance I consider it vital that all public sector entities use their best efforts to prepare annual financial statements on a timely basis.

Mr. Speaker, it is also significant to note that to assist with the actual auditing of outstanding accounts the Government approved the Auditor General's request for additional budgeted funds for fiscal 2007/08 and will continue to work with the Auditor General to ensure that she has adequate resources to fulfill her important mandate.

Mr. Speaker, the functions and responsibilities of the Accountant General's Department are critically important in the role of governance. That Department is a key one in terms of helping to undergird the existing long-standing fiscal controls and processes that are in place in terms of the management of the public purse. To this end the Accountant General's Department has placed accountant-comptrollers in key revenue-generating Departments and Ministries. Generally these accountant comptrollers are paid for out of the Accountant General's budget as consultants. However going forward it is anticipated that these posts, in most cases, will be converted to permanent positions in the relevant Ministries.

#### **Ministry of Works & Engineering (New Police/Court Building Project)**

Mr. Speaker, the Ministry of Works & Engineering has reviewed the Report of the Public Accounts Committee and has submitted their replies to the Ministry of Finance.

The Ministry is pleased to include them in this formal response. For ease of reference, the remarks follow the sequence of items in the Committee's Report on the Ministry.

W&E response point a (iii): The advance payment of \$600,000 made under the new contract is within, not without, the gross contract sum and is being amortized at the fixed rate of \$30,000 per month back to the Ministry for ultimately no net effect on the new contract sum. It is a contractually compliant solution and one based on proven means to move a project forward. Had the Ministry not advanced the payment of \$600,000 as requested, there was the likelihood that LLC Bermuda would have collapsed financially, leaving Government with the prospect of unbudgeted expenses far in excess of \$600,000 in order to re-start the project. It is to be noted that upon completion of the processing of Payment Certificate No. 26, the general contractor will have repaid a total of \$570,000 of the \$600,000 advance payment.

W&E response point c (i): It is true that the contract between the Ministry of Works and Engineering and LLC Bermuda Ltd., drawn up by Mr. Julian E. S. Hall, LLB, was not vetted by

the Attorney-General's Chambers. However, it is incorrect to suggest that the *"new contract was not as tight as the original contract, in so far as safeguards for the owner against cost overruns was concerned."* In fact, both the old contract [AIA Document A121 CMc – 2003 and AGC Document 565 agreed between the Government of Bermuda and Landmark Lisgar Construction Ltd. on 5<sup>th</sup> December, 2007] and the new contract [AIA Document A101 – 2007 agreed between the Government of Bermuda and LLC Bermuda Ltd. on 1<sup>st</sup> December, 2008] use the AIA A201 *General Conditions of The Contract for Construction*. The old contract uses the 1997 version and the new one the 2007 version. Both define in clear language in Article 7 the frames of reference for change management. Furthermore, both the old and new contracts define in equally clear language, in Articles 4 and 15 respectively, how claims and disputes are managed in the event that they arise for cost or for any other reason.

#### Supervision by Works & Engineering

While the Accountant General's Department does not itself carry out or oversee capital works development, given some of the relatively recent issues, enhancements are being provided to assist Ministries and the level of controls are being further refined. While there are already robust controls, some of the recently highlighted deficiencies indicate that some Ministries would benefit from some additional project management support. Further, to ensure that our fiscal control model ensures full compliance with international best practice the Accountant General plans to utilize management levels to provide an additional review of large project payments as a tertiary review when the requests for payment is provided to their offices. The Accountant General now works closely with the recently established Internal Audit Department to ensure controls are in place and regularly monitor large project payments (as well as others). In addition, they will also look to work with the relevant Ministry (or departmental) comptrollers to ensure the Accountant General is provided with project payment schedules and the relevant supporting information – and ongoing project progress information - so that propriety of payments can be reviewed.

Finally in this area, the Ministry of Finance very recently completed a diagnostic review of a collection of recent capital projects including the second cruise pier at Dockyard, the Police/Magistrates Court/Building complex and a number of other projects.

The purpose of the review was to examine existing processes for design, planning, procurement, conflict of interest disclosure and award of contracts against international best practice and thereby identify areas for improvement.

I can share at this time that recommendations have been made with respect to project planning, project management and procurement including a transparent process for the identification of potential conflicts of interests.

### **Department of Tourism (BDOT)**

Mr. Speaker, the Department of Tourism has reviewed the Report of the Public Accounts Committee and has submitted their replies to the Ministry of Finance.

The Ministry is pleased to include them in this formal response. For ease of reference, the remarks follow the sequence of items in the Committee's Report on the BDOT.

BDOT response point b: Financial Instructions requires 3 quotes for purchase of goods and services over \$5K; in this instance several agencies were invited to bid. There is to our knowledge no requirement for open tendering in Financial Instructions, thus the process applied was considered in compliance with financial instructions. The review committee was comprised of a cross-Ministry and private sector group that ultimately made a recommendation to the Minister.

The fee is the portion of the agency bidding process that determines, in large part the competitiveness of the bid; in this case the agency was contracted at a lower cost when compared to the former agency. The previous agency, Arnold was contracted at a \$1.3m fee on a \$9.5m account. GlobalHue was contracted at \$1.2m on a \$13.2m contract.

BDOT response point c: The roll-over of the agreement followed an internal agency review; historically agency contracts have remained in place for many years in an effort to preserve the integrity of the brand and product positioning. The same principle was applied in this instance.

Additionally, the learning curve effect of a new vendor in a recessionary context would have only served to exacerbate the situation by introducing a time lag to the tourism market.

BDOT response point e: The contract was approved by Cabinet, and as such, was reviewed by the Attorney General's Chambers prior to submission to Cabinet (The Cabinet paper and Cabinet conclusion confirms this point).

BDOT response point f: Cornerstone was subcontracted by the ad agency to purchase the media; agencies subcontract many services thus tendering in this instance would not be a process overseen by the client.

BDOT response point h: GlobalHue was contracted to create and place advertising across all media. How they executed their media buying, whether outsourcing or not, was always the decision of the company.

BDOT response i: BDOT acknowledges the administrative oversight in processing media invoices without the required backup, a process that was not in compliance with financial instructions. This situation has been rectified.

BDOT response k: The GlobalHue contract was approved by Cabinet, therefore it is unclear why the PAC would conclude that the Permanent Secretary was responsible for the award. Cabinet approves all contracts in excess of \$50,000; Technical officers simply make recommendations in accordance with policy.

#### **Ministry of Finance – Additional Budgetary Spending**

Mr. Speaker, annually, the House of Assembly approves the Government of Bermuda's National Budget for funding the delivery of a wide range of programmes and services demanded by our community.

Budgets are dynamic funding plans that are subject to change and variation according to actual circumstances associated with the pricing of resources (including labour and materials) and other factors that impact programme implementation or service delivery.

Section 96 of the Bermuda Constitution recognises the dynamic nature of budgets. The Constitution provides for supplementary estimates to be presented to the House of Assembly for authorisation either before the commitment of expenditure or after the funds have been spent – see section 93(3)(b).



Indeed the Constitution does not make judgment about additional budgetary spending. It simply requires that it should be authorized either before the funds are committed or spent, or as soon as practicable thereafter.

Your Committee spoke of perennial cost overruns in a most unhelpful light. Mr. Speaker, budgeting is not an exact science and the actual record will show that the additional budgetary spending has been kept to tolerable margins in the general range of +3 per cent except for a handful of years when there were unusual underlying factors.

Mr. Speaker, I recently returned from a joint Bermuda-Bahrain conference on financial services and had an opportunity to speak with the Bahrain Minister of Finance on a number of matters including budgeting and cost control.

Mr. Speaker, I was struck by the Bahrain Finance Minister's comment that in Bahrain, their budget process allows for a variation in spending beyond the approved targets up to a range of +3 per cent. If the projected programme spending is beyond that parameter then it must be approved in their Legislature. That is a sensible approach as it takes account of the dynamics of the budgeting process.

Returning to the experience in Bermuda, it should be noted that a majority of government departments do, in fact, operate within their approved budgets.

Mr. Speaker, your Committee also spoke of a "Duality of purpose" in the Ministry of Finance. The Ministry of Finance does not monitor or control service delivery within other Ministries – that is their remit and responsibility. However, the Ministry of Finance does require Ministries to report on the performance of their services, during budget preparation period, in order that they can ensure value for money and ascertain the effectiveness/efficiency of their delivery of services.

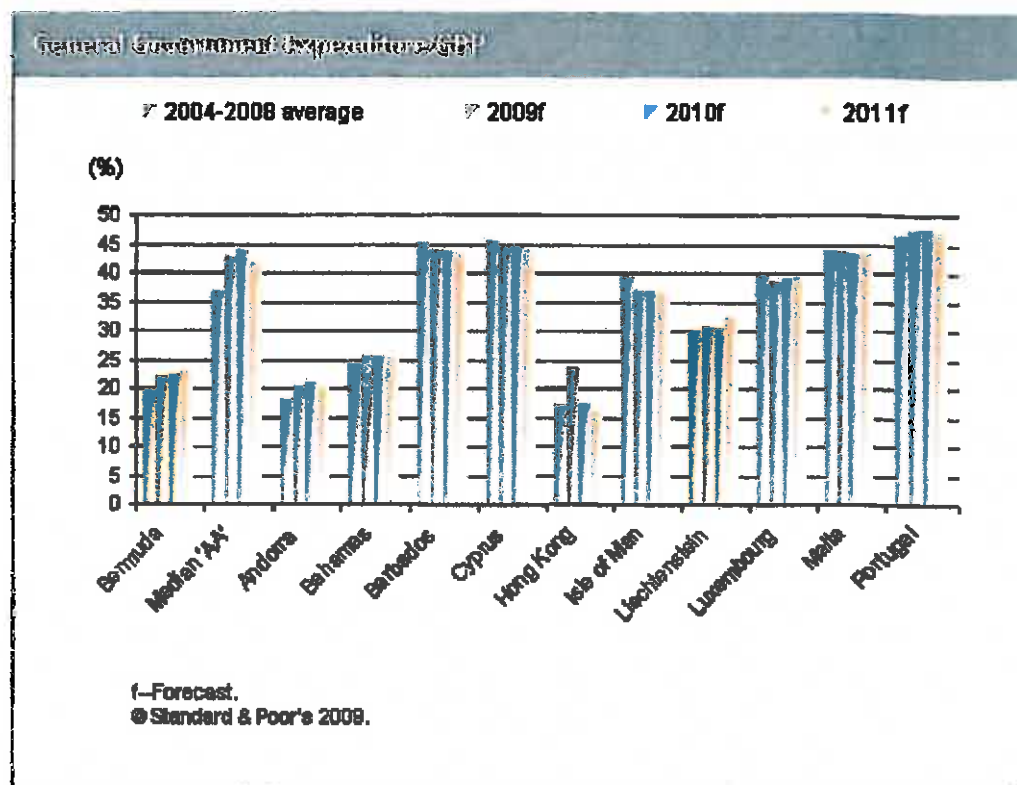
This is exactly what the Zero Base Budgeting (ZBB) process is intended to achieve. It is the Ministry of Finance policy and Ministries are directed at all times to rank programme priorities so that it is clear which programmes are at risk of not being funded when the budget approval process has concluded. Ministries/Departments are given the flexibility to transfer funding to

accommodate their priorities, which they continuously utilize, as evident by the number of virement requests and approvals.

The ZBB process is a tool designed to identify and rank priorities in order to allocate resources most effectively, it is not a control mechanism/tool. ZBB assists Cabinet/Managers in identifying higher priorities and funding them. While ZBB process can assist in many areas, managers are required to implement their ZBB developed budgets in accordance with the final approved estimates.

Mr. Speaker, the reality is that in most countries, governments face pressure to adopt more and more programs and hence to increase spending. In general, government expenditures tend to rise as a per cent of GDP. In comparison with developed countries, the government sector in Bermuda remains small relative to the size of the country. Total government expenditure in 2009 was 19.6% of total GDP, with government expenditure in 2010 projected to remain at similar levels. This compares at the lower end with the median figures for 'AA' rated median sovereigns of between 40-50% of GDP.

The following chart shows the ratio of General Government Expenditure to GDP for Bermuda and other countries.



### Public Accounts Committee Meetings

Mr. Speaker, I am pleased that the meetings of the Public Accounts Committee are now open to the public. This will improve transparency and also assist the Government when responding to the PAC report. In particular, it is hoped that Government will now be willingly provided with minutes of all meetings held by the PAC in the interest of full transparency.

### Conclusion

Government and governance is dynamic and just as the international regulatory environment has a shifting and changing landscape so too it is with the process of government. More is being required of all civil servants, Permanent Secretaries/Chief Accounting Officers and of the Ministers of the Government and associated agencies.

The Government appreciates the efforts of the Standing Committee on Public Accounts to strengthen the Government's accountability to Parliament, and to enhance the Committee's contributions to public policy and administration, which are highly valued by the Government. The Government fully supports the Committee in fulfilling its important mandate.

To this end, the Government will continue to work with the Committee and respond to its reports and requests for information in a manner that appropriately respects the respective roles of Cabinet, ministers and public servants within our system of responsible government.

We also would like to thank the many dedicated public officers who have worked diligently and professionally in correcting and addressing the outstanding issues raised.

The Government is committed to strengthening the way in which it manages and controls Bermuda's public finances and I have every confidence that continued improvements will be achieved. Under this administration, there is every expectation that Government's financial reporting and stewardship will reach the highest possible standards.

**REPORT OF THE PARLIAMENTARY  
STANDING COMMITTEE ON THE PUBLIC ACCOUNTS  
FOR THE FINANCIAL YEARS ENDED  
31<sup>st</sup> MARCH 2009 and 31<sup>st</sup> March 2010,  
AND ON THE SPECIAL REPORT OF THE  
AUDITOR GENERAL ON THE MISUSE OF PUBLIC FUNDS**

TO HIS HONOUR THE SPEAKER AND THE MEMBERS OF THE HONOURABLE  
HOUSE OF ASSEMBLY:

The Parliamentary Standing Committee on the Public Accounts has the honour to submit the following Report:-

Your Committee is pleased to report to the Honourable House of Assembly that we have reviewed new information that has come to our attention as it relates to our previous investigation of the Bermuda Department of Tourism, and we have deliberated extensively on the Special Report of the Auditor General on the Misuse of Public Funds as it relates to the Bermuda Land Development Company. Time has not permitted us to investigate the second part of the Special Report on the Misuse of Public Funds. Furthermore, your Committee has not, in the usual fashion, been able to investigate the Auditor General's Annual Report on the Government's Accounts for the Years 1<sup>st</sup> April 2008 to 31<sup>st</sup> March 2009 and 1<sup>st</sup> April 2009 to 31<sup>st</sup> March 2010.

Your Committee has met 13 times since our last report, and 2 of these meetings have been open to the public. The decision to have meetings in public has been a great step forward in modernizing our democracy, as there has been keen interest shown by the public. In fact, even though there was not much publicity given prior to our last meeting, our decision to use a larger, non-government venue was justified by the attendance.

In addition, your Committee has expanded the boundaries of its inquiry both in breadth as well as depth. New ground was broken as interviewees included members of the general public as well as Members of the Legislature. The collection of relevant documents was also unprecedented.

## **A. BERMUDA DEPARTMENT OF TOURISM (BDOT)**

1. Tourism remains a critical industry for Bermuda and the handling of multimillion dollar advertising budgets requires an approach that is professional and compliant with Financial Instructions.
2. Your Committee was presented with new information provided by the former Director of Sales & Marketing - North America (DSM). This information provided further insight and perspective around the conclusions that we reached last year, namely that Financial Instructions were not properly adhered to when the advertising agency contract with GlobalHue was "rolled over" without going to tender.
3. Billings by GlobalHue to BDOT had been handled in Bermuda. The responsibility for these payments was subsequently transferred to BDOT's New York office and therefore came under the supervision of the DSM, who noticed that GlobalHue's billings did not have the relevant invoices of the media that was being purchased attached, as was required by Financial Instructions, the contract between BDOT and GlobalHue, and by US Federal Communications Commission regulations.
4. GlobalHue's payments were stopped, pending submission of proper invoices. Instead of willingly providing the invoices, documents provided to the Committee indicated that GlobalHue proceeded to try to destroy the career of the DSM, a Bermudian veteran tourism officer of 20 years.
5. The CEO of GlobalHue wrote a shockingly strident and totally unprofessional letter directly to the Premier/Minister of Tourism and Transport, containing insulting personal attacks on the DSM; thereby short circuiting the Director of Tourism and the Ministry Permanent Secretary.
6. In fact, in an email dated 21 March 2007 to the Secretary of the Cabinet from a well known public relations agency hired by BDOT, the relationship was described as "unusual" and the email also noted that "for the client to cede so much power to an individual agency, which, in this case, provides the perception - and perhaps the attitude - that it is the agency that is leading the client, rather than the opposite." Based on the evidence presented, your Committee concurs with this statement.
7. The direct access to the Premier/Minister of Tourism and Transport gave GlobalHue the licence to ignore established protocols. This relationship is the perspective from which the breaches in Financial Instructions must be viewed.
8. The GlobalHue letter to the Premier/Minister of Tourism and Transport would have catastrophic consequences for the DSM, who revealed that he was later offered a job with the title 'Director of International Development' (DID), and that the job offer was printed on GlobalHue letterhead. He was unsure at the time if this job was to be with

BDOT or GlobalHue, and he concluded that he was being shunted aside out of his DSM post to one which would soon evaporate.

9. The post of DID turned out to be a government position. Although approved by the Cabinet, it was a temporary position, with no job description nor any place in the BDOT management structure being specified.

10. The DSM testified that tremendous pressure was applied on him by senior Ministry officials to take the position of DID and he was told that he could "name his price." An email, sent by a senior Ministry official, criticizing the DSM for not taking the DID position was apparently erroneously copied to DSM, thereby adding to the pressure. The DSM declined the position and resigned from the department a few months later.

11. Evidence presented to your Committee showed that the civil servants' responsibilities were over-ridden by the Premier/Minister of Tourism and Transport and GlobalHue. The evidence also showed that Financial Instructions were not adhered to. Under these circumstances, value for money for the public purse was not likely achievable.

12. Your Committee is appreciative of the testimony and evidence provided by the DSM.

13. **Your Committee recommends** that the Civil Service Executive be reminded that inappropriate interference by any outside agents in the work of civil servants contravenes Financial Instructions.

**ALL OF WHICH IS RESPECTFULLY SUBMITTED:**

Mr. Everard T. Richards, J.P. M.P. - Chairman

Ms. Lovitta F. Foggo, J.P. M.P.

Mrs. Patricia J. Gordon Pamplin, J.P. M.P.

Hon. Walter M. Lister, J.P. M.P.

Dated: 20<sup>th</sup> July, 2012

## **B. BERMUDA LAND DEVELOPMENT COMPANY**

1. In the Auditor General's Special Report on the Misuse of Public Funds, one of the principal matters that was highlighted was an incident whereby the Chairman and Deputy Chairman of the Board of the Bermuda Land Development Company (the Company) entered into a paid consultancy arrangement with the Company to investigate and report on certain Company matters, with the report to be presented to the Board. The Auditor General found this arrangement to be highly irregular and a breach of the Chairman and Deputy's fiduciary responsibilities.

2. In testimony before the Committee, both the Chairman and Deputy repeatedly claimed that they had been given a directive (or directives) to carry out this consultancy arrangement by the Minister of Public Works (the Minister). They agreed there was an urgent need for their intervention and felt that they were therefore justified in their actions. Moreover, they testified that they provided value for money and that the position taken by the Auditor General was incorrect. The findings of your Committee are set out below.

### **(A) THE DUTIES OF DIRECTORS**

1. The Chairman and Deputy have used as their defense to the Auditor General's assertion of conflict of interest, the position that the Bye-Laws of the Company did not prohibit them from engaging themselves as consultants. If one considers the Company to be an ordinary Bermuda company, this may be valid.

- The Company was created by The Base Lands Development Act 1996 (the Act). Section 5 of the Act refers to, "...creation of opportunities for increased employment now and in the future...in furtherance of the well being of the present and future generations of Bermudians." These are very public sector objectives, not private sector objectives.
- But Section 6 says the Company, "...shall not be regarded as the servant or agent of the Crown or as enjoying any status, privilege or immunity of the Crown."
- However, in Section 14, government specifically indemnifies directors of the Company against liabilities and legal costs so long as they have, "...acted honestly and in good faith with a view to the best interest of the Company."
- Section 12 provides that the Minister may give directions to the Company, "...and the Company shall out carry any such directions."

2. Normally company bye-laws are the arbiters of the conduct of business within a company, but the Company is no ordinary company.



- The fact that the Auditor General (the constitutionally appointed auditor of the entire public sector) has been specified as its auditor makes the Company unusual.
- The fact that the Minister may issue directives clearly establishes that there is an authority higher than Company bye-laws. The ultimate arbiter is the Minister. In a commercial company the Board would be the ultimate arbiter, operating under the aegis of the bye-laws. But here the bye-laws are silent on the conflict of interest issue.
- But the Act also establishes that the Company is essentially a part of the public sector, despite Section 6.
- Section 14, which says government indemnifies directors that have, "...acted honestly and in good faith with a view to the best interest of the Company," is key to this case. This clearly implies that government, the sole shareholder, **EXPECTS** directors to act this way; that it is **THEIR DUTY TO ACT IN THE INTERESTS OF THE COMPANY ONLY**. The "Final Recommendation" in the consultancy report prepared by the Chairman and Deputy (dated April 2010) was, in effect, to continue the consultancy arrangement, presumably at the already established hourly rate, for yet another six months to "monitor the CEO"; an extension of the arrangement that was not brought before the Board. And this recommendation was, in fact, carried out.

3. The question is, have these directors acted in, "...good faith with a view to the best interest of the Company?". At the very least, one could say that this consultancy arrangement represented a profound conflict between their own interests and the Company's interests. This was the same conclusion arrived at by the Auditor General.

4. During the conduct of our deliberations, it was also revealed that the Company had engaged and signed a painting contract (valued at \$24,897.50) with an assigned contractor. The Deputy Chairman instructed the CEO to terminate that contract, and give the contract to a company operated by the son of the Chairman. The CEO refused, on principle, but he was overruled and the switch was consummated. The subsequent contract with the Chairman's son's company was for \$31,630.00, and there was an additional request to apply another finish coat at a cost of \$6,600, for a total of \$38,230. The originally assigned contractor filed suit against the Company. The matter was settled out of court in June 2011, with the Company having to pay \$9,500 including \$1,000 for legal fees. Thus, the total cost for this project including legal costs escalated to \$47,730; that is \$22,832.50 or 92% more than the originally assigned contract.

5. These anecdotes caused your Committee to question whether the Chairman and Deputy were acting "...honestly and in good faith with a view to the best interest of the Company." The incident of granting the painting contract to the company operated by

the Chairman's son also contravened Financial Instructions, the tenets of fairness and good governance, and was a clear misuse of taxpayers' money.

## **(B) THE MINISTER'S ROLE**

1. The Base Lands Development Act 1996 sets out the relationship between the Company and the Minister. The Minister may give directives to the Company and the Company must follow them, however:

- the other shareholder, i.e. the Minister of Finance, must give prior consent to said directives;
- the Company must confirm to the Minister, in writing, that the directive has been carried out; and
- the written text of "every directive" given by the Minister must accompany the Company's financial statements, which have to be laid in the House of Assembly.

2. It is clear from the above that the Minister's power to direct is one to be used strategically, or in special or extraordinary circumstances. The rules that govern the use of the power to direct are deliberately cumbersome so that this power should not be used for routine management of the Company's affairs.

- In correspondence to the Minister, the Permanent Secretary for Public Works and the CEO of the Company dated 30 December 2010, the Minister of Finance stated that she had no prior knowledge of the consultancy arrangement, and took action.
- It is also clear that the power of the Minister to direct cannot be used orally, as the text of every directive must be appended to the Company's financial statements.

3. During the conduct of a public hearing, the Minister dismissed the constraints on his authority. He did not appreciate his role as Minister and the appropriate use of his power to direct as laid out in the Act. He explicitly testified that he gave frequent oral operational orders and claimed there was no other way to run a company. The Minister testified that "it was in his remit to issue operational directives to the BLDC." Your Committee determined that he conducted his role as an "executive chairman" rather than the role envisaged by the Act, which could be described as "oversight by exception."

4. Although it is the Act that prescribes his powers and their limitations, the Minister did not appear to be familiar with the Act, having emphatically stated once that he had not read it, although later admitting that he had. He felt he had the discretion to ignore the Act if impractical, and further stated that the requirement for written instructions specified in the Act "should not be taken literally".

5. Both the Chairman and Deputy testified that the Minister gave them multiple oral directives which were never subsequently put in writing. A letter signed by the Permanent Secretary for Public Works authorizing the consultancy retrospectively (one year later in February 2011), confirming that the Minister had authorized the Company to engage the services of the Chairman and Deputy, clearly does not meet the requirements of the Act. This was an ineffective attempt to address the irregularities that the Auditor General had uncovered.

6. Furthermore, the Minister neither sought nor received prior approval from the other shareholder, the Minister of Finance, as per the Act. Section 12(2) of the Act states that before the Minister gives a directive to the Company, he shall consult the Minister of Finance and the Directors with respect to the content and effect of the directive. Therefore the directives given to the Chairman and Deputy were not valid under the Base Lands Development Act 1996. This is a fundamental issue which supports the Auditor General and the Minister of Finance's recommendation that the funds paid to the Chairman and Deputy be repaid to the BLDC. Not only does this issue represent a conflict of interest, it also speaks to a misuse of public funds.

7. Your Committee took note of four other ministerial directives in the preceding year which were not in compliance with the Act, as reported by the Auditor General to Senior Management on 21 September 2010. These directives all related to the use of land and other property on which the Minister of Finance was never consulted by the Minister, and speak to a pattern of behavior inconsistent with the requirements of the Act.

8. It is interesting to note that the Minister of Finance, once notified of the Auditor General's concerns on 21 December 2010, subsequently commissioned an external accounting firm to undertake a review of the BLDC's Governance. That review was completed in May 2011 and confirmed that "the Chairman, Deputy Chairman, Board members and Permanent Secretary of the Ministry of Public Works indicated that the work performed between May and December 2010 was done at the verbal request of the Shareholder [the Minister of Public Works]."

9. As the most senior officers of the Company, the Chairman and Deputy should have known that oral directives were not valid unless they followed the requirements of the Base Lands Development Act 1996, for which they, along with the Board, were responsible. Like the Minister, the Chairman and Deputy did not appear to be familiar with the Act and the rules governing their conduct contained therein.

### **(C) BLDC CODE OF CONDUCT**

1. The Company set out a Code of Conduct in 2002 which clearly stated "Directors and Employees must avoid conflicts of interest between their private financial activities and the conduct of BLDC business". However, this Code was amended in January 2008

and instead of referring to Directors and Employees the term "members" was used. While the term "member" is not defined in this context, the balance of the document referred repeatedly to employees, so one could surmise that "member" refers to employees only.

2. Your Committee could find no evidence that the Chairman or Deputy Chairman sought to clarify what was meant by "members" prior to undertaking the work referred to herein. The Code was subsequently updated again in 2010/11 to once more specify Directors, after the matter was reported by the external accounting firm.

**(D) DID THE CONSULTANCY PROVIDE THE COMPANY WITH VALUE FOR MONEY**

1. The question of value for money hinges on the circumstances surrounding the problems besetting the Company; the qualifications of the Chairman and Deputy to professionally address the problems; and what they accomplished for their time spent.

2. It is clear that the Company had significant problems, particularly with collecting its receivables. The CFO position had been vacant for three years and testimony was given to the Committee that the Minister had refused, on more than one occasion, to allow the Company to retain a full time CFO, even though that position had long been provided for in the Company budget. Moreover, the Company CEO's effectiveness had been compromised a year and a half to two years before the consultancy started, due to severe illness.

3. The Act allows the secondment of civil servants to the Company. However, in his testimony the Chairman testified that the Company did not formally seek the secondment of a civil servant to fill the gap in the management structure of the Company. The CEO testified that he requested that the Company fill the vacant CFO position multiple times but was refused by the Minister, although he claimed such a move had the support of the other shareholder, the Minister of Finance.

4. The directive of the Minister for the consultancy work was not put in writing; neither were the terms of reference for the work to be done by the Chairman and Deputy. In fact, the Board retroactively approved payment and hourly rates for these two officers after a considerable amount of time had already been billed. The consultancy carried on well past the time the Board had authorized. Clearly, the consultancy was not properly authorized by the Board as there was no quorum at the meeting of 23 March 2010, when the arrangement was approved with only two Directors being present.

5. Having determined the backgrounds of both the Chairman and the Deputy, via their own testimony, it does not appear that either separately or together they would have qualified as management consultants for an undertaking of this nature. While both

had considerable real world experience in their respective fields, neither had any experience in analysis or reporting on management structures and solutions. Moreover, the rates they charged the Company were comparable to consulting management professionals, which they were not.

6. While there appears to have been a litany of issues with respect to the operations of the Company, the one stressed the most was the ballooning and aging Accounts Receivable. The Minister himself intervened in an attempt to get a major receivable regularized, and some progress on receivables was made by the Chairman and Deputy. However, the recruitment of a new CFO may have been a better solution to this problem.

#### **(E) FURTHER OBSERVATIONS**

1. The Bermuda Land Development Company is a Quasi Autonomous non-Government Organization (a Quango), and is not an ordinary company. Quangos carry out public sector functions and therefore are subject to the same scrutiny and oversight as any other part of the public sector. The directors of a private company could very well be its owners, in which case the interests of the company may be congruent with those of the directors. But with a Quango this is impossible, hence the importance of the separation of the interests of directors from those of the Quango.

2. In the case of the Company, it appears that all the players, except for one director, completely ignored this key distinction between personal interests and the Company's. This error of judgement was made more egregious by the refusal of the directors to acknowledge their mistake, instead, conveniently making repeated references to the Company bye-laws and failing to look up the authority ladder to the Act which makes clear reference to conflicts of interest.

3. **Therefore, your Committee's first recommendation** is for government to make the personnel it appoints as directors of Quangos aware of their legal duties and responsibilities, with particular reference to the canons of conflicts of interest. This is consistent with the recommendation made by the Auditor General.

4. The behavior of the Chairman and Deputy in this matter appears to be derived from their perception that they had been given a valid directive by the Minister to address a real problem. It was their duty to know the rules under which that Minister was empowered to give those directions and that he did not adhere to those rules. Given that the Minister's directives were invalid, it was their duty to know that.

5. As a minister of the government, the Minister must know the conditions and limits under which the law grants him power. The Minister also must know his role is not to micro-manage assets or enterprises under his charge. In this case, it is clear his power to direct was meant to be used strategically as opposed to casually or routinely. The

Minister did not appear to know his appropriate role nor the constraints of his power to direct. He used his power routinely and orally.

6. The Minister, in his testimony, confirmed that he gave the Chairman and Deputy instructions to carry out the investigation, but that he had not specifically authorized them to receive remuneration as consultants, saying that was the Board's decision, even though he agreed with the Board's right to do so under the bye-laws, citing the legal opinion provided by a private law firm. Your Committee noted that the stated legal opinion was not given until after the December 2010 objections by the Auditor General to the consultancy arrangement had been made known to the Company. So the time line does not support the Minister's testimony suggesting that the legal opinion empowered the Board to engage in the consultancy arrangement. The legal opinion was obtained ex-post facto.

7. The Minister testified that he found out about the consultancy agreement from the other shareholder, the Minister of Finance, in December 2010. However, the Minister had access to Board minutes which explicitly discussed the arrangement on several occasions. In view of the hands-on role the Minister had taken with respect to the Company, your Committee questions how he missed the fact that his Chairman and Deputy, whom he directed to perform the investigation, were receiving consultancy remuneration.

8. Your Committee heard evidence that the Minister also used his power of influence to inappropriately give unfair advantage to a political colleague as it relates to the leasehold of a Company property. The Committee was also apprised of another incidence of the Minister's intervention in insisting that a carpentry shop have its rent reduced and unpaid rents written off.

9. While the Chairman and Deputy cannot be absolved of their responsibilities in this matter, the root cause is the manner in which the Minister executed his responsibilities relative to the Company, a manner that encouraged this inappropriate behavior.

10. In his testimony, the Minister complained that the matters in the external accounting firm's report should have been raised with him by the Auditor General. However, your Committee reviewed evidence that standard procedure had in fact been adhered to by the Office of the Auditor General, which included the provision of a Management Letter to the senior management of the Company (and a copy of the said letter to the Chairman of the Board and the Financial Secretary) outlining issues of concern that were uncovered through the annual audit. Your Committee could not determine whether any action had been taken in response to these concerns.

11. It should also be noted that correspondence between the Auditor General and the Company, when this matter was uncovered, was copied to the Minister, the Minister of Finance and the Director of Internal Audit - most notably correspondence dated 22 December 2010, 31 December 2010 and 27 January 2011. A copy of the

applicable section of the draft Special Report was also submitted to the Ministry for a response before the final document was produced and released. This is standard procedure. The Ministry of Public Works later responded to the Auditor General, with a copy to the new Minister of Public Works.

12. The Minister testified that because the CFO position was vacant he initiated the investigation to determine what needed to be done at the Company. Your Committee concluded that by filling the vacant CFO post the Company could have not only found out what the problems were but also had them rectified.

13. The Minister refused to dismiss the Chairman and Deputy when instructed by the Premier and Minister of Finance who, as the other shareholder, on becoming aware of the situation, immediately deemed the situation as unacceptable and sought to have it rectified.

14. Your Committee fully subscribes to the principle that those responsible for these breaches in fiduciary responsibility be held accountable. As indicated above, the Minister neither sought nor received prior approval from the other shareholder, the Minister of Finance, as per the Act. His directives were not in writing and not reported to the House of Assembly as per the Act. Therefore, the directives given to the Chairman and Deputy were not valid under the Base Lands Development Act 1996. Moreover, the Board meeting at which the matter was discussed was not properly constituted. The Committee supports the Auditor General's recommendation that the funds paid under the consultancy be refunded to the Company forthwith.

## **C. CONCLUSION**

1. **The second recommendation of your Committee**, consistent with the recommendation of the Auditor General, is that ministers make themselves fully aware of their role as it relates to Quangos and the limitations and conditions under which their power can be exercised. Ministers should then operate within the strict parameters the law provides. A minister of the government cannot decide which laws to abide by and which ones to flout, at his discretion. As members of Cabinet, ministers, more so than ordinary citizens, must abide by the law.

2. Your Committee would like to extend its sincere gratitude to the Deputy Clerk to the Legislature, Mr. Clark W. Somner, in recognition of his tremendous sterling work done on behalf of the Committee throughout the past year. Also, we must acknowledge the excellent advice and support provided by the Auditor General, Mrs. Heather Jacobs Matthews, and her professional Staff during our deliberations, without which the Committee would not have been able to expand its reach on behalf of the taxpayers of

Bermuda in the way it has this past year. We would also like to thank MG Court Reporting & Transcription Services for their support in our public meetings.

3. **Your Committee recommends** that the Minister of Finance be requested to inform the Honourable House of Assembly of the action to be taken on the points raised in this report.

**ALL OF WHICH IS RESPECTFULLY SUBMITTED:**

Mr. Everard T. Richards, J.P., M.P. - Chairman

Mrs. Patricia J. Gordon Pamplin, J.P., M.P.

Hon. Terry E. Lister, J.P., M.P.

Mr. N.H. Cole Simons, J.P., M.P.

Dated: 20<sup>th</sup> July, 2012



# REPORT OF THE PARLIAMENTARY STANDING COMMITTEE ON THE PUBLIC ACCOUNTS ON THE SPECIAL REPORT OF THE AUDITOR GENERAL ON THE MISUSE OF PUBLIC FUNDS

TO HIS HONOUR THE SPEAKER AND THE MEMBERS OF THE HONOURABLE HOUSE OF ASSEMBLY:

The Parliamentary Standing Committee on the Public Accounts has the honour of submitting the following Report:

## 1. Introduction

Your Public Accounts Committee (PAC) is pleased to report to the Honourable House of Assembly that we have reviewed the outstanding section *Inappropriate Use of Public Funds for Payment of Personal Legal Expenses* of the Special Report on the Misuse of Public Funds as produced by the Auditor General and tabled in this Honourable House on 3 March, 2012. This PAC Report covers the second section of the Auditor General's report; the first section was reported on by PAC on 20 July, 2012.

## 2. Meetings

PAC held nine meetings on this report with the Auditor General and staff, current and former public officers, and had deliberations amongst the committee. Below are the dates of the meetings:

- 12 September, 2013
- 19 September, 2013
- 3 October, 2013
- 24 October, 2013
- 31 October, 2013
- 13 February, 2014
- 14 February, 2014
- 23 April, 2014
- 29 May, 2014

### **3. Witnesses**

PAC sought clarity on the matters raised in the report from a number of current and former Ministers and current and former public officers. The list below identifies the persons who provided information to PAC and how it was provided. All oral testimony was held "in camera". Written submissions received by PAC have been included in this report.

#### **Oral Testimony**

- Robert Horton, former Permanent Secretary of Public Works
- Anthony Manders, current Financial Secretary
- Randy Rochester, former Permanent Secretary of Public Works

#### **Written Submission**

- Doctor the Honourable Ewart F. Brown, J.P., former Premier
- Honourable Derrick V. Burgess, J.P., M.P., former Minister of Public Works

#### **Invited to Attend**

- Honourable Paula A. Cox, J.P., former Premier and Minister of Finance
- Kathy Lightbourne-Simmons, former Permanent Secretary of Legal Affairs
- Michael J. Scott, J.P., M.P., former Attorney-General
- Kim N. Wilson, J.P., M.P., former Attorney-General

### **4. Findings**

- a. PAC found that a contract with the Canadian law firm was ratified by Cabinet and executed by the Solicitor General on behalf of the Government.
- b. The main contention was how an action approved by Cabinet for the Government of Bermuda ended up as a lawsuit filed in the name of former Premier Ewart Brown and former Minister Derrick Burgess.
- c. PAC, like the Office of the Auditor General, was unable to ascertain precisely by whom or when authorisation was given for the legal action to be filed in the name of former Premier Ewart Brown and former Minister Derrick Burgess (as opposed to the Government of Bermuda). The Ministry of Justice, in its response, stated that, "the

personal action was the only means by which the Government could take action against those responsible for essentially attacking the Government via its Ministers." This determination arose from the fact that a Government cannot be a plaintiff in a defamation action.

- d. Given that the action was filed in the names of former Premier Ewart Brown and former Minister Derrick Burgess, and although Dr. Brown and Mr. Burgess have stated publicly that any proceeds would not have benefited them personally, the PAC was provided with no legal or contractual evidence to support this. Though the action may have been for a government purpose, the lack of documentation regarding any potential damages allowed for the possibility for someone to personally benefit from the lawsuit. While PAC is not accusing former Premier Ewart Brown and former Minister Derrick Burgess of seeking to profit from this action, there was no documentation provided to PAC or to the Office of the Auditor General that satisfies this dilemma.
- e. Given that the lawsuit was filed in the names of former Premier Ewart Brown and former Minister Derrick Burgess, and given that they may have stood to benefit from a successful suit, the Auditor General argues that this was a misuse of public funds. The PAC agrees with the Auditor General in the strict letter of the law that a lawsuit in private names can be viewed as a violation of Financial Instructions; however, given the unusual circumstances of this case, the Public Accounts Committee acknowledges the Government's position that it considered this action to be for a "government purpose" and thus in line with existing Financial Instructions.
- f. PAC is wholly dismayed by the unwillingness of Attorney-General's Chambers to share information with the Office of the Auditor General and does not accept their claim of privilege. Audit functions cannot be properly executed if government departments claim legal privilege and block access to documents. Although the Members of the PAC are not lawyers, we did not see the need to spend government funds on seeking an independent legal opinion to validate what we all saw as patently obvious. We fully support the Auditor General's position that she is a servant of the government and, given the contract was between the government and the law firm, any information requested should have been provided to the Auditor General. In our attempt to further understand the Government's reasoning for not sharing the requested information with the Auditor

General, PAC tried to speak with the former Permanent Secretary in the Ministry of Legal Affairs. Unfortunately, the Committee did not get to speak with Ms. Lightbourne-Simmons as she had left Government at the time of the hearings. PAC is also dismayed that the former Attorney-General Michael Scott, when asked to attend PAC, declined the opportunity to attend to provide PAC additional clarity regarding these events. PAC believes that our report would have been more complete if we had participation from these two officers.

- g. PAC takes note that the retainer agreement between the Government of Bermuda and Lax O'Sullivan Partners was terminated in September 2011 in line with the Auditor General's recommendation.
- h. PAC takes note of the Auditor General's recommendation that surcharged funds be paid back, but does not support the recommendation - as the Committee accepts the explanation that Cabinet approved the funds and it was the view of Cabinet that the funding was for a "government purpose".

## **5. Recommendations**

- a. PAC recommends that the Government examine amending Financial Instructions to allow for the Cabinet to support a civil action taken on behalf of a Minister against anyone who defames and damages the reputation or credibility of the Minister when he or she is carrying out his or her duties. The PAC also recommends that any amendment to Financial Instructions make it clear that any proceeds from any such action revert to the Government of Bermuda.
- b. PAC recommends that the Government ensures that the Auditor General receives access to all Government files without delay. The Office of the Auditor General must have the cooperation of the executive of the day to be effective - the lack of access to information gives the impression, whether rightly or wrongly, of something to hide. The PAC recognises the doctrine of legal privilege, however if such communication is to a legal team funded by the government, it is the opinion of this Committee that the Office of the Auditor General should have access to any information requested in accordance with the section 14 of the Audit Act 1990.

**6. Conclusion**

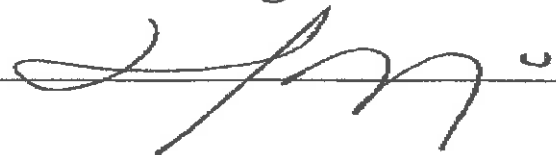
- a. PAC would like to acknowledge the advice and assistance provided by the Auditor General, Mrs. Heather Jacobs Matthews, and her professional staff during our deliberations; as well as the sterling work done on behalf of the Committee by Deputy Clerk to the Legislature, Mr. Clark W. Somner. PAC would also like to acknowledge the contributions of the Honourable Jeanne Atherden, J.P., M.P., who served on PAC prior to being appointed a Minister.
- b. PAC recommends that the Minister of Finance be requested to inform the Honourable House of Assembly of the action that is to be taken on the recommendations submitted in this report.

**ALL OF WHICH IS RESPECTFULLY SUBMITTED.**

Mr. E. David Burt, J.P., M.P. – Chairman



Ms. Lovitta F. Foggo, J.P., M.P.



Mr. Terry E. Lister, J.P., M.P.




Mr. N. H. Cole Simons, J.P., M.P.



Mr. Glen C. Smith, J.P., M.P.



Mr. Jefferson C. Sousa, J.P., M.P.



Date: 6<sup>th</sup> June, 2014



**Minister of Finance Response on the Report of the Parliamentary Standing Committee on the Public Accounts on the Special Report of the Auditor General on the Misuse of Public Funds**

**TO HIS HONOUR THE SPEAKER AND MEMBERS OF THE HONOURABLE HOUSE OF ASSEMBLY:**

**Introduction**

Mr. Speaker, I am grateful for this opportunity to respond to the Public Accounts Committee (PAC) Report on the Special Report of the Auditor General on the Misuse of Public Funds that was tabled in this Honourable House on March, 2012. This PAC Report focused on the outstanding section – Inappropriate Use of Public Funds for Payment of Personal Legal Expenses.

Mr. Speaker, it should be noted that the above mentioned incident being reported on occurred under the former administration at a time that I was actually Chairman of the PAC. Unfortunately, the previous PAC was unable to report on this matter due to the change in Government. The change in Government has obviously led to delays in responding. Nevertheless, I table the Government's written response to the above mentioned PAC Report in order to complete the financial reporting accountability cycle within Government.

Since coming into office in December 2012, the Government has placed great emphasis on the need to make continued improvements to Government's accounting and financial control systems and practices.

As mentioned above, this PAC Report focuses on one particular matter – Inappropriate Use of Public Funds for Payment of Personal Legal Expenses of the Special Report on the Misuse of Public Funds as produced by the Auditor General in March 2012. For ease of reference I have attached the PAC Report as **Annex I**.

### **Inappropriate Use of Public Funds for Payment of Personal Legal Expenses**

The Government acknowledges the work of the Public Accounts Committee in addressing items of concern relating to the above mentioned matter. I also note the findings and recommendations emanating from the PAC Report.

As recommended by the PAC, I hereby inform this Honourable House of the recommendations submitted and in the PAC Report on the Special Report of the Auditor General on the Misuse of Public Funds - Inappropriate Use of Public Funds for Payment of Personal Legal Expenses and the actions that are to be taken in response to those recommendations.



## Recommendation 1 - Section 5a of the Report:

“PAC recommends that the Government examine amending Financial Instructions to allow for the Cabinet to support a civil action taken on behalf of a Minister against anyone who defames and damages the reputation or credibility of the Minister when he or she is carrying out his or her duties. The PAC also recommends that any amendment to Financial Instructions make it clear that any proceeds from any such action revert to the Government of Bermuda”.

The Government is fully supportive of this recommendation and will ensure that any civil action taken on behalf of a Minister approved by Cabinet will be transparent and fully documented. One of the key findings in the PAC report was that whilst the former administration considered the funding of this action to be for a government purpose and was an appropriate course to follow in the interest of the Government, the Country and Bermuda’s international reputation, there was a lack of documentation to support this position. As mentioned above, any future civil actions taken by the Government on behalf of a Minister will be fully documented which will also make it clear that any proceeds from any such action revert to the Government of Bermuda. It should be noted that Financial Instructions already state that “Government funds or property should only be used for **Government purposes** and must not be used for personal reasons”. Accordingly there is no need to amend Financial Instructions to provide for this recommendation. The key requirement is to document the cases in which the Cabinet is to support a civil action taken on behalf of a Minister against anyone who defames and damages the reputation or credibility of

the Minister when carrying out his or her duties. This documentation will be the support for any payments made towards this matter.

Recommendation 2 - Section 5b of the Report:

“PAC recommends that the Government ensures that the Auditor General receives access to all Government files without delay. The Office of the Auditor General must have the cooperation of the executive of the day to be effective-the lack of access to information gives the impression, whether rightly or wrongly of something to hide. The PAC recognises the doctrine of legal privilege; however, if such communication is to a legal team funded by the Government, it is the opinion of the Committee that the Office of the Auditor General should have access to any information requested in accordance with section 14 of the Auditor Act 1990.”

While the Government supports the PAC’s recommendation that the Auditor General should have access to any information requested in accordance with section 14 of the *Audit Act 1990* (“**the Act**”), the Government, having taken legal advice from the Attorney General, does not accept that such information includes documents or information which is protected by legal professional privilege. The suggestion by the PAC in paragraph 5(b) of its report that the withholding of legal professional privileged documents or information gives the impression that there is something to hide fundamentally fails to comprehend why it is important to protect from disclosure to the public legal professional privileged information.

It is the opinion of the Attorney-General, who is charged under section 71 of the Bermuda Constitution Order 1968 to be the principal legal adviser to the Government, section 14 of the Act does not entitle the Auditor General to have access to legal professional privileged information.

It is important that the Government supports the non-disclosure of legal professional privileged information to the public in order to ensure that:

- (1) Government officials are not deterred from telling the whole truth to their attorneys for fear that such information may be made public; and
- (2) Legal advisers are able to give honest and candid advice on a sound factual basis to the Government without couching such advice for fear that it may find its way into the public domain and used against the Government in any civil proceedings against the Government.

The Government is a legal person and is entitled to the same protection against the disclosure of legal professional privilege information as any other person who seeks advice from legal counsel.

In the present case, the Attorney-General informed the Auditor General (citing legal authorities) of her legal interpretation of section 14 of the Auditor Act 1990 and it is inappropriate for the PAC to infer in its findings and recommendation expressed in paragraphs 4(f) and 5(b) of its report that such legal opinion is incorrect without citing any legal authorities that support such an inference. It should be noted that under same section 14 (d) of the Act, the Auditor General is entitled, in the exercise and for the purpose of his functions, to seek from the Attorney General in writing an opinion on any question regarding the interpretation of any statutory

It is the opinion of the Attorney-General, who is charged under section 71 of the Bermuda Constitution Order 1968 to be the principal legal adviser to the Government, section 14 of the Act does not entitle the Auditor General to have access to legal professional privileged information.

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- (1) Government officials are not deterred from telling the whole truth to their attorneys for fear that such information may be made public; and
- (2) Legal advisers are able to give honest and candid advice on a sound factual basis to the Government without couching such advice for fear that it may find its way into the public domain and used against the Government in any civil proceedings against the Government.

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In the present case, the Attorney-General informed the Auditor General (citing legal authorities) of her legal interpretation of section 14 of the Auditor Act 1990 and it is inappropriate for the PAC to infer in its findings and recommendation expressed in paragraphs 4(f) and 5(b) of its report that such legal opinion is incorrect without citing any legal authorities that support such an inference. It should be noted that under same section 14 (d) of the Act, the Auditor General is entitled, in the exercise and for the purpose of his functions, to seek from the Attorney General in writing an opinion on any question regarding the interpretation of any statutory

provision. Hence, it appears that the Legislature intended the Attorney General to advise the Auditor General in regards the interpretation of any statutory provision, including provisions under the Auditor Act 1990.

**Mr. Speaker**, it should be noted that the above mentioned position is consistent with the position of the former administration as recorded in their reply to the Special Report of the Auditor General on the Misuse of Public Funds dated December 19<sup>th</sup> 2011.

### **Conclusion**

**Mr. Speaker**, I wish to express my thanks to the Auditor General and members of the Public Accounts Committee for their work in identifying and bringing forth their observations and recommendations to the attention of this Honourable House. This Government is committed to strengthening the way in which it manages and controls Bermuda's public finances and I have every confidence that continued improvements will be achieved.



# **REPORT OF THE PARLIAMENTARY STANDING COMMITTEE OF THE PUBLIC ACCOUNTS ON: THE ANNUAL REPORT OF THE AUDITOR GENERAL ON THE WORK OF THE OFFICE OF THE AUDITOR GENERAL AND ON THE ACCOUNTS OF THE GOVERNMENT OF BERMUDA FOR THE FINANCIAL YEARS APRIL 1, 2008 TO MARCH 31, 2009 AND APRIL 1, 2009 TO MARCH 31, 2010**

TO HIS HONOUR THE SPEAKER AND THE MEMBERS OF THE HONOURABLE HOUSE OF ASSEMBLY:

The Parliamentary Standing Committee on the Public Accounts has the honour of submitting the following Report:

## **1 Introduction**

Your Public Accounts Committee (PAC) is pleased to report to the Honourable House of Assembly that we have reviewed the Annual Report Of The Auditor General On The Work Of The Office Of The Auditor General And On The Accounts Of The Government Of Bermuda For The Financial Years April 1, 2008 To March 31, 2009 and April 1, 2009 to March 31, 2010, tabled In This House on 22 June, 2012.

## **2 Meetings**

PAC held ten meetings on this report with the Auditor General and staff, current and former public officers, and had deliberations amongst the committee. Below are the dates of the meetings:

- |                      |                 |
|----------------------|-----------------|
| • September 12, 2013 | • May 29, 2014  |
| • September 19, 2013 | • June 12, 2014 |
| • September 26, 2013 | • July 3, 2014  |
| • October 24, 2013   | • July 10, 2014 |
| • October 31, 2013   | • July 18, 2014 |

### 3 Witnesses

Given the reports were over two years old, PAC sought to glean essential information from Public Officers responsible for the supervision of government budgets and spending. The list below identifies the persons who provided information to PAC. All oral testimony was held "in camera".

#### Oral Testimony:

- Mr. Anthony Manders - Current Financial Secretary
- Mr. Donald Scott - Former Cabinet Secretary and Financial Secretary during the period covered by the Report
- Mrs. Tina Tucker - Principal Budget Officer
- Ms. Lucia Peniston - Tax Commissioner
- Ms. Wendy Greenidge - Debt Enforcement Unit

#### Invited to Attend (but not available):

- Mrs. Heather Thomas - Director of Internal Audit

### 4 Findings

1. Bermuda's budget process has not kept up with modern needs.
  - a. PAC is concerned that Estimates of Revenue and Expenditure (Estimates) were submitted to Parliament with financial projections that senior civil servants considered unrealistic and unattainable. Such revelations showcase the weaknesses of our current budget process.
  - b. Parliament must oversee the Budget process, but there is limited independent review of the Budget.
    - i. Larger Parliaments have their own independent budget offices to scrutinise the Executive's budget to ensure it is able to deliver planned programmes.
    - ii. Supplementaries are received in arrears, a long time after spending has occurred, with minimal Parliamentary scrutiny as the money has already been spent.
2. There have been some improvements in budget control.
  - a. PAC heard of new measures, first implemented in 2012 and further enhanced in 2013, to catch budget creep at an earlier stage. Some of the measures detailed were:
    - i. Ministries were required to enhance their monthly reports pertaining to their expenditure versus budget allocations so that any slippage can be arrested; additionally, quarterly reports are made to Cabinet.



- ii. The introduction of budget checking in the ERP system ensures that Ministries and Departments have budgeted funds available before committing to the procurement of goods and services.
  - iii. A Budget Implementation Group has been established at the civil service level to ensure that members of the civil service are motivated to deliver on the mandates of the budget.
- 3. The Government continues to face challenges in the raising of revenue and collection of monies owed to the Government.
  - a. PAC heard testimony about the Government's revenue challenges. These challenges have been exacerbated by the numerous tax concessions that have been given and difficulty in collecting taxes. Witnesses also recommended that the Government may wish to look at reforming the tax system to enhance Government revenue and broaden the tax base as a way to address the revenue challenges.
  - b. PAC heard that Bermuda's tax culture is poor and that additional measures need to be taken to increase levels of compliance with existing tax legislation. As of July 10, 2014 there was \$30,597,673 in land taxes that were more than 90 days overdue with the Office of the Tax Commissioner; and \$50,336,577 in Payroll and other taxes that were more than 90 days overdue.
  - c. PAC heard that increased cooperation and information sharing between Government departments is necessary to increase tax compliance.
  - d. PAC heard that the Debt Enforcement Unit is currently under-resourced. The Unit has had success in obtaining judgement against debtors; however the enforcement of those judgements remains a challenge.
- 4. PAC heard conflicting evidence on whether civil servants had been surcharged for violations of Financial Instructions. It should be noted that since the report time period, violations of Financial Instructions are now criminal offences.
- 5. There is an ongoing challenge that exists with the quality and timeliness of accounts submitted for audit. The Auditor General has confirmed a large number of accounts have not been audited, some dating back to 2005. In addition, a significant number of these accounts have been submitted with incomplete information. As the Auditor General has to audit these accounts, this task is made very difficult due to the lateness and quality of the information submitted. PAC understands that in many cases there have been recommendations from the Auditor General as to the improvements to be made but these have not been made. These outstanding accounts increase the risk of financial irregularities going undetected.
- 6. Disposition of Auditor General's Recommendations
  - a. Accounting officers have responsibility for the review and implementation of the recommendations made in the Report of the Auditor General.

- b. The Auditor General made eleven new recommendations in this report; however there were 73 outstanding recommendations from previous reports.
- c. In 2010 the Department of Internal Audit and the Office of the Auditor General signed a memorandum of understanding. As a result of the agreement, the Department of Internal Audit monitors the implementation of the Auditor General's recommendations.
- d. PAC will meet with the Director of Internal Audit to ascertain what progress has been made on the Auditor General's Recommendations.

## 5 Recommendations

1. Given the findings mentioned in Section 4 of this report, PAC makes the following recommendations to modernise the budgetary process:
  - a. PAC recommends that the House considers updating budget rules to make supplementary funding a more disciplined process.
  - b. Consider implementing "pay-go" rules to ensure that any additional, nonemergency, spending that occurs during the budget year is offset by additional revenue or corresponding cuts. Approval should be sought from the Legislature prior to additional funds being spent.
  - c. Increases in capital estimates often are missed because total allocated funding increases are not shown in the Estimates of Revenue and Expenditure. PAC recommends that the Annual Estimates of Revenue and Expenditure include the historical total allocated funding so that the Legislature and the public can understand the increasing costs of capital projects.
2. PAC believes that additional transparency in the budget process will lead to better budgetary control by Parliament, therefore PAC recommends:
  - a. The Minister of Finance should, as a matter of routine, submit a mid-year report on Government finances to the House no later than November 15 in any given year. This statement should include any spending changes and provisional estimates for approval in advance of additional and unbudgeted monies being spent.
  - b. The Minister of Finance should publish quarterly revenue and spending figures by Department.
  - c. The Minister of Finance should include Zero Based Budget rankings in the Annual Estimates to ensure the Committee of Supply is aware which ongoing programs are funded in the Government Budget.
  - d. The Minister of Finance should publish the disposition of supplementals and surcharges so that members of the public can know the extent to which action has been taken with those who violate Financial Instructions.
3. Given the testimony about Government revenue, mentioned in Section 4 of this report, PAC recommends:

- a. That Government review the current tax system with a view to increasing the efficiency of revenue collection and to broaden the tax base.
- b. That Government take immediate steps to increase cooperation between Government departments to withhold government services from those who are not in good standing with the Office of the Tax Commissioner. Services such as work permits, business licences, vehicle registrations, should be withheld from non-compliant businesses and persons.
- c. That Government develop a Memorandum of Understanding (MOU) for all Government Departments that are involved in revenue collection and debt enforcement. This MOU will formalise the information sharing between Government Departments and will aid debt enforcement.
- d. That Government assign additional and dedicated resources the Debt Enforcement Unit to aid in the recovery of debts.
- e. That Government should again examine a Tax Court and specific legislation to facilitate the recovery of funds owed to the Government. Any new Tax Court should be established in addition to existing civil courts.
- f. The Government should again examine the establishment of a Business Registry as highlighted in previous reports of the Auditor General to facilitate the identification of potential taxpayers.

## 6 Conclusion

1. PAC would like to acknowledge the advice and assistance provide by the Auditor General, Mrs. Heather Jacobs Matthews, and her professional staff during our deliberations. We would also like to acknowledge the sterling work done on behalf of the Committee by Deputy Clerk to the Legislature, Mr. Clark W Somner, and the contributions of the Honourable Jeanne Atherden, J.P., M.P., who served on PAC prior to being appointed a Minister.
2. PAC recommends that the Minister of Finance be requested to inform the Honourable House of Assembly of the action that is to be taken on the points raised in this report.

**ALL OF WHICH US RESPECTFULLY SUBMITTED.**

Mr. E. David Burt, J.P., M.P. – Chairman

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Ms. Lovitta F. Foggo, J.P., M.P.

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Mr. Terry E. Lister, J.P., M.P.

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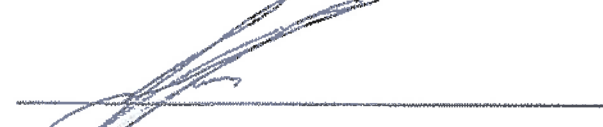
Mr. N. H. Cole Simons J.P., M.P.

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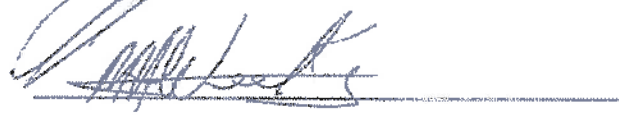
Mr. Glen C. Smith, J.P., M.P.

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Mr. Jefferson C. Sousa, J.P., M.P.

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Mr. Michael A Weeks, J.P., M.P.

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Dated: 18<sup>th</sup> July, 2014

**Minister of Finance Response on the Report of the Parliamentary Standing Committee on the Public Accounts on: The Annual Report of the Auditor General on the work of the Office of the Auditor General and on the Accounts of the Government of Bermuda for the Financial Years Ended 31 March, 2009 and 2010**

**Introduction**

**Mr. Speaker,** I am grateful for this opportunity to respond to the Public Accounts Committee Report on the Public Accounts for the financial years ended 31 March, 2009 and 2010. This Government appreciates that this process is an important component of the financial reporting accountability cycle within Government and will fulfill its duty to ensure that Government's financial reporting is raised to its optimal level.

Mr. Speaker, before I go into my formal response I would like to comment on the role of the Public Accounts Committee (PAC) and parliamentary procedure in general.

When the Auditor General tables a report in the House it is automatically referred to the PAC, Parliament's Standing Audit Committee. The Committee then selects the portions of the report it wants to scrutinise and calls public servants from audited organisations to appear before it to respond to the Auditor General's findings. The PAC also reviews any other Special Auditor Reports

that have been tabled, and attempts to identify financial shortcomings of the Government in light of issues raised in the Auditor General's reports. The Committee then tables its report and makes recommendations to the Government for improvements in spending practices and request that the Minister of Finance formally replies to the points raised in the Report and it is debated including input from the relevant and accountable Ministries and Ministers.

Mr. Speaker, unfortunately, because of the passage of time, this PAC report is an historical document. While media reporting of the PAC Report conveys a sense of immediacy, nothing could be further from the truth. Yet, too often the PAC Report is thought to represent the status quo when in fact it has been overtaken by events and real progress has occurred.

In fact, usually by the time a PAC Report is released more than three years has lapsed. Very often Government officials or boards of public sector entities – who have the fiduciary responsibility for their own accounts – have taken action already to address weaknesses or to make enhancements to financial systems and controls. As my remarks will show much has been done since 2009 and 2010 which this report refers to. In fact, Mr. Speaker during this period the current Government was not in office.

For ease of reference, I have adopted the same order as the PAC Report, which I attach as Annex I. Please note that the latest PAC Report relates to the years ending March 31, 2009 and 2010, clearly some of my comments may already be in the public domain.

### **Budget Process and Control**

Mr. Speaker, the Ministry of Finance agrees with the Committee that during the 2009 – 2010 periods the budget process may not have kept up with modern times. Since this period major budget reform has occurred.

Mr. Speaker, budgeting and financial performance starts at the very top of the government structure, which is with the Cabinet. Previous governments appear to have operated whereby Cabinet decided what services the Government desired to provide to the public and the spending budget became the total of all those services. This approach has been one of the key factors behind the fiscal crisis that the Bermuda Government finds itself in.

This Government takes the opposite approach, virtually the same approach a prudent family would take when arranging its budget. Our approach is based on the cash inflows we expect to have available to spend. We then allocate spending limits to each ministry based on priorities so that services provided to the public fit within the overall budget limit. This is what is meant by living within one's means.

Mr. Speaker, Honourable Members will recall, that during the 2013/14 Budget debate it was announced that the Government was proposing that the 2014/15 National Budget provide Bermuda with a foundation for what will become a three-year revolving framework, one that will embed long-term structural reforms into the current account strategy, reforms that will allow us to adopt a multi-year approach to public sector financial planning.

To transition to this model, we needed to adopt a medium-term plan that would enable us to consolidate and generally rebuild our revenue base, identifying new sources of income while underpinning existing sources. This required efforts on three fronts: better budget preparation, better and more transparent budget execution and systematic budget monitoring, the whole underpinned by clearly articulated sector strategies, efficient delivery agencies, and monitoring by oversight entities and the legislature and, most importantly, the public.

Mr. Speaker, as promised we moved to a Medium Term Expenditure Framework (MTEF). This is the name given to Government's medium term plans to eliminate the deficit and ultimately reduce the debt. The full implementation of a medium-term expenditure framework involved the introduction, from the 2014/15 budget cycle, of rolling three-year budgets and forward estimates to establish hard multi-year budget ceilings for Ministries. The MTEF program allows flexibility in the



allocation of resources across a series of annual budgets to meet objectives related to debt service and other Government commitments that cannot be achieved in a single budget cycle. This will enable the Ministry of Finance to begin to fulfill its commitment to changing the trajectory of deficits and debt over the medium-term.

To achieve the Ministry of Finance's strategy for fiscal consolidation (i.e. deficit reduction), the Ministry set an ambitious target of cost savings on current account expenditure of 15 per cent , in real terms, to be achieved by the end of three years. We noted that this plan would be a challenge but could be accomplished if all Ministries work together. Further, the discipline of the exercise would also provide a strong platform for more effective financial management in the medium term. If fiscal consolidation is not successfully implemented, there is a material risk of further credit rating downgrades.

Moving forward, the Government will drive fiscal policy management by top-down, hard debt targets rather than by bottom-up methodology of the past, whereby priority was given to spending plans.

Mr. Speaker, the Budget Office is constantly encouraging all managers to commit to higher levels of financial rigor. It is their strong view that it is in the country's interest for all senior executives in the public service to maintain a disciplined grip on the budgets that are under their charge. The introduction of budget checking in the Enterprise Resource Planning System (ERP) introduced in 2011 has

also assisted with enhanced budgeting monitoring. This capability has facilitated stronger control over the use of budgeted funds by ensuring that Ministries and Departments have budgeted funds available before committing to the procurement of goods and services on behalf of the Government of Bermuda.

Mr. Speaker, budgeting is not an exact science and it should be noted that the Ministry of Finance has procedures in place requesting all departments to seek supplementary Estimates before the actual overspend. On occasions it is impractical to prohibit overspending of appropriated amounts until the Legislature formally approves the necessary Supplementary due to timing differences and possible emergency expenditure. It must be emphasized that unapproved overspends are considered serious financial violations by the Ministry of Finance. During the annual budget training sessions conducted by the Budget Office the importance of Ministries staying within their budget allocation is constantly enforced.

Mr. Speaker, the Budget Office will continue to oversee the transformation of the management of the public finances. Although there have been some improvements there is always room for further enhancement. Accordingly, Ministries are now required to enhance their monthly reports pertaining to their expenditure versus budget allocations so that slippage can be arrested before becoming problematic. This government is committed to changing the trajectory of deficits and debt going forward by implementing various measures.

Mr. Speaker, I noted the PAC's concern with regard to limited independent review of the Budget. The Government agrees with this concern and announced in the 2015/16 Budget Statement that, to increase transparency and international credibility, Government intends to establish an international, independent committee to review, monitor, assess and publicly report on the fiscal progress of the government. It was noted that several other islands have also adopted similar outside assessors and it has helped bolster credibility and confidence. This monitoring committee will be established under aegis of the Financial Stability Framework regime already under development at the Bermuda Monetary Authority.

Mr. Speaker, while I agree that it would be beneficial for Parliament to have their own independent budget offices to scrutinise the Executives budget to ensure it is able to deliver planned programmes. However such a body would itself use up government funds – funds which are already very scarce.

Finally it should be noted that the Ministry of Finance currently produce quarterly fiscal data which is released to the public.

## **Revenue Raising**

Mr. Speaker, it was pointed out in the 2015/16 Budget Statement that a recent study comparing the tax/GDP ratios of small island economies illustrated that Bermuda had the lowest ratio. One could say kudos to Bermuda for keeping its taxes low. But that would only be appropriate if we were balancing or nearly balancing the budget; something that clearly is not the case. In view of the inherent and serious risks of running large deficits, this study implies that Bermuda's taxes are not high enough to achieve or maintain long term fiscal sustainability. The bottom line is Customs Duties are no longer producing the portion of revenue that they once did, thus exacerbating the annual deficit.

Mr. Speaker, as announced in the Budget speech, Government therefore has requested technical assistance from the Caribbean Regional Technical Assistance Centre (CARTAC), an IMF regional body, to study the feasibility of broadening Bermuda's tax base.

It was noted that a decision on the outcome of this analysis will be taken and communicated after a period of study and public consultation.

**Debt Collection**

Mr. Speaker, another concern noted by the PAC in their report and shared by the Government is the matter of pension contributions and taxes in arrears. As previously stated, this Government places a high priority on collecting outstanding amounts owed.

As the PAC Report indicates, Government financial statements show large amounts of money as Taxes Receivable. These represent taxes that should be paid to government according to law but have not been paid. As Government presently has to borrow money to pay monthly bills, every unpaid dollar owed to government increases the public debt and costs taxpayers the interest payable on that dollar.

Due to the extended recession there are many small businesses that have struggled to meet their tax obligations in a timely fashion. Government will work with these businesses to make suitable arrangements. However, there are others who simply ignore their obligations. For this group Government will use all available means to collect overdue taxes, thereby improving Government's cash flow and reducing its need for borrowing.

Mr. Speaker, in-lieu of raising taxes or implementing new users fees, Governments are putting in strategies and measures to collect on their receivables/debts.

Some of the most effective strategies for debt collection are as follows:

1. Automated notices and correspondence
2. Centralized collections
3. Use of law firms to augment collection capacity
4. Automated collection software
5. Electronic payments
6. Imposition of penalties and interest
7. Increased staffing (lowest return on investment)

It is incumbent on the Bermuda Government to take similar measures. One such strategy currently being considered by the Government relates to the use of law firms to supplement the Debt Enforcement Unit (DEU) within the Attorney General's Chambers.

Mr. Speaker, except where otherwise legislated, Government Departments are responsible for collecting outstanding amounts until such time as they become 90 days overdue, at which time they must be referred to the Accountant General Debt Collection Section which will initiate means of recovering the debt. However, the Tax Commissioner and the Director of Social Insurance have their own debt collection resources. The Tax Commissioner pursues taxpayers for, amongst other things, overdue Payroll Tax and Land Tax and the

Director of Social Insurance likewise recovers outstanding unpaid Social Insurance Contributions. Once all efforts to collect receivables have been exhausted, the debt may be referred to the DEU of the Attorney-General's Chamber for Supreme Court Writs.

Currently, the DEU has two staff members and given the massive amount of outstanding taxes it is critical to beef-up this unit by engaging up to three law firms to secure and enforce court judgments against taxpayers who owe taxes in excess of 90 days.

By engaging law firms to augment the manpower of the DEU, the Government will quickly strengthen its debt collection capabilities, without adding full time employees, and be able to aggressively reduce the amounts owed.

Mr. Speaker, the Ministry understands that increased cooperation and liaison between Government departments can be quite effective in increased tax compliance. Currently, revenue collecting departments are supported by the various Government Departments who will withhold permits and vehicles licenses where taxpayers are in arrears with taxes. Government has also used the offsetting provision in the Public Treasury (Administration and Payments) Act 1969 that allows Departments to recover any monies due to taxpayers from Government (i.e. Works and Engineering contracts). Also, Departments have set up installment plans and have

successfully progressed matters in the courts through the Department of Public Prosecution.

The Government through the Office of the Tax Commissioner continues to make debt collection and enforcement a priority as well as taxpayer education and awareness. To assist with this the Government proposes to amend existing tax legislation in order to increase the Tax Commissioner's powers for debt collection as well as impose stricter penalties for non-compliance and criminal tax evasion.

Mr. Speaker, despite these measures, the Ministry is neither satisfied nor complacent. As a result, the Ministry will enhance cooperation between Government departments by regularizing this process by way of the development of an MOU as suggested by the PAC.

Mr. Speaker, the Government will continue to take an aggressive stance in recouping tax and pension arrears in order to establish the settlement of Government debt as a priority.

### **Financial Instructions**

Mr. Speaker, Honourable Members are aware that Government's Financial Instructions (FI) provide the basis for the financial controls, processes, and procedures under which the Government operates.



To ensure compliance with FIs the Accountant General's Department ensures that Financial Instructions (FI) are available to, and delivers FI training in conjunction with the Department of Human Resources for, all Public Officers.

Incidents of non-compliance with Financial Instructions have to be reported to the Accountant General who ensures that appropriate action is taken against the violating parties.

### **Late Financial Reporting**

To facilitate sound financial management and planning, reliable and timely information is required. To achieve efficient management - flexible and responsive management requires an ongoing flow of management information.

Mr. Speaker, I note the PAC's long-standing concerns with regard to late and inadequate financial reporting of certain government entities and public funds. Whilst we acknowledge there are still obstacles to overcome with regard to late financial reporting for some Government entities and public funds, these obstacles are being addressed and will be resolved.

I can report to the general public that progress is being made. In many cases, management accounts have been prepared and

significant progress has been made with regard to bringing all public sector entities' accounts up to date.

Mr. Speaker, the delays in submitting and auditing some public sector accounts, combined with enhanced auditing standards are providing further challenges to the auditing process. Therefore, in some instances, in order to complete the auditing process, the Auditor General may have to issue qualified or in some cases disclaimer of opinions.

The Ministry of Finance will work with all public sector entities and the Auditor General in order to bring all public sector entities' accounts up to date in an auditable state. It is anticipated that with the provision of timely auditable financial statements the Auditor General will obtain comfort that the pre-conditions for future audits exists and that the financial statements will provide information for decision making and for accountability purposes.

Relevant Government entities will have to play their part to rectify this problem by bringing all outstanding accounts up to date and delivering them in an auditable state to the Office of the Auditor General.

## **Outstanding Auditor General's Recommendations**

The Government has placed great emphasis on the need to address the numerous recommendations made by the Auditor over the years and on making continued improvements to Government's accounting and financial control systems and practices. The Accountant General's Department continues to work with Controllers in Ministries to ensure audit recommendations that have been noted and accepted in prior years are addressed expediently.

## **PAC Recommendations**

Mr. Speaker, I have already provided a fulsome reply to the PAC Report. Some of this commentary addresses the various PAC Recommendations. For the sake of good order I will provide a brief reply to each recommendation in Section 5 of the Report.

### Recommendation 5.1.a

The Ministry of Finance already has procedures in place requesting all departments to seek supplementary Estimates before the actual overspend.

### Recommendation 5.1.b

As part of the budget monitoring and control exercises all Ministries/Departments are required to review expenditure performance and to confirm, on a monthly basis, their current and

capital account expenditure performance with the Budget Office. Also as part of the enhanced on-going budget monitoring and control exercises, the Ministry reports to Cabinet on at least a quarterly basis on the overall financial performance of the Government's expenditures and revenues.

If in the course of Ministries' budget monitoring and control exercises they report to the Ministry of Finance that they have potential budget overages in certain Departments, these Ministries, in the first instance are still required to seek expenditure reduction in other areas of the Ministry to cover these items. Also in cases of budget overages in one Ministry, Cabinet is asked to realign Ministry budget appropriations, including both current and capital expenditures. This is to facilitate any additional expenditures that may arise during the year.

In cases of budget overages in current account the Budget Office will seek to offset these additions by reducing capital spend.

#### Recommendation 5.1.c

All Total Authorised Funding (TAF) increases are approved by the House either via a Supplementary Estimate or during the normal budget appropriation process in the budget session. Any increases in the TAF of a project are noted in the "Capital Account Estimates" pages in the Budget Book. The PAC is referred to the "Notes to Schedule B – Capital Development" in the Budget Book.

#### Recommendation 5.2.a

The Ministry already publishes aggregate quarterly revenue spending figures. This can be incorporated into a mid-year report on Government finances to the House.

#### Recommendation 5.2.b

The Ministry already publishes aggregate quarterly revenue spending figures. It should be noted that PATI requires each Department to publish their quarterly spending figures.

#### Recommendation 5.2.c

As mentioned in my reply, the Government's budget methodology has been changed to the Medium Term Expenditure Framework. Ministries and Departments still use the ZBB rankings during their internal budget preparations. It should be noted that the Budget is presented at the service level and clearly shows which programmes are funded.

#### Recommendation 5.2.d

This recommendation will be further considered.

#### Recommendation 5.3.a

As mentioned in this report the Ministry will be conducting a review of the current tax system. Tax administration will also be included in this review.

Recommendation 5.3.b

The Government supports this recommendation. Currently Government departments do cooperate on tax collection matters. This cooperation will be enhanced.

Recommendation 5.3.c

The Government supports this recommendation.

Recommendation 5.3.d

The Government supports this recommendation. As noted in the reply the Government is seeking to supplement the DEU with law firms.

Recommendation 5.3.e

This recommendation will be discussed with the Attorney General.

Recommendation 5.3.f

Due to potential resource implications, this long standing recommendation will only be considered after other debt collection strategies have been implemented.

**Conclusion**

Government and governance is dynamic and just as the international regulatory environment has a shifting and changing landscape so too it is with the process of government. More is being required of all civil

servants, Permanent Secretaries/Chief Accounting Officers and of the Ministers of the Government and associated agencies.

The Government appreciates and highly values the efforts of the Standing Committee on Public Accounts to strengthen the Government's accountability to Parliament, and to enhance the Committee's contributions to public policy and administration. The Government fully supports the Committee in fulfilling its important mandate.

To this end, the Government will continue to work with the Committee and respond to its reports and requests for information in a manner that appropriately respects the respective roles of Cabinet, Ministers and Public Officers within our system of responsible government.

The Government is committed to strengthening the way in which it manages and controls Bermuda's public finances and I have every confidence that continued improvements will be achieved. Under this administration, there is every expectation that Government's financial reporting and stewardship will reach the highest possible standards.

17 July 2015

FS 40-3