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Project Elm

Independent Business Review

3 April 2014

Important notice

- This Report has been prepared on the basis set out in our Engagement Letter addressed to The Trustees of The Sandys Secondary School (“The Trustees”) and Sandys 360 (“the Company”) (together “the Clients”) dated 14 November 2013 (attached as Appendix 1), and should be read in conjunction with the Engagement Letter. In addition, certain information contained within this Report has been prepared on the basis set out in our engagement extension letter with the Clients dated 9 December 2013, and our subsequent discussions with the Clients.
- This Report is for the benefit of only the Clients, and HSBC Bank Bermuda Limited (“HSBC”), which we have agreed in writing to treat as addressees of the Engagement Letter (together “the Beneficiaries”), and has been released to the Beneficiaries on the basis that it shall not be copied, referred to or disclosed, in whole or in part, without our prior written consent.
- Nothing in this report constitutes a valuation or legal advice.
- We have not verified the reliability or accuracy of any information obtained in the course of our work, other than in the limited circumstances set out in the Engagement Letter.
- Our work commenced on 14 November 2013 and this Report takes into account our fieldwork up to 2 April 2014. We have not updated our Report for events, circumstances or information received arising after that date, unless this is expressly stated.
- KPMG Advisory Limited reserve the right (but will be under no obligation) to review all calculations referred to in this Report and, if considered necessary by us, to revise the Report in the light of any new facts, trends or changing conditions, which become apparent to us subsequent to the date of this Report.
- This Report is not suitable to be relied on by any party wishing to acquire rights against KPMG Advisory Limited (other than the Clients) for any purpose or in any context. Any party other than the Clients that obtains access to this Report or a copy and chooses to rely on this Report (or any part of it) does so at its own risk.
- To the fullest extent permitted by law, KPMG Advisory Limited does not assume any responsibility and will not accept any liability in respect of this Report to any party other than the Clients.
- This Report is provided to HSBC in accordance with the terms and conditions of our supplemental engagement letter (“the Supplemental Letter”) addressed to HSBC dated 14 November 2013, and should be read by HSBC in conjunction with the Supplemental Letter.
- The Clients have requested us to provide the Report to the Government of Bermuda (“the Government”) due to their status as a key stakeholder. We do not have any direct engagement with the Government, and therefore accept no liability for any reliance placed upon this Report by the Government.

Glossary of terms

$	$BDA (unless specifically stated otherwise)
AP	Accounts Payable
AR	Accounts Receivable
BAMZ	Bermuda Aquarium & Zoological Society
BELCO	Bermuda Electric Light Company Limited
BNTB	The Bank of NT Butterfield & Sons Limited
BZS	Bermuda Zoological Society
CBO	Community Buy Out
Centre, the	Sandys 360 Sports, Aquatic and Enrichment Centre
Clients, the	The Trustees and the Company
Company	Sandys 360
EPOS	Electronic Point of Sale
F&F	Fixtures and fittings / equipment
Foundation	The Sandys 360 Foundation (now struck off)
FYXX	12 month period ended 31 December 20XX
Government	The Government of Bermuda
Group	The Trustees, The Company and the Foundation
HSBC	HSBC Bank Bermuda Limited
IHRSA	International Health, Racquet & Sportsclub Association
IP	Insolvency Practitioner
Management	Both or either of [redacted]
OIC	Orkney Island Council
PCT	Pickaquoy Centre Trust
PE	Physical Education
R&P	Receipts & Payments
Secured Properties	The Centre, the SSMS playing field, the land with the SSMS School building on it, the Trustees' Building, all of which we understand are covered by HSBC's fixed charge
SLA	Service Level Agreement
SSMS	Sandys Secondary Middle School
Trustees	The Trustees of The Sandys Secondary School, a body incorporate established by private Act of Parliament.

Contents

The contacts at KPMG in connection with this report are:

[redacted]

[redacted]

[redacted]

Executive summary

Background

- Sandys 360 Sports, Aquatic & Enrichment Centre ("the Centre") is owned by The Trustees of The Sandys Secondary School ("the Trustees"), and is operated by a separate charitable company, Sandys 360 ("the Company"). The Sandys 360 Foundation ("the Foundation") (together with the Trustees and the Company "the Group"), previously existed as a fundraising entity, however was struck off in 2013.
- The Centre was opened in 2009, funded by loan and overdraft facilities from HSBC Bank Bermuda Limited ("HSBC") advanced to the Trustees, and a $1.0 million grant from Government.
- The Centre has effectively been closed since 4 November 2013, as BELCO cut the electricity to the Centre due to arrears of approximately $379,000 (equivalent to almost 3 years billing).
- KPMG Advisory conducted an initial review of the Group, and issued a Memorandum dated 6 January 2014. This highlighted several concerns around:
  - The apparent insolvency of the Company and of the Trustees;
  - The inadequate books and records of the Group;
  - The experience of the current Management / Trustee structure in operating a facility of this nature;
  - The risks of deterioration in the fabric of the Centre during this period of closure.
- As a result of these concerns, we entered into an extension of our services, to produce a Receipts & Payments ("R&P") analysis for the Group. This exercise was completed on 3 February 2014, and was designed to highlight the key sources of inflows and outflows for the Group, and the net cash outflows generated.
- Since opening in 2009, the Centre has been unable to generate sufficient income to cover running costs or the costs of servicing HSBC's debt, which is currently approximately $9.24 million (at 2 April 2014, including accrued but unpaid interest. HSBC has reduced the interest rate on its debt to 0.25% since 13 September 2013). The Centre has been supported by corporate donations (approximately $1.5 million since 2010) and significant Government funding (approximately $5.1 million). However, this was insufficient to cover the Centre's ongoing costs, with trading related Accounts Payable ("AP") and payroll arrears of approximately $1.0 million accruing (including BELCO's debt) to date.
- Government issued a letter dated 13 September 2012, confirming a commitment to provide the Centre with a total $6.0 million of funding, over three years, to service debt. To date, $2.5 million has been paid in relation to this committed balance, leaving a remainder of $3.5 million.
- HSBC holds a fixed charge over the Trustees' assets, including the Centre, the Trustees' building, a large portion of the Sandys' Secondary Middle School ("SSMS") Playground, and a portion of the land the SSMS is built on (together "the Secured Properties"). HSBC's debt facilities are in default, therefore, it is entitled to enforce its security through appointing a Receiver to realise the Secured Properties.
- We also assisted Management with compiling a 3 month care and maintenance budget, so that the Centre could be maintained whilst the key stakeholders consider the future of the Centre. With the consent of both HSBC and Government, cash held by the Trustees is currently funding this care and maintenance budget, which is due to run from 1 March 2014 to 31 May 2014, pending a decision on the appropriate way forward for the Centre. In order to facilitate this process, HSBC has offered limited guarantees to BELCO in relation to electricity costs over the period.
- This Report seeks to outline the potential options available to the key stakeholders of the Centre – Management, the Trustees, HSBC, and Government.

Operational analysis

Operations

- The Centre includes a 25m indoor pool, basketball/sport hall, gymnasium, and gym class rooms.
- The Centre had approximately 60-85 members. 1,095 unique individuals used the Centre in 2013, however 553 of these used the Centre only once.
- Typically, gym or pool users will not travel more than 10-12 minutes to their facility. There is only one rival gym in the surrounding local area. There are 3 other pools in Bermuda with public access, including the new, Government funded National Sport Centre pool ("NSC"). On its face, the NSC represents a significant competitor facility to the Centre.

Comparable models

- Our research into public leisure centres, such as the Centre, indicates that throughout the UK, US and Cayman Islands, these are typically loss making, and require significant subsidies from Government (though we identified a wide range from 9% to 90% of total costs). They are therefore viewed as a publicly funded, public health amenity. Such facilities also tend to be Government owned.
- Often, the operation of these facilities is outsourced to a management company (which can be profit or not for profit), with the operational management overseen by a board of trustees that includes Government representatives. The management company typically has a service level agreement ("SLA") with Government to meet certain financial and operational targets, in return for annual funding.

Current financial position

- The table to the right gives illustrative balance sheets for the Company and the Trustees based on the limited information available.
- The Trustees has not had any valuations of the Secured Properties performed. Nonetheless, we do not believe the open market value of the Secured Properties is likely to be more than the Trustees' net debt of $10.1 million. Therefore, the Trustees is balance sheet insolvent.
- The Trustees does have a cash balance of approximately $420,000, being the funds remaining from the Government grant of $500,000 received in November 2013. Since our previous Memorandum, when a cash balance of approximately $780,000 was held, HSBC has offset $280,000 against its debt (under the terms of its security), and approximately $80,000 has been paid in professional fees and care and maintenance. The remaining $420,000 balance is subject to the ongoing agreed costs of the care and maintenance budget and KPMG's remaining fees, and may also be required to fund the costs of legal advice for the trustees and directors as to their position (Government approval has been requested for this), and other costs should the Trustees be placed into insolvency.
- The Company has known liabilities of approximately $1.1 million and additional liabilities for redundancy payments due to employees that have not been quantified and intercompany debt. The Company's only assets are the gym equipment and furnishings, which has a book value of $0.3 million, though realisable value is likely to be significantly less than this. Based on this analysis, the Company appears to be balance sheet insolvent.

Summary Balance sheets at 2 April 2014

$'000	Trustees	Company
Fixed assets		
Centre	?	-
Trustees' building	?	-
School playground	?	-
School building	?	-
Machinery	-	297
Cash	420	4
Total assets	**?**	**301**
Total known liabilities	**(10,624)**	**(1,083)**
Total equity / (deficit)	**?**	**(782)**

Source: Management accounts

Recent Trading

- The Group has not maintained comprehensive accounting books and records since the Centre opened. As a result, the Group's accounting system, QuickBooks, cannot produce accurate financial statements.
- To facilitate the completion of this engagement, using a combination of bank statements, bank reconciliations and QuickBooks' narrative, KPMG prepared a R&P statement for the Group, for the 8 year period from 1 January 2006 to 30 November 2013.
- This R&P statement is summarised in the table to the right. with "non-trading" cashflows (HSBC, Government, or private loan receipts or payments) omitted, but donations included, to show the Centre's "trading" results.
- In the R&P, we have taken account of the AP and payroll arrears accruing throughout this period ($948,000).
- The average annual funding deficit throughout this period, taking account of donations received, was **$439,000.**
- Removing donations, this figure increases to an average of **$830,000.**
- The most significant cash outflow over the period was payroll payments, amounting to an average annual outflow of $714,000, 72% of payments.

Group Trading basis Receipts & Payments

$'000	2010 Actual	2011 Actual	2012 Actual	2013** Actual	Average
Receipts					
Total donations	567	528	315	152	391
Trading receipts	412	451	383	366	403
Total Receipts	**979**	**979**	**698**	**518**	**794**
Total Payments	**(1,113)**	**(1,248)**	**(1,075)**	**(546)**	**(996)**
Net cash (outflow)	**(134)**	**(269)**	**(377)**	**(28)**	**(202)**
AP Arrears*	(337)	(137)	(137)	(337)	(237)
Adjusted net outflow	(471)	(406)	(514)	(365)	**(439)**

Source: Receipts & Payments exercise

*Note: Arrears of $948,000 have been spread over the 4 years for illustrative purposes. We have not performed a detailed review of the Accounts Payable aging

**Note 10 months to 31 October 2013.

Sustainable trading

- It is difficult to assess the future maintainable earnings / deficit, until it is clearer what the operating model for the Centre will be.
- However, using our R&P analysis, we have prepared a high-level budget based upon historical performance, as an illustrative example of possible performance, and the potential deficit required to be funded if the Centre continued to operate on a basis similar to past operations.
- This illustration indicates an annual cash flow deficit of **$372,000** to be funded.
- Any new operator would be expected to create their own detailed budget based upon their operating model, so this illustration should not be relied upon as the basis of future operations.
- The major difference between the projection and the historical performance is payroll cost. Management acknowledge that payroll costs have been too high historically. We have reduced these to $500,000 from the average $805,000, however, the future operating model could result in significantly higher or lower costs.
- Corporate donations are also unpredictable, and could be impacted by ownership structure – for example, a commercial operator or Government may struggle to attract corporate donors as effectively as a registered charity.

Estimated sustainable Centre financial performances

$'000	KPMG
Receipts	
Total Donations	200
Trading receipts	350
Total Receipts	**550**
Payments	
Payroll	(500)
Electricity	(140)
Other	(282)
Total Payments	**(922)**
Net cash (outflow)	**(372)**

Options for the Centre and other Secured Properties

- We have considered the various options available to the key stakeholders, being the Management and Trustees, HSBC and the Government.
- Based on our discussions with these stakeholders, we understand that each parties' preferred potential outcome is:
  - **Trustees/Management:** to see the Centre reopened (with or without their own future involvement) to continue the community service objectives it was established to pursue;
  - **HSBC:** to recover their indebtedness, and have no further involvement with the Centre (other than potentially operating banking facilities with a new operator). HSBC has stated that it is willing to play its part in making a contribution to the community through writing off part of its debt as part of a sales process; and
  - **Government:** Management believe that Government would like to see the Centre reopened to serve the local community. Based on our discussions with the Minister, the Government wishes to understand the viability of the Centre before further support can be considered.
- The various options are considered below.
  - **Reopen with current Management and Trustees ownership / governance structure**. The Trustees and the Company are insolvent. At this point, HSBC is entitled to appoint a Receiver over all of the Secured Properties, and there is no expectation that these assets would realize sufficient value to repay HSBC's $9.24 million debt in full. Therefore, in the absence of these entities being recapitalised (which does not appear to be a realistic option), a new entity (or entities) will be required to own and operate the Centre and other Secured Properties going forward. Absent funding to purchase any of the Secured Properties out of HSBC's security package, the Trustees/Company are unlikely to have any ownership interest in the Secured Properties going forward.
  - Management has acknowledged that new personnel should manage the Centre going forward, and that there should be a new governance structure. There could be a reputational issue for the stakeholders if Management were to continue to act in either capacity going forward, given the present circumstances, so we believe a new governance structure and management team should be identified to carry the Centre forward.
  - **The trustees/directors immediately place the Trustees/Company into insolvency**. Given the apparent insolvency of the Trustees and the Company, ultimately, a formal insolvency process (liquidation for the Company and, we understand (subject to further legal advice), bankruptcy for the Trustees) will be required for each entity in accordance with Bermuda law. The directors of the Company and the trustees should consider seeking independent legal advice, given their personal capacities as fiduciaries of insolvent entities. This legal advice may suggest that the directors/trustees should place the respective entities into insolvency immediately. However, in the context of the current care and maintenance arrangements with agreed funding, and whilst negotiations with the key stakeholders are continuing, it could be argued that their creditors are not being prejudiced by the current actions of the directors/trustees (as long as any liabilities incurred during this period are paid). Therefore, whilst the negotiations continue, assuming a consensual process, the timing of the insolvencies could be delayed, to mitigate the ultimate costs of the process and to allow the Trustees to assist in the sales process.
  - However, we believe that the sale of the Secured Properties should be dealt with in the context of a formal insolvency process, under the supervision of the Bermuda Court, with all associated protections for and accountability to stakeholders (including the creditors of the Trustees and the Company). There would be costs attached to these insolvencies, which would need to be funded out of the assets of these entities. With the Trustees acting consensually with HSBC, the timing of these processes could be agreed to be immediately prior to the sale of the Secured Properties.

Options for the Centre and other Secured Properties (continued)	
	– **HSBC appoint a Receiver** to the Secured Properties, with a view to achieving a sale of these properties to a third party. HSBC is entitled to take this step immediately, as the Trustees is in default on its HSBC debt facilities. Whilst the Trustees continue to work consensually with HSBC to achieve a sale of the Secured Properties, a Receivership may not be necessary at this time. However, we consider the implications of this option, and the sales process which would ensue, at page 11. – **A pre-packaged insolvency sale of the Secured Properties of the Group** involves a controlled insolvency process of the Group entities at the point of successful conclusion of negotiations between HSBC and Government or another party in relation to the sale of the Secured Properties, with the purchase price ultimately going to HSBC to repay its debt (in whole or in part). The Group entities could go into insolvency immediately prior to the sale of the Secured Properties, with the appointed IP completing the sales from the insolvent entities under the supervision of the Court. This provides comfort to the creditors of the Group that the sales have been considered by an independent party, and also provides protection to the directors / trustees that they have not prejudiced the creditors. – This option appears the best fit with the understood aims of the key stakeholders, however, there is no clear indication at present that Government are willing or able to purchase the Secured Properties and HSBC have not indicated an acceptable price. These matters are for further deliberation by Government and HSBC respectively. – **A Community Buy-Out ("CBO")** could complete / assist a purchase of the Secured Properties**.** In order to reduce the financial burden on Government, it may be possible to request the local community to fund part of the purchase price, in a joint CBO venture. This would be a clear indicator of the commitment of the local community to the Centre. We have not explored the feasibility of this option further at this stage. – **HSBC transfer the Secured Properties to a charitable trust**. This is unlikely to be a realistic, preferred option for HSBC, unless no buyers can be found for any of the Secured Properties, and they become liabilities to HSBC to maintain. – **An equity investor(s) / philanthropic donor** is found to recapitalise the Company and the Trustees, to pay off the existing creditors (including HSBC). This does not appear to be a realistic prospect at this time, and it is difficult to envisage such a party would be willing to pay funds into insolvent entities to clear off existing debt (rather than invest in a new entity set up to run the Centre). – **Close the pool,** to reduce overall running costs of the Centre, to make the Centre more sustainable. This could be considered by any purchaser of the Centre, or HSBC if the care and maintenance period stretches into a longer term hold. – **Close the Centre indefinitely**, assuming a sale acceptable to HSBC cannot be achieved, ultimately, if no deal can be agreed between the stakeholders or with a third party, and the Group remains insolvent with no funds to operate the Centre, the Centre and the other Secured Properties would have to close longer term. ■ These options are broadly dependant upon whether the process is consensual between the Trustees and HSBC, whether a sale of the Secured Properties can be achieved, whether this sale is to Government, and whether any sale of the Secured Properties to a third party can be achieved.

Physical building requirements / improvements	■ There is a long standing physical defect in the Centre's roof, which results in significant leaking into the Centre whenever there is heavy rainfall. ■ As part of any plan going forward, we would expect a purchaser would require to have this problem surveyed, and remedied, which may potentially incur significant capital expenditure. This may impact upon the market value of the Centre, depending upon the extent of the problem. ■ We note Management has had the original contractor, BCM, inspect the site on several occasions, and they have to date been unable to resolve this issue.
Structural and operational options – if Government purchases the Secured Properties	■ Assuming Government purchases the Secured Properties, there are a number of options for how to structure the operation of the Centre. ■ An independent charitable organisation could be set up to run operations (say, "Charity360"). Charity360 should have a suitably qualified General Manager with leisure industry experience, who would report into a board of Trustees (or other fiduciary / oversight body). The Government (or a Quango) would retain ownership of the Centre, and have an SLA in place with Charity360, setting operating targets upon which annual funding is conditional. ■ The retention of the charitable status of Charity360 could allow for the Centre to continue to pursue donations in order to further assist the funding of the Centre's running costs. Mechanisms should be explored to incentivise operational management to maximise funding through donations and other fundraising activities, to reduce as far as possible the burden on Government. ■ One option we have identified is for Charity360 to be overseen by the NSC, an existing Government-funded body, with an infrastructure already in place. A secondary SLA between Charity360 and NSC could be implemented, whereby NSC provide management and staffing services to Charity360. This shared resource approach could reduce the overall staffing costs of the two aquatic facilities, therefore reducing the aggregate annual funding deficit (hence Government funding requirement), possibly with an incentive structure to minimise the funding by Government of the combined operation. ■ Further, alternative, options could include: – The Centre is operated directly by Government (for example, by the Department of Youth, Sports and Recreation); – The Centre could pass to SSMS, to be used solely as an educational facility; or – Government could opt to run an open tender for the running of the facility, and award a contract to the most suitable candidate – assessed with reference to ability to implement the most desirable solution to Government, which might include some of the elements described above.

Structural and operational options – if Government do not purchase the Secured Properties	

Structural and operational options – if Government do not purchase the Secured Properties

- In the event that Government is unwilling or unable to purchase the Secured Properties, the stakeholders will need to consider alternative options.
- **Sales Process:** In order to return value to HSBC and to facilitate a transfer of the Secured Properties to a new owner / operator, a sale is required.
- This sales process could be effected by:
  - **A Receiver** appointed by HSBC;
  - **A Trustee in Bankruptcy** appointed to the Trustees, respecting HSBC's security; or
  - **The Trustees**, with HSBC's consent, or potentially as part of a pre-packaged insolvency.
- Given the insolvency of the Trustees, we do not believe the Trustees should pursue a sale outside a formal insolvency process.
- **Likely purchaser and value of the Secured Properties:**
  - It is difficult to ascertain a market value for the Secured Properties and a third party valuation is unlikely to be helpful, given the very restricted market for these assets and the highly uncertain nature of the cashflows that would form the basis of any valuation.
  - It is difficult to envisage a third party being willing to purchase the SSMS-related land for an alternative use.
  - An asset of the Centre's nature has never been available for sale in Bermuda, and if it is unclear what market may exist, given its poor trading history. It is not clear if Government funding is available and a for-profit third party would be unlikely to be able to secure corporate donations.
  - The Trustees' building, as an individual purchase, is in a difficult location, being blocked in behind the Centre and the School. There is very little market for commercial property in Bermuda at the moment, and its location would be poorly suited for residential use (and in any event would be subject to the necessary planning approvals).
  - There could potentially be a market for the combined Secured Properties, for residential use. This would require the demolition of the Centre, which would incur costs, therefore this would impact upon any developer's assessment of market value. Further, there may be an adverse local community reaction to any such change of use (which, again, would be subject to planning approvals).
  - Other potential purchasers would be a charitable organisation, a philanthropic donor or a CBO (or a combination of the three). We have not explored the feasibility of these options.
  - We do not believe there is any realistic possibility that the Trustees' net debt would be repaid through open sale of the Secured Properties. Therefore, the Trustees would require to sell all of the Secured Properties, in order to repay HSBC as a secured creditor. The Trustees would remain insolvent thereafter, and would still require to enter insolvency (either pre or post sales).
- **Other creditors**
  - None of these options (including a Government purchase) are likely to result in any repayment of the debts of any unsecured creditors of either the Trustees or the Company, including former employees, BCM and trade payables. There appears no realistic option which could achieve this.

Case for the Centre, and impact were it to remain closed.	**Trustees' comments** ■ We have asked the Management and the Trustees to provide us with a high level summary of the background and reasoning as to why they believe the Centre to be so important to the local community, why it is important that the Centre continues, and the impact which its closure over the past five months has had. Management and the Trustees' comments are incorporated in full at page 34 of this Report. ■ Please note these are the views of Management, which have not been assessed or verified by KPMG.

Recommendations - operations

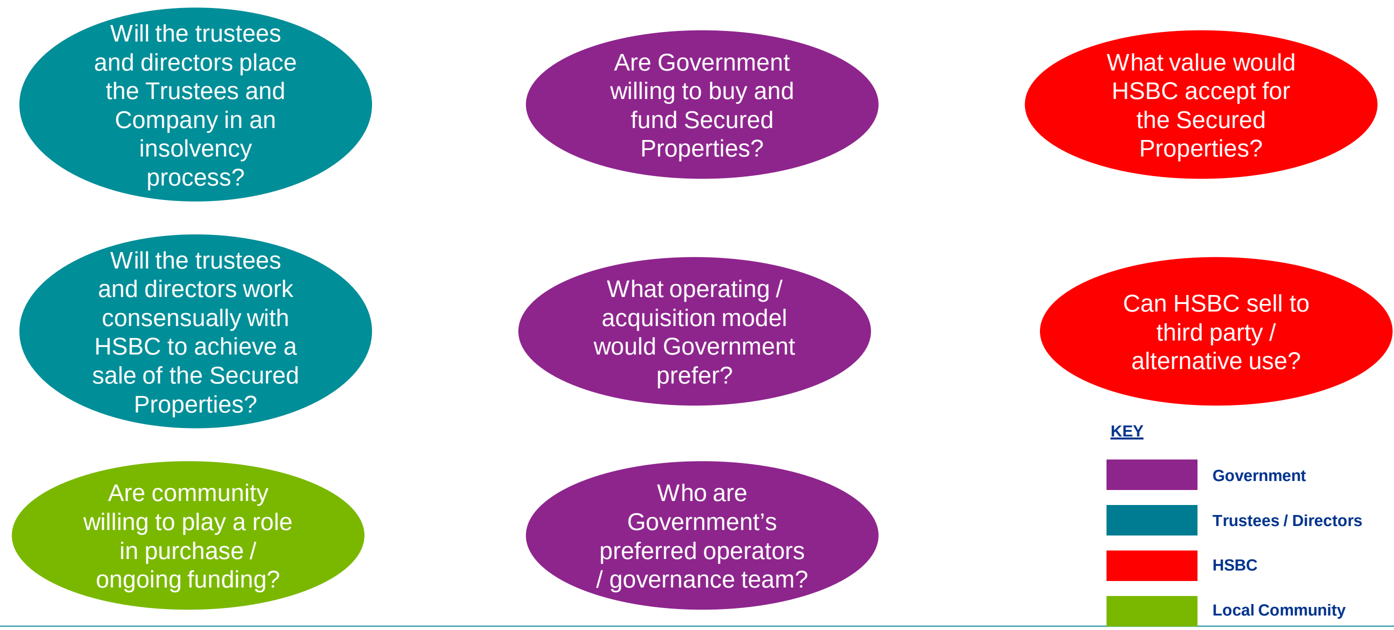
- Until the operating model and business plan for the Centre is clearer, it is difficult to make highly specific operational recommendations. Our observations below arose during our work and should be revisited in light of a new management's deliberation of operating model options. A number of these recommendations would require specific funding, though this could potentially be obtained through targeted "sponsorship" fundraising.
- Our recommendations for consideration include:
  - **Management & staffing**: As highlighted above, an experienced General Manager, new to the Centre but with relevant experience of operating a community sports Centre, should be identified. Staffing levels should be carefully controlled to manage fixed costs. There should be either an experienced financial controller to provide the necessary financial administration, or, potentially, outsourcing the finance function may be more cost effective.
  - **Gym:** Targeted growth of the gym membership. This may require improvements to the gym, including separation of the airspace from the pool airspace, redecorating, some new machinery, televisions, and 24 hour access. It may be possible to increase the gym prices following these improvements.
  - **Pool:** improvement of the leisure aspects of the pool, in order to differentiate the Centre from its competitors and target growth of leisure swimmers. This could include construction of water slide features, which no other location in Bermuda has, giving an island-wide appeal. Typical community centres would also have a shallow / splash pool, for toddlers. The pool could be exploited as Bermuda's only covered pool for winter training.
  - **Sports hall:** at present, there is limited use for the Centre other than for basketball and gymnastics, for which there is a limited appetite in Bermuda and numerous competing facilities. Other sports should be targeted, and potentially some alternative uses, such as for family soft play days.
  - **Car park:** the outdoor basketball court is currently used as a car parking area. If the car parking can be reconfigured, this area could be redeveloped into a new amenity, in order to attract further activity toward the Centre.
  - **Renewable energy:** Given the annual electricity costs, it may be beneficial to invest in some form of renewable energy to reduce energy costs.
  - **Health Insurers**: there is a growing movement in the US towards health insurers teaming with gyms to offer discounted health insurance to those who undertake regular exercise. The Centre could seek to partner with the insurers to increase their revenues.
  - **Cafe:** At present, there is a small cafe outsourced to a third party which is in the Trustees' building. To create more of a vibrant feel to the Centre, a cafe could be developed in the foyer area. This could also be outsourced to a third party, either the existing tenant, or a new operator.
  - **Branding:** consideration could be given to rebranding the Centre, either through teaming with a corporate sponsor to sell naming rights for the Centre, or through teaming with a recognised international gym brand. The latter is likely to require significant additional investment to meet the necessary brand standards.
  - **Hydrotherapy:** the Centre could team with a recognised medical provider to offer hydrotherapy. This would be a specialist use which could attract a wider market base.
  - **Pool closure:** depending on the perceived value of the pool to a new operator, and the willingness of Government to contribute to running costs, consideration could be given to closing the pool in order to reduce the overall running costs of the Centre. The gym and sports hall could be run with significantly less overhead, potentially being used by SSMS and outsourcing the gym to an independent operator.

Key conclusions

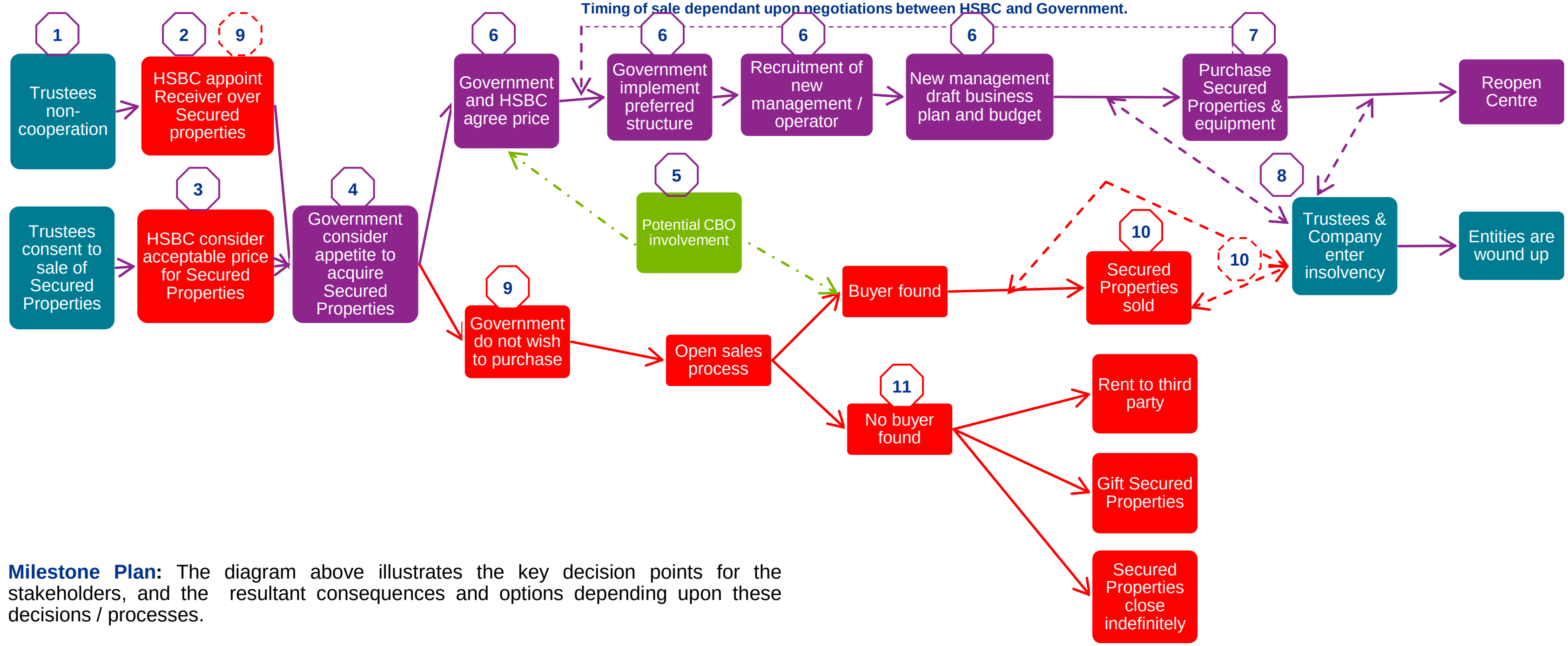
- The Group entities appear insolvent, absent a significant equity injection or philanthropic donation (neither of which are readily apparent), and therefore have no realistic prospect of continuing trading. Therefore, the Trustees and the Company are unlikely ultimately to avoid a formal insolvency process, and are unlikely to have significant influence over any of the Secured Properties going forward, due to the level of HSBC debt compared to the realistic market value of the Secured Properties.
- The trustees and the directors should therefore seek legal advice as to their position. Subject to formal conflict clearance, KPMG would be willing to provide insolvency practitioners should the trustees / directors wish to pursue a formal appointment.
- Given the limited third party market for leisure facilities and the limitations on alternative use, there are only two realistic options to safeguard the Centre and the SSMS related properties' future – either the Government (or a Government funded entity), or the local community, purchase the Secured Properties. In order for this to occur, HSBC must be compensated to release its security to facilitate the transfer of the Secured Properties.
- Under new ownership, experienced new management should be appointed to formulate a go forward operating and fundraising plan, management structure and SLAs with Government stakeholders.

Key questions for stakeholders

- Set out below are the key, high level questions which we believe each of the key stakeholders need to consider, in order to ascertain the feasible next steps. The answers to these questions will inform the strategy for each of the stakeholders going forward, as detailed on the next page.



Milestone plan



Milestone Plan: The diagram above illustrates the key decision points for the stakeholders, and the resultant consequences and options depending upon these decisions / processes.

1. **Trustees/Company:** consider consensual sale of the Secured Properties, with no return of value to the Trustees, or alternative of immediate petition for liquidation / bankruptcy.
2. **HSBC:** consideration would be given to appointing a Receiver over the Secured Properties if the Trustees do not cooperate to an agreed plan of action.
3. **HSBC:** decide what is considered an acceptable value for the Secured Properties, assuming Government are willing to purchase in private sale.
4. **Government:** need to consider appetite to fund the acquisition (and at what price) and ongoing funding of the Centre, either directly or through a funded entity.
5. **Community:** Government and community may wish to consider whether CBO involvement in purchase is a realistic option.
6. **If Government agreement:** Government need to ascertain and implement their preferred operating structure, management and governance team.
7. **Purchase:** completed at a point in the process to be agreed between HSBC and Government, as part of negotiations of the future of the Centre.
8. **Group:** Entities would enter liquidation, either pre or post sale depending upon discussions with Trustees / Company and HSBC's negotiations with Government.
9. **If no agreement with Government:** HSBC/Trustees to consider open market sales process. HSBC may wish to appoint an IP to run this process, and protect its interests in the Secured Properties.
10. **Open sale possible:** HSBC release security in return for adequate compensation from third party buyer. Potentially may be bought for alternative use. Group enters insolvency pre or post sale transaction.
11. **No open sale possible:**
    a) HSBC/Trustees could seek to either rent the Secured Properties to a third party and/or SSMS.
    b) HSBC could gift the Secured Properties to a charitable entity. Group enters insolvency pre or post sale transaction.
    c) The Secured Properties could close, with no public access, for an indefinite period. HSBC may maintain secured interest.

Timetable	
	■ We would anticipate that this process could take approximately 9 months to 1 year, taking account of time for Government to debate the matter, time for HSBC and Government to carry out negotiations, community discussions if required, conveyance of the Secured Properties, recruitment of new staffing, business planning and refurbishment. Overlaid on this, at some point, there will be a formal insolvency process, with an uncertain timeframe to conclusion, though we do not believe this should affect the critical path. ■ Accordingly, longer term care and maintenance may be required than the currently committed 3 month period, which is due to expire on 30 May 2014. HSBC has indicated that it will not provide funding after this initial period, therefore Government will need to provide this funding, or the Centre may deteriorate, possibly beyond use unless significant recommissioning costs are incurred. ■ Potentially, SSMS could be approached by the Trustees and requested to undertake to pay the utilities bills and insurance over this longer period, in return for SSMS having access to the Centre's sports hall and continued access to the playing field, use of the SSMS building on the Trustees' land and Trustees' building.

Business overview

Sandys 360

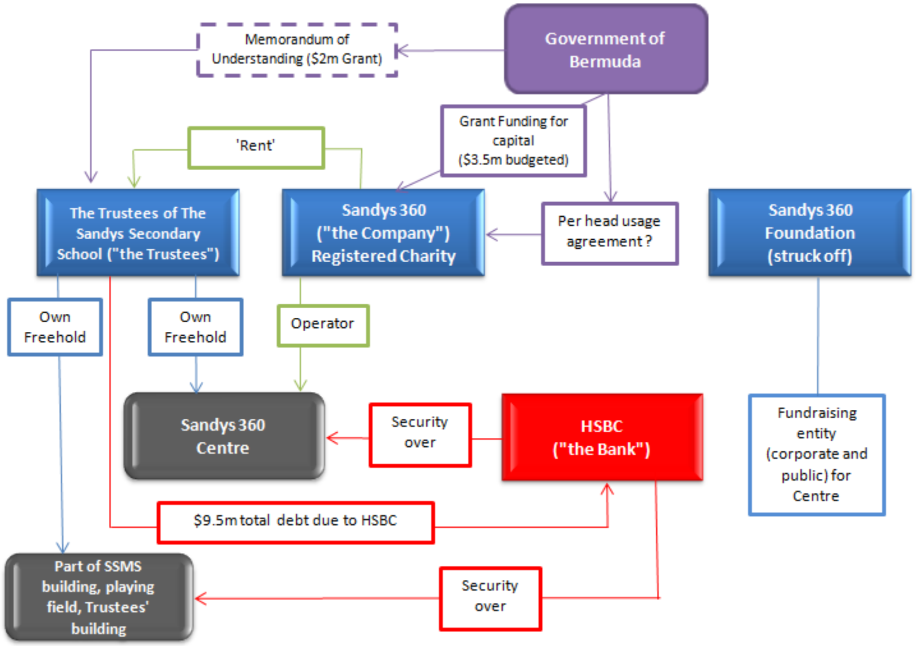
The Centre has been closed since 4 November 2013, when electricity was cut off by BELCO.

The Company (operating company) and the Trustee (property company) both appear insolvent.

This report seeks to consider the options available to the key stakeholders involved with the Centre.

Background

- The Centre was built and opened in 2009. The Centre is owned by the Trustees, and is operated by a separate charitable entity, the Company. A separate entity, the Sandys 360 Foundation ("the Foundation") (together with the Trustees and the Company "the Group") previously was a charitable vehicle used for fundraising for the Centre. The diagram to the right charts the key stakeholders involved in the Centre.
- The construction of the Centre was funded by $1.0 million Government grants, and $9.5 million of loan and overdraft facilities provided by HSBC, secured upon all of the Trustees' properties, including the Centre, Trustees' building, SSMS playing field and portion of land SSMS is built on ("the Secured Properties"). The aggregate balance of HSBC's facilities at 2 April 2014, including accrued interest, is approximately $9.24 million.
- Since inception, the Centre has relied upon Government grants and corporate donations to fund its ongoing costs of trading and servicing HSBC's debt.
- However, funding has been insufficient to service costs, resulting in significant arrears of approximately $2.3 million due to trade and construction creditors from Group entities.
- As a result of significant arrears due to BELCO (approximately $379,000), BELCO switched off the power to the Centre on 4 November 2013.



- The Centre has remained effectively closed since that time, other than some limited access for Sandys Secondary Middle School ("SSMS"). All employees were effectively made redundant on 4 December 2013.
- KPMG Advisory conducted an initial review of the Group, and issued a Memorandum dated 6 January 2014. This highlighted several concerns around:
  - The apparent insolvency of the Company and of the Trustees;
  - The inadequate books and records of the Group;
  - The experience of the current Management / Trustee structure in operating a facility of this nature;
  - The risks of deterioration in the fabric of the Centre during this period of closure.
- As a result of these concerns, we entered into an extension of our services, to produce a Receipts & Payments analysis for the Group. This exercise was completed on 3 February 2014, and was designed to highlight the key sources of inflows and outflows for the Group, and the net cash outflows generated.
- We also assisted Management with compiling a 3 month care and maintenance budget, so that the Centre could be maintained whilst the key stakeholders consider the future of the Centre. After HSBC offered undertakings to BELCO to cover all electricity costs, this budget was enacted on 1 March 2013.
- This IBR summarises our work to date, and seeks to outline the potential options available to the key stakeholders of the Centre at this time.

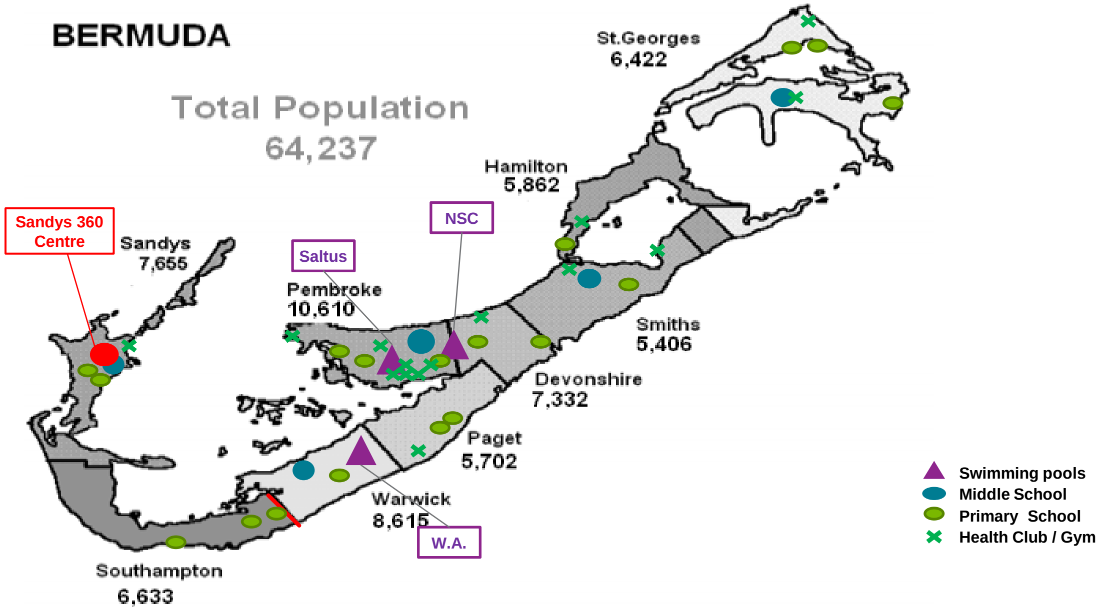
Market analysis summary

Bermuda has a competitive gym industry, with the majority of gym facilities located in Hamilton.

From our understanding, and based on research by the International Health, Racquet & Sportsclub Association ("IHRSA"), convenient location, either beside an individual's work or home, is key to members choosing a specific gym (and is more important than cost). In addition, over 50% of gym members cite location as key to remaining as a gym member.

The Centre was designed to provide services locally. The Centre's location is a significant disadvantage, given Bermuda's general population is unlikely to travel to the Centre for consistent gym use, and there is not significant passing traffic.

There are also only 6 schools (out of 23 across Bermuda) closer to the Centre than NSC.



Overview of facilities and market

- There are approximately 16 gyms in Bermuda, marked above with green crosses. There is a central concentration of the gyms in Hamilton, and a reasonable spread across the east of the island, however there is only one other gym facility between Paget and Sandys – Mangoes Gym, which is near the Centre. Recent estimates put the current population at approximately 60,000, which equates to an average of 3,750 people per gym.
- There are 4 pools with public access in Bermuda – the Centre (25m indoor heated pool), the National Sports Centre ("NSC") (50m heated outdoor pool, opened in May 2013), Saltus School (25m outdoor heated pool operated by Bermuda Amateur Swimming Association ("BASA")), and Warwick Academy School (25m heated outdoor pool). These are marked on the above map in purple. Based on Government information, there are also 2,210 private pools in Bermuda – including 89 in Sandys and 283 in Southampton.
- It takes approximately 15 minutes to get to the Centre from the Warwick / Southampton boundary (red line). Whilst catchment areas for leisure facilities vary depending on location, the generally accepted measure is no more than 10 -12 minutes travelling time, based on IHRSA studies.
- Based on a US Census study, approximately 19% of the US population swim regularly. If we assume approximately 10,000 people live within 10 minutes of the facility, this same ratio would suggest a market of approximately 1,900 individuals for the pool. However, this would need to be adjusted to take account of Bermuda's natural features, where the sea is available for swimming, which would suggest a much smaller realistic market.
- One of the Centre's key aims was to provide an aquatics facility for public schools. Across Bermuda, there are 18 public primary schools (green oval), and 5 public middle schools (blue oval) plus 2 high schools, with a total of approximately 5,752 pupils in public schools in Bermuda (2010). Only three of these schools are closer to the Centre than any other pool, and only 6 are closer to the Centre than they are to the new NSC.

Sandys 360 – Secured Properties physical site

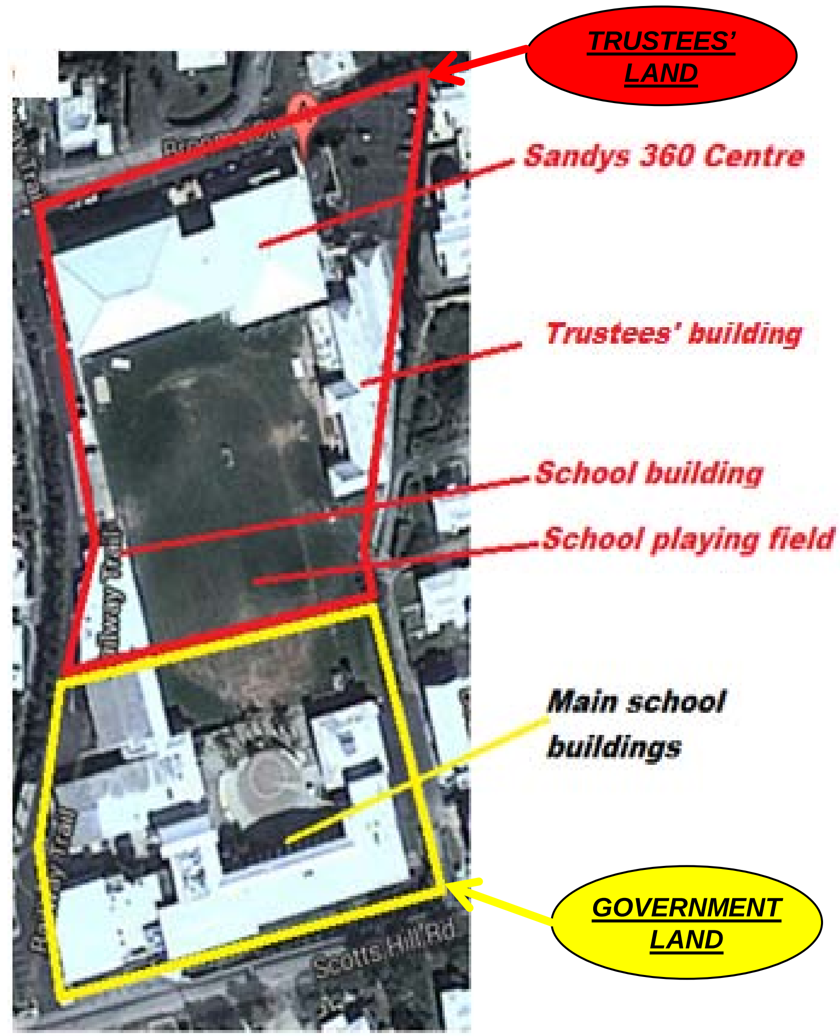
The map illustrates the extent of the Secured Properties, outlined in red, which includes :

- the Centre;
- the Trustees' building,
- the majority of the SSMS playing fields; and
- a portion of land which SSMS has built part of the school on.

HSBC's fixed charge covers all of the Secured Properties.

Secured Properties

- The red line on the map to the right demarks the boundaries of the freehold land the Trustees' owns – being the Secured Properties. This land encompasses:
  - the Centre;
  - the Trustees' building;
  - part of the land SSMS has been built on, and;
  - most of SSMS playing fields.
- All of the Trustees' land, being the Secured Properties, is subject to a fixed charge security interest held by HSBC.
- The yellow outlined area is owned by Government and encompasses the majority of SSMS (other than the part on the Trustees' land).
- **The Trustees' building:** The Sandys Secondary School was formed in 1927, as the only high school for black children in the western parishes of Bermuda. The school did not have a permanent home until the Trustees' building was built by the Trustees in 1944. It remained the only high school for black children until educational racial integration occurred in 1964/65. The school was privately funded, until 1961, when Government grants became available. At this time, the primary school which had been on the SSMS site was moved, and over the period from 1961 to 1997, Government built what is now the SSMS building, including a refurbishment in 1997/98, when the middle school concept was introduced, resulting in the present SSMS. Throughout this period, the Trustees' building has been utilised as part of the fabric of the main school building.
- The classrooms continue to be used by SSMS, without payment for use. There is also a cafeteria in the building, operated by a third party, who pays rent of approximately $7,200 per annum to the Trustees.
- **The SSMS building land:** A small section of SSMS has been built on the Trustees' land. It appears there is no record of express consent or consideration of this building, and no ongoing rental is paid.
- **The playing fields:** SSMS also use the playing fields without any payment.
- Please note, this map is for illustrative purposes only. We have not had sight of any security review or legal title review, to ensure that the boundaries per this map are accurate. We understand that the Secured Properties site is comprised of three separate title deeds, however we have not seen these deeds.



Market analysis summary – current users

The largest user of the Centre by far is SSMS, who used the pool and gym hall for Physical Education ("PE") classes. No fee is paid by SSMS for use.

Other schools' use has been sporadic, which Management largely attribute to schools' funding difficulties.

Based on our review and from discussions with Management, it is apparent that there was low utilisation of the Centre, estimated at approximately 15-20% of its operating capacity.

Users of the Centre (prior to closure)

- **Sports Hall:**
  - SSMS use the gym for PE classes between 9am to 3.30pm every weekday;
  - Bermuda Gymnastics Association – normally use once per week during term time;
  - Bermuda Basketball League – use on Sundays;
  - Pick-up basketball drop-ins 4 times per week;
  - Youth basketball once per week;
  - Summer / School camps – use when schools out; and
  - SCC Under 12's use once per week for football training.
- **Swimming Pool:**
  - SSMS use the pool for swimming lessons;
  - The following other schools have used the pool sporadically (Management do not have data on how often):
    - West End Primary School; Port Royal Primary; Delton E. Tucker; Purvis Primary; Somerset Primary; West Pembroke School; Heron Bay Primary School; TN Tatem school;
  - Seniors: Seniors Aquafit approximately 4 times per week (1 hour each);
  - Water Aerobics: 4 times per week (1 hour each);
  - Juniors: Stingrays training 4 times per week and youth development 2 times per week (1 hour each session);
  - Masters swim classes, Stroke Clinics and Endurance Clinics: 4 times per week;
  - Bluewater dive school – rent lanes for diver training approximately five times per week; and
  - General open swimming for members and public.
- **Gym classes:**
  - Approximately 15 classes run per week, including Boxfit, Zumba, Mommy & Me Fitness, Spin Class, Salsa and Shred.
- **Gym:**
  - Management's records are unclear, but there appear to have been approximately 60-85 gym members.
- **Other**
  - After school care – approximately 12 children per day. Use a variety of facilities at the Centre (and outdoor surrounding area).

Market analysis summary – current usage statistics

Based on data provided by Management, in the period from 1 January 2013 to 4 November 2013:

- **There were 1,095 unique individual users of the Centre;**
- **48 % of users made one purchase (albeit this includes some memberships).**
- **There were approximately 60-85 members on an annualized basis;**
- **We estimate an average of approximately 20 users per day (not including SSMS);**
- **The largest revenue sources are:-**
  - o **Pool (41%)**
  - o **Camps (18%)**
  - o **Gym/Class memberships (16%)**

User numbers

- The QuickBooks EPOS system, if implemented correctly, appears to possess the capability to monitor individual users of the Centre, and to produce data in relation to usage numbers by service line, unique visitors, and revenue sources.
- From discussions with Management, it appears unlikely that the information in the system is fully accurate, due to not being fully implemented. However, there is still some value in this information in illustrating the sources of revenue historically, and approximate numbers of users.
- Note, under the Centre's management information system, buying one month's membership is recorded as only 1 purchase. Therefore, usage per day figures are skewed artificially low, as members who use the Centre more than once within their membership period are not captured in the data – as there is no transaction for these later usages. From manual review of the average transaction price, there are not a significant number of annual memberships purchased which would significantly skew this analysis.
- Based on information provided by the QuickBooks system:
  - There are a total of approximately **1,095** unique customers who have used the Centre in the 307 days to 4 November 2013 (electric cut off date). The users made 4,551 purchases.
  - Of these, 533 individuals only made one purchase.
  - Assuming members used the Centre an average of once per week, and taking account of non-members use, excluding SSMS, we estimate a total of **approximately 20 users per day** on average**.**
  - The pool generated the most revenue, with $82,000 (41%) of total revenue, including pool memberships and swimming-only summer camps.
  - Camps are the highest value per transaction, at $121 on average, and totalled $36,000 in revenue (18% of total revenue). This excludes the swimming camps ($10,000 revenue from 77 participants), therefore Camps in total accounted for $46,000.
  - Memberships generated $32,000 (16% of total revenues) from 640 membership purchases.
  - Based on review of the types of memberships purchased, we estimate total annualised members to be **approximately 60-85,** in total, covering Gym, Pool and classes.

Centre usage statistics for the 307 days to 4 November 2013

	Quantity of sales	Value of sales ($)	Average sales value
Revenue source			
Pool (inc. memberships & Swim camp)	2,334	82,340	35
Camp	296	35,950	121
Gym Membership	640	32,287	44
Personal Training	146	12,682	87
Special Events	190	12,155	64
After School Program	94	3,494	37
Studio	177	2,457	14
Gymnasium	418	2,176	5
Rentals	39	2,141	55
Anniversary Celebrations	181	1,685	9
Basket Ball League	28	1,300	46
Education	7	800	114
Banking	1	35	35
Total usage sales	**4,551**	**189,502**	42
Other revenue source			
Snacks	5,227	5,051	1
Beverages	5,765	8,889	2
Gift Certificate	46	60	1
Pro Shop	208	2,142	10
Total	**15,216**	**198,340**	

Source: Management information

Note: Where memberships were for combined gym, class & pool access, we have attributed the associated revenue 50%/50% between Pool and Membership

Market analysis summary – structures and funding

We reviewed a number of local and international similar operations, to consider suitable operating models, funding sources, and financial performance.

Local Examples

- **Windreach Recreational Village Ltd:** Company Limited by Guarantee, Charitable Status (No Government support apparent).
- **Bermuda Aquarium & Zoological Society ("BAMZ"):**
  - Owned and run by Government (department of Conservation Services).
  - Enjoys a very strong local reputation, and a committed following. Benefits from Tourism also.
  - Supported by Bermuda Zoological Society ("BZS") (registered Charity) and the Atlantic Conservation Partnership. Certain exhibits come from corporate donors.
  - Unusual structure, in that Memberships to BZS entitle members to free access to BAMZ. Approximately 4,000 members. Therefore, BAMZ does not receive income from members. BZS also operate the café and gift store at BAMZ.
  - Unclear as not publicly available, but it is believed to operate at an annual deficit, which is effectively a cost to Government.
- **National Sports Centre:**.
  - QUANGO which ultimately reports to Government.
  - Operated by Management team, who report into a Board of Trustees.
  - CEO Bernie Asbell has extensive leisure facility management experience.
  - Funded solely by Government and commercial revenues. Beginning to target corporate donations, but no major support to date.
  - $1.25 million operating grant in 2013/14 for overall NSC (includes track and field, stadium and pool).
  - Funding just been cut in 2014/15 budget to $950,000, $300,000 (24%) less than prior year.
  - It is understood that the 2013/14 Grant portion allocated to the pool was approximately $520,000, representing approximately 60% funding by Government.

Overseas examples:

- **Orkney Islands** (North of Scotland, UK): Pickaquoy Sports Centre (sports and leisure facility, including pool, gym, sports fields, climbing wall, cinema, and spa)
  - Operated by Pickaquoy Centre Trust ("PCT"). Owned by Orkney Island Council ("OIC"). SLA in place between PCT and OIC to operate the Centre. OIC pay a management fee under the SLA.
  - Of total income of $1,435,000 in the year to 31 March 2013, $646,000 (45%) was contributed by OIC. In addition, Lottery and OIC funding of $197,000 was received for capital improvements.
  - New pool was completed in July 2013. Since then, costs of the pool utilities are funded by the Council. In return, local schools have daytime access for PE lessons.
  - Overall, Government support is crucial to centre's viability.

Market analysis summary – structures and funding (cont.)

Our analysis suggests that all public facilities of a similar nature to the Centre require significant government funding. The level of funding varies significantly, from 90% to 9% of total revenue.

The most common model we have seen is that the leisure facility is Government owned, and operated by an independent third party charitable company. This charity has a separate Management team reporting to Trustees, who typically include Government personnel, and the Charity has a SLA with the Government, who provide funding.

- **SportsScotland** (governing body for sports development in Scotland)
  - From our discussions with SportsScotland representatives, there are no community leisure centres which are self funding in Scotland.
- **Galleon Leisure Centre,** Kilmarnock, Scotland - Facility includes pool, gym (2,200 members), two sports halls, ice rink, bars, bowling hall.
  - Run by Kilmarnock Leisure Centre Trust (Registered Charity). SLA with East Ayrshire Council.
  - Least subsidised of any public leisure facility in Scotland. Approximately 9% of funding comes from Council.
  - No rival pool in nearby vicinity. Services all schools in vicinity, who pay according to usage (not included in the 9% funding).
  - Was built in 1987 via commercial bank loan, which was repaid by local Council. Land is owned by the Council.
- **Cayman Islands –** considered one of the most similar jurisdictions, in terms of international business, population (55,000), and climate. There are no indoor public pools in Cayman (albeit, their climate is warmer in winter months, reducing the desire for an indoor pool).
  - **Camana Sports Complex –** Private sports complex owned by the DART Enterprise Group. Outdoor facilities include two tennis courts, two basketball courts, a 25-metre swimming pool (8 lanes) and one full size soccer pitch, indoor facilities comprise a 20,000 sq. ft. multi-purpose indoor facility for use as a basketball / volleyball / badminton courts, a theatre, and a gymnasium. Camana Sports Complex was built as part of a much larger Camana Bay development including retail and residential. No official information on trading available as private, however we understand from discussions with relevant personnel that it is loss making on a stand alone basis. It is viewed as an amenity) and subsidised by the wider corporate group as part of the overall Camana Bay development .
  - Receives no direct Government or donor funding. However, it is built on the site of the Cayman International School ("CIS"), a private school, which pays for use of the facility throughout the school day.
  - **Lions Aquatic Centre:** includes a 25m unheated, outdoor pool. The pool was built by the Cayman branch of the International Lions Club, a humanitarian organisation. The pool was then gifted to the Government, on condition that the pool would always be used to offer free swimming lessons to children in Cayman. Accordingly, the Department of Sports, on behalf of the Ministry of Sports, offer free swimming lessons to all children up to age 17. Therefore, the pool is heavily subsidised by Government (estimated at 85 to 90%). The annual costs are significantly lower than the Centre - estimated at approximately $170,000.
  - The entrance fee to the pool for adults is approximately $4 per swim.
  - **Clifton Hunter School**: new outdoor 25m pool built for a new public School.

Market analysis summary – structures and funding (cont.)

- **YMCA**s (“the Y”) in USA & Canada:
  - Based on our research, these facilities, which are similar in nature to the Centre, are uniformly subsidised by Government.
- **Dallas City Plan - Aquatics**
  - In July 2012, the City of Dallas commissioned a report into the current aquatics offering from the department of parks and recreation. This study was carried out by design consultants Kimley-Horn and Associates, and aquatics designers Counsilman Hunsaker.
  - This study looked at the trends in aquatics, and what models for the actual structures were proving most sustainable and popular.
  - From the existing 20 pools operated, servicing a population of approximately $1.3 million (65,000 per pool), the City of Dallas was subsidising $677,621 (76%) of the total running costs of the facilities ($897,235), which had a total of 82,493 visits (4,124 per pool) generating $219,614 in revenue (an average of $2.66 per visitor). The City of Dallas pools include 18 out of the 20 pools being outdoor lane pools, with 1 indoor 25m pool, and 1 outdoor waterpark. The waterpark and indoor pool charge $15 per adult, whereas the outdoor pools are only $2 per adult (hence the low overall average price). Dallas climate is broadly comparable to Bermuda, however it is colder in winter, and marginally hotter in summer.
  - The study’s conclusions were that the City’s plan should opt for fewer, larger multi-purpose pool facilities, with additional water park features, to ensure higher attendances. This was estimated to result in significantly increased revenues, however would still require a (reduced) overall subsidy, of $338,000 (24%) .

Recent financial performance

Receipts & payments summary – trading cash flows

The Company's average annual trading net cash outflow has been approximately $830,000 per annum over the past 4 years.

Once donations are taken into account, this annual net outflow reduces to $439,000.

Payroll costs are by far the most significant outflow stream, at $2.9 million (72%) of total payments made over the past 4 years.

Group Receipts & Payments

$'000	2010 Actual	2011 Actual	2012 Actual	2013** Actual
Receipts				
Corporate Donations	540	522	305	151
Individual Donations	27	6	10	1
Total Donations	567	528	315	152
Membership	131	165	121	64
Sales	158	210	205	221
Other	123	76	57	81
Trading receipts	412	451	383	366
Total Receipts	**979**	**979**	**698**	**518**
Payments				
Capex	89	34	64	4
Maintenance	58	39	34	26
Payroll	784	867	749	456
Electricity	15	130	100	0
Other	166	175	125	58
Bank charges	1	3	3	2
Total Payments	**1,113**	**1,248**	**1,075**	**546**
Net cash (outflow)	**(134)**	**(269)**	**(377)**	**(28)**
AP Arrears*	(337)	(137)	(137)	(337)
Adjusted net outflow	(471)	(406)	(514)	(365)

Source: Receipts & Payments exercise

*Note: Arrears of $948,000 have been spread over the 4 years for illustrative purposes. We have not performed a detailed review of the Accounts Payable aging

**Note 10 months to 31 October 2013.

Receipts and Payments (R&P Summary)

- The table to the left summarises the R&P for the total Group, for the period from 1 January 2010 to 30 November 2013. For the purposes of this exercise, we have removed all non-trading related income and expenditure, including HSBC, Government and Private Loans. The full R&P is included at Appendix 4.
- We have also factored in the unpaid Accounts Payable ("AP") arrears of $948,000, which we understand to have accrued over this period. We have, for illustrative purposes, allocated these creditors evenly across the 4 years period, other than accounting for BELCO payments made in 2011 and 2012 – therefore we have allocated additional $100,000 arrears into 2010 and 2013.
- For the purposes of this analysis, we have assumed that all receipts which were not specifically allocated during the R&P exercise are trading related income (being individual transactions less than $5,000).
- Corporate donors peaked at a high of $540,000 in 2010, and decreased to $305,000 in 2012. Corporate donations further decreased in 2013 to $151,000, albeit this is still a significant sum given the lack of audited financial records which are ordinarily a prerequisite for corporate donors.
- The 'trading' income streams generated, on average, approximately $400,000 in each year.
- The most significant outflow stream was in relation to payroll and associated costs – an average annual outflow of $714,000. This represents approximately 72% of payments. Taking account of payroll creditors of approximately $362,000 , this would increase to an average of **$805,000 per annum**.

Average annual net outflow

- The Group generated an average net cash outflow of **$439,000 per annum** over these four years.
- Taking out the donations received, the annual underlying average trading net outflow equates to approximately **$830,000 per annum**.

Receipts & payments summary – full R&P

The table illustrates the full Group R&P from 2006 to 2013.

Over this period, Government support totalled approximately $5.8 million.

HSBC advanced total facilities of $9.5 million, however repayments of $3.2 million made to HSBC have been offset by interest charges, resulting in the total balance remaining at $9.5 million due to HSBC (subsequent to the R&P period, total HSBC debt reduced to $9.24 million).

Donations have totalled approximately $2.7 million.

[redacted]

Group R&P for 8 years from 1 January 2006 to 30 November 2013	
$'000	**Total**
Receipts	
HSBC Loan	6,495
Private Loans	366
Government Funding	5,058
Corporate Donations	2,424
Individual Donations	231
Membership	510
Rental of Facility	103
Fund raising / Sports prog / School camps	548
Sales	290
Other income	372
Total Receipts	**16,398**
Payments	
HSBC Loan & Interest payments	4,461
Private Loan & Interest payments	138
Construction Costs, BCM	8,544
Project costs / capital expenditure	1,985
Maintenance costs (building, pool, gym)	185
Staff / Consultant / Professional fees	3,662
Electricity, BELCO	257
Utilities / Taxes	151
Marketing/ Sports programmes / School camps	392
Other expenses	107
Bank Charges/Interest	66
Total Payments	19,949
Net cash (outflow)	**(3,551)**
AP Arrears*	(948)
Adjusted net outflow	(4,449)

Source: Receipts & Payments exercise

R&P Summary

- The table to the left summarises the R&P for the total Group, for the period from 1 January 2006 to 30 November 2013. This includes all receipts and payments.

Receipts

- **Government** receipts totalled $5.1 million over the period. We understand there was an additional $0.5 million paid directly to the steel manufacturer during construction (Government should verify this), and Government has paid the insurance on the Centre throughout, therefore, Government's total contribution has been approximately **$5.8 million** from 2008 onwards.
- These funds have been contributed in the following fashion:
  - $0.5 million in 2008 for steel purchase (plus we understand the further $0.5 million which is not evidenced in the R&P);
  - $1.6 million in 2011, under no specific terms, but understood to be for bringing capital debt arrears up to date
  - In 2012, the Government issued a confirmation of a $6.0 million capital grant commitment to Sandys 360, payable over three years. Of this $6 .0 million, there was:
    - $2.0 million paid over 2012/13 under the Memorandum of Understanding entered into between Government and the Trustees, to be used for capital debt repayment to HSBC;
    - $0.5 million paid in 2013, under no specific terms; therefore
    - $3.5 million remains outstanding.
  - $0.4 million ad-hoc funding over the period.
- **HSBC** advanced loan facilities of $6.5 million and provided overdraft facilities of $3.0 million, totalling $9.5 million debt. HSBC has received repayments of $3.5 million, however, accounting for interest applied to the loan balance and overdraft of $3.5 million, and a small decrease in the overdraft balance excluding the impact of interest ($0.3 million), the balance due remained at approximately $9.5 million. Taking account of the recent $280,000 reduction, this balance has now reduced to $9.24 million due to HSBC.

Receipts & payments summary – full R&P

The largest outflow is to BCM, and other construction related payments, totalling approximately $10.5 million.

Payroll totalled approximately $4.1 million, over the period taking account of unpaid payroll arrears.

The Group generated a net outflow of $3.6 million, which from an opening balance of $0.3 million resulted in the net overdraft balance of $3.3 million.

The net $3.3 million closing overdraft at 30 November 2013 was comprised of a $4.1 million HSBC overdraft balance, and a $0.8 million cash balance held.

Group R&P for 8 years from 1 January 2006 to 30 November 2013	
$'000	**Total**
Receipts	
HSBC Loan	6,495
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Other expenses	107
Bank Charges/Interest	66
Total Payments	19,949
Net cash (outflow)	**(3,551)**
AP Arrears*	(948)
Adjusted net outflow	(4,449)

Source: Receipts & Payments exercise

R&P Summary (cont.)

- **Donors** have totalled $2.7 million over the 8 year period, with the majority from 2008 onwards.
- **Trading/Other**: Assuming that all 'other' receipts represented trading income, the total trading income was $1.8 million.
- **Private Loans:** a total of $0.4 million has been loaned to the Group, principally [redacted] The net balance due to Dr Bassett is approximately $0.2 million.

Payments

- **Construction**: payments to BCM and other project costs / capex totalled $10.5 million.
- **Payroll:** The most significant 'ordinary' outflow stream was in relation to payroll and associated costs – a total of $3.7 million. Over the period from 2009 onwards, taking account of payroll creditors of approximately $362,000, this represents an average of **$772,000 per annum**.
- **BELCO:** has received payments of $257,000, out of a total billed amount of approximately $636,000 – approximately 40% of the electric charges.

Total net outflow

- The Group generated a total net cash outflow of **$3,551,000** over the 8 year period.
- The Group had an opening cash balance of $291,00 at 1 January 2006, therefore this net outflow resulted in a closing overdraft balance of $(3,260,000) at 30 November 2013 – representing HSBC's overdraft facility of $(4,054,000), offset by the Trustees cash remaining from Government grants of approximately $780,000.

Summary balance sheet

The Trustees' balance sheet position is dependant upon the values ascribed to the Secured Properties.

In addition, the Trustees holds $420,000 in cash, being the remaining funds from Government grants.

Our view is that there is no realistic prospect the Secured Properties' market valuations would be greater than either HSBC debt of $9.24 million, or the total known net debt of $10.2 million. Therefore, the Trustees is balance sheet insolvent.

The Company has no significant assets, and significant debt, therefore it is also insolvent.

Summary Balance sheets at 2 April 2014

$'000	The Trustees	The Company
Fixed Assets		
Centre	?	-
Trustees' building	?	-
School playground	?	-
School building	?	-
Machinery	-	297
Total Fixed Assets	**?**	**297**
Current Assets		
Cash	420	4
Accounts receivable	-	-
Inventory	-	-
Total Current Assets	**420**	**4**
Total Assets	**?**	**301**
Liabilities		
Accounts payable	(1,388)	(586)
HSBC	(9,236)	-
Employee arrears	-	(362)
Redundancies due	-	?
Intercompany debt	-	?
Other	-	(135)
Total Liabilities	**(10,624)**	**?**
Total Equity / (Deficit)	**?**	**?**

Source: Management accounts
*Note:

The table illustrates the summary balance sheets for the Company and the Trustees.

Fixed Assets

- The Trustees has not had any valuations performed in relation to the Secured Properties. Given the specialist nature of each of the properties, it is extremely difficult to estimate what the market value of each might be. Accordingly, we have left these blank for now.
- Whilst we are not real estate agents, our expectation is that the overall open market value of the Secured Properties is likely to be significantly below $9.5 million – the HSBC secured debt.
- The Company holds the gym equipment, and certain furnishings etc. The book value of these assets is $297,000, however, this is likely to be significantly higher than the actual market value of these assets, as they have not been depreciated over the past 5 years.

Current Assets

- The Trustees currently holds approximately $420,000 in cash, being the remaining funds from the Government grant received in November 2013 of $500,000 (less KPMG professional fees and the costs of the care and maintenance budget to date). This is currently held in an HSBC secured account, and Management require pre-approval from HSBC for any payments from this account.
- The remaining $420,000 balance is subject to the ongoing agreed costs of the care and maintenance budget and KPMG's remaining fees, and may also be required to fund the costs of legal advice for the trustees and directors as to their position (Government approval has been requested for this), and other costs should the Trustees be placed into insolvency.
- The Company has a minor cash balance of approximately $4,000.

Liabilities

- **The Trustees:** Has known liabilities of approximately $10.6 million, including the $9.24 million due to HSBC, and $1.2 million due to BCM for the construction of the Centre. The HSBC loan is in default, therefore HSBC are entitled to enforce their security.
- **The Company:** Has known liabilities of approximately $1.1 million. This includes approximately $379,000 due to BELCO, $362,000 of unpaid payroll, and private loans [redacted] of approximately $135,000.
- There are also unknown liabilities of redundancy payments due to the employees, and the level of the intercompany debt due to the Trustees (for rent).

Estimate of sustainable financial performance

Estimate of sustainable financial performance

High level estimated potential performance

It is difficult to estimate the sustainable basis of operations, until the future operating model is determined.

We estimate that on a broadly comparable basis to prior operations, an average annual net outflow of approximately $400,000 would be generated.

This is dependant upon receiving $200,000 in corporate donations, if this cannot be achieved, the net outflow will increase accordingly.

Estimated potential Centre financial performance

$'000	KPMG	Management
Receipts		
Corporate Donations	200	150
Individual Donations		
Total Donations	200	150
Membership		150
Sales	350	25
Programmes		100
Fundraising		50
Rental		50
Govt – aquatic training		280
Other		70
Trading receipts	350	700
Receipts	**550**	**850**
Payments		
Capex	(50)	-
Maintenance	(50)	(70)
Payroll	(500)	(500)
Electricity	(140)	(90)
Accounting services	-	(75)
Marketing	-	(50)
Other	(150)	(65)
Insurance	(30)	-
Bank charges	(2)	-
Total Payments	**(922)**	**(850)**
Net cash (outflow)	**(372)**	**-**

Source: Prepared by KPMG from Management information

Estimated potential net cash deficit

- It is extremely difficult to accurately project the potential financial performance of the Centre, until the future operating model for the Centre is clearer. There are a number of unknown variables, such as management, ownership, operating model, and government funding (or school use charges). It is also not clear whether corporate donors will be viable, and at what level.
- Activity levels could vary significantly depending upon the model for a reopened Centre, which would significantly impact payroll costs.
- The table illustrates an adjusted receipts and payments statement, based on the historical information which we have collated, and adjusted for reasonableness across certain lines.
- This table is solely designed to give an illustration of one potential scenario. Before the Centre is reopened, a detailed business plan and financial projection should be prepared by the future operator, on an agreed upon basis of operations.
- Management has also prepared a budget, which we have included in the table as well. Management's budget is prepared along slightly different R&P categories, therefore, the two are not directly comparable line by line.

Receipts

- **Donations:** We have assumed that a reopened Centre could attract $200,000 in corporate donations per annum. Whilst this is more than was collected in 2013 ($151,000), this is significantly less than at its peak in 2010 of $540,000.
- Management believe a realistic base target is $150,000.
- **Trading income:** The average annual trading income from 2010 to 2013 was $403,000. We have assumed a conservative basis of $350,000 income could be generated per annum.
- Management have budgeted for $700,000 income. The main difference between the two is that Management has assumed $280,000 in funding will be received from Government, in line with its funding request to the Ministry of Education for 2014/2015.

High level estimated potential performance (cont.)

Estimated potential Centre financial performance		
$'000	**KPMG**	**Management**
Receipts		
Corporate Donations	200	150
Individual Donations		
Total Donations	200	150
Membership		150
Sales	350	25
Programmes		100
Fundraising		50
Rental		50
Govt – aquatic training		280
Other		70
Trading receipts	350	700
Receipts	**550**	**850**
Payments		
Capex	(50)	-
Maintenance	(50)	(70)
Payroll	(500)	(500)
Electricity	(140)	(90)
Accounting services	-	(75)
Marketing	-	(50)
Other	(150)	(65)
Insurance	(30)	-
Bank charges	(2)	-
Total Payments	**(922)**	**(850)**
Net cash (outflow)	**(372)**	**-**

Source: prepared by KPMG

Payments

- We have not performed detailed calculations as to what a reasonable basis of expenditure would be for the Centre, as this will vary significantly depending on use.
- Capex and Maintenance are based upon a broad average of the R&P results over the past four years.
- Payroll is the most significant controllable variable by far. Management has acknowledged that the Centre was significantly overstaffed in the past, particularly in relation to salaried employees.
- We would strongly recommend a 'bottom up' approach be taken to the payroll model going forward, to budget an accurate requirement for the Centre's day to day operation.
- The electricity cost is reasonably predictable, on the basis of prior usage. Costs could potentially be reduced in the long term through investment in alternative energy sources.
- Other costs have been broadly estimated in line with previous total payments made.

Net cash (outflow)

- Based on the above assumptions, we estimate that the Centre could operate at an annual net cash outflow of $372,000. This represents a 40% deficit, which would require to be funded.
- Management's budget reaches a breakeven basis, however this is largely attributable to the assumption of Government funding for aquatic training.

Management's case for the Centre

Management's comments

Management has prepared the text at right, illustrating why they believe in the cause behind the Centre, and why it is in the interests of the stakeholders to ensure the Centre remains open.

Please note these are the views of Management, which have not been assessed or verified by KPMG.

Sandys 360 Sports, Aquatics & Enrichment Centre: The Social Cause

Our mission

- Sandys 360's mission is to strive to create healthy and positive young people, adults, seniors and families throughout the community, by providing a gathering place and a full range of programmes in education, sport, aquatic, health and recreation, via a campus-based community centre. The facility also focuses on community development, serving as a hub for the community.

History of the Centre

- The prospect of a gymnasium was envisioned from as far back as the early 90's, as SSMS was the only school without a dedicated gymnasium. From around 2002, Sandys Secondary School Foundation, under the direction of the Trustees, embarked on making the dream a reality.
- Later, with plans to add an indoor heated swimming pool, approaches were made to Government, who had introduced aquatics in the public school curriculum. At this time, Government supported the venture wholeheartedly and forwarded $1million to assist with purchase of the steel required for the Centre. We believed that Government support would also be forthcoming in relation to the repayment of the HSBC loan drawn down to fund building of the Centre. In addition, Government committed to financial support of the Sandys family of schools' use of the facility, mainly for aquatics, which would fund the ongoing costs of the Centre.
- Sandys Trustees would not have entered into this venture without Government financial commitment; whilst the corporate community supported us, the viability of the Centre was dependant on Government support. We developed as a school based community centre, servicing pre-natal through the elderly, working with various helping agencies (including Government).
- Fees for use of the facility by the public were deliberately kept at a minimum, and in many cases, programmes were subsidized by ourselves so as not to deter clients, especially the primary school age camps, etc. In 2011/2012 Government grants and payment for use of services diminished, or were restricted solely to being used for debt repayment to HSBC, which, whilst clearly a significant help, did not assist in funding ongoing costs of the Centre or the programs which the Centre aimed to deliver. This contributed to our decline in cash flow, as did the decline in corporate contributions, general downturn in the economy and exodus of foreign clientele.

The need for the Centre

- Whilst Bermuda as a jurisdiction has developed into a country with one of the highest GDP's in the world, this growth has been offset by a deterioration in the areas of health, youth development, and overall community organization. These challenges result in tangible societal and economic costs. A multitude of recent research studies indicate the critical nature of Bermuda's current situation.
- **Health**
  - 24% of children are overweight or obese, including 36% of 5-10 year olds
  - 64% of adults are overweight or obese, compared to 57% in 1999
  - 25% of adults have high blood pressure, compared to 7% in 1999
  - In 2004, a Department of Health study determined Bermuda's health priorities and identified overweight and obesity as the number one health problem for the country.

Management's comments (cont.)

Management comments continued.

Please note these are the views of Management, which have not been assessed or verified by KPMG.

Sandys360 Sports, Aquatics & Enrichment Centre: The Social Cause (continued).

- **Youth Development**
  - 34% of middle and senior students feel angry, frustrated or impatient, 17% feel worthless or unimportant ,8% have seriously considered suicide
  - 27%, 10.3%, and 6.5% of M2-S3 students reported current use of alcohol, marijuana and cigarettes, respectively
  - 5.5% of births in 2005 involved teenage mothers

Programme Objectives

- The programme objectives of Sandys 360 are designed to address critical social issues, create healthy and positive young people, adults, and families, and enhance the overall quality of life in the community by:
  - Providing a comprehensive range of preventive education, health/fitness, recreation and development opportunities for youth during out-of-school times
  - Delivering education, health/fitness and recreation options for adults and families
  - Offering lifelong learning opportunities, daily living and recreation options for adults, seniors, the ageing population
  - Serving as a local site for partners to deliver early intervention and specialized programming for families with prenatal to pre-school children, and at-risk youth and families
  - Offering the community-at-large critical opportunities to come together and reconnect via civic engagement, volunteering and mentoring roles in a central convening place
  - Creating opportunities for individuals, groups and organizations to come together to discuss, address, and resolve issues impacting the community.
- These represent large problems in our small and fragile society. Throughout the period of the Centre's existence, we have strived to deliver programming to help combat these social ills, to promote good health and fitness, and social cohesion.

Future

- This facility must be supported by Government, as it is widely established throughout world communities that such entities are mainly Government ventures, serving the youth and addressing many of the social ills of the communities.
- We accept that we are presently insolvent, but with a complete restructure of directors, management, and new financial business plan, coupled with the solid committed financial support of Government and funds from the corporate community, we believe the Centre can successfully move forward to accomplish our original aims, servicing the community and Bermuda.

Management's comments (cont.)

Management comments continued.

Please note these are the views of Management, which have not been assessed or verified by KPMG.

Sandys360 Sports, Aquatics & Enrichment Centre: Impact of closure

- The closure of Sandys360 these past 5 months has had a tremendously negative effect on the Bermuda community, and the Western area's schools in particular.
- Sandys Secondary Middle School in particular have been handicapped by not having use of the gymnasium for physical education classes, to train or host games for the School Basketball Federation games. The West End family of schools has had to curtail their aquatics curriculum (as participation at the National Aquatics Centre is not feasible as this is too far to commute). BASA teams had traditionally conducted their winter training programmes at 360, and our very active seniors group is devastated with the closure. Apart from the social interaction provided, many of the senior customers (and many others) had been referred to 360 for aquatic therapy, which is no longer possible.
- In addition, of course, the Centre is no longer available to the many families who utilized the facility with their young ones for recreation, "kiddie parties" and for our annual "SPLASH" event.
- Pool availability was also an advantage to Dive Bermuda, who conducted scuba lessons for overseas visitors during the summer season.
- The after school programmes have been grossly hampered, and if we are unable to run our summer camp programmes, which catered for up to 100 young children weekly, it will be a blow to parents.
- The gymnasium in the past was the home of the BDA Basketball Association adult men's league, and we were also sponsored by an insurance company to provide youth basketball development. They also partly sponsored the Sandys360 swim team, which has had to be discontinued.
- Soccer, Futsal and indoor cricket team training has been impacted due to the games hall being unavailable, as have all the fitness classes which were formerly run, with many calls even today expressing disappointment with the closure.
- Clients from throughout the Island have expressed disappointment at the closure, including Government's Community Education Centre, who offered programmes through Sandys360, especially their summer intern programme conducted in conjunction with The Centre on Philanthropy.
- The nearby Trustees' building, which currently houses 6 classrooms utilized by Sandys Secondary Middle School, also supported the afterschool programmes, with classrooms, a computer lab and cafeteria, also utilized by the school. Sandys360's planned adult education programme will be curtailed and the GED sessions conducted in the Trustees' building will be hampered.
- Generally the aim of gathering our youth and adults to interact has been taken away, and the long term goal of "Saving our Sons" (and daughters) has been grossly affected. Of course, the closure has also resulted in the loss of employment for many full and part-time staff.

Options for the Centre and other Secured Properties

Options overview

We have considered a number of potential options which may be available to the key stakeholders.

We don't believe reopening with the status quo management and operating structure is realistic, given the insolvent status of these entities, and lack of support from key creditors.

HSBC are entitled to appoint a Receiver over the Secured Properties, including the Trustees' building and SSMS related properties.

Options

- The table below considers some of the potential options for the key stakeholders of the Centre.

Option	Observations	Comment
1. Reopen with current Management and Trustees' ownership	■ The Company and the Trustees are both apparently insolvent, as has been acknowledged by Management. ■ There appears no prospect that the Trustees will be able to pay down the outstanding HSBC debt (or other AP). ■ There appears no prospect that the Company will be able to pay down the existing BELCO debt (or other AP), and from our discussions with BELCO, it is not clear they would be willing to permanently restore power with the current Management in place.	■ Due to the Group entities being insolvent, we do not believe this is a realistic option. ■ Corporate donors would be reluctant to advance funds to an insolvent entity, as these may be used to pay AP arrears (as opposed to funding the Centre's programmes). ■ The Group is unable to produce auditable accounts, which is a barrier to donors. ■ In order for this to be a realistic option, substantial equity funds would be required to be invested into the entities. It appears unlikely that any equity investor who supported the Centre would consider this the best use of funds at this time, given the potential for insolvency.
2. HSBC appoints a Receiver	■ HSBC has a fixed charge over all the Secured Properties owned by the Trustees, including the Centre, the Trustees' building, the SSMS playground, and part of the land the SSMS is built on. ■ The Trustees are in default on repayment of these facilities – accordingly, HSBC are entitled to exercise their security, and appoint a Receiver to the Secured Properties. ■ The Company, we understand, owes intercompany rent to the Trustees. Therefore, a Receiver of the Trustees could petition to wind up the Company, and appoint an IP as liquidator. ■ The Receiver would then likely adopt an asset realisation strategy. This may potentially include an open sale of all of the Secured Properties. ■ A liquidator of the Company would seek to sell the Company's assets, which we understand are principally comprised of the gym equipment.	■ On the assumption a Receiver seeks an open sale of the assets, whilst we are not real estate agents, we note the following considerations: – **Centre:** There has not been an asset of this nature for sale in Bermuda, therefore market appetite is difficult to predict. Market value could be significantly lower than the outstanding HSBC debt. – There could be some alternative use, as the site could be suitable for residential development (subject to planning approvals). However, it is not clear that this is the desired outcome of the stakeholders, and there would be substantial demolition costs which would reduce market value to a developer. – **Trustees' building:** This building may be required by an operator of the Centre, as there is little space within the Centre to manage day-to-day operations (there is no office for example). – It is unclear what market appetite there would be for this building on a standalone basis, for office space etc. – It is currently used by SSMS for classrooms, therefore if sold to a third party, this could increase pressure on the existing school facilities.

Options overview (cont.)

The Directors and Trustees could opt to place the respective entities into insolvency immediately, to protect creditors and their own personal positions, given the apparent insolvencies of the entities.

We do not believe that this is necessary whilst:

- **the process with the key stakeholders remains consensual, and;**
- **no further liabilities are being incurred by either of the entities.**

Option	Observations	Comment
2. HSBC appoint a Receiver (cont.)	■ Continued from overleaf	– **SSMS playground and land with part of SSMS building:** it is difficult to imagine that any third party would purchase this land for an alternative use given the existing use by SSMS, though some of the land may be desired by a new operator of the Centre. ■ A Receiver could potentially seek to trade the Centre, to improve its performance, in order to achieve a sale. A Receiver would require funding in place, from HSBC, to cover both the ongoing costs / probable losses of trading, and the professional costs of the Receiver. ■ Due to the limited market available, returning the Centre to profitability would likely still require support of Government funded programmes and the local community in order to meet the costs of the Centre. It is also unlikely any corporate donations would be received during the Receivership period. ■ Whilst we perceive there may be difficulties in selling the Secured Properties, we cannot discount the possibility that that there may be some investors who would consider purchasing the Centre or the Trustees building, either for use as is, or for alternative use. An open marketing process could identify such parties. ■ A real estate agent's advice could be useful in this regard, to establish whether there is any realistic market demand, and at what value, for each asset. ■ Any third party purchaser may choose to operate the Centre in a manner which is not consistent with the Centre's original aims, or with the Government's desires. This could include a lack of (free) access for SSMS.
3. Directors put Company into Liquidation immediately, Trustees put Trustees into insolvency	■ As both of the entities are currently insolvent, this option would appear prudent in terms of the directors/trustees protecting creditors and reducing their personal risk of action through trading whilst insolvent.	■ The majority of the comments above in relation to Receivership remain applicable. ■ Whilst this could potentially give the Group more breathing space, whilst a plan is developed for the future of the Centre, it is not clear that this is necessary at this time, given the lack of creditor action since the Centre closed on 4 November 2013. Ongoing costs of the care and maintenance budget are due to be funded by HBSC over the 3 months to 31 May 2014, therefore there is perhaps not an immediate need to take action whilst stakeholder discussions continue. ■ There remains a risk that a third party creditor could take action against the entities, which would precipitate an insolvency of the entities.

Options overview (cont.)

If Government are a willing purchaser, and an agreement can be reached between Government and HSBC, we recommend option 4, of a pre-packaged sale is pursued, which would see all assets transferred from the Trustees and the Company to Government for a price, payable principally to HSBC in settlement of their secured debt. Thereafter the Trustees and Company would be wound up.

Option	Observations	Comment
4. Pre-packaged sale of the assets of the Group to Government	■ Whilst apparently insolvent, the Company and the Trustees are not under any immediate threat of creditor action to wind up, and have a 3 month care and maintenance period agreed with HSBC and BELCO. ■ Therefore, this period of time could be used to agree a plan between the key stakeholders, whereby the Trustees sell the Centre and other properties to Government (assuming that Government are a willing purchaser), with the proceeds going to HSBC to help repay its secured debt. ■ The Company would also sell all the equipment to the Government. ■ Thereafter, the Company would enter liquidation, and eventually be wound up. The Trustees may also require to enter an insolvency procedure, most likely bankruptcy proceedings.	■ Our assumptions behind the key stakeholders chief desired outcomes are: - – **Trustees and Management:** to see the Centre continue to serve the local community, with or without the existing governance and management teams in place. – **HSBC**: to receive repayment of their indebtedness. – **Government**: to see the Centre continue, with the minimum possible subsidy required. ■ Based on these desired outcomes, this option appears the best fit to serve all parties interests, though the trustees/directors should seek legal advice on their position. ■ We note that Government's intentions are subject to the consideration of Cabinet and are unknown to us at this time. ■ We have considered a number of options for Government, if they were to acquire the Secured Properties, as to operating structure. These are on page 43. ■ This outcome requires HSBC and Government to agree on the price for the Trustees' Secured Properties. ■ This option is examined further at page 46.
5. Community Buy-Out ("CBO")	■ One potential purchaser would be some form of community led buy-out. ■ This could be on a straight CBO basis, either from a Receiver or in open sale. ■ Alternatively, this could be as part of Option 4, where the local community have to raise matched funding to the Government for the initial purchase price, and thereafter have an ownership stake.	■ This would illustrate the desire of the local community to 'save' the Centre, and show the commitment of the facility. ■ It may also have a benefit in that it would create an 'Our Centre' mentality in the community. ■ It is not clear what appetite or potential funding would be available, both for an initial purchase price and secondly for ongoing funding. ■ If used as part of Option 4, this would reduce the overall capital cost to Government.

Options overview (cont.)

As the Centre's aim is to serve the Community, a potential solution could be for the community to be involved in the purchase of the Centre, through a CBO, either independently or jointly with Government. We have not explored the feasibility of this.

None of these options are likely to result in any repayment of the debts of any unsecured creditors of either the Trustees or the Company, including former employees, BCM and trade payables. There appears no realistic commercial option which could achieve this.

Option	Observations	Comment
6. HSBC transfer to a charitable trust	■ If there is no market for sale of any of the property assets, HSBC could consider gifting the assets into a Charitable Trust. ■ This charitable trust would then have to undertake to run the Centre on a break-even basis (taking account of corporate donations).	■ This is unlikely to be a desirable commercial solution for HSBC, as it would receive no / little repayment on its indebtedness. ■ The advantage would be that, if no buyer was available for the Centre, the costs of a Receivership process and funding ongoing care and maintenance over a potentially unlimited timeframe would be avoided by HSBC. ■ They could also leverage the positive PR of gifting the Centre to a charity. ■ It is not clear that any party could run the Centre on a standalone basis without either corporate donations or Government funding.
7. Equity investors	■ If there was an equity investor willing to invest significant sums in the Trustees and / or the Company, these entities could potentially return to solvency and continue trading the Centre.	■ Our understanding is that no such individual(s) has been identified at this time. ■ It is unlikely that an investor would be willing to pay in money to clear old debts, rather than pay in money to a new entity to take the Centre forward.
8. Close pool	■ It is understood that the vast majority of running costs relate to the Pool – such as utilities, chemicals etc.	■ Consideration could be given to the closure of the pool, in order to seek to make the overall cost of the Centre more sustainable. ■ Clearly, this would be a major blow to the Centre's original aims, given the expense incurred in building the pool so recently, and the desire to use it for a comprehensive aquatics program. It also appears to attract a significant portion of the Centre's income at present. ■ Nonetheless, it may be that a slimmed down cost base could provide a greater sustainable Centre overall, operating as a gym and sports hall only.
9. Close the Centre	■ Assuming none of the above options can be achieved, the final option would be to close the Centre, with no immediate prospect of reopening unless the context changes materially.	■ Based on our understanding of the key stakeholders' desired outcome, this is not a preferable option, and would be a last course. ■ There would be ongoing costs of holding the Centre, even if closed, to secure the property, albeit these could be minimal. ■ The land the Centre is on may have some value. If no buyer can be found for the Centre, HSBC could explore the option of demolition, and sale of the land, if this is cost effective and if there is market demand for land in this area. ■ HSBC could maintain their security, though not necessarily enforce it throughout this period.

The Government perspective

Options: operators

We have considered certain operating models which could be implemented by the purchaser of the Centre.

These include:

- install the existing Management into new entities;
- set up a new limited company or registered charitable company,
- amalgamation into an existing entity;
- tendered to select the most suitable operator;
- mutualisation / private sector spin /off; and
- pass to SSMS to run.

Options

- The table below considers some of the potential operators for the Centre, ***assuming it has been purchased by Government.***

Option	Observations	Comment
Current Management	■ Government could seek to install the existing Management into a new legal structure running the Centre.	■ This could prove difficult from a PR perspective, as there may be a question of credibility of putting Management back in charge without addressing the existing AP in the Company (e.g. BELCO would be reluctant to trade with them). They could be perceived to have 'cheated' creditors through a 'phoenix' company. ■ There could potentially be reduced roles available, however Management acknowledge the need for new leading Management.
New entity	■ The Government could establish a new Limited Company, or a new Charitable Company, to operate the Centre.	■ The charitable company option would allow for a more independent running of the Centre, which could seek to continue to target the lucrative corporate donations market to assist running costs. ■ Government would retain ownership of the physical property. ■ This separate entity would undertake trading of the Centre in line with a Service Level Agreement ("SLA") with Government. The entity would have independent Management, and its own board of Trustees / Directors to oversee Management. ■ Government would (most probably) require to fund the entity on an annual budgeted basis, for delivery of services in line with the SLA. ■ This appears to be the most common operating model for facilities of these type.
Combine with existing entity	■ Government could pass the responsibility for running to the Centre to an existing body which the Government already funds. ■ The most obvious example would be the NSC, which is a Government Quango, which receives an annual subsidy.	■ There could be significant overhead savings through combining the two Government owned pools under one body, most particularly in relation to payroll. ■ The Centre could operate with the same senior Management team, accounting team and administrative teams as the NSC, thus reducing overhead costs. ■ Program delivery could be coordinated between the two pools, to ensure a cohesive, complementary offering was in place, and the efficiency of staffing could be maximised between the two pool.

Options: operators (cont.)

Options (cont).

Option	Observations	Comment
Commercial operator / Tender	■ There are a number of gym operators in Bermuda. Potentially, one of these (or a new operator) could have an interest in taking on the Centre.	■ The Centre could be offered to run for nil rent, but nil subsidy, to avoid any ongoing funding commitment required from Government. ■ It is not clear that a commercial operator could make the Centre profitable, due to the large overhead costs and limited market (there is unlikely to be corporate donations available to a commercial enterprise). ■ This could allow for the Centre to remain open, however its original charitable and social aims may not fit with a commercial operator's business model. ■ There is a risk that if the commercial operator is unable to run the Centre profitably, this entity would also require to enter liquidation, and the Government would still require to find a solution. ■ A commercial operator could be willing to operate the Centre if there was committed funding in place from Government. An appropriate incentive scheme would be required to be in place to minimise funding requirement.
Mutualisation / Private Sector Spin Off	■ We understand that Government is presently exploring the potential for public sector spin-offs, or mutualisations, of a number of Government services.	■ The Centre is not a natural fit at present, given there is not an existing infrastructure (and it is currently a private facility). ■ A similar aim could be achieved if a CBO is part of the acquisition process alongside Government. Alternatively, this could be one of the options for a tender from a strong and experienced management team. ■ In the UK, leisure centres have been one of the more successful examples of mutualisation from Government, for example Greenwich Leisure Limited. ■ This could be packaged with the NSC as part of a larger mutualisation.
Pass to SSMS	■ The largest used of the Centre is SSMS. The Centre could be passed to SSMS as its sports hall.	■ SSMS could then outsource to third parties certain parts of the Centre, such as the commercial gym operation. ■ The pool could potentially be closed, depending on budgeting restrictions, and the Government may end up requiring to fund the Centre in any event.

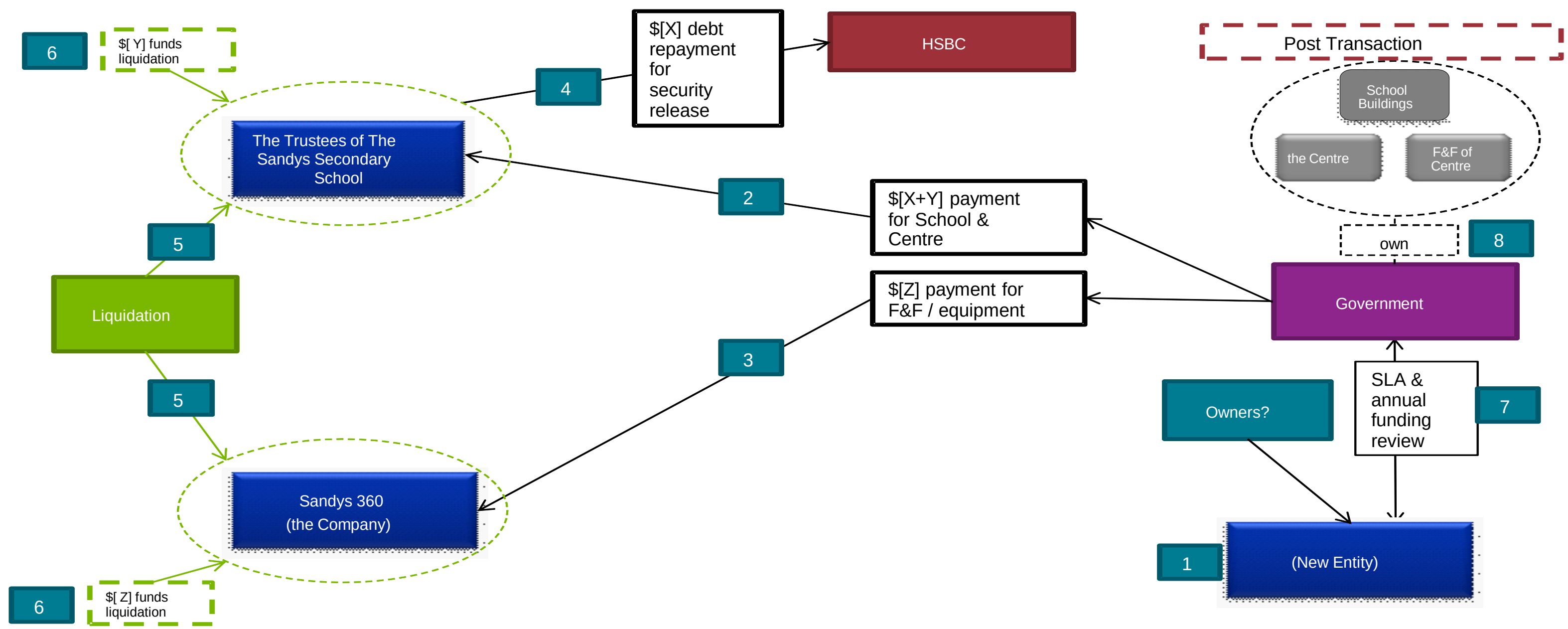
Outline potential transactions

Proposed transaction (Government ownership)

The chart illustrates the proposed transaction stream of Option 4, where Government are willing to purchase, and HSBC are willing to sell, the Secured Properties, and the key below explains each stage of what is required.

This model could be flexed to include whole / partial CBO involvement.

The timing of the insolvencies at points 5 and 6 can be flexed to occur shortly before the sale of the Secured Properties, in a pre-packaged insolvency scenario, to offer independent protection to the creditors and directors/trustees around the sales process.



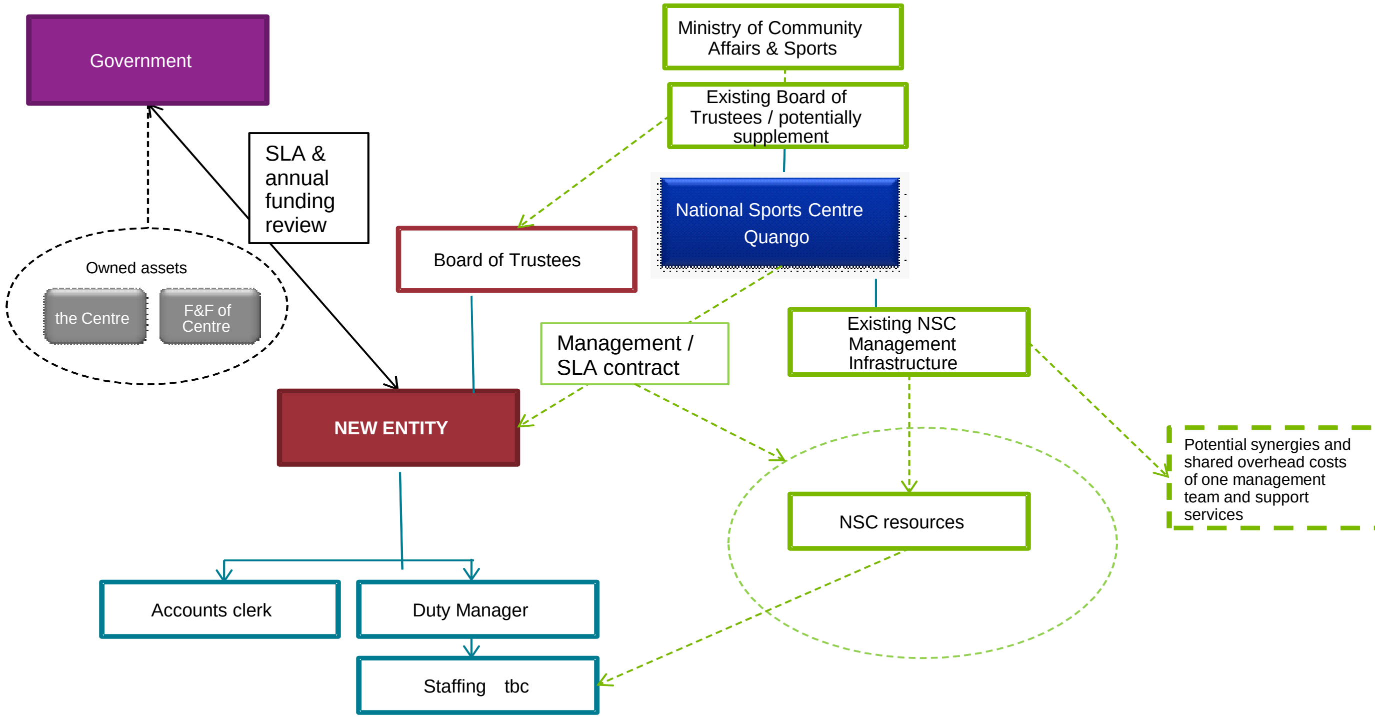
1	Government establish a new independent Entity: Charity / Company Limited by Guarantee/ Quango. • Full new board of Trustees, overseeing full new Management team and staff
2	Government purchase all assets of the Trustees for [X+Y], including Centre and School related land and Trustees buildings.
3	Government purchase all assets of the Company for [Z], including gym equipment etc.
4	HSBC take [X] in debt reduction (secured creditor)
5	Trustees has no assets, and significant debt (BCM) – Trustees put into (or already in, if a controlled pre-packaged) insolvency process. Company has no assets, and significant debt – Directors put into (or already in, if a controlled pre-packaged) liquidation
6	[Y] pays costs of winding up the Trustees [Z] pay costs of winding up Company (assuming minor asset value)
	Going forward
7	Government retain ownership of the Centre and assets, appoint Entity as Operators / Managers
8	Entity has a Service Level Agreement ("SLA") with Government, as to target (social and financial) services to be provided

Potential structures – NSC collaboration

One of the potential options for Government if they acquired the Centre would be to utilise the existing NSC infrastructure to assist in running the Centre.

This could either be through directly putting the Centre into the Quango which runs NSC, or it could be done through a separate entity having a SLA contract in place with the NSC to provide the Centre with staffing, as is illustrated in the chart.

Potentially, this revised structure could then be offered for mutualisation / privatisation as a whole.



Advantages of Independent charitable entity twinned with NSC approach

- Entity retains independent charitable status – therefore can target corporate donations more easily.
- The Centre's major expense has been payrolll historically. With this approach, local staff at the Centre are supplemented by existing NSC resources via sub contract / SLA in place for services. This would include Management (CEO, Facilities Manager) and potentially Trustees, as well as staff (Aquatics Supervisor, potentially accounts function).
- The two pools together could benefit from complementary programming where they are no longer competing.
- They may also be able to bulk buy certain supplies, such as chemicals, at some discount. We are not clear on the current accounting team / procedures at NSC, but this could likely also be consolidated or outsourced to the same provider.
- On a consolidated view, this would reduce overheads to Government, as compared to funding two separate full staffs, and therefore should reduce the overall funding requirement from Government.

Physical building requirements / improvements

Improvements required

The building still has a significant defect, in that rainwater floods in through the roof during heavy rainfall. This issue needs to be remedied, and we suggest an independent contractor is engaged to assess the leak during heavy rainfall.

Physical issues

- **Roof**
  - As was noted in our initial Memorandum, there is a structural issue which results in significant leaking into the Centre whenever there is a heavy rainfall. There has not been an
  - We have contacted the original contractor, BCM McAlpine ("BCM"), to establish what is required to remedy this. Per BCM, the problem has been that balls get into the gutter causing rain back up and overflow. The Centre does not have the proper covers on the gutters and BCM advised that checking the gutters needs to be part of their routine maintenance program. BCM has visited multiple times to check out this problem. [redacted], personally got up on the roof to have a look and tested it with a fire hose, and was unable to locate any leaks.
  - Management state that they do not agree with BCM's assessment. Whilst there may be an issue with the gutter, they do not accept that the problem is simple as balls being trapped in the gutter area, and that even if this was the case, there is still a design flaw if rainwater still cannot escape and instead floods into the building.
  - An independent construction expert may be required to visit the Centre during heavy rainfall, in order to conduct a survey and investigate this issue, and the costs of any remedial work. Continued leaking into the facility will result in higher maintenance costs, and potential damage to the facility.
- **Gym / Pool areas**
  - At present, the bulk of the gym is in the same airspace as the pool area. This results in significant humidity, and damage to the gym equipment over time. Many of the machines are now rusted, and may require replacement.
  - Investigation should be undertaken into sealing the upper level from the main swim area. This would reduce the damage to the gym equipment, and may reduce energy costs through having a smaller area requiring dehumidifying.
  - We understand there is the potential that this could impact air-conditioning in the Centre, therefore this would need to be considered. Management previously received one quote for separating these areas, which was $75,000. Management felt this quote was high, therefore further investigation would be required into the costs.
- **Power source**
  - Given the size of electricity bill, the Centre should explore alternative energy sources. BCM recommended that the Centre consider solar/solar pv technology to reduce conventional energy use – it would probably have a 5 year payback period. A detailed cost / benefit analysis would be required in this regard.
- **Car Parking**
  - We understand that the Trustees currently have some extra land (approximately 6 feet) to the north of the fence as you enter the Centre (i.e. directly in front of the main entrance). Consideration should be given to reclaiming this land, in order to better manage traffic flow and car parking, and to potentially free up the outdoor basketball court area (which currently serves as car parking) for alternative use.

Proposed next steps

Summary

In order to secure the Centre's future operations, there are numerous considerations for each of the key stakeholders.

This page sets out, at a high level, our anticipated steps to any agreement securing the future of the Centre.

1. The Trustees' should consider the potential options outlined, and whether the Trustees are willing to accept voluntarily the sale of the Trustees' properties to the Government, presumed to be for a value less than $9.5 million. Any such payment would go to HSBC only (i.e. there is no return to the Trustees).
2. We would caution that if the Trustees are not willing to countenance this plan, an alternative is that HSBC appoint a Receiver to the Trustees, in order to take control of the Secured Properties.
3. Government needs to ascertain its appetite for the initial purchase of the Centre and other Secured Properties, and thereafter its ability to provide annual funding for the Centre.
4. Assuming Government are interested in purchasing the secured properties, Government and HSBC need to agree on the consideration HSBC will accept for release of the Secured Properties.
5. We therefore recommend direct discussions between HSBC and Government on the issues.
6. In advance of committing to any purchase, the Government may wish to carry out feasibility studies / undertake business planning on its intended operating model, to assess budgetary requirements and initial capital costs which may be required.
7. Assuming an agreement can be reached, then some time before, perhaps immediately before, the Company and the Trustees should each enter a formal insolvency process.
8. If the Centre and other properties are sold to Government, the transaction would 'make whole' the SSMS property (joining to Government property the land, field and buildings at SSMS currently held by the Trustees).
9. The Government would then commence implementation of its preferred new ownership, governance and management structure (including potential recruitment).
10. The Government could consider renting or gifting back the Trustees' building to the trustees (or a new body incorporating these individual) for ongoing community use.
11. Detailed business planning / budgeting by new management team would take place, along with any capital improvements.
12. Ultimately, the Centre would reopen under a new management team.

Timeframe

- There is a significant amount of work required by all the stakeholders to achieve the above. Given the commercial discussions, Cabinet approvals, possible supporting legislation and legal processes for the sales that are required, plus recruitment and planning of a new Management team, we would estimate a realistic timeframe to reopening the Centre to be 9 months to 1 year.
- This timeframe could be longer or shorter, depending upon the operating model chosen by Government, and whether it wishes to undertake any capital improvements.
- There may, therefore, be an extension to the care and maintenance budget required upon its expiry on 30 May 2014.

Key questions

These are the key questions which we have identified that are facing the key stakeholders, which impact upon the options available, and the strategy for the stakeholders going forward.

Will the trustees and directors place the Trustees and Company in an insolvency process?

Will the trustees and directors work consensually with HSBC to achieve a sale of the Secured Properties?

Are community willing to play a role in purchase / ongoing funding?

Are Government willing to buy and fund Secured Properties?

What operating / acquisition model would Government prefer?

Who are Government's preferred operators / governance team?

What value would HSBC accept for the Secured Properties?

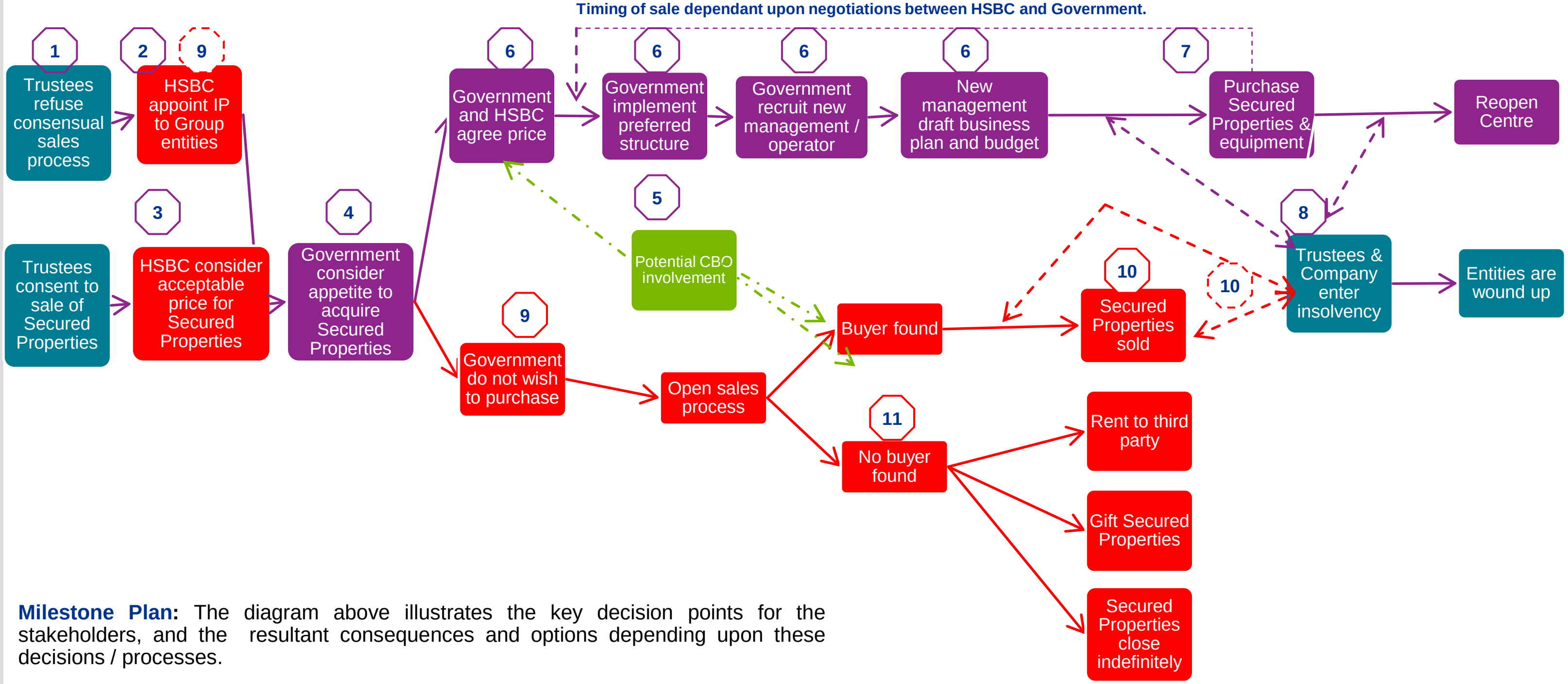
Can HSBC sell to third party / alternative use?

KEY

- Government
- Trustees / Directors
- HSBC
- Local Community

Summary step plan

The diagram illustrates the potential next steps for the key stakeholders, and these various possible paths are detailed further below.



Milestone Plan: The diagram above illustrates the key decision points for the stakeholders, and the resultant consequences and options depending upon these decisions / processes.

1. **Trustees/Company:** consider consensual sale of the Secured Properties, with no return of value to the Trustees, or alternative of immediate petition for liquidation / bankruptcy.
2. **HSBC:** consideration would be given to appointing a Receiver over the Secured Properties if the Trustees do not cooperate to an agreed plan of action.
3. **HSBC:** decide what is considered an acceptable value for the Secured Properties, assuming Government are willing to purchase in private sale.
4. **Government:** need to consider appetite to fund the acquisition (and at what price) and ongoing funding of the Centre, either directly or through a funded entity.
5. **Community:** Government and community may wish to consider whether CBO involvement in purchase is a realistic option.
6. **If Government agreement:** Government need to ascertain and implement their preferred operating structure, management and governance team.
7. **Purchase:** completed at a point in the process to be agreed between HSBC and Government, as part of negotiations of the future of the Centre.
8. **Group:** Entities would enter liquidation, either pre or post sale depending upon discussions with Trustees / Company and HSBC's negotiations with Government.
9. **If no agreement with Government:** HSBC/Trustees to consider open market sales process. HSBC may wish to appoint an IP to run process, and protect its interests in the Secured Properties.
10. **Open sale possible:** HSBC release security in return for adequate compensation from third party buyer. Potentially may be bought for alternative use. Group enters insolvency pre or post sale transaction.
11. **No open sale possible:**
    a) HSBC/Trustees could seek to either rent the Secured Properties to a third party and/or SSMS.
    b) HSBC could gift the Secured Properties to a charitable entity. Group enters insolvency pre or post sale transaction.
    c) The Secured Properties could close, with no public access, for an indefinite period. HSBC may maintain secured interest.

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Appendix 1

Engagement Letter dated 14 November 2013

KPMG

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The Trustees of The Sandys Secondary School
42 Scott's Hill Road
Sandys, MA 03

Sandys 360
Dallas Building
7 Victoria Street
Hamilton, HM11

Our ref 29/1397/Adv/Pine
[redacted]

FAO: [redacted] (on behalf of each of the Trustees and the Directors)

14 November 2013

Dear [redacted]

Project Pine: Independent Business Review

This letter sets out the services that KPMG Advisory Limited ("KPMG Advisory") will provide to The Trustees of The Sandys Secondary School ("the Trustees") and Sandys 360 ("the Company") (together "the Clients").

HSBC Bank Bermuda Limited ("HSBC") is the principal lender to the Clients. In addition, the Trustees have received significant grant funding from the Ministry of Public Works, of the Government of Bermuda ("the Government").

This letter specifies the services we are to deliver ("the Engagement"), the KPMG Advisory team, how we will be remunerated and other terms and conditions governing our relationship.

This engagement is subject to completion of our standard engagement acceptance procedures.

We ask that you read this letter carefully and to confirm your agreement with its terms by signing and returning to me the enclosed duplicate.

We will release any reports (each "a Report") addressed to the Clients under Project Pine to HSBC and the Government on the terms set out in section 2 below.

1 Background

The Trustees own the freehold interest in the sports and recreation facility known as 360 Sports Aquatic & Enrichment Centre ("the Centre"), in Sandys, Bermuda.

The Trustees were established as a body corporate by the Sandys Secondary School Act, 1950 (as Amended). The Company was incorporated in Bermuda on 6 August 2009, and is registered as a charitable organization, for the period to 15 May 2014.

The Centre was built in 2008, with the aim of enhancing the local community, through providing a full range of educational, recreational, fitness, health and aquatics programmes for students, youth and adults in the community. The construction was predominantly funded through a combination of HSBC loan facilities and Government grant funding.

The Company, as tenant in the Centre, was anticipated to generate sufficient net income that it would be able to support rental payments to the Trustees, in order to meet the debt servicing repayment obligations of the Trustees relating to the building of the Centre.

Since inception, the Company has experienced financial difficulties, due to its running costs not being met by 'trading' revenues. The Company has had to rely on increased HSBC overdraft facilities, Government grant funding and corporate and personal donations, in order to continue trading.

At present, the Company has trade creditor liabilities of approximately $3 million. Certain of these creditors are now exerting significant pressure on the Company for payment. As a result, the Clients have approached HSBC and the Government, seeking additional funding.

HSBC and the Government wish to understand the quality of recent trading and the future prospects for the Centre, so that it can consider a possible restructuring of the Clients' borrowing facilities.

The Clients have engaged KPMG Advisory to undertake the Engagement to provide the Clients' key stakeholders, the Bank and the Government, with added clarity over the operations and financial performance of the Centre.

2 Services to be provided

The services to be provided by KPMG Advisory under the Engagement are to be split into several phases, as follows:

Phase 1

- Meet with the Clients and conduct a tour of the facility;
- Review the current legal structure of the operations at the Centre, and the Board of Directors;
- Review and comment on existing operations and key personnel (including management)

- Comment on what historical and current financial records are available, how up to date these are, and current financial reporting processes;
- Comment on what projected financial information is available, or is able to be prepared by the Clients / their advisors / Management at the Centre;
- Comment, at a high level, on the current critical funding requirements / pressing creditors, and timeframes.

Phase 2

- Review a thirteen week cashflow forecast (if available) / 5 year integrated financial projection for the Company's business, prepared by management and perform sensitivity analysis to establish a range of borrowing requirements for the business and/or capacity for debt repayment;
- Consider creditor balances and their ageing; comment on any payment plans in place;
- Review the cost structure of the business, with recommendations for cost reduction or optimisation;

Phase 3

- With the assistance of KPMG Global Sports specialists, consider and comment on what options could be available to the Centre in order to increase revenues and profitability.

Throughout each Phase, we will comment on any other matters that arise from our review and make recommendations as appropriate.

Reports will be prepared for the Clients in a form to be agreed.

The Clients authorise us to release copies of Reports to the Bank and the Government and provide the Bank and Government with oral updates or briefings as required, on terms that we may decide and agree with the Bank and the Government. The Clients will accept the risk and will not hold KPMG Advisory responsible if the release of the draft Report or the Report, any information contained in those documents, or our other communications with the Bank or Government results in any adverse consequences, in relation to banking facilities or otherwise, for the Clients.

3 Independence considerations

While KPMG Advisory may provide recommendations to the Trustees or the Company, the ultimate decision as to which option to pursue remains the responsibility of the Trustees or the Company's directors and management respectively.

While KPMG Advisory may comment on the options available to HSBC or the Government, the ultimate decision as to which option to pursue remains, respectively, the responsibility of HSBC's management and Board of Directors, and the Government.

In undertaking to provide the services, KPMG Advisory does not guarantee or otherwise provide any assurances that it will be successful in assisting to stabilise, restructure or increase the value of the Centre.

The Clients, in consultation with the Bank and the Government, may decide during the engagement that additional work will be required in subsequent phases. Any such work will be the subject of a separate engagement letter or an addendum hereto.

4 Timetable

The current proposed timetable and fee quote depends upon ready access to key management and personnel, and the timely provision of suitable financial information by the Trustees and/or their advisors. If at any point the we believe that limited access to management and the quality of information is having an adverse impact on the proposed timetable and fee quote, we will communicate this directly to the Clients, and the Bank and Government. Under these circumstances, it may be necessary to review the scope, timetable and/or fee for the Engagement.

It is intended that initial discussions with management will commence during the week commencing Monday 18 November 2013, with an information request list to be provided to the Clients during the previous week. Thereafter, our reporting timing will vary by Phase, depending upon Management availability and the availability of information.

5 Engagement team

As [redacted] I will have overall responsibility for the delivery of this project.

[redacted], will have day-to-day responsibility for managing this engagement.

[redacted] will provide specialist input. We also intend to utilise the KPMG global specialist Sports team, who have experience in dealing with sports and leisure facilities such as the Centre.

We may also call upon other staff as and when required to assist in this Engagement.

6 Our Fees

We estimate that our time costs for this engagement will be:

Phase 1: approximately $15,000 - $20,000

Phase 2: approximately $65,000 - $85,000

Phase 3: approximately $40,000 - $45,000

Total approximate fees: $120,000 - $150,000.

[redacted]

Other staff will be charged at the same discount to our customary rates. Disbursements at 5% of our time costs will be added. Our costs will be invoiced on delivery of our final report or monthly, whichever is soonest.

The Clients will be jointly and severally responsible for the payment of our fees. Our invoices will be paid by the Clients, in full, within 3 working days of presentation. By counter signing this letter, each of the Clients gives its authority for the Bank to pay any invoices rendered by us and remaining unpaid for more than 14 days, and to debit such payments to the any of the Clients' accounts with the Bank.

7 Commencement and termination of engagement

This engagement takes effect upon our receipt of signed copy of this engagement letter by authorised signatories of the Clients. This contract will terminate upon receipt of written notice of cancellation from the authorised signatories of the Clients.

In the event that written notice of cancellation is given by the authorised signatories of the Clients, KPMG Advisory will be entitled to the reimbursement for time costs it has incurred up to the date of the notice of termination.

8 Termination

This engagement may be terminated by you or KPMG Advisory upon giving written notice to that effect to the other party. No such termination will affect (i) KPMG Advisory rights to receive fees accrued prior to such termination or to receive reimbursement of its out-of-pocket disbursements as set forth above, or (ii) the rights of KPMG Advisory or any other Indemnified Person (as defined in the attached General Terms of Business) to receive indemnification and contribution. It is also understood that the obligations hereunder shall survive any change in control or ownership of either of the Clients.

9 General Terms of Business

We accept this engagement on the basis that our General Terms of Business, attached to this letter, will apply to this work and govern our relationship with the Clients. This letter is the "Engagement Letter" mentioned in our General Terms of Business. Please, read these Terms carefully. There are various exclusions and limitations on our liability and associated obligations imposed on you, the Clients. Through our contract with you we aim to clarify your and our obligations and responsibilities and we seek to protect ourselves, other members of KPMG Advisory affiliate firms and our people. We draw your attention in particular to the following clauses of our General Terms:

Clause 4: We set out here the obligations imposed on us in respect of your Confidential Information. This also permits us to make general references to work performed for you for our marketing or publicity purposes.

Clause 16: This clause allows us to communicate by electronic mail where you wish to do so. We agree that, where you choose to do this, electronic mail shall be treated as communication in writing. In particular, where you choose to communicate with us by electronic mail, any modifications or extensions to the Services, as referred to in the Scope of Review and Approach section above, may be made by this means.

Clauses 18 to 25: These set out our position where your interests may conflict with our other clients' interests and clarify our responsibilities in relation to Confidential Information (as defined in clause 4) in the circumstances identified.

Clauses 31 to 35: We set out here the principal exclusions and limitations on our liability to you. Our liability to you in connection with this engagement for losses shall be limited to three times fees incurred.

Clause 38: The notice period referred to shall be reduced for the purposes of this engagement from 30 days to immediate notice.

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10 Law and jurisdiction

The engagement will be subject to Bermuda law and jurisdiction.

Please confirm your agreement to and acceptance of the terms of this letter and the attachment by signing and returning to me the enclosed copy. If there are any aspects that you wish to discuss, please let me know.

Yours sincerely

[redacted]

The Hon. Trevor Moniz, JP, MP, Minister of Public Works, the Government of Bermuda.

As authorised signatory for The Trustees of The Sandys Secondary School

I have read and understood the terms and conditions of this letter and the Appendix, and confirm that The Trustees of The Sandys Secondary School accepts them.

[redacted]

As authorised signatory for Sandys 360

[redacted] ppendix, and [redacted]

Appendix 2

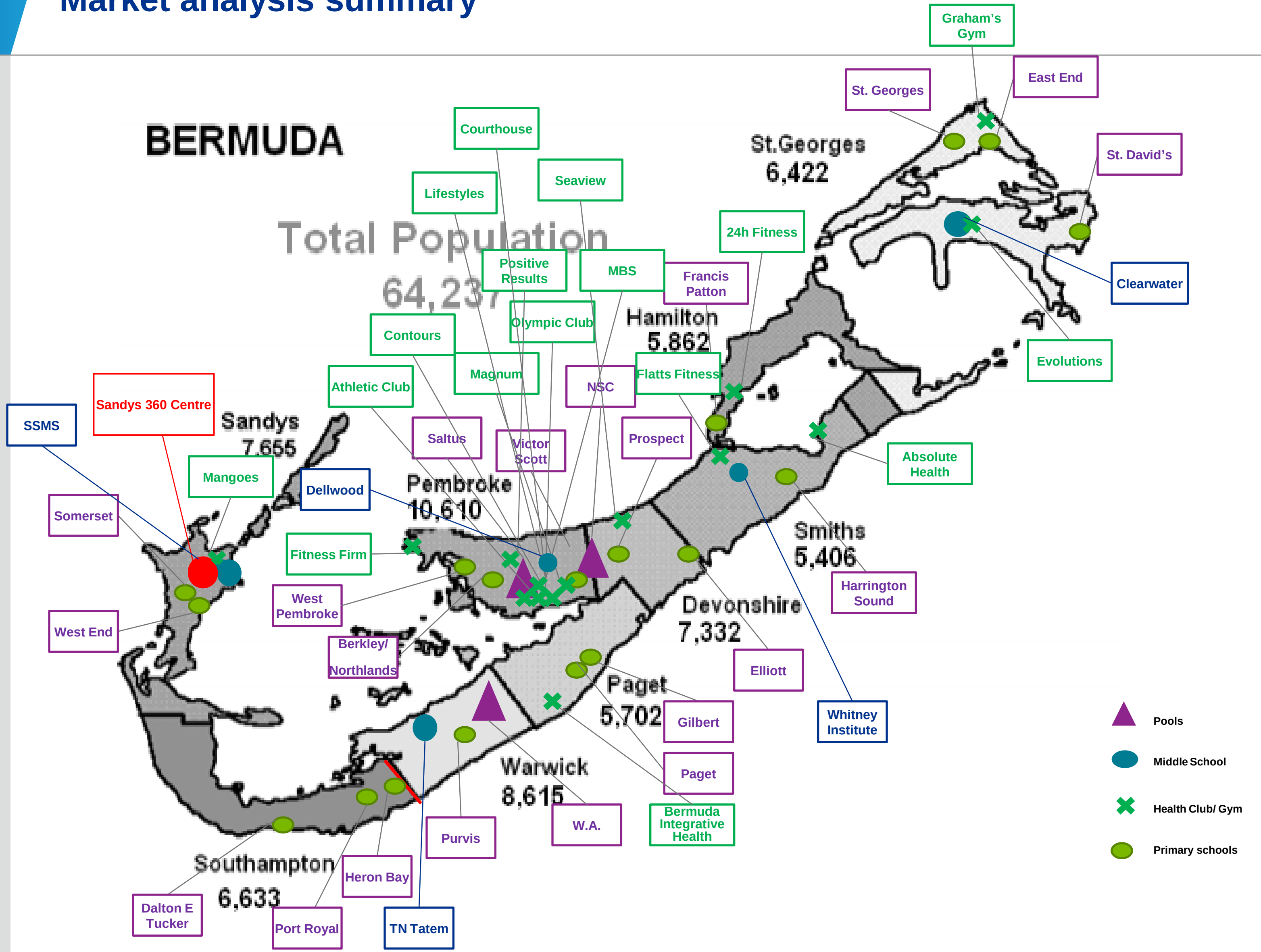
Market analysis

Appendix 2

Market analysis summary

The map details the public pools, schools and gyms on the island.

All locations are approximate, and for illustrative purposes only.



Aquatics – typical sources of revenue

The chart illustrates the typical sources of net revenue for a pool facility.

A strong recreational offering is vital to an aquatics facility, as this typically accounts for 75% of net revenue.

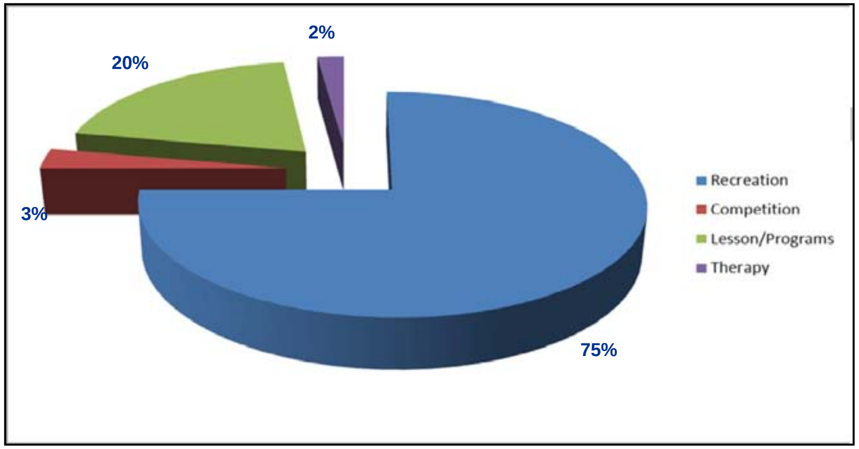
The second largest source of net revenues is typically lessons/programmes. It is vital that there is Government / other funding support available for these initiatives.

Revenue sources

The chart to the right illustrates the typical sources of net revenue for an aquatics facility. This comes from a study performed by aquatic designers Counsilman Hunsaker.

- **Recreational:** A study by the National Sporting Goods Association, in the US, found that over 90% of aquatic users are for recreational purposes. This user group delivers approximately 75% of net revenues for a pool. They provide necessary repeat visits to help pay operating costs and can be willing to pay more per visit if their expectations are met. This would typically include multiple 'fun' features in more modern aquatic facilities, such as zero depth entry pools, water-slides, current pools.

Typical source of net revenue streams from aquatic users



Source: *Counsilman Hunsaker, Aquatics facilities Study, City of Dallas, Texas.*

- **Lessons / Programmes:** are the second largest source of net income, and include swimming lessons, scuba lessons, lifeguard training and water safety lessons. Swim lessons typically would make up the largest portion of this user group, which contribute approximately 20% of the net revenues. However, the availability of a large portion of this income is derived from a matter of public policy – as to whether swimming is part of a school curriculum, and to what extent water safety lessons are funded.
- Programmes includes activities such as water aerobics, water pump workouts with foam water weights or water-proof plastic weights, water walking, aqua aerobics, and various aquatic exercises.
- **Competition:** Swim teams, Masters, summer swim, dive teams, water polo teams, etc.) can be very loyal and appreciative groups, and, if their needs are met, can be counted upon to provide a steady portion of the operating income.
- **Therapy:** Aquatic therapy requires a very controlled environment, and frequently need a higher pool temperature in order to be effective. In order to maximize revenue potential and health benefits to the community, programming needs to concentrate on therapy associated with a medical provider. This approach is ordinarily considered a separate business and is not commonly incorporated with a community aquatics program.

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Appendix 3

Key recommendations and concepts to improve trading

Summary of key recommendations

Recommendations

- We have studied a number of competing models, and made a number of recommendations which could be considered in order to improve the facility, and to ultimately improve the trading prospects of the Centre. These recommendations are overleaf.
- Many of these recommendations are conceptual at this time, as opposed to full recommendations. In many instances, there would be a requirement for an upfront capital commitment in order to implement the recommendations.
- Accordingly, any operator of the Centre should consider in more detail the impact on trading each recommendation would have, and where significant capital is required, the relevant pay back period.
- In order to make these recommendations, we have considered a number of best practices, industry reports, and industry trends.
- Many of the recommendations may be dependant upon what operating structure is in place going forward, and should be considered in the context of an overall business plan for the Centre. Until the future of the Centre is clearer, we have not explored these concepts in greater detail.

Summary of key recommendations (cont.)

Matter	Observations	Recommendations
Gym Membership	■ From review, the gym membership and utilization of the Centre is lower than would be expected. There appear to be approximately 60-85 members at present, generating approximately $64,000 per annum. ■ The US has a population of 313.9 million, of which 51.4 million are members of a health club (16.3%), per the 'International Health, Racquet & Sportsclub Association's (IHRSA) annual study. ■ The IHRSA also indicates that in suburban markets, in which the automobile is the primary means of commuting to a club, the primary trading area for clubs in competitive markets extends no more than 10-12 minutes travel time from the club, which translates into no more than five miles from the club site. This appears logically broadly applicable to Bermuda. ■ Applying the same metrics to the Centre, there is an estimated population of approximately 10,000 individuals in the catchment area. ■ This suggest s 1,630 potential gym members, split between two gyms in that area – Sandys 360 and Mangoes gym. Therefore, 815 members each. ■ The geographic location of the club is a disadvantage, in that there are likely to be a number of potential members who drive past competitor facilities on their way to and from work, which may prove more convenient to them. If we reduce the available market by 50%, this still suggests approximately 407 members could be available (subject to demographics of the area). ■ At an average annual membership of approximately $918 for pool and gym, this would suggest potential annual membership revenues in the region of $374,000. ■ Any additional members are effectively pure profit, as there is very little additional variable cost attaching to each additional member.	■ As part of a newly reopened Centre, there should be a strong focus on the gym operation and growth of the membership base. ■ There is not a comparable facility in the local area, in terms of scale, equipment or machinery, and there is not a comparable price in Bermuda for the offering. For example, Sandys 360 costs $90 per month for a pool and gym membership. Gyms in Hamilton, for gym only, range from $110 to $165 per month. ■ Mangoes gym, the local competitor, charges $58 per month for gym membership compared to $60 at the Centre, however this is a significantly smaller facility. ■ Consideration should be given to revitalizing the gym area to be more in line with best practice, with potential improvements such as: – Segregating the airspace from the pool airspace; – New modern equipment / machinery as required; – Televisions on the gym machines; – Music playing in the gym; – General decor (bold and vibrant colours should be used), to improve ambience; – 24 hour access (see separate bullet point); ■ Try to grow membership, including through the following: – Free membership for a month to either all residents of Sandys / Bermuda on reopening, to attract new, local members who are likely to retain membership (or reuse the Centre); – Target local clubs and corporations for discounted bulk memberships (e.g.. SCC football and cricket teams, Southampton Rangers football team, WEDCO, businesses in Dockyard, Police, Fire Service, Corrections officers, Cambridge Beaches, Port Royal golf course). – Also existing, non-competing sporting bodies with active members, and professional bodies, who although national, will have members who live local to the facility (such as Bermuda Football Association, Bermuda Rugby Club, Gymnastics Association etc, and Bermuda Chamber of Commerce, Institute of Chartered Accountants of Bermuda, Bermuda Under 40's, BEPRO).

Summary of key recommendations (contd.)

Matter	Observations	Recommendations
24 hour access	■ The Centre's opening hours were from 6am to 10pm. ■ This has large staffing costs attached. ■ Many rival gym facilities on island give 24 hour access, through the use of electronic key cards.	■ Electronic key cards could be issued to gym members, to give 24 hour access. ■ There would be an initial capital cost attached to this. ■ However, longer term, this would reduce staffing costs, and could increase usage as it offers increased flexibility to customers. ■ It could also increase data collection, as the electronic system would allow for data capture. ■ The key card system would require to be carefully calibrated in order to allow access to only certain areas, as pool access would need to be mitigated out of hours.
Health Insurers potential revenue	■ The Centre operates to improve the health and wellbeing of the population of Bermuda. Health costs in Bermuda are increasing year on year. ■ Recently, Colonial (the health insurer) entered into an agreement with Virgin Pulse to bring a healthy living scheme to Bermuda, with the aim being to help keep the costs of healthcare down and reduce the number of people suffering from preventable diseases. ■ This shows a recognition by insurers of the benefits of a wellness program, and the willingness to commit costs to such, to reduce overall spend.	■ There could potentially be an opportunity to team up with one of the island's health insurers, to offer part-funded gym memberships for policy holders. ■ For example, in return for their attending the gym on a regular basis, the policy holder would get a deduction on their health insurance. This could be equivalent to the cost of the gym membership (which is approximately 10% of the annual health insurance costs). Therefore, the individual buys the gym membership, uses the Centre throughout the year a certain number of times, and thereafter gets a rebate on their health insurance so they effectively have a free membership. ■ Usage could be monitored by the use of the electronic cards. ■ Clearly, this would require a significant discussion with the health insurers to ascertain the appetite for such a scheme, however, this could be worthy of exploration, as whilst the above may not prove possible, there may be something similar which the insurers would consider. ■ We note there is precedent for this approach with the US, where insurers are increasingly seeking preventative approaches to reduce overall costs. ■ Anytime Fitness members, across its some 1,500 U.S. gyms, received nearly $4 million in health insurance reimbursements for working out 12 or more times per month in 2011, up from $1 million in 2010. ■ Blue Cross and Blue Shield rolled out its Blue365 program for some 35 million eligible members, offering offers discounts on services such as gym memberships. ■ A 2013 study from Fidelity Investments and the National Business Group on Health found that 86 percent of medium/large corporate employers now offer some measure of carrots and sticks in their wellness programs, up from 57 percent in 2009. There are increasing approaches where there are decreased costs, or rewards, for those making healthy lifestyle choices, and additional costs for those who do not. The same approach could taken directly by the insurers in Bermuda, and the Centre could benefit accordingly.

Summary of key recommendations (contd.)

Matter	Observations	Recommendations
Pool structure and use	■ Based on our research of the market, a pool of this design is typically for use more for dedicated program swimming – such as swimming lessons or swim clubs. ■ However, the majority of revenue for aquatic facilities comes from leisure swimmers – approximately 75%. The pool is not naturally designed to appeal to this user group. ■ There is a further difficulty is that there is no Government sponsored swimming lessons in Bermuda. This means that the availability of this revenue stream is limited. For example, SSMS often have been given the use of the pool for free. ■ Other than being indoor, there is little to distinguish the pool from alternative facilities in the market – such as the NSC pool. Indeed, being indoor is potentially a disadvantage for a significant portion of the year in Bermuda, where swimmers are likely to prefer to be outdoors in the warm climate. We understand that the NSC offers a lot of the same programs as the Centre, and furthermore has been able to service the majority of swim clubs who formerly used the Centre, throughout the colder winter period when the Centre has been closed. ■ There is market research in the US which indicates that leisure swimmers are more willing to travel further, and pay more, if they feel the facility meets their needs.	■ Consideration should be given to making the pool more family friendly, in order to attract a wider market base. ■ Any of the following considerations would require a potentially significant capital cost upfront, and potential redevelopment of parts of the Centre to fit in the following. – **Flooms / Water slides:** At present, there are no flooms / water slides in Bermuda. These would differentiate the pool from its competitors through offering a unique selling point, which would be attractive to families. There is also evidence that 'fun' features are more likely to entice children to the pool, to increase their overall desire to swim. – **Inflatables**: the Centre currently has limited floats or inflatable's. An investment in larger scale inflatables, such as aquatic assault courses, could be used to create family fun days or splash days which could have an island wide appeal. This could also open up the potentially lucrative birthday party market. – **Kids' pool**: the majority of community leisure centers would ordinarily have a shallow/children's pool, to make the facility more family friendly. The Centre has limited space, however could be potentially reconfigured to allow for construction of such, which would again differentiate from its Competitors. – **Sauna / Steam rooms**: most leisure Centers would typically have these features, which serve both pool users and gym members. – **Water Park features:** there are much larger water park features which could be considered, such as water slides, river runs, tube rides, zero depth entry pools and diving pools, however it is not clear that any of the stakeholders would have an appetite to fund the capital consts of such structures, or whether the Centre has the physical space required.
Outsourcing gym	■ At present, the Gym is managed in house. ■ As part of a restructure, this function could be outsourced to an existing gym provider on the island, in return for annual rental.	■ This would minimise the potential revenue which could be generated from the gym, therefore careful consideration of the cost / benefit of outsourcing the gym would be required before taking such an action. ■ The advantage could be that it could offer a more reliable, controlled cash flow.

Summary of key recommendations (contd.)

Matter	Observations	Recommendations
Use of Sports Hall	■ There is reasonable usage of the sports hall for Basketball, which is its primary design. ■ However, there is a limited market for basketball in Bermuda, and there are several rival facilities which host basketball, including schools and the Bermuda College. ■ The Centre was also used regularly by Bermuda Gymnastics Association, however, again the extent of this market is limited, and there are competing facilities. ■ A facility of this nature should be multi-purpose in its application, in order to generate footfall and revenue.	■ Other group sports should be targeted for use, including: – 5-a-side football leagues could be introduced; – Badminton; – Volleyball; – Netball; – Trampolining; – Cheerleading. ■ Other uses could include a family adventure fun day. This could include soft play features, ball pits, climbing features, chutes, slides, trampolines with foam pits etc, which could be marketed in tandem with improved aquatics leisure facilities to provide a cohesive leisure offering to families. ■ Careful planning would be required to achieve the balance of creating a desirable attraction to the Centre, balanced with the need for use as a sports hall.
Corporate Sponsorship Branding	■ There is an increasing trend towards offering naming rights to a corporate sponsor for leisure facilities, for a fixed term in return for a donation. ■ This is principally for larger sporting venues, however, there could be potential to offer this going forward.	■ Under existing Management and corporate structures, this would be difficult to achieve, given the instability of the entities. A sponsor would not wish to be associated with the Centre where there is a risk of insolvency. ■ Therefore this would be easier to explore going forward, once a more stable structure is in place, with steady accounts and committed funding. ■ Health Insurers may be a prime target. For example, “Argus 360 Sports Centre”.
Alternative Branding	■ At present, the Sandys 360 Centre operates independently.	■ Management could explore teaming with a recognised international gym brand (such as Virgin Active or Anytime Fitness), as part of an overhaul of the gym offering. ■ There would be costs attached to becoming a franchisee, and the gyms may demand certain standards of the facility which would require capital expenditure. The physical location of the Centre, and limited surrounding population, could be could be a barrier to this.
Basis of class instructors fees	■ At present, there appears to be a range of fee arrangements with instructors for gym classes. Some instructors are paid hourly, irrespective of class attendances, some pay a rental for the space and collect fees themselves, and some are a combination.	■ New Management should carefully assess the cost / benefit of running each class, and consider what the most appropriate method of charging customers / instructors would be to ensure these classes are cost effective. ■ Classes should be assessed on a regular basis, to consider attendance, revenue and costs, to ascertain which programs are profitable.

Summary of key recommendations (contd.)

Matter	Observations	Recommendations
Signage	■ There are no sign posts from the main road (Somerset Road), to point passing traffic in the direction of the Centre.	■ We would expect significantly greater signage would be in place, to increase awareness of the Centre.
Schools / swimming lessons	■ Last year , the Centre submitted a budget for 2014/15 budget year to provide aquatic training for the 6 cluster schools and all 5 middle schools in Bermuda to the Permanent Secretary of Education. The total number of students included : 948 primary and 1,231 middle. Total 2,189 students. ■ We understand that at present, there is no extensive Government backed swimming program in Bermuda. ■ A full analysis of the swimming programs offered by schools is outwith the scope of this engagement, however, we understand that many of the schools in Bermuda give swimming lessons as part of their PE programs. These are often delivered in the sea, given it is free. ■ We are also not clear if there is a significant portion of the Bermuda population who cannot swim, and need lessons. In the US, based on a University of Memphis study in major cities, 68.9% of African-American children had no/low swimming ability (compared to 41.8% of white children), and African-American children were 3.1 times more likely to drown, due to a number of socio-economic factors. ■ We are not aware of any significant similar study In Bermuda, but anecdotal evidence suggest the same issue does not exist in Bermuda amongst today's youth, as they do not have the same fundamental barrier of access to water – given the geography of the island and readily available access to the sea.	■ There is a significant obstacle, in that the Government are seeking to reduce the current annual budgetary deficit, and as part of that aim, Government has recently cut the annual budget expenditure by 7%. This includes a 5% decrease in the Department of Education budget , an 8% reduction to the Youth, Sports and Recreation budget and a 9% reduction to the Community and Cultural Affairs budget. ■ Therefore, for a third party to get commitment to additional expenditure from the Government in the current climate may realistically prove difficult. ■ Notwithstanding the above, if Government were to own the Centre or already be committed to funding the Centre, the additional costs of running these programs would be significantly less, as the only variable costs would be some payroll (which could be mitigated if using existing PE teachers) and transport (which could be mitigated from use of the bus services which are already Government funded). ■ We note due to the physical location of the Centre in Bermuda, as per the map on page 55 only a small proportion of the schools in Bermuda are actually closer to the Centre than the NSC (6 out of 23). Therefore it is unlikely, unless capacity at NSC is an issue, that schools would opt to travel greater distances due to additional time and costs
Hydrotherapy	■ There is not an active Hydrotherapy program in Bermuda. ■ Whilst a small portion of the overall typical aquatic user / revenue streams Hydrotherapy is a growing market , and Bermuda has an aging population which could benefit from this specialist physiotherapy.	■ A cost benefit analysis would be required to ascertain the size of potential market, and where funding could come from – i.e. would health insurance be applicable to any programs. ■ The program would need to be launched in tandem with a recognized health provider, to ensure medical and ethical standards were adhered to. ■ We understand a significantly hotter pool than a normal swimming pool is required, which may incur significant electricity costs.

Summary of key recommendations (contd.)

Matter	Observations	Recommendations
Payroll cost	■ Payroll cost represents the largest variable cost to the Group, and has historically been the largest cost by far for the Centre (approximately 72% of payments). ■ The NSC reduced payroll costs through having reduced operating hours which cover busier periods, typically 6:00am to 9:00am, 11:30am to 3:00pm, and 4:00 to 7:00pm during weekdays. They are also only open Saturday - 1:00pm - 5:00pm, and Sunday - 9:00am - 1:00pm.	■ Until the future operating model is clearer, it is difficult to make targeted, specific recommendations, as the scale of activity will impact payroll requirements. ■ In tandem with key cards for access, payroll costs for client facing staff could be reduced through using hourly paid staff, on reduced overall opening hours for walk in customers (i.e. still access for gym members on 24 hour basis). ■ Salaried employees should be kept to a minimum, particularly back office staff, which represent a significant overhead for the Centre. It is clear and acknowledged by Management that historically the Centre has been overstaffed. ■ Volunteers should be maximized wherever possible, in suitable roles. ■ Instructors' remuneration should be incentive based, in order to encourage profitable and well attended classes.
Management, Governance, Staffing	■ We recognise the deep commitment and passion that Management has for the Centre. Their dedication through personal difficulties experienced over the past few years has been admirable. ■ However, Management acknowledge that appointment of a new Chairman of the Board, new Directors and a new Managing Director, are in the best interests of the Centre.	■ Management and Governance are dependant upon the chosen operational model going forward, however it is clear that change is necessary. ■ The Trustees and the Company are insolvent, therefore their ongoing involvement in positions of power in any new structures may well prove a significant obstacle to progress, particularly with suppliers to the Centre who could feel 'cheated' of their debt from a perceived 'phoenix' company being set up to run the Centre. ■ A new Managing Director with experience of operating a community sports centre is key to maximizing the commercial potential of the Centre. Maximizing the commercial potential is the only sustainable way to allow for the Centre to achieve its more charitable aims. In many places, these aims overlap in any event – a busier Centre leads to a healthier population. ■ Enhanced financial control is also vital, either through outsourcing the function, or through recruitment of an experienced financial controller with expertise in QuickBooks. ■ We would note that the current Trustees and Management's support could be extremely important to a new operator running the Centre, in terms of garnering local support for the new Management. The Trustees and Management are known and respected local figures to the Sandys' Community. It could be detrimental to future trading and fundraising prospects if there is negative PR surrounding any sale / restructuring process. ■ We would not rule out further involvement for current / former management and staff, however there may be merit in a 'clean break'. ■ Any former employees seeking reemployment should be hired only based on the revised operating model's needs, and all recruitment should be on an open market basis to ensure the best available individuals are hired.

Summary of key recommendations (contd.)

Matter	Observations	Recommendations
Car Park – alternative use	■ At present, the outdoor basketball Court is used only for car parking. ■ We believe this area could be better utilised, to create a further attraction to the Centre. ■ We have included some potential suggested uses, however this should be assessed by new Management based on the overall vision for the Centre.	■ **Skate Park:** the area would be of sufficient size to build a skate park. Whilst generally these are free to use, this could increase the overall footfall around the Centre, and increase the awareness and use of the Centre accordingly. Whilst there would be initial capital costs, ongoing costs would be minimal. ■ **Playground:** a large, modern playground with assault course or similar features would increase the family appeal of the Centre's vicinity, and result in increased use of the Centre too. ■ **Splash pad:** numerous US pool facilities now have an outdoor splashpad for kids, which includes numerous interactive spray water features etc. If this could be incorporated into the existing pool facility, it could prove a strong leisure attraction for younger children. ■ **Batting Cages:** The area could be turned into a combination of cricket and baseball batting cages, with pitching machines (such as BOLA). The initial costs of set up could be comparatively modest, and this could be used by Bermuda Cricket Board and local teams for training, as well as individuals and children for leisure.
Swimming Price	■ The NSC offers family swim packages, of $32 for a family of four. ■ The Centre offers free swimming for under 5 with an adult paying $15, or $5 each within the family splash time (once per week on Sundays). ■ Its not clear this is widely advertised or known – these rates are not on the website for example.	■ A similar package could be offered to attract further family use of the Centre. ■ This could be key to growing the leisure side of the business.
Gym Price	■ As noted, the standard Gym and pool membership ($90 per month) is considerably lower than rival facilities in Hamilton for Gym only ($110 to $165), which do not offer a pool.	■ Whilst taking account of the Centre's aim to be inclusive for the community, there may be scope for some modest membership price increases. ■ We note that public facilities do tend to be lower cost than private facilities.
Energy costs / Renewable energy	■ The largest fixed cost for the Centre is electricity, at approximately $140,000 per annum.	■ Reducing conventional electricity or using renewable / alternative energy should be explored, in order to ascertain what the capital cost would be and the pay back period, in order to make the Centre more environmentally friendly and sustainable. ■ The pool should be covered with an insulating cover each night, in order to retain heat, and reduce overall heating costs. Consideration should also be given to how to most efficiently run the pool systems – whether these could be shut down for periods of time to save costs without adversely impacting the pool.

Summary of key recommendations (contd.)

Matter	Observations	Recommendations
Restaurant / Cafe facility	■ At present, the Trustees rent a portion of the Trustees building to a third party, who operates a small café. ■ There is a large, underutilized foyer area. ■ Typically, leisure facilities operate a café in order to generate additional revenue, but also to provide something for parents to do / an area to watch from whilst children use the Centre.	■ Consideration could be given to opening a new café facility within the Centre. ■ This could also be outsourced to a third party (for example, the existing operator, or Buzz), in order to mitigate trading risk. ■ The Café should provide healthy eating options in line with the ethos of the Centre. ■ This could also offer discounted prices to SSMS staff and pupils, and have outdoor seating to the rear of the facility. To accommodate a steady market from this source. ■ Ideally, the facility should have a viewing area into the pool, however the design of the Centre may mean this is not feasible.
Controls	■ We have not performed an in-depth review of the controls of the Centre (given it is not trading). ■ However, we have become aware during the course of our work that have historically been weaknesses in the front desk function. ■ We have anecdotal evidence of individuals using the Centre for free, when payments should have been made, such as for pick-up basketball classes.	■ Tightening of controls would generally be expected under new Management, to ensure all revenue is captured.
Youth Club	■ There is presently no youth club operating at the facility.	■ This could be a key way to engage the local youth community, and could attract volunteers to run the youth club. ■ Small per head usage fees could be charged to recoup minor costs.
Youth Gym Membership	■ In the US, there is a program called Teen Fitness Connection, which offers free memberships to teens at off-peak hours, particularly during summer season.	■ A similar scheme could be implemented in order to further the Centre's social ambitions. ■ This would increase awareness of the Centre and penetration into the local community through both the teen market, and their parents.
Advanced funding for social programmes	■ It appears little consideration was given to the costs of the Centre's more philanthropic programs in advance of staging. ■ Often programs or events were committed to, without detailed budgeting, or funding in place. ■ Whilst noble causes, management in such a fashion in the current climate is not sustainable.	■ There should be a detailed budget prepared for any events held at the Centre, such as anniversary celebrations, conferences, educational programs etc. ■ Funding should be sought in advance, from donors, before these programs are committed to. ■ This aids a corporate donor program where donors can be targeted to provide funding for a very specific program – for example, teaching all 8 year olds in

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Appendix 4

Receipts & Payments exercise

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Private & Confidential
The Trustees of Sandys Secondary School
Sandys 360

Our ref 29/1397/Adv/Elm/10036

Contact [redacted]

February 11, 2014

FAO: [redacted]

cc: *The Trustees*
cc: [redacted]
cc: *The Hon. Patricia Gordon-Pamplin, JP, MP, Minster of Public Works, the Government of Bermuda.*

Project Elm: Receipt and Payments collation

In accordance with our engagement letter dated December 9, 2013 between KPMG Advisory Limited (“KPMG Advisory”), the Trustees of The Sandys Secondary School (“the Trustees”) and Sandys 360 Limited (“the Company”) (together “Management”), an analysis of the historical financial records of the Company, the Trustees and the Sandys 360 Foundation (“the Foundation”) (together “the “Group”) was undertaken to establish a statement of Receipts and Payments (“R&P”) for the period from January 1, 2006 to November 30, 2013 (“the Reviewed Period”).

The R&P identifies the historical levels of actual cash receipts and cash expenditure made by the Group by year, and is intended to assist Management with their ongoing discussions with key stakeholders, HSBC Bank (Bermuda) Limited (“HSBC”) and the Government of Bermuda (“the Government”) (together “the Stakeholders”).

Background

Our analysis is based on historical information and records provided by representatives of Management, HSBC and Bank of N.T. Butterfield & Son Limited (“BNTB”). The information used to prepare the R&P included bank statements from HSBC and BNTB (“Bank Statements”), bank reconciliations (“Reconciliations”) [redacted] and QuickBooks profit and loss (“P&L”) reports of each Group entity.

A total of 8 bank accounts have been identified for the Group, consisting of 3 BNTB accounts (currently active) and 5 HSBC accounts (3 active and 2 closed). The table illustrates the Bank Statements reviewed for our analysis.

Accounts	Description	Bank	Entity	Account opened	Account status
060 0012360 018	Checking account	BNTB	Company	26-Mar-12	Active
060 652500 100	Checking account, used by the Company as of March 2011	BNTB	Trustees	11-Dec-08	Active
060 938162 210	Checking account	BNTB	Foundation	21-Mar-03	Active
010 245736 001	Capital account	HSBC	Trustees	Prior to Dec 2006	Closed
010 842888 001	Capital account, previously 245736 001	HSBC	Trustees	1-Apr-09	Active
010 842888 002	Checking account, used as the operating account	HSBC	Company	12-Mar-09	Active
010 245736 002	Checking account	HSBC	Foundation	Prior to Dec 2006	Closed
010 842888 003	Checking account, previously 245736 002	HSBC	Foundation	12-Mar-09	Active

[redacted] the Group on March 30, 2013, to assist in bringing the Group's accounting information up to date. [redacted] undertaken a significant amount of work to reconcile each of the Group's bank accounts. Our review of the Reconciliations prepared [redacted] included:

1. HSBC Account 245736-001 [January 1, 2009 – May 13, 2009]
2. HSBC Account 842888-001 [April 1, 2009 – December 13, 2012]
3. HSBC Account 842888-002 [March 1, 2009 – December 31, 2012]
4. HSBC Account 842888-003 [March 1, 2009 – October 31, 2012]
5. BNTB Account 018 [March 26, 2012 – October 31, 2013]
6. BNTB Account 100 [April 1, 2011 – May 31, 2013]

In 2009, the QuickBooks accounting program was introduced by Management and a separate account profile was created for each Group entity. The implementation of this accounting software has not been complete and no meaningful annual financial statements have been produced since its introduction. Our review and observations of the QuickBooks records have also identified numerous posting errors, lack of descriptive entry detailed, and missing data.

Methodology

The process adopted for our review of R&P is as follows:

1. The Reconciliations prepared [redacted] were used to create a list of transactions for each individual bank account, broken down by year. Monthly account balances were traced and agreed to the Bank Statements to ensure completeness and accuracy.
2. A significant amount of data was missing from the Reconciliations, where information was incomplete, or where there were reconciling items which needed to be removed in order to accurately reflect a true R&P. In addition, the Reconciliations only covered certain bank accounts, and over a certain period. We manually input the missing information using the Bank Statements obtained for each account for the Reviewed Period.
3. Please note that for ease of reference, within this document any reference to "2013" refers to the 11 month period from January 1, 2013 to November 30, 2013.
4. Once we had a complete list of transactions for each account, we commenced classifying transactions into various income and expense categories. The categories used are illustrated in the below table:

Receipts	Payments
HSBC Loan	HSBC Loan & Interest payments
Private Loans	Private Loan & Interest payments
Government Funding	Construction Costs, BCM
Corporate Donations	Project costs/ capital expenditure
Individual Donations	Maintenance costs (building, pool, gym)
Membership	Staff / Consultant / Professional fees
Rental of Facility	Electricity, BELCO
Fund Raising/ Sports programmes/ School camps	Utilities / Taxes
Sales	Fund Raising/ Sports programmes/ School camps
Other income	Other expenses
Inter account transfers	Bank Charges/Interest
	Inter account transfers
	Overdraft interest

5. Due to the lack of narrative detail in the Bank Statements, we used each entities' P&L from the QuickBooks system to identify the nature of transactions. We have not verified the P&L records to underlying, third party data, therefore there is a risk that any errors in the P&L categorization would also be reflected in the R&P. In the interests of time and efficiency, we prioritized the larger transactions (>$5,000), and thereafter categorized the smaller amounts in so far as was cost effective to do so. Those amounts which were not assigned to a specific category were categorized as other income and other expenses (i.e. unallocated funds).
6. An R&P was created on a yearly basis (refer to Appendix A), on an individual account basis (refer to Appendix B), and on an entity basis (Refer to Appendix C).

In completing this analysis, we have relied upon information and materials provided to us by Management, HSBC and BNTB. Our review and procedures do not encompass an audit of the financial position or operating results of the Group, and we have not verified transactions to supporting third party evidence. We have made use of assumptions and estimates, and therefore due to the high volume of transactions, it is clear there will be a margin of error in the categorization of these transactions.

We further draw your attention to the fact that the scope of our work is limited, in nature and extent, and as such not necessarily accurate or should be relied on to disclose all significant matters (errors or irregularities) concerning the financial performance/position of the Group.

Our key findings and conclusions follow.

I. Findings

Total Group R&P Summary

The table below illustrates the combined Group results for the aggregate Reviewed period, excluding any intercompany transfers identified between Group entities. For the avoidance of doubt, the intercompany transfers identified reconciled fully.

Total Group R&P Summary from January 1, 2006 to November 30, 2013	Total ($000)
Opening cash / (overdraft) balance	**291**
Receipts	
HSBC Loan	6,495
Private Loans	366
Government Funding	5,058
Corporate Donations	2,424
Individual Donations	231
Membership	510
Rental of Facility	103
Fund raising / Sports programmes / School camps	548
Sales	290
Other income	372
Total receipts	**16,398**
Payments	
HSBC Loan & Interest payments	4,461
Private Loan & Interest payments	138
Construction Costs, BCM	8,544
Project costs / capital expenditure	1,985
Maintenance costs (building, pool, gym)	185
Staff / Consultant / Professional fees	3,662
Electricity, BELCO	257
Utilities / Taxes	151
Marketing/ Sports programmes / School camps	392
Other expenses	107
Bank Charges/Interest	66
Total payments	**19,949**
Net cash (outflow)	**(3,551)**
Closing cash / (overdraft) balance	**(3,260)**

The Group had a combined opening cash balance of $291,000 at 1 January 2006. In total, over the Reviewed Period, the Group generated a net cash outflow of **$3.55 million.**

This net outflow resulted in the Group combined closing overdraft balance as at November 30, 2013 of $(3,259,000).

Group cash position at November 30, 2013 ($000)			
	HSBC	**BNTB**	**Total**
Trustees	(4,055)	2	(4,053)
Company	280	2	282
Foundation	11	501*	512
Total	**(3,764)**	**505**	**(3,259)**

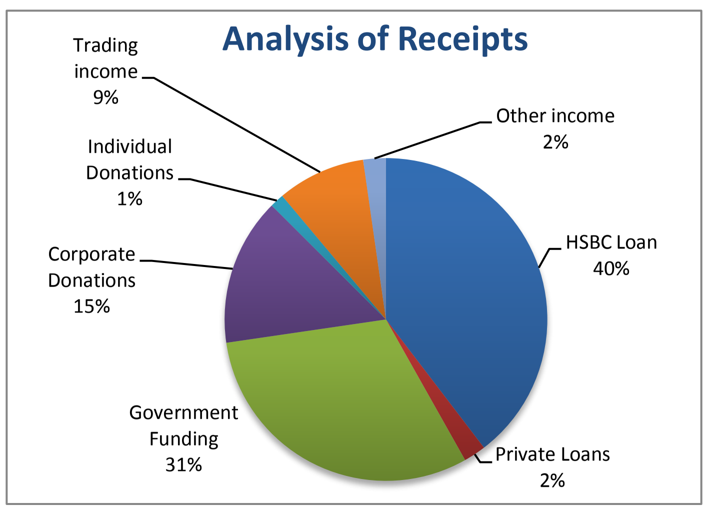
*Note: $500,000 was transferred from this account to the HSBC Trustees account on December 2, 2013.

The table above illustrates the breakdown by entity of the Group's closing bank position. The net Group bank balance of $(3,259,000) is largely funded by an HSBC overdraft, which totaled $(4,055,000) at 30 November 2013. This overdraft is offset by the remaining funds from the Government capital grant of $500,000 in April 2013 (of which there is approximately $280,000 remaining), and the Government deposit of $500,000 made in November 2013.

Receipts

The Group's key income sources, in total amount over the Reviewed Period, are analysed below.

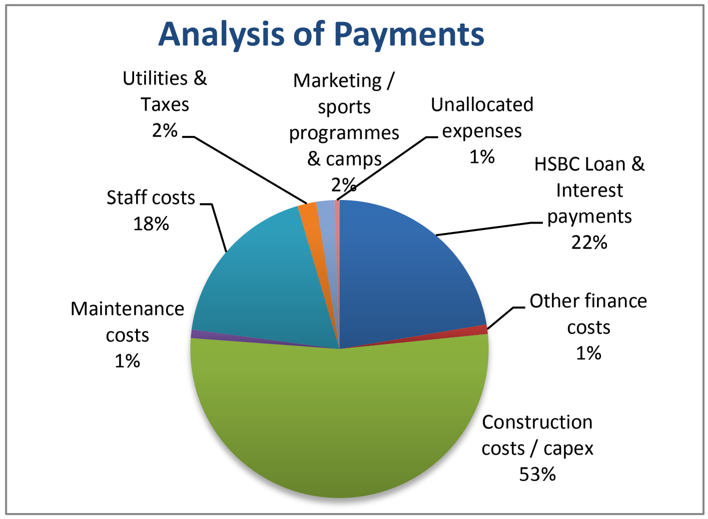
- HSBC loan drawdown receipts totaled $6.5 million (40% of all receipts);
- Government funding totaled $5.1 million (31% of all receipts);
- Corporate donations totaled $2.4 million (15% of all receipts);
- Individual donations totaled $0.2 million (1% of all receipts);
- Private loans totaled $0.4 million (2% of all receipts);



- Trading related income, including membership income, facility rental, sports programs, school camps and other sales totaled $1.5 million (9% of all income), and;
- Other / unallocated income totaled $0.4 million (2% of all income).

Payments

The main payments over the Reviewed Period are summarised below.



- Construction costs and capex totaled $10.5 million (53% of total payments), of which $8.5 million related to payments to BCM McAlpine;

- HSBC loan capital and interest payments totaled $4.5 million (22% of total payments);

- Staff costs (including salaries, part time and instructors) totaled $3.7 million (18% of total payments);

- Utilities, taxes (minor duty related payments), maintenance costs and costs associated with fundraising and sports programmes totaled $1.0 million (5% of total payments).

- Unallocated payments accounts for $0.1 million (1% of total payments).

Net annual cash flows

Since inception, the Group has struggled to generate a cash surplus. The annual net cash inflows / (outflows) are summarised below, on three different basis:

- Basis A: The total net actual inflow or (outflow) generated by the Group;
- Basis B: As per Basis A, adjusted to remove:
  - HSBC related receipts and payments;
  - Private loan receipts and payments;
  - Government receipts;
  - Construction payments to BCM;
  - Other construction / capital expenditure costs prior to 2010 (2010 onwards considered 'normalised' capex requirements).
- Basis C: As per Basis B, adjusted to remove all corporate and individual donations.

Basis B presents a more useful barometer of the Group's underlying annual historical performance, as this is not skewed by the timing of bank funding, the impacts of Government funding, and construction costs of the Centre. A full breakdown of Basis B is presented at Appendix D.

Basis C represents the underlying 'trading' cash flows of the Group without reliance on corporate and individual donors. A full breakdown of Basis C is presented at Appendix E.

Consolidated Annual Group net cash flows for the Reviewed Period

Basis	Description	2013	2012	2011	2010	2009	2008	2007	2006
A	Net total inflow / (outflow)	468	(77)	(316)	(322)	(3,225)	481	(561)	1
B	Adjusted net inflow / outflow (donations included)	(29)	(377)	(269)	(136)	133	102	15	26
C	Adjusted net inflow / outflow (donations excluded)	(176)	(628)	(762)	(613)	(465)	(288)	(62)	(4)

Basis A – Total annual cash flows

In summary, the net total cash flows illustrate that 2009 (the year of construction) was when the majority ($3.2 million) of the overall net cash outflow ($3.5 million) occurred. This was due to approximately $3.2 million of construction costs being paid in 2009, with no income from operating activities in that year, partly due to loan funding having been advanced in the prior year, and partly due to the HSBC overdraft facility 'funding' these costs (as it is an overdraft facility rather than a loan drawdown, the R&P does not show a matching 'receipt' for the overdraft which funded the payments).

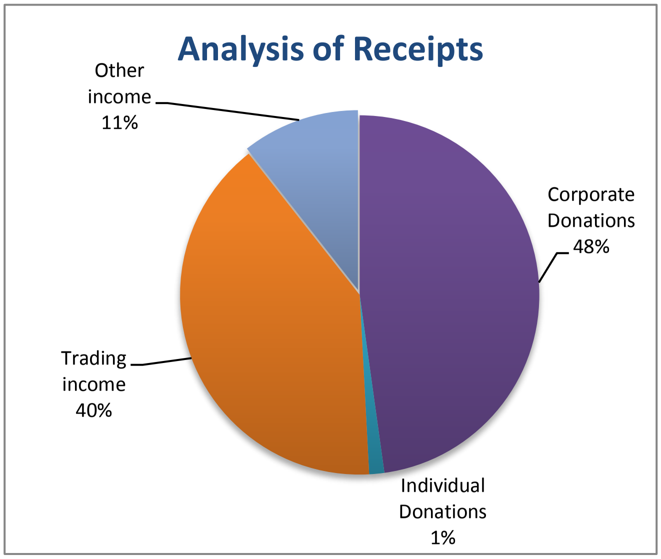
From 2010 to 2013, the Group generated net cash outflows of approximately $(320,000) in each of 2010 and 2011, a $(77,000) outflow in 2012, and net cash income of $468,000 in 2013. 2012 and 2013 figures are largely impacted by the receipts of funds from Government ($2.5 million) compared to payments of $1.7 million to HSBC (including overdraft interest), resulting in a net cash 'inflow' of $0.8 million over that two year period from these timing differences of funds being received but not paid.

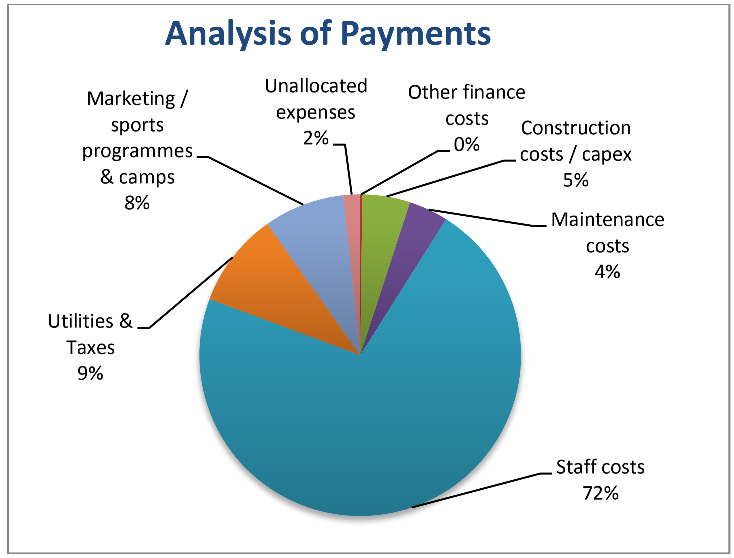
Basis B – HSBC, Government, construction and private loan cash flows removed

Once the impact of loan receipts and payment, government funding and construction related costs are removed, and looking from 2010 onwards (being the period once the centre was open and trading as normal), over the period from 2010 to 2013 the Group incurred a net cash outflow of $(810,000).

Within these years, 2013 reports the lowest net outflow, of $(29,000). This reduced annual cash deficit is largely due to creditors, including BELCO and employees, accruing over this period, and not being paid, therefore not reflected in the R&P.

We have further analysed the receipts and payments over this period from 2010 on Basis B, as is illustrated in the below charts.





Total Receipts were $3.2 million, and total Payments were $4.0 million, resulting in a net cash outflow of $(0.8 million) over the 4 year period.

There are two key cash stream which are apparent over this period:

- The corporate donations received over this period were vital – a total of $1.5 million represents 48% of Basis B receipts.

- The level of staff costs totaled $2.9 million, representing 72% of all payments (and 90% of all Basis B receipts).

The above outflow of $0.8 million over the 4 years, in part, illustrates the ‘funding gap’ which the Group has experienced.

Due to the nature of the Group’s activities, there is minimal income which would be present in a Profit & Loss account which is not represented in the R&P – the vast majority of all transactions are cash based, and the Group has never had a significant accounts receivable ledger, which would impact income compared to cash flow. Therefore, we would expect that cash receipts would closely mirror revenue.

However, the Group does have an accounts payable ledger, of approximately $948,000, which has accrued over the 4 year period to 2013 (this balance excludes construction related creditors which remain due from before this period). This suggests that the underlying costs of the Group are significantly higher than the cash outflows which have been paid in the R&P. Therefore, the trading loss is likely to be significantly higher than the net cash outflow experienced. If the accounts payable were added to the net cash outflow, this would suggest a total outflow of $1.7 million over the 4 year period – an average of $425,000 per annum.

Basis C – HSBC, Government, Construction, private loans and Corporate and individual donation cash flows removed

Basis C illustrates a total outflow of $2.2 million over the 4 year period from 2010 to 2013, once the corporate and individual donations are removed from Basis B. This is incurred in annual cash outflows of:

- $(613,000) in 2010;
- $(762,000) in 2011;
- $(628,000) in 2012; and
- $(176,000) in 2013.

It is not clear how sustainable corporate donations would be going forward (see Corporate Donations section below). Therefore, Basis C is a useful illustration of the underlying net ‘trading’ outflows over this 4 year period.

If the accounts payable arrears were added to the Basis C net outflow, this would suggest a total net cash outflow of $3.1 million over the 4 year period from 2010 to 2013 – an average of $780,000 per annum.

Corporate donations

Corporate donations have historically been a vital source of income for the Group to support the operating costs. We estimate corporate donations totaling approximately $2.4 million have been received over the Reviewed Period.

However, the level of donations received has reduced significantly over the period from 2010 to 2013. Corporate donations totaled:

- $540,000 in 2010;
- $520,000 in 2011;
- $305,000 in 2012; and
- $151,000 in 2013.

This indicates a $389,000 (72%) decline in donations received over the period, from a high of $540,000 in 2010 to a low of $151,000 in 2013.

We understand from Management that this is due to a combination of the following factors:

- The Group’s lack of audited financial statements deterring donors from committing funds;

- The initial enthusiasm on opening of the Centre in 2009, and into 2010, would be expected to attract higher donors to a 'new' cause; and
- General economic conditions deteriorating over this period have decreased the number and quantum of available donations.

HSBC

HSBC is the secured lender to the Trustees, with a fixed charge over the Sandys 360 Centre, the Trustees' building, part of the Sandy's Secondary Middle School building and part of the school's playing field.

The HSBC related receipts and payments are summarised below:

Opening Capital advanced from HSBC	6.5m
Interest charges applied to loan	2.1m*
Less payments made to HSBC	(3.2m)
Loan outstanding at 30 Nov, 2013	**5.4m**
Plus overdraft at 30 Nov, 2013	2.7m
Plus overdraft interest at 30 Nov, 2013	1.4m
Closing overdraft	**4.1m**
Net Balance due to HSBC at 30 Nov, 2013	**9.5m**

**Note: This interest is not visible in the R&P, as this is applied to the loan account balance.*

HSBC's indebtedness arose from an initial loan of $6.5 million advanced over the period from 2007 to 2009, and an overdraft facility of $3.0 million being made available to the Group in 2009, therefore a total indebtedness of $9.5 million.

Over the 4 years since the Centre was completed in 2009, the Group has made capital and interest payments to HSBC in relation to the loan of $3.2m. However, the interest of $2.1 million accruing on the loan debt and the interest of $1.4 million applied to the overdraft has resulted in the total balance due to HSBC effectively not decreasing.

We note HSBC has reduced the interest payable on the overdraft and the loan to 0.25%.

In addition to the above corporate lending, HSBC Bank of Bermuda Foundation has donated at least $485,000 to the Group.

The Government

The Government has paid a total of approximately $5.1 million to the Group, in relation to the Centre, over the period from 2008 to 2013.

During the construction phase (2007 – 2009), in 2008, Government donated $495,000 to purchase steel required for the Centre. We understand that the actual figure donated was $1.0 million; however the R&P only illustrates receipt of $495,000 by the Group. The remaining balance may have been paid directly to the steel supplier, however, this would need to be verified by Government.

In 2008, the Government also provided a duty refund of $265,000.

In 2009 and 2010, the Government made donations of approximately $37,000 and $52,000 respectively, in relation to funding specific programs.

In 2011, the Government donated approximately $1.6 million to the Group, in payments of $627,000, $180,000 and $807,000.

We have not investigated the basis upon which these payments were made by Government and documentation supporting them is lacking (or has not been made available to us).

The Government and the Trustees entered into a Memorandum of Understanding on June 1, 2012, in relation to providing $2 million in Grant funding to the Trustees, in 4 equal payments of $500,000 each. In 2012, $1.5 million was received, and in 2013, the remaining $0.5 million was received.

In November 2013, a further $500,000 was received by the Company.

We note Government also pays approximately $30,000 per annum to Argus for property insurance, which is not reflected in the R&P. We note that we understand Government has the insured interest under this insurance policy.

Payroll

The combined annual staff, consulting and professional fees amounted to $2.9 million of payments over the 4 year period 2010 to 2013.

However, there are also payroll creditors for arrears of wages (excluding redundancy related costs) of $362,000. Therefore this would increase the average annual payroll to approximately $805,000 per annum.

In 2011, the payroll costs peaked at a total of approximately $867,000.

From previous correspondence with Management, the Group staff consisted of 2 directors and 7 full time employees. In addition, there were a number of hourly paid workers, such as gym and aquatics instructors, and a number of participants, and assistants who run after school programs or operated the reception area.

Payroll represents the most significant trading outflow for the Group. In context, the second highest trading cost was electricity, which, based upon information received from BELCO, totaled an average of approximately $130,000 in charges per annum (BELCO arrears total approximately $379,000 at the point the Centre was disconnected). Therefore, payroll costs were approximately $675,000 in excess of electricity costs.

Other Income/ Other Expenses (Unallocated)

These categories are made up of a number of small value individual transactions ($5,000, or less). It is not cost effective for us to allocate all these transactions as sufficient support for this process is not readily available (or, potentially, is unavailable), and therefore would incur significant cost. As a result, these annual balances will include items which would otherwise be allocated across other income and expense categories.

We have not performed a review of cash receipts and payments through the till / front desk, as it is not cost effective for us to do so due to the low values of individual transactions. While there is scope for pilferage and inappropriate transactions arising from cash handling, these activities (if they exist at all) are unlikely to be material to the picture presented by the R&P analysis above.

II. Conclusions

The R&P indicates that the Group has been unable to generate sufficient trading revenues to support either the ongoing costs of the Centre or servicing of the HSBC bank debt.

The full R&P from 2010 to 2013 illustrates a net cash outflow of $(247,000), despite Government funding of $4.2 million received over this same period. This also does not take account of the creditors balances which have built up over this period, of $945,000.

Basis B, and also taking account of unpaid creditors, indicates that a likely average net annual cash outflow is in the region of $425,000 per annum.

If we remove corporate donations as per Basis C, but assume payments of the creditors' arrears had been made, this annual average outflow increases to approximately $780,000 per annum.

Whilst the scope of our work was limited, and we have not reviewed third party evidence, we have not seen any indications of large scale inappropriate payments being made.

The R&P analysis is not a basis for the preparation of full financial accounts, as this does not take account of accruals accounting, and the categorization of income and expenses would have to be significantly more detailed in order to complete full statutory accounts. Though we have not reviewed in detail the financial accounting records (in QuickBooks), our observations during the course of the R&P analysis would indicate that these records are not complete and significant time and expense would be required to fully update them. In addition, in order to prepare for an audit, substantial third party documentation would require to be collated, to support the accounting records.

At this point, given the financial position of the Trustees and the Company, we question the benefit of completing this exercise.

Yours sincerely

[redacted]

Appendix A

Yearly R&P – Basis A

Group Year	2006	2007	2008	2009	2010	2011	2012	2013	TOTAL
Opening balance (per bank statement)	**291,098**	**292,313**	**(268,419)**	**212,666**	**(3,012,734)**	**(3,335,213)**	**(3,651,247)**	**(3,727,800)**	
RECEIPTS	**30,129**	**1,092,747**	**6,440,414**	**3,158,801**	**1,410,755**	**4,305,650**	**2,527,844**	**2,196,000**	**21,162,340**
1 HSBC Loan	-	1,000,000	5,280,742	214,518	-	-	-	-	6,495,260
2 Private Loans	-	12,000	-	106,949	100,000	40,000	1,500	105,450	365,899
3 Government Funding	-	-	760,405	71,980	51,605	1,629,000	1,545,245	1,000,000	5,058,235
4 Corporate Donations	24,235	71,524	319,370	492,262	540,168	521,666	304,566	150,700	2,424,491
5 Individual Donations	5,755	6,100	70,274	105,531	26,863	5,690	10,252	350	230,816
6 Membership	-	-	-	28,446	130,972	165,285	121,001	64,016	509,719
7 Rental of Facility	-	-	2,420	9,040	16,694	16,830	19,940	38,338	103,261
8 Fund Raising/ Sports programmes/ School camps	-	-	-	103,303	121,172	166,428	90,102	66,613	547,617
9 Sales	-	-	4,325	26,510	20,671	27,445	95,160	116,349	290,460
10 Other income	139	3,123	2,878	29,062	122,609	76,307	56,542	81,104	371,765
11 Inter account transfers	-	-	-	1,971,201	280,000	1,657,000	283,536	573,081	4,764,817
PAYMENTS	**28,913**	**1,653,480**	**5,959,329**	**6,384,200**	**1,733,233**	**4,621,684**	**2,604,397**	**1,728,257**	**24,713,493**
12 HSBC Loan & Interest payments	-	5,237	214,031	437,896	-	1,197,112	805,087	438,951	3,098,314
13 Private Loan & Interest payments	-	-	-	-	-	77,500	4,687	56,000	138,187
14 Construction Costs, BCM	-	785,818	5,067,526	2,590,767	-	-	100,000	-	8,544,111
15 Project costs/ capital expenditure	25,069	796,868	380,101	590,743	89,492	34,360	63,828	4,056	1,984,517
16 Maintenance costs (building, pool, gym)	-	-	4,000	23,799	58,330	39,039	34,014	25,678	184,859
17 Staff / Consultant / Professional fees	2,955	41,583	227,969	533,232	784,435	867,024	749,108	456,168	3,662,475
18 Electricity, BELCO	-	-	-	11,791	15,000	130,000	100,000	-	256,791
19 Utilities / Taxes	-	-	1,305	15,742	33,210	78,019	12,010	10,773	151,059
20 Fund Raising/ Sports programmes/ School camps	-	6,360	9,144	52,794	92,471	79,887	109,108	42,427	392,191
21 Other expenses	886	16,766	13,702	8,425	40,960	17,477	3,702	5,031	106,949
22 Bank Charges/Interest	3	847	41,550	15,742	955	2,547	2,906	1,862	66,411
23 Inter account transfers	-	-	-	1,971,221	280,000	1,657,000	283,536	573,081	4,764,837
24 Overdraft interest	-	-	-	132,049	338,379	441,719	336,411	114,231	1,362,790
Closing Balance (sum of balances)	**292,313**	**(268,419)**	**212,666**	**(3,012,734)**	**(3,335,212)**	**(3,651,247)**	**(3,727,800)**	**(3,260,056)**	
Closing Balance (per bank statement)	292,313	(268,419)	212,666	(3,012,734)	(3,335,213)	(3,651,247)	(3,727,800)	(3,260,056)	
Difference	-	-	0	-	1	(0)	-	-	
Net inflow / (outflow)	**1,215**	**(560,733)**	**481,085**	**(3,225,399)**	**(322,478)**	**(316,034)**	**(76,553)**	**467,743**	**(3,551,153)**

Appendix B

Bank Account R&P

Account	060 0012360 018	060 652500 100	060 938162 210	245736 001	010 842888 001	010 842888 002	245736 002	010 842888 003	
Bank	NTB	NTB	NTB	HSBC	HSBC	HSBC	HSBC	HSBC	
Entity	Company	Trustees	Foundation	Trustees	Trustees	Company	Foundation	Foundation	TOTAL
Opening Balance (per bank statement)	**-**	**-**	**24,426**	**112,704**	**-**	**-**	**153,968**	**-**	**291,098**
RECEIPTS	**1,405,622**	**1,989,480**	**1,152,688**	**8,771,756**	**536,528**	**5,475,812**	**1,108,441**	**722,013**	**21,162,340**
1 HSBC Loan	-	-	-	6,431,283	63,977	-	-	-	6,495,260
2 Private Loans	106,950	-	-	12,000	106,949	140,000	-	-	365,899
3 Government Funding	500,000	867,245	-	495,000	-	2,930,585	265,405	-	5,058,235
4 Corporate Donations	355,366	295,000	-	48,278	-	469,668	743,517	512,661	2,424,491
5 Individual Donations	6,735	840	1,100	-	5,000	41,700	86,349	89,092	230,816
6 Membership	19,205	2,060	-	-	-	488,454	-	-	509,719
7 Rental of Facility	36,440	36,095	-	600	-	30,126	-	-	103,261
8 Fund Raising/ Sports programmes/ School camps	78,758	108,608	-	-	872	331,211	12,325	15,843	547,617
9 Sales	203,544	-	-	4,325	-	79,240	-	3,351	290,460
10 Other income	13,595	6,416	1,588	5,361	4,524	336,171	845	3,265	371,765
11 Inter account transfers	85,030	673,216	1,150,000	1,774,909	355,205	628,655	-	97,802	4,764,817
PAYMENTS	**1,404,089**	**1,987,752**	**676,715**	**8,884,460**	**4,591,068**	**5,195,799**	**1,262,409**	**711,201**	**24,713,493**
12 HSBC Loan & Interest payments	-	-	-	370,097	287,068	2,419,653	-	21,496	3,098,314
13 Private Loan & Interest payments	57,687	80,500	-	-	-	-	-	-	138,187
14 Construction Costs, BCM	-	-	-	7,622,040	702,477	100,000	119,594	-	8,544,111
15 Project costs/ capital expenditure	17,875	72,950	-	800,163	244,946	127,634	680,516	40,433	1,984,517
16 Maintenance costs (building, pool, gym)	44,535	42,225	160	-	-	85,879	4,500	7,560	184,859
17 Staff / Consultant / Professional fees	684,061	682,152	-	29,463	33,618	1,748,600	378,388	106,193	3,662,475
18 Electricity, BELCO	-	130,000	-	-	11,791	115,000	-	-	256,791
19 Utilities / Taxes	18,484	68,361	-	-	-	52,309	7,720	4,186	151,059
20 Fund Raising/ Sports programmes/ School camps	72,231	45,657	-	-	-	223,799	15,979	34,524	392,191
21 Other expenses	5,621	1,026	-	7,370	-	67,249	25,684	-	106,949
22 Bank Charges/Interest	2,380	1,350	35	55,326	698	4,224	1,450	947	66,411
23 Inter account transfers	501,216	863,530	676,520	-	1,948,197	250,935	28,579	495,861	4,764,837
24 Overdraft interest	-	-	-	-	1,362,273	516	-	-	1,362,790
Closing Balance (calculated)	**1,533**	**1,728**	**500,400**	**0**	**(4,054,541)**	**280,013**	**0**	**10,811**	**(3,260,055)**
Closing Balance (per bank statement)	1,533	1,728	500,400	-	(4,054,541)	280,012	-	10,811	(3,260,056)
Difference	(0)	(0)	-	0	-	1	0	(0)	1
Net inflow / (outflow)	**1,533**	**1,728**	**475,974**	**(112,703)**	**(4,054,541)**	**280,013**	**(153,968)**	**10,811**	**(3,551,153)**

Appendix C

Group R&P

Entity		Company	Trustees	Foundation
Opening balance (per bank statement)		**-**	**112,704**	**178,395**
RECEIPTS		**6,881,434**	**11,297,764**	**2,983,142**
	1 HSBC Loan	-	6,495,260	-
	2 Private Loans	246,950	118,949	-
	3 Government Funding	3,430,585	1,362,245	265,405
	4 Corporate Donations	825,034	343,278	1,256,178
	5 Individual Donations	48,435	5,840	176,541
	6 Membership	507,659	2,060	-
	7 Rental of Facility	66,566	36,695	-
	8 Fund Raising/ Sports programmes/ School camps	409,969	109,481	28,168
	9 Sales	282,784	4,325	3,351
	10 Other income	349,766	16,301	5,698
	11 Inter account transfers	713,685	2,803,330	1,247,802
PAYMENTS		**6,599,888**	**15,463,280**	**2,650,325**
	12 HSBC Loan & Interest payments	2,419,653	657,165	21,496
	13 Private Loan & Interest payments	57,687	80,500	-
	14 Construction Costs, BCM	100,000	8,324,517	119,594
	15 Project costs/ capital expenditure	145,509	1,118,060	720,949
	16 Maintenance costs (building, pool, gym)	130,414	42,225	12,220
	17 Staff / Consultant / Professional fees	2,432,661	745,234	484,581
	18 Electricity, BELCO	115,000	141,791	-
	19 Utilities / Taxes	70,792	68,361	11,906
	20 Fund Raising/ Sports programmes/ School camps	296,031	45,657	50,503
	21 Other expenses	72,869	8,395	25,684
	22 Bank Charges/Interest	6,604	57,375	2,432
	23 Inter account transfers	752,151	2,811,727	1,200,959
	24 Overdraft interest	516	1,362,273	-
Closing Balance (sum of balances)		**281,546**	**(4,052,812)**	**511,212**
Closing Balance (per bank statement)		281,545	(4,052,812)	511,211
Difference		1	0	0
Net inflow / (outflow)		**281,546**	**(4,165,516)**	**332,817**

Appendix D

Basis B - R&P excluding HSBC, construction, Government and private loan cash flows

Group									
Year		2006	2007	2008	2009	2010	2011	2012	2013
RECEIPTS		**30,129**	**80,747**	**399,267**	**794,154**	**979,150**	**979,650**	**697,563**	**517,469**
	4 Corporate Donations	24,235	71,524	319,370	492,262	540,168	521,666	304,566	150,700
	5 Individual Donations	5,755	6,100	70,274	105,531	26,863	5,690	10,252	350
	6 Membership	-	-	-	28,446	130,972	165,285	121,001	64,016
	7 Rental of Facility	-	-	2,420	9,040	16,694	16,830	19,940	38,338
	8 Fund Raising/ Sports programmes/ School camps	-	-	-	103,303	121,172	166,428	90,102	66,613
	9 Sales	-	-	4,325	26,510	20,671	27,445	95,160	116,349
	10 Other income	139	3,123	2,878	29,062	122,609	76,307	56,542	81,104
PAYMENTS		**3,844**	**65,557**	**297,671**	**661,524**	**1,114,853**	**1,248,353**	**1,074,676**	**545,995**
	15 Project costs/ capital expenditure					89,492	34,360	63,828	4,056
	16 Maintenance costs (building, pool, gym)	-	-	4,000	23,799	58,330	39,039	34,014	25,678
	17 Staff / Consultant / Professional fees	2,955	41,583	227,969	533,232	784,435	867,024	749,108	456,168
	18 Electricity, BELCO	-	-	-	11,791	15,000	130,000	100,000	-
	19 Utilities / Taxes	-	-	1,305	15,742	33,210	78,019	12,010	10,773
	20 Fund Raising/ Sports programmes/ School camps	-	6,360	9,144	52,794	92,471	79,887	109,108	42,427
	21 Other expenses	886	16,766	13,702	8,425	40,960	17,477	3,702	5,031
	22 Bank Charges/Interest	3	847	41,550	15,742	955	2,547	2,906	1,862
Net inflow / (outflow)		**26,285**	**15,191**	**101,596**	**132,630**	**(135,704)**	**(268,703)**	**(377,113)**	**(28,525)**

Appendix E

Basis C - Ordinary trading R&P excluding HSBC, construction, Government, private loan and corporate and individual donation cash flows

Group									
Year		2006	2007	2008	2009	2010	2011	2012	2013
RECEIPTS		**139**	**3,123**	**9,623**	**196,361**	**412,118**	**452,294**	**382,745**	**366,419**
6	Membership	-	-	-	28,446	130,972	165,285	121,001	64,016
7	Rental of Facility	-	-	2,420	9,040	16,694	16,830	19,940	38,338
8	Fund Raising/ Sports programmes/ School camps	-	-	-	103,303	121,172	166,428	90,102	66,613
9	Sales	-	-	4,325	26,510	20,671	27,445	95,160	116,349
10	Other income	139	3,123	2,878	29,062	122,609	76,307	56,542	81,104
PAYMENTS		**3,844**	**65,557**	**297,671**	**661,524**	**1,025,362**	**1,213,993**	**1,010,848**	**541,939**
16	Maintenance costs (building, pool, gym)	-	-	4,000	23,799	58,330	39,039	34,014	25,678
17	Staff / Consultant / Professional fees	2,955	41,583	227,969	533,232	784,435	867,024	749,108	456,168
18	Electricity, BELCO	-	-	-	11,791	15,000	130,000	100,000	-
19	Utilities / Taxes	-	-	1,305	15,742	33,210	78,019	12,010	10,773
20	Fund Raising/ Sports programmes/ School camps	-	6,360	9,144	52,794	92,471	79,887	109,108	42,427
21	Other expenses	886	16,766	13,702	8,425	40,960	17,477	3,702	5,031
22	Bank Charges/Interest	3	847	41,550	15,742	955	2,547	2,906	1,862
Net inflow / (outflow)		**(3,705)**	**(62,433)**	**(288,048)**	**(465,163)**	**(613,243)**	**(761,698)**	**(628,103)**	**(175,519)**

Appendix 5

Government grant letter dated 13 September 2102

GOVERNMENT OF BERMUDA

The Ministry of Finance

Ministry of Finance Headquarters

Ref: FS 20/B/3

13 September, 2012

To Whom It May Concern:

Re: $6,000,000 Capital Grant to Sandys 360

The purpose of this letter is to confirm that the Bermuda Government through the Ministry of Government Estates and Information Services has committed to provide the Directors and Board of Trustees of the Sandys360 Sport, Aquatic and Enrichment Centre with a $6,000,000 capital grant to assist them with the servicing of debt related to the acquisition of capital assets.

Further, we confirm that $2,000,000 will be disbursed in the current fiscal year and the remaining will be disbursed in the 2013/14 and 2014/15 fiscal years.

If you have any questions regarding this matter please contact the undersigned at 297-7501.

Yours sincerely,

Anthony Manders, C.G.A.
Financial Secretary

cutting through complexity™