

FINANCIAL INTELLIGENCE AGENCY
FINANCIAL STATEMENTS
MARCH 31, 2010



Office of the Auditor General

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AUDITOR'S REPORT

To the Minister of Legal Affairs

I have audited the statement of financial position of the Financial Intelligence Agency as at March 31, 2010 and the statements of operations and accumulated surplus, changes in net financial assets, and cash flows for the period from November 15, 2008 (commencement of operations) to March 31, 2010. These financial statements are the responsibility of the Agency's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in Bermuda and Canada. Those standards require that I plan and perform an audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Financial Intelligence Agency as at March 31, 2010 and the results of its operations and its cash flows for the period from November 15, 2008 (commencement of operations) to March 31, 2010 in accordance with accounting principles generally accepted in Bermuda and Canada.

Hamilton, Bermuda
March 26, 2013

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

FINANCIAL INTELLIGENCE AGENCY
STATEMENT OF FINANCIAL POSITION
MARCH 31, 2010

	2010 \$
FINANCIAL ASSETS	
Cash and cash equivalents (note 4)	<u>558,768</u>
FINANCIAL LIABILITIES	
Accounts payable and accrued liabilities	64,132
Due to the Government of Bermuda (note 7)	<u>25,757</u>
	<u>89,889</u>
NET FINANCIAL ASSETS	<u>468,879</u>
NON-FINANCIAL ASSETS	
Prepaid expenses	45,117
Tangible capital assets (note 5)	<u>522,776</u>
	<u>567,893</u>
ACCUMULATED SURPLUS	<u>1,036,772</u>
COMMITMENTS (note 12)	

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

FINANCIAL INTELLIGENCE AGENCY
STATEMENT OF OPERATIONS AND ACCUMULATED SURPLUS
FOR THE PERIOD FROM NOVEMBER 15, 2008
(COMMENCEMENT OF OPERATIONS) TO MARCH 31, 2010

	2010 \$ Budget (Note 13)	2010 \$ Actual
REVENUES		
Government of Bermuda operating grant (note 7)	2,450,000	2,450,000
Special grant (note 7)	-	482,000
	<u>2,450,000</u>	<u>2,932,000</u>
EXPENSES		
Salaries and employee benefits (note 9)	1,103,422	886,696
Rent (note 12)	316,810	307,148
Travel and entertainment (note 8)	129,600	99,070
Equipment rental and maintenance	61,750	89,486
Professional fees	120,000	78,841
Amortization of tangible capital assets	138,660	74,412
Directors' fees (note 7)	50,500	59,840
Communication costs	34,303	53,965
Recruitment	34,000	53,645
Computer	282,623	51,217
Government taxes, fees and permits	75,631	50,833
Education, training and awareness	73,000	22,212
Office maintenance	23,000	21,224
Office supplies	55,677	20,424
Membership fees	13,700	18,318
Insurance	60,000	1,561
Miscellaneous	9,683	6,336
	<u>2,582,359</u>	<u>1,895,228</u>
ANNUAL (DEFICIT) SURPLUS	<u>(132,359)</u>	1,036,772
ACCUMULATED SURPLUS, BEGINNING OF PERIOD		<u>-</u>
ACCUMULATED SURPLUS, END OF PERIOD		<u>1,036,772</u>

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

FINANCIAL INTELLIGENCE AGENCY
STATEMENT OF CHANGES IN NET FINANCIAL ASSETS
FOR THE PERIOD FROM NOVEMBER 15, 2008
(COMMENCEMENT OF OPERATIONS) TO MARCH 31, 2010

	2010 \$
NET FINANCIAL ASSETS, BEGINNING OF PERIOD	-
Annual surplus	1,036,772
Change in prepaid expenses	(45,117)
Acquisition of tangible capital assets (note 5)	(597,188)
Amortization of tangible capital assets (note 5)	74,412
Change in net financial assets during the period	468,879
NET FINANCIAL ASSETS, END OF PERIOD	468,879

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

FINANCIAL INTELLIGENCE AGENCY
STATEMENT OF CASH FLOWS
FOR THE PERIOD FROM NOVEMBER 15, 2008
(COMMENCEMENT OF OPERATIONS) TO MARCH 31, 2010

	2010 \$
CASH FLOWS FROM OPERATING ACTIVITIES	
Annual surplus	1,036,772
Adjustment for items not affecting cash:	
Amortization of tangible capital assets (note 5)	74,412
Change in non-cash working capital items:	
Increase in accounts payable and accrued liabilities	64,132
Increase in due to the Government of Bermuda	25,757
Increase in prepaid expenses	<u>(45,117)</u>
Net cash generated from operating activities	<u>1,155,956</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchase of tangible capital assets (note 5)	<u>(597,188)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	558,768
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	<u>-</u>
CASH AND CASH EQUIVALENTS, END OF PERIOD	<u><u>558,768</u></u>

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

FINANCIAL INTELLIGENCE AGENCY
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2010

1. AUTHORITY

The Financial Intelligence Agency (the “Agency”) was established under the Financial Intelligence Agency Act 1997 (the “Act”) on November 15, 2008. The Agency is designated as the central reporting authority in Bermuda to receive, gather, store, analyze and disseminate reports of suspected proceeds of crime and potential financing of terrorism. Section 4 of the Act states that a Board of Directors shall be appointed by the Minister of Justice which is to be responsible for managing the affairs and business of the Agency. The Agency is operationally independent. Section 8 of the Act states that the funds of the Agency shall consist of such sums paid out of the Confiscated Assets Fund and such sums as may be appropriated by the Legislature for the purpose of the Agency.

2. SIGNIFICANT ACCOUNTING POLICIES

These financial statements are prepared in accordance with generally accepted accounting principles as recommended by the Public Sector Accounting Board (“PSAB”) of the Canadian Institute of Chartered Accountants. For financial reporting purposes, the Agency is classified as an other government organization and has adopted accounting policies appropriate for this classification. The accounting policies considered particularly significant are set out below:

(a) Cash and cash equivalents

Cash and cash equivalents include all cash held with financial institutions that can be withdrawn without prior notice or penalty and time deposits with an original maturity of 90 days or less.

(b) Tangible capital assets and amortization

Tangible capital assets are stated at cost less accumulated amortization. Tangible capital assets are classified according to their functional use. Amortization is recorded on a straight-line basis over their estimated useful lives as follows:

Computer and telecommunications equipment	- 3 years
Furniture and fixtures	- 3-10 years
Computer software	- 10 years
Leasehold improvements	- Lesser of 10 years or term of lease

FINANCIAL INTELLIGENCE AGENCY
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2010

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) Tangible capital assets and amortization (continued)

Tangible capital assets are reviewed for impairment whenever events or changes in circumstances indicate that the asset no longer contributes to the Agency's ability to provide goods and services, or the value of future economic benefits associated with the capital tangible asset is less than its net book value. In either case the cost of the tangible capital asset is reduced to reflect the decline in the asset's value.

(c) Revenue recognition

The Government of Bermuda (the "Government") operating and special grants received and receivable for use in the day-to-day operations of the Agency are recognized as revenue on the statement of operations and accumulated surplus in the year to which they relate.

(d) Non-financial assets

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

(e) Translation of foreign currencies

Assets and liabilities in foreign currencies are translated to Bermuda dollars at rates of exchange in effect at the statement of financial position date.

Revenues and expenses are translated at the exchange rate in effect at the transaction date.

(f) Accounts payable and accrued liabilities

Accounts payable are stated at amortized cost.

The Agency recognizes accrued liabilities if a present obligation has arisen as a result of a past event, payment is probable and the amount can be measured reliably. The amount recognized is the best estimate of the expenditure required to settle the present obligation at the statement of financial position date, that is, the amount the Agency would rationally pay to settle the obligation to a third party.

FINANCIAL INTELLIGENCE AGENCY
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2010

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(g) Measurement uncertainty

The preparation of financial statements in accordance with accounting principles as recommended by PSAB requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the year. Actual results could differ from these estimates. Significant areas requiring the use of estimates relate to the useful lives of tangible capital assets.

(h) Subsequent events

Post-year-end events that provide additional information about the Agency's position at the statement of financial position date (adjusting events) are reflected in the financial statements. Post-year-end events that are not adjusting events are disclosed in the notes to the financial statements when material.

3. ECONOMIC DEPENDENCE

The Agency is economically dependent upon the financial assistance provided by the Government to fund its daily operations, cash flow, capital development and capital acquisitions.

4. CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of current account deposits and comprise of the following:

	2010 \$
Cash at bank - BMD	557,783
Cash at bank - USD	985
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	558,768
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FINANCIAL INTELLIGENCE AGENCY
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2010

5. TANGIBLE CAPITAL ASSETS

	Furniture and Fixtures	Computer and Telecommunications Equipment	Computer Software	Leasehold Improvements	Total
	\$	\$	\$	\$	\$
Additions	29,437	221,402	302,796	43,553	597,188
Closing cost	29,437	221,402	302,796	43,553	597,188
Amortization	6,406	47,422	15,140	5,444	74,412
Closing accumulated amortization	6,406	47,422	15,140	5,444	74,412
Net book value	23,031	173,980	287,656	38,109	522,776

6. FINANCIAL INSTRUMENTS

The Agency's financial instruments consist of cash and cash equivalents and accounts payable and accrued liabilities. The estimated fair value of these financial instruments approximates their carrying values due to their relative short-term nature.

7. RELATED PARTY TRANSACTIONS

The Agency is related in terms of common ownership to all Government departments, funds and agencies. The Agency enters into transactions with these entities in the normal course of business and such transactions are measured at the exchange amount which is the amount of consideration established and agreed by the related parties.

(a) Operating grant

During the period, the Government provided an operating grant of \$2,450,000 to the Agency.

(b) Special grant

During the period the Agency received a capital grant of \$482,000 from the Government.

FINANCIAL INTELLIGENCE AGENCY
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7. RELATED PARTY TRANSACTIONS (continued)

(c) Due to the Government of Bermuda

The Fund had transactions totaling \$114,816 relating to payroll tax, pension submissions, health insurance and social insurance, of which \$25,757 was owed to the Government of Bermuda at period end.

(d) Other

During the period, the Agency paid Directors of the Agency, fees in the amount of \$59,840.

On June 25, 2009, the Agency applied through the Ministry of Justice to receive funding from the Confiscated Assets Fund to support the installation of a new information technology solution that would improve upon the Agency's ability to proactively carry out its mandated function under the Act.

On July 21, 2009, the Agency was advised by the Ministry of Finance that its application through the Ministry of Justice to receive funding from the Confiscated Asset Fund had been approved.

Total funding in the amount of \$482,000 was received on August 21, 2009 of which \$350,000 was allocated for the GoAML software, licensing and installation fees and \$132,000 was allocated for local service provider/hardware cost and installation.

8. TRAVEL AND ENTERTAINMENT

Approximately 95% of the expenses in this category represent associated travel costs incurred for attendance at Egmont Group and Caribbean Financial Action Task Force working groups and plenary meetings.

9. EMPLOYEE BENEFITS

(a) Pension plan

All employees of the Agency are covered by the Public Service Superannuation Fund (the "Fund") administered by the Government. Contributions to the Fund are required from both the employee and the Agency. These contributions represent the total liability of the Agency and are recognized in the accounts on a current basis.

FINANCIAL INTELLIGENCE AGENCY
NOTES TO THE FINANCIAL STATEMENTS

MARCH 31, 2010

9. EMPLOYEE BENEFITS (continued)

(a) Pension plan (continued)

Contributions to the Fund are 8% of gross salary and are matched equally by the Agency.

The Agency is not required under present legislation to make contributions with respect to actuarial deficiencies of the Fund. As a result, the current period contributions to the Fund represents the total liability of the Agency. The total pension expense contributed by the Agency during the period amounted to \$37,388.

(b) Other benefits

Other employee benefits include maternity leave, sick leave and vacation days. All these benefits are unfunded.

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

Sick leave accumulates but does not vest, and like maternity leave, a liability is recorded only when extended leave is applied for and approved. There was no extended sick leave applied for or approved during the current period and therefore, no liability has been accrued in the financial statements.

Vacation days accumulate and vest and therefore a liability has been accrued at period end. The accrued vacation liability as at March 31, 2010 is \$35,961 and is included in accounts payable and accrued liabilities.

10. FINANCIAL RISK MANAGEMENT

The Agency is exposed to various risks through its financial instruments. The Board has overall responsibility for the establishment and oversight of its risk management framework. The Agency manages its risks and risk exposures through sound business practices. The following analysis provides a measure of the risks at the reporting date, March 31, 2010.

FINANCIAL INTELLIGENCE AGENCY
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MARCH 31, 2010

10. FINANCIAL RISK MANAGEMENT (continued)

(a) Credit risk

Credit risk arises from cash held with banks. The maximum exposure to credit risk is equal to the carrying values of these financial assets. It is management's opinion that the Agency is not exposed to significant credit risk.

(b) Liquidity risk

Liquidity risk is the risk the Agency will not be able to meet its financial obligations as they fall due. The Agency's objective in managing liquidity is to ensure that it will always have sufficient liquidity to meet its commitments when due, without incurring unacceptable losses or risking damage to the Agency's reputation. The Agency manages exposure to liquidity risk by closely monitoring supplier and other liabilities, focusing on generating positive cash flows from operations and establishing and maintaining good relationships with various financial institutions.

(c) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates, will affect the fair value of recognized assets and liabilities or future cash flows of the Agency's results of operations. The Agency has minimal exposure to market risk.

(i) Foreign exchange rate

The Agency's business transactions are mainly conducted in Bermuda dollars and, as such, it has minimal exposure to foreign exchange risk.

(ii) Interest rate

The Agency is exposed to changes in interest rates, which may impact interest revenue on cash deposits. The Agency's accounts payable and accrued liabilities are non-interest bearing.

11. CAPITAL MANAGEMENT

The Agency's objective when managing capital is to hold sufficient equity to enable it to withstand negative unexpected financial events. The Agency seeks to achieve this objective through receipt of grants from the Government and maintaining a surplus. The Agency maintains sufficient liquidity to meet its short-term obligations as they come due. The Agency is not subject to any externally imposed capital requirements.

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12. COMMITMENTS

The Attorney-General and Minister of Justice, on behalf of the Board, entered into the following lease agreements:

- (a) With respect to the 5th floor of the premises currently occupied by the Agency, the lease which was effective August 15, 2008 for 3 years, calls for an annual rent of \$108,405. The remaining obligation under this lease is \$144,540; and
- (b) With respect to the 6th floor of the premises currently occupied by the Agency, the lease which was effective November 15, 2008 for 3 years, calls for an annual rent of \$108,405 for the first 18 months and the remaining portion of the lease will increase to \$118,260 per annum. The remaining obligation under this lease is \$186,424.

13. BUDGET

Budget amounts represent the combined operating budget approved by the Board for the period from November 15, 2008 (commencement of operations) to March 31, 2010 and is presented using a basis consistent with that used for actual results.

14. SUBSEQUENT EVENT

Effective November 2011, the leases were combined and the new lease is for an annual rent of \$197,100 per annum. There have been no changes in respect of the maintenance expense which continue on the same basis.

15. FUTURE ACCOUNTING POLICY DEVELOPMENT

PSAB issued Section PS 3450 "Financial Instruments" in March 2011. This section proposes reporting on the nature and extent of risks associated with financial instruments held and issued by an entity. Financial instruments which are quoted in an active market will need to apply fair value measurement (e.g. equity investments or derivatives). All other non-derivative financial instruments will be measured at cost or amortized cost unless the entity elects to apply the fair value option. To support meaningful budget to actual comparisons, when fair value measurement is applied, the presentation of surplus/deficit will need to be reported both excluding and including any re-measurement gains or losses. Early adoption is permitted. This standard is effective for the Agency's March 31, 2013 financial statements and management does not anticipate a significant impact as a result of adoption.

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15. FUTURE ACCOUNTING POLICY DEVELOPMENT (continued)

In conjunction with Section PS 3450, PSAB also issued, Section 1201 which replaces the existing Section PS 1200, “Financial Statement Presentation”, and includes a new statement of re-measurement gains and losses. The new statement will report unrealised gains and losses associated with financial instruments in the fair value category, exchange gains and losses associated with monetary assets and liabilities denominated in a foreign currency, amounts reclassified to the statement of operations upon derecognition, and other comprehensive income reported when a public sector entity includes the results of its government business enterprises and partnerships in the financial statements. Early adoption is permitted. The standard is effective for the Agency’s March 31, 2015 financial statements and management does not anticipate a significant impact as a result of adoption.

16. COMPARATIVE FIGURES

There are no comparative figures as this is the first period of operations of the Financial Intelligence Agency.