

FINANCIAL INTELLIGENCE AGENCY

Financial Statements

For the Year Ended March 31, 2015



Office of the Auditor General

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INDEPENDENT AUDITOR'S REPORT

To the Minister of Legal Affairs

I have audited the accompanying financial statements of the Financial Intelligence Agency, which comprise the statement of financial position as at March 31, 2015, and the statements of operations and accumulated surplus, change in net financial assets and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with auditing standards generally accepted in Bermuda and Canada. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Financial Intelligence Agency as at March 31, 2015, and the results of its operations, changes in its net financial assets and its cash flows for the year then ended in accordance with public sector accounting standards generally accepted in Bermuda and Canada.

A handwritten signature in blue ink, appearing to read 'H.A. Matthews', followed by a long horizontal line extending to the right.

Hamilton, Bermuda
October 15, 2015

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

FINANCIAL INTELLIGENCE AGENCY
STATEMENT OF FINANCIAL POSITION
As at March 31, 2015

	2015	2014
	\$	\$
FINANCIAL ASSETS		
Cash and cash equivalents	93,461	214,683
	<u>93,461</u>	<u>214,683</u>
LIABILITIES		
Accounts payable and accrued liabilities	74,545	47,255
Due to the Government of Bermuda (Note 6)	14,133	38,075
	<u>88,678</u>	<u>85,330</u>
NET FINANCIAL ASSETS	<u>4,783</u>	<u>129,353</u>
NON-FINANCIAL ASSETS		
Prepaid expenses	10,216	39,488
Tangible capital assets (Note 4)	162,021	203,283
	<u>172,237</u>	<u>242,771</u>
ACCUMULATED SURPLUS	<u>177,020</u>	<u>372,124</u>
CONTRACTUAL OBLIGATIONS (Note 11)		

Signed on behalf of the Board:



Director



Director

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

FINANCIAL INTELLIGENCE AGENCY
STATEMENT OF OPERATIONS AND ACCUMULATED SURPLUS
FOR THE YEAR ENDED MARCH 31, 2015

	2015 \$ Budget (Note 12)	2015 \$ Actual	2014 \$ Actual
REVENUES			
Government of Bermuda grant (Note 6)	1,550,000	1,200,000	1,200,000
	<u>1,550,000</u>	<u>1,200,000</u>	<u>1,200,000</u>
EXPENSES			
Salaries and employee benefits (Note 8)	973,539	865,938	963,622
Rent (Note 11)	197,100	175,748	197,100
Payroll tax	67,422	58,997	66,123
Computer expenses	67,500	40,947	65,515
Equipment rental and maintenance	61,200	56,347	56,351
Amortization (Note 4)	-	41,262	47,559
Communication costs	42,420	42,496	44,828
Travel and entertainment (Note 7)	32,200	25,122	35,785
Directors' fees (Note 6)	25,000	22,361	22,456
Professional fees	40,000	39,525	12,556
Office maintenance	11,600	7,578	11,446
Membership fees	12,500	10,962	10,953
Office supplies and expenses	7,830	4,927	8,958
Insurance	4,000	3,625	3,625
Miscellaneous	4,000	(3,301)	2,005
Education, training and awareness	-	2,570	59
	<u>1,546,311</u>	<u>1,395,104</u>	<u>1,548,941</u>
ANNUAL (DEFICIT) SURPLUS	<u>3,689</u>	(195,104)	(348,941)
ACCMULATED SURPLUS, BEGINNING OF YEAR		<u>372,124</u>	<u>721,065</u>
ACCMULATED SURPLUS, END OF YEAR		<u>177,020</u>	<u>372,124</u>

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

FINANCIAL INTELLIGENCE AGENCY
STATEMENT OF CHANGE IN NET FINANCIAL ASSETS
FOR THE YEAR ENDED MARCH 31, 2015

	2015	2014
	\$	\$
NET FINANCIAL ASSETS, BEGINNING OF YEAR	129,353	435,836
Annual deficit	(195,104)	(348,941)
Change in prepaid expenses	29,272	3,879
Acquisition of tangible capital assets (Note 4)	-	(8,980)
Amortization of tangible capital assets (Note 4)	41,262	47,559
Changes in net financial assets during the year	(124,570)	(306,483)
NET FINANCIAL ASSETS, END OF YEAR	4,783	129,353

The accompanying notes are integral part of these financial statements.

FINANCIAL INTELLIGENCE AGENCY
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED MARCH 31, 2015

	2015	2014
	\$	\$
OPERATING TRANSACTIONS		
Annual deficit	(195,104)	(348,941)
Adjustment for items not affecting cash:		
Amortization of tangible capital assets (Note 4)	41,262	47,559
Change in non-cash working capital items:		
Increase (decrease) in accounts payable and accrued liabilities	27,290	(450)
Decrease in due to the Government of Bermuda	(23,942)	(6,122)
Decrease in prepaid expenses	29,272	3,879
Net cash used in operating transactions	<u>(121,222)</u>	<u>(304,075)</u>
CAPITAL TRANSACTIONS		
Purchase of tangible capital assets	<u>-</u>	<u>(8,980)</u>
Net cash used in capital transactions	<u>-</u>	<u>(8,980)</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(121,222)	(313,055)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>214,683</u>	<u>527,738</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>93,461</u>	<u>214,683</u>

The accompanying notes are integral part of these financial statements

FINANCIAL INTELLIGENCE AGENCY
NOTES TO THE FINANCIAL STATEMENTS

MARCH 31, 2015

1. AUTHORITY

The Financial Intelligence Agency (the "Agency") was established by Section 3 of the Financial Intelligence Agency Act 2007 (the "Act") on November 15, 2008. The Agency is designated as the central reporting authority in Bermuda to receive, gather, store, analyse 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 Canadian Public Sector Accounting Standards as recommended by the Public Sector Accounting Board ("PSAB") of the Chartered Professional Accountants of Canada ("CPA Canada"). For financial reporting purposes, the Agency is classified as an other government organization and has adopted accounting policies appropriate for this classification.

A statement of remeasurement gains and losses has not been presented as there are no unrealised gains or losses arising from financial instruments measured at fair value, or on monetary and non-monetary assets and liabilities denominated in foreign currencies. 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 the estimated useful lives of the assets as follows:

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

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 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.

FINANCIAL INTELLIGENCE AGENCY
NOTES TO THE FINANCIAL STATEMENTS

MARCH 31, 2015

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Revenue recognition

The Government of Bermuda (the "Government") operating grants received and receivable for use in the day-to-day operations of the Agency are recognised as revenue on the statement of operations and accumulated surplus in the year to which the transfer is authorised. Transfers are recognized as deferred revenue when transfer stipulations give rise to a liability.

(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

Monetary and non-monetary assets and liabilities in foreign currencies are translated to Bermuda dollars at rates of exchange in effect at the statement of financial position date. Any unrealised foreign exchange gains and losses are recognised in a statement of remeasurement gains and losses.

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

(f) Measurement uncertainty

The preparation of financial statements in accordance with Canadian Public Sector Accounting Standards 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.

(g) 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.

FINANCIAL INTELLIGENCE AGENCY
NOTES TO THE FINANCIAL STATEMENTS

MARCH 31, 2015

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(h) Financial instruments

Financial instruments which are quoted in an active market are measured at fair value. All other financial instruments are measured at cost or amortised cost. Any unrealised gains and losses from changes in the fair value of financial instruments are recognised in a statement of remeasurement gains and losses. Upon settlement, the cumulative gain or loss is reclassified from the statement of remeasurement gains and losses and recognised in the statement of operations and accumulated surplus. To support meaningful budget to actual comparisons, when fair value measurement is applied, the presentation of surplus/deficit is reported both excluding and including any remeasurement gains or losses.

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. TANGIBLE CAPITAL ASSETS

2015

	<u>Furniture and fixtures</u>	<u>Computer equipment</u>	<u>Computer software</u>	<u>Leasehold improvements</u>	<u>Total</u>
	\$	\$	\$	\$	\$
Opening cost	39,380	242,009	302,796	43,553	627,738
Additions	-	-	-	-	-
Closing cost	<u>39,380</u>	<u>242,009</u>	<u>302,796</u>	<u>43,553</u>	<u>627,738</u>
Opening accumulated amortization	37,883	227,448	136,259	22,865	424,455
Amortization	<u>1,497</u>	<u>5,131</u>	<u>30,279</u>	<u>4,355</u>	<u>41,262</u>
Closing accumulated amortization	<u>39,380</u>	<u>232,579</u>	<u>166,538</u>	<u>27,220</u>	<u>465,717</u>
Net book value	<u>-</u>	<u>9,430</u>	<u>136,258</u>	<u>16,333</u>	<u>162,021</u>

FINANCIAL INTELLIGENCE AGENCY
NOTES TO THE FINANCIAL STATEMENTS

MARCH 31, 2015

4. TANGIBLE CAPITAL ASSETS (continued)

2014

	Furniture and fixtures	Computer equipment	Computer software	Leasehold improvements	Total
	\$	\$	\$	\$	\$
Opening cost	39,380	233,029	302,796	43,553	618,758
Additions	-	8,980	-	-	8,980
Closing cost	<u>39,380</u>	<u>242,009</u>	<u>302,796</u>	<u>43,553</u>	<u>627,738</u>
Opening accumulated amortization	30,916	221,491	105,979	18,510	376,896
Amortization	<u>6,967</u>	<u>5,957</u>	<u>30,280</u>	<u>4,355</u>	<u>47,559</u>
Closing accumulated amortization	<u>37,883</u>	<u>227,448</u>	<u>136,259</u>	<u>22,865</u>	<u>424,455</u>
Net book value	<u>1,497</u>	<u>14,561</u>	<u>166,537</u>	<u>20,688</u>	<u>203,283</u>

5. FINANCIAL INSTRUMENTS

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

6. 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. Significant related party transactions are as follows:

(a) Operating grant

During the year, the Government provided an operating grant of \$1,200,000 (2014 - \$1,200,000) to the Agency.

(b) Due to the Government of Bermuda

The Agency had transactions totaling \$144,742 (2014 - \$163,988) relating to payroll tax, pension contributions, health insurance and social insurance, of which \$14,133 (2014 - \$38,075) was owed to the Government at year end.

FINANCIAL INTELLIGENCE AGENCY
NOTES TO THE FINANCIAL STATEMENTS

MARCH 31, 2015

6. RELATED PARTY TRANSACTIONS (continued)

(c) Other

During the year, the Agency paid Directors of the Agency fees in the amount of \$22,361 (2014 - \$22,456).

7. TRAVEL AND ENTERTAINMENT

Approximately 99% 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.

8. 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 recognised in the accounts on a current basis.

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 year contributions to the Fund represent the total liability of the Agency. The total pension expense contributed by the Agency during the year amounted to \$46,764 (2014 - \$54,759).

The Agency has an outstanding pension contribution amounting to \$7,793 (2014 - \$7,793) to the Fund, and this balance is included in accounts payable and accrued liabilities in the statement of financial position.

(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 recognised when applied for and approved. There were no maternity benefits applied for or approved during the current year maternity 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 year and therefore, no liability has been accrued in the financial statements.

FINANCIAL INTELLIGENCE AGENCY
NOTES TO THE FINANCIAL STATEMENTS

MARCH 31, 2015

8. EMPLOYEE BENEFITS (continued)

(b) Other benefits (continued)

Vacation days accumulate and vest and therefore a liability has been accrued at year end. The accrued vacation liability as of March 31, 2015 is \$37,666 (2014 - \$27,445) and is included in accounts payable and accrued liabilities in the statement of financial position.

9. 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, 2015.

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.

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 risk 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.

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 recognised 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 risk*

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 risk*

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.

FINANCIAL INTELLIGENCE AGENCY
NOTES TO THE FINANCIAL STATEMENTS

MARCH 31, 2015

10. CAPITAL MANAGEMENT

The Agency's objective when managing capital is to hold sufficient accumulated surplus to enable it to withstand negative unexpected financial events. The Agency seeks to achieve this objective through receipt of grants from the Government and monitoring its expenses against budget. 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.

11. CONTRACTUAL OBLIGATIONS

The Agency entered into a lease of the premises currently occupied by the Agency effective November 15, 2014 with an annual rent of \$145,854 per annum for 5 years. The remaining obligation under this lease is \$674,575.

The lease agreement also calls for the Agency to pay a maintenance expense of \$3,912 per month. Further, the agreement stipulates that at the end of each year of the agreement, the landlord is required to produce accounts showing the actual maintenance expenses for that period. If the actual maintenance expense is less than the monthly amount noted herein the balance is to be remitted to the Agency. Conversely, if the actual maintenance expense is more than the monthly amount paid by the Agency the difference is to be paid by the Agency. These adjustments are recorded on an as notified basis.

12. BUDGET

Budget amounts represent the operating budget approved by the Board on January 21, 2014 and is presented using a basis consistent with that used for actual results.