



ANNUAL REPORT 2019 – 2020

WHO WE ARE

The RA was established by legislation in January 2013, (Regulatory Authority Act, 2011) as the national regulatory body to regulate the Electronic Communications and Electricity sectors.

As an independent, apolitical, regulatory body, the Regulatory Authority (“the RA”) was established to promote fair business practice, protect consumer and industry stakeholders, and encourage innovation, competition and integrity in regulated markets.

We are comprised of a professional team of subject matter specialists, who are passionate about managing the infrastructure of Bermuda’s regulatory environment with high standards.

OUR MANDATE

The Principal Functions of the Authority, in relation to any regulated industry sectors are:

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

The RA has the power to supervise, monitor and regulate any regulated industry sector, in accordance with the Regulatory Authority Act 2011, sectoral legislation and any regulations or policies made by the Minister. Within its scope, it may make administrative determinations and has the power to issue adjudicative decisions and orders as appropriate.

OUR MISSION

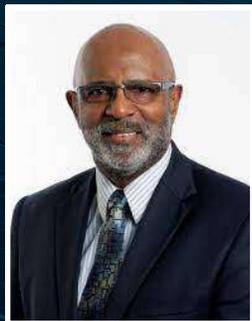
The RA conducts technological, economic and market analysis to provide robust and independent information, for consideration in our decisions and rulings:

We follow principles such as:

- Transparency of information and decision-making
- Public consultation and participation



CHAIRMAN'S COMMENTS



It is my pleasure to report on the activities of the Regulatory Authority within the fiscal year 2019-20, which was an important year of development and accomplishment.

As the new Chairman, the focus was on putting internal processes in place to optimize the management of the organization. In determining the scope of work that 2019-20 would bring, it quickly became evident that the RA had to prepare internally with training and expansion in the form of technical training for the staff and updating the physical premises in readiness for new staff members to accomplish the workload.

I am pleased to report that the team exerted tremendous effort to produce significant milestones across both regulated sectors of electricity and electronic communications.

Early in the fiscal, the RA launched Bermuda's first Integrated Resource Plan ("IRP"), which is Bermuda's road map for islands energy needs for the next 25 years. The RA was then able to take further steps in developing the IRP, by issuing a license to develop solar at Bermuda's L.F. Wade International Airport.

Continuing with the electricity sector, the price of electricity was lowered for the ensuing year through the Retail Tariff. We were also able to develop a new Feed-in-Tariff for distributed generators of solar.

In the Electronic Communications sector, the focus was on stimulating the economy and competition. The RA accepted new licence applications for the development of Integrated Communication Operating Licenses ("ICOLs"), progressed the comprehensive review of the sector through the 'Market Review', produced Principles of Consumer Protection to advise the public about their rights and responsibilities for both sectors and in the early stages of the pandemic, and ensured that consumers would not be cut off from their services through the creation of an Emergency General Determination. While we were forced to work remotely, I am happy to state that the RA was agile, responsive, and managed the transition seamlessly.

The RA will continue to grow as an organization and as a team to deliver the needed instruments and projects to regulate the sectors and I am very satisfied with the steps taken and the accomplishments of the management the team, especially throughout the unprecedented pandemic.

Finally, I am grateful to my predecessors as Chair, Ms. Angela Berry and William Francis, who previously served the RA. I would also like to thank the

Early in the fiscal, the RA launched Bermuda's first Integrated Resource Plan ("IRP"), which is Bermuda's roadmap for islands energy needs for the next 25 years.

Commissioners and management and staff of the RA, who continue to serve with passion, a determined focus to complete the projects with an excellent work ethic. I am proud of this team, and to spearhead their efforts on behalf of Bermuda. I offer each member my heartfelt thanks for their contributions to the RA's achievements.

While we cannot know what the future holds, we remain confident that we have laid a strong foundation and that the RA will continue to develop its people, and its sectors for the benefit of all its stakeholders.



Mark Fields, *Chairman*

STRATEGIC GOALS

The RA is focused on achieving the following five strategic goals:

Striving for organizational excellence:

1

to be a highly efficient and effective organization that supports and enables its staff to achieve the Authority's objectives

Promoting and facilitating sustainable competition:

2

to apply effective and proportionate regulation to facilitate dynamic and sustainable competition within the sectors it regulates

Promoting and protecting the interests of consumers:

3

to safeguard the interests of the consumers of electronic communications and electricity services by protecting and empowering consumers

Facilitating innovation and investment:

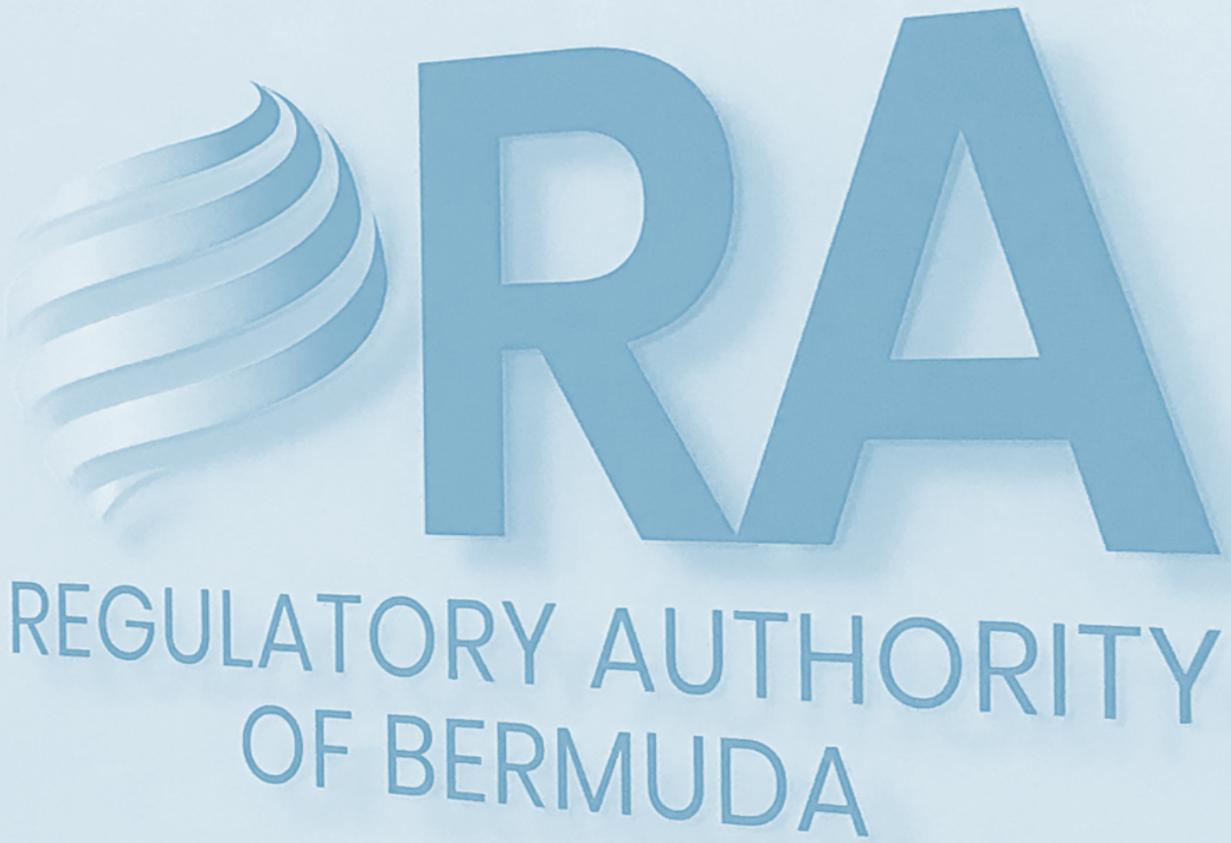
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to provide regulatory certainty within the sectors under its responsibility. This will include the fair application of rules, market evaluation and enforcement of breaches of its regulatory rules. This, in turn, will encourage and support investment into the relevant sectors

Providing advice and information to the government:

5

on policy and legislative changes which may be required to enhance the success of the electronic communications and electricity sectors, and to promptly respond to legally mandated directives from the Minister.



ACTIVITY HIGHLIGHTS

The purpose of the Work Plan is to identify the RA's mandate, strategic goals and the major activities it anticipates undertaking for the current fiscal year. We have highlighted Work Plan activities (which are indicated with **WP**) and projects outside of the Work Plan below.

ELECTRONIC COMMUNICATIONS

PROMOTING AND FACILITATING SUSTAINABLE COMPETITION

WP Activity 1: Market Review remedies

The RA conducted a Preliminary Report on the proposed Market Review for the Electronic Communications sector. The Market Review is specifically focused on reviewing providers in the electronic communications sector for significant market power ("SMP"). The Report recommends the following:

- To offer protection to consumers by analyzing the state of competition in the EC markets such as broadband and mobile;
- To determine whether SMP's hinder competition; and
- To create a regulatory environment where positive consumer developments are sustainable and enduring by imposing obligations on providers identified as having SMP where appropriate.

One of the RA's recommendations is that consumers should be protected from being locked into term contacts for more than two years, and be able to switch providers quickly and easily, without significant transaction costs, requiring operators in the EC sector to meet these minimum standards.

Activity 2: Integrated Communication Operating Licences

During the fiscal year, the RA conducted a public consultation into its proposed framework to accept new Integrated Communication Operating Licence (ICOL) applications and later were able to accept two new ICOL applications.

PROMOTING AND PROTECTING THE INTERESTS OF CONSUMERS

WP Activity 1: Open Internet public consultation

In its mandate to promote fair business practices and protect consumers, the RA hosted a public consultation to discuss Net Neutrality, also referred to as Open Internet, from May 20th to June 28th, 2019.

Open Internet is the principle that Internet Service Providers ("ISPs"), must provide the public with access to all lawful websites and online data without discrimination. e.g., access to stream movies, send emails or interact on social media platforms.

As the RA is established to regulate the electricity and electronic communications sectors in Bermuda and protect consumers, its role in this instance, is to develop the rules for Open Internet and to clearly define what ISPs can and cannot do with Internet traffic. In some jurisdictions, ISPs influence what their customers see and how quickly they see it, by speeding up some services and slowing down or even blocking access to legal content or apps.

ELECTRICITY

FACILITATING INNOVATION AND INVESTMENT

WP Activity 1: Integrated Resource Plan

The RA initiated its first Integrated Resource Plan (“IRP”) for the island. The IRP is a roadmap to meet forecasted energy demand using both supply and demand side resources to provide cost-effective, reliable service to customers. It is designed to balance the future demand and supply of electricity, consistent with the EA and Bermuda’s energy policy objectives.

As a result of the RA’s analysis, two distinct options emerged:

- 1) liquified natural gas as a fuel source with additional renewable energy; and
- 2) no liquified natural gas with very high renewable energy penetration. The RA selected the high renewable option which will yield the lowest long-term cost for a non-natural gas solution, while exceeding Bermuda’s renewable energy policy objective.

The next steps in the IRP implementation include conducting several pre-feasibility studies to a) quantify the maximum amount of solar capacity available and future requirements b) undertake an investment grade study regarding the use of wind power and c) determine the feasibility of introducing biomass generation into the energy mix.

The RA will also conduct another IRP within the next three to four years to include the results of the pre-feasibility studies, to identify new changes in technology and gauge public sentiment regarding energy.

WP Activity 2: Retail Tariff review

After months of extensive review of the Retail Tariff (“RT”), the RA is pleased that the outcome has resulted in a reduction in the cost of electricity for all consumer groups using the newly developed RT methodology. The review determined the allowed revenue into RTs for the various classification of customers.

The rate review process included an in-depth analysis of BELCO’s costs to generate, transmit and distribute electricity, its capital costs and operational, maintenance, overhead, depreciation, amortization, and administrative costs. A further review of the retail tariffs will be completed before the end of 2020 to set tariffs for subsequent years.

PROMOTING AND FACILITATING SUSTAINABLE COMPETITION

Activity 1: BELCO Change of Control

In June 2019, Ascendant (the parent company of BELCO), signed an agreement to be sold to Algonquin Power & Utilities Corporation. As the RA regulates BELCO, it is the RA's responsibility to evaluate the proposed change of control of BELCO in accordance with the provisions of applicable legislation and any Ministerial directions. The next step in the process, from the RA's perspective, will be for BELCO to submit a formal application for a change of control, so that the RA can make an informed decision

Activity 2: New Feed-in Tariff for Distributed Generators for renewable energy systems

After conducting a thorough and complete solar PV analysis to establish a new Feed-in-Tariff ("FIT") for Bermuda's solar PV Distributed Generators ("DGs"), the RA issued a new FIT, which was revised from 0.1736 (\$/kWh) to \$0.2265 per kilowatt hour ("kWh") and will take effect on October 7, 2019. The FIT is the pre-determined rate at which renewable energy is purchased by the public utility from residential or commercial solar DGs, for the excess electricity they generate and feed into the grid. In Bermuda, DGs are primarily small-scale solar customers with renewable energy systems below 500kW but may also include wind or other renewables generation sources.

Note: The FIT will be reviewed before 2022.

Activity 3: Spectrum Assignment

The RA invited the public to comment on its' recommendations to the Grant of Spectrum Licences, Permits and Exempted Frequencies for the electronic communications sector through a Preliminary Report. The Report proposes processes for the RA to receive new applications for spectrum licences, and permits, guidelines on applicant criteria, exempted frequencies and how the requested spectrum assignment is intended to be used. The intent is to create a universal process for all spectrum users when applying for spectrum authorisations.

ELECTRICITY AND ELECTRONIC COMMUNICATION SECTORS

PROMOTING AND PROTECTING THE INTERESTS OF CONSUMERS

Activity 1: Emergency General Determination – COVID-19

Due to the economic uncertainty regarding Covid-19, the RA provided strong direction to providers of electronic communications and electricity services, to take the appropriate actions to ensure that there was no loss of service due to COVID-19. As the potential for the widespread loss of electricity and/or electronic communications services was deemed to be urgent and in the public interest, the RA implemented an Emergency General Determination with feedback from the sectoral providers to enforce the following prohibitions:

- 1) Making any changes to tariffs without the prior written approval from the RA, including increasing tariffs to Consumers and Small Businesses;
- 2) The disconnection or discontinuance of services for non-payment by a (“Relevant Person”) who are defined as a consumer or small business that demonstrates a recent loss of employment or significant income due to the Covid-19 pandemic; and
- 3) Charging of penalties or other fees for non-payment to Relevant Persons. This does not apply to penalties for breach of handset or other device contracts associated with switching service providers.

The RA encouraged Relevant Persons to monitor their data usage patterns, as monthly usage and charges for over-usage will still be applicable once the Covid-19 pandemic period is over.

As a result of the projected financial impact during the early stages of the Covid-19 pandemic, the RA created an Emergency General Determination to protect end-users from disconnection during the initial phases of the pandemic under the consumer part of the report.

Activity 2: Principles of Consumer Protection

In September 2019, the RA conducted its analysis of the proposed Principles of Consumer Protection, designed to protect consumers’ interests, promote the delivery of high-quality services and products, and encourage best practices by providers in the electricity and electronic communications sectors. The RA is highly focused on protecting and empowering consumers and on ensuring that providers deliver services that are safe, efficient, reliable, and adequate. The public were asked to comment on the following recommendations during a consultation period:

- Holding sectoral providers responsible to provide honest marketing and advertising;
- Bills that are easy to understand; and
- Better handling of complaints for services such as the supply of electricity, fixed and mobile telephone, long distance, internet access and subscription television.

Activity 3: Rebranding

To differentiate itself from other Authorities in Bermuda, the Regulatory Authority of Bermuda, formerly referred to as ‘the Authority’, rebranded itself as “the RA” across all traditional and digital platforms.

FINANCIAL HIGHLIGHTS

INTRODUCTION

The RA prepares its financial statements in accordance with public sector accounting standards, which are generally accepted in Bermuda and Canada as recommended by the Public Sector Accounting Board of the Chartered Professional Accountants of Canada, and which are subject to an annual audit. Included in this report are the audited financial statements for the financial year ended 31 March 2020. Shared expenses such as rent, advertising and other office services were allocated amongst the electricity and electronic communications sectors on a 50-50 basis. Other expenses, such as salaries, are allocated and determined by the Chief Executive. Salaries are also split between the two sectors based on a reasonable estimate of time spent on each sector.

Overall, consolidated results for the 2019-20 fiscal year included actual revenues of \$6.284 million, which were made up of Integrated Communications Operating Licence (“ICOL”), Bulk Generation (“BG”) and Transmission, Distribution and Retail (“TD&R”) fees. Budgeted revenues for the year were \$6.352 million, with actual revenues being below this by \$68k (1%).

Overall expenses for the year were budgeted to be \$6.247 million, however, the actual total expenses amounted to \$6.664 million, being above budget by \$417k (7%). These results led to a deficit for the year of \$380k. This was largely driven by the significant and rapid increase in employee and Commissioner professional development.

The utilized Project Fund during the year amounted to \$230k and hence the carried forward Project Fund as of March 31, 2020, amounted to \$313k (March 31, 2019: \$543k).

The Litigation Reserve Fund was not utilized during the year and therefore remained at \$263k (March 31, 2019 :\$263k).

ELECTRONIC COMMUNICATIONS

Fees received from the Electronic Communications sector in relation to Integrated Communications Operating Licence holders, totaled \$3.458 million which was below the budgeted revenues of \$3.486 million by \$28k (1%).

The Electronic Communications sector incurred an actual expense of \$3.439 million which were related to the general administration, professional services, and amortization expenses. This was marginally below the approved budget of \$3.445 million by \$6k (0.2%). Salaries, rent, technical and non-technical consultancy and training expenses made up most of the year’s expenses, incurring a cost of \$3.041 million (88%) of the actual total expenditure.

ELECTRICITY

During the year, the RA received total fees of \$2.826 million from the sector, of which \$2.625 million were related to the TD&R licenses and \$176k to the BG licenses and \$25k to the service fees. The revenue collections for the year were below the overall budget of \$2.866 million by \$40k (1%).

The Electricity sector incurred a total expenditure of \$3.225 million in relation to the general administration, professional services, and amortization expenses. This expenditure was above the projected expenditure of \$2.802 million by \$423k (15%). Salaries, rent, technical and non-technical consultancy and training expenses made up most of the year’s expenses, incurring a cost of \$2.877 million (89%) of the total actual expenditure.



REGULATORY AUTHORITY
FINANCIAL STATEMENTS
MARCH 31, 2020

Management's Responsibility for the Financial Statements

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

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

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

The accompanying Independent Auditor's Report is presented herein.



Richard Ambrosio, Interim Chief Executive
& Director of Legal Affairs & Enforcement



Kristy Woods
Financial Controller



Date



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INDEPENDENT AUDITOR'S REPORT

To the Minister of Home Affairs

Opinion

I have audited the financial statements of the Regulatory Authority, which comprise the statement of financial position as at March 31, 2020, and the statements of operations and accumulated surplus, change in net financial assets and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In my opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Regulatory Authority as at March 31, 2020, 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.

Basis for Opinion

I conducted my audit in accordance with auditing standards generally accepted in Bermuda and Canada. My responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of my report. I am independent of the Regulatory Authority in accordance with the ethical requirements that are relevant to my audit of the financial statements in Bermuda, and I have fulfilled my other ethical responsibilities in accordance with these requirements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Other Information

Management is responsible for the other information. The other information comprises the Regulatory Authority's Annual Report, but does not include the financial statements and my auditor's report thereon.

My opinion on the financial statements does not cover the other information and I do not express any form of assurance conclusion thereon.

In connection with my audit of the financial statements, my responsibility is to read the other information identified above and, in doing so, consider whether the other information appears to be materially misstated. If, based on the work I have performed on the other information that I obtained

prior to the date of this auditor's report, I conclude that there is a material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the 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.

In preparing the financial statements, management is responsible for assessing the Regulatory Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Regulatory Authority or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Regulatory Authority's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with auditing standards generally accepted in Bermuda and Canada will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with auditing standards generally accepted in Bermuda and Canada, I exercise professional judgment and maintain professional skepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements (whether due to fraud or error), design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than from one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Regulatory Authority's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going-concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Regulatory Authority's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial

statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the Regulatory Authority to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements (including the disclosures), and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

I communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during the audit.

I also provide those charged with governance with a statement that I have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on my independence and, where applicable, related safeguards.

A further description of the auditor's responsibilities for the audit of the financial statements is located at the Office of the Auditor General website at: www.oagbermuda.bm. This description forms part of our auditor's report.

Report on Other Legal and Regulatory Requirements

As required by Section 46 of the Regulatory Authority Act 2011, I also report that, in my opinion, proper accounting and supporting records have been kept, and that the receipts, expenditure and investment of moneys and the acquisition and disposal of assets by the Regulatory Authority during the year ended March 31, 2020, have been in accordance with the provisions of the Regulatory Authority Act 2011.

Hamilton, Bermuda
April 19, 2024



Heather Thomas, CPA, CFE, CGMA
Auditor General

REGULATORY AUTHORITY

STATEMENT OF FINANCIAL POSITION

As at March 31, 2020

(Expressed in Bermuda dollars)

	2020 \$	2019 \$
FINANCIAL ASSETS		
Cash	6,442,927	1,763,192
Accounts receivable (Notes 9 and 20)	6,569,310	6,530,909
	<u>13,012,237</u>	<u>8,294,101</u>
LIABILITIES		
Accounts payable and accrued liabilities	554,042	386,167
Bank borrowing (Notes 11 and 20)	1,016,063	-
Due to the Government of Bermuda (Note 10)	10,057,764	5,335,391
Obligation under capital lease (Note 8)	13,847	575
Distribution payable to the Consolidated Fund of the Government of Bermuda (Notes 10 and 20)	722,950	722,950
Provision for Litigation Reserve Fund (Note 4)	-	263,341
Provision for Project Fund (Note 4)	-	543,425
	<u>12,364,666</u>	<u>7,251,849</u>
NET FINANCIAL ASSETS	<u>647,571</u>	<u>1,042,252</u>
NON-FINANCIAL ASSETS		
Tangible capital assets (Notes 3 and 8)	863,442	286,628
Prepaid expenses (Note 12)	78,189	63,595
	<u>941,631</u>	<u>350,223</u>
ACCUMULATED SURPLUS (Note 4)	<u>1,589,202</u>	<u>1,392,475</u>
CONTRACTUAL OBLIGATIONS (Note 7)		
CONTINGENT LIABILITIES (Note 19)		

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

REGULATORY AUTHORITY

STATEMENT OF OPERATIONS AND ACCUMULATED SURPLUS

For the year ended March 31, 2020
(Expressed in Bermuda dollars)

	2020	2020	2019
	Budget	Actual	Actual
	(Note 17)		
	\$	\$	\$
REVENUES			
Fees from Integrated Communications Operating Licences (Note 14)	3,486,000	3,457,778	3,527,707
Fees from Transmission, Distribution and Retail Licences (Note 15)	2,689,400	2,624,476	2,679,558
Fees from Bulk Generation Licences (Note 15)	176,600	176,600	186,725
Service fees (Note 16)	-	25,000	-
Interest earned	-	10	-
Gain on disposal of tangible capital assets	-	-	100
	<u>6,352,000</u>	<u>6,283,864</u>	<u>6,394,090</u>
EXPENSES			
General administration (Note 5)	4,303,000	4,712,865	3,157,722
Professional services (Note 5)	1,943,500	1,804,906	2,283,125
Amortization of tangible capital assets (Note 3)	-	115,320	88,284
Accounts receivable impairment loss (Note 9)	-	23,073	-
Loss on disposal of tangible capital assets (Note 3)	-	7,798	-
	<u>6,246,500</u>	<u>6,663,962</u>	<u>5,529,131</u>
(DEFICIT) ANNUAL SURPLUS	<u>105,500</u>	(380,098)	864,959
ACCUMULATED SURPLUS, BEGINNING OF YEAR		1,392,475	1,363,378
Less: Provision for Litigation Reserve Fund (Note 4)		-	(263,341)
Less: Provision for Project Fund (Note 4)		-	(543,425)
Less: Distribution to the Consolidated Fund of the Government of Bermuda (Notes 4 and 10)		-	(29,096)
Project Fund at end of year (Note 4)		313,484	-
Litigation Reserve Fund at end of year (Note 4)		263,341	-
ACCUMULATED SURPLUS, END OF YEAR		<u>1,589,202</u>	<u>1,392,475</u>

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

REGULATORY AUTHORITY

STATEMENT OF CHANGE IN NET FINANCIAL ASSETS

For the year ended March 31, 2020

(Expressed in Bermuda dollars)

	2020 Budget (Note 17)	2020 \$	2019 \$
NET FINANCIAL ASSETS, BEGINNING OF YEAR	<u>1,042,252</u>	<u>1,042,252</u>	<u>989,141</u>
(Deficit) Annual surplus	105,500	(380,098)	864,959
Acquisition of tangible capital assets (Note 3)	(48,000)	(699,932)	(33,193)
Loss on disposal of tangible capital assets (Note 3)	-	7,798	-
Amortization of tangible capital assets (Note 3)	-	115,320	88,284
Change in prepaid expenses (Note 12)	-	(14,594)	(31,077)
Project Fund at end of year (Note 4)	-	313,484	-
Litigation Reserve Fund at end of year (Note 4)	-	263,341	-
Provision for Litigation Reserve Fund (Note 4)	-	-	(263,341)
Provision for Project Fund (Note 4)	-	-	(543,425)
Distribution to the Consolidated Fund of the Government of Bermuda (Notes 4 and 10)	-	-	(29,096)
Change in net financial assets	<u>57,500</u>	<u>(394,681)</u>	<u>53,111</u>
NET FINANCIAL ASSETS, END OF YEAR	<u><u>1,099,752</u></u>	<u><u>647,571</u></u>	<u><u>1,042,252</u></u>

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

REGULATORY AUTHORITY

STATEMENT OF CASH FLOWS

For the year ended March 31, 2020

(Expressed in Bermuda dollars)

	2020	2019
	\$	\$
CASH FLOWS FROM OPERATING ACTIVITIES		
(Deficit) Annual Surplus	(380,098)	864,959
Adjustment for items not affecting cash:		
Loss on disposal of tangible capital assets (Note 3)	7,798	-
Amortization of tangible capital assets (Note 3)	115,320	88,284
Accounts receivable impairment loss (Note 9)	23,073	-
	<u>(233,907)</u>	<u>953,243</u>
Changes in non-cash working capital:		
Increase in accounts receivable (Note 9)	(61,474)	(981,078)
Increase in prepaid expenses (Note 12)	(14,594)	(31,077)
Decrease in Project Fund (Note 4)	(229,941)	-
Increase (Decrease) in accounts payable and accrued liabilities	167,875	(108,722)
Increase in due to the Government of Bermuda (Note 10)	4,722,373	1,030,167
Increase (Decrease) in obligation under capital lease (Note 8)	13,272	(4,370)
	<u>4,363,604</u>	<u>858,163</u>
CASH FLOWS USED IN CAPITAL ACTIVITIES		
Acquisition of tangible capital assets (Note 3)	(699,932)	(33,193)
	<u>(699,932)</u>	<u>(33,193)</u>
CASH FLOWS USED IN FINANCING ACTIVITIES		
Increase (Decrease) in Bank borrowing (Note 11)	1,016,063	(144,206)
	<u>1,016,063</u>	<u>(144,206)</u>
NET INCREASE IN CASH	4,679,735	680,764
CASH, BEGINNING OF YEAR	1,763,192	1,082,428
CASH, END OF YEAR	6,442,927	1,763,192

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

1. AUTHORITY AND PURPOSE

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

The RA commenced operations on January 28, 2013, and currently operates as an electronic communications and electricity regulator under the Electronic Communications Act 2011 ("ECA") and Electricity Act 2016 ("EA") respectively. Effective October 28, 2016, the EA came into effect and transferred responsibility for the regulation of electricity from the Energy Commission to the RA.

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

(a) Revenue recognition

(i) Electronic communications sector

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

The RA derives revenues from Integrated Communication Operating Licenses ("ICOLs") which are based on actual returns received and an accrued estimate relating to carriers which are required by the ECA to file returns and remit the related ICOL fees.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(a) Revenue recognition (continued)

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

(ii) Electricity sector

Revenues from the electricity sector are derived from Transmission, Distribution and Retail ("TD&R") licenses as well as Bulk Generation licenses. These revenues are based on returns received, and an accrued estimate for carriers required by the EA to file returns and remit fees. These estimates have been made by management using information available to the RA.

(iii) Service fees

Revenues from service fees are recognized in the period in which the transactions or events occurred that gave rise to the revenues.

(b) Expenses

Expenses are recognized when, and to the extent that, the goods or services were received. Expenses are measured at the fair value of the consideration paid or payable at the time of the transaction.

(c) Cash

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) Tangible capital assets including capital lease and amortization

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

Leases are classified as capital leases when substantially all the risks and rewards of ownership are transferred to the lessee. Obligations under capital leases are recorded at the present value of the minimum lease payments excluding executor costs (e.g. insurance, maintenance cost, etc.). The discount rate used to determine the present value of the lease payments is the RA’s rate for incremental borrowing.

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

Furniture and fittings	10 years
Office equipment	5 years
Leasehold improvements	5 years
Electronic communications equipment	5 years
Computers and software	3 years

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

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

(e) Operating Leases

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(f) Funds and reserves

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

(g) Foreign currencies

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

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

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are included in the statement of operations and accumulated surplus since they are insignificant in value to warrant reporting separately in a Statement of Remeasurement Gains and Losses.

(h) Financial instruments

The RA's financial instruments consist of cash, accounts receivable, accounts payable and accrued liabilities, due to/from the Government of Bermuda, bank borrowing, obligation under capital lease and distribution payable to the Consolidated Fund of the Government of Bermuda (the "Consolidated Fund"). These financial instruments are measured at cost or amortized cost, except for accounts receivable which can include measurements with reasonable estimates of amounts that were due during the reporting period. Write-downs on financial assets are recognized when the amount of a loss is known, and there is no prospect of recovery. Financial assets are then written down to net recoverable value with the write-down being recognized in the statement of operations and accumulated surplus.

(i) Non-financial assets

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(j) Measurement uncertainty

The RA's financial statements are prepared in accordance with public sector accounting standards generally accepted in Bermuda and Canada. These standards require management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the year. Significant areas requiring the use of estimates include determination of the estimated useful lives of tangible capital assets, accounts receivable and accruals. Estimates are based on the best information available at the time of preparation of the financial statements and are reviewed annually to reflect new information as it becomes available. Actual results could differ from these estimates.

(k) Remeasurement gains and losses

The RA's exchange differences are insignificant in value and are included in the statement of operations and accumulated surplus, therefore, no statement of remeasurement gains and losses has been prepared.

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NOTES TO THE FINANCIAL STATEMENTS

MARCH 31, 2020

3. TANGIBLE CAPITAL ASSETS

	Furniture and fittings	Office equipment	Electronic communica- tions equipment	Computers and software	Office equipment under capital lease	Leasehold improvements	Total
	\$	\$	\$	\$	\$	\$	\$
Opening cost - April 1, 2019	109,028	6,324	228,898	129,055	13,263	59,058	545,626
Additions	66,491	19,349	-	17,403	15,015	581,674	699,932
Disposal	(17,895)	-	-	-	-	-	(17,895)
Closing cost - March 31, 2020	<u>157,624</u>	<u>25,673</u>	<u>228,898</u>	<u>146,458</u>	<u>28,278</u>	<u>640,732</u>	<u>1,227,663</u>
Opening accumulated amortization - April 1, 2019	43,340	6,324	74,624	97,382	7,763	29,565	258,998
Amortization	11,424	924	45,780	15,262	6,668	35,262	115,320
Disposal	(10,097)	-	-	-	-	-	(10,097)
Closing accumulated amortization - March 31, 2020	<u>44,667</u>	<u>7,248</u>	<u>120,404</u>	<u>112,644</u>	<u>14,431</u>	<u>64,827</u>	<u>364,221</u>
Net book value - March 31, 2020	<u><u>112,957</u></u>	<u><u>18,425</u></u>	<u><u>108,494</u></u>	<u><u>33,814</u></u>	<u><u>13,847</u></u>	<u><u>575,905</u></u>	<u><u>863,442</u></u>

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NOTES TO THE FINANCIAL STATEMENTS

MARCH 31, 2020

3. TANGIBLE CAPITAL ASSETS (continued)

	Furniture and fittings	Office equipment	Electronic communica- tions equipment	Computers and software	Office equipment under capital lease	Leasehold improvements	Total
	\$	\$	\$	\$	\$	\$	\$
Opening cost - April 1, 2018	109,028	6,324	228,045	101,681	13,263	59,058	517,399
Additions	-	-	853	32,340	-	-	33,193
Disposal	-	-	-	(4,966)	-	-	(4,966)
Closing cost - March 31, 2019	<u>109,028</u>	<u>6,324</u>	<u>228,898</u>	<u>129,055</u>	<u>13,263</u>	<u>59,058</u>	<u>545,626</u>
Opening accumulated amortization - April 1, 2018	32,437	6,186	28,845	85,208	5,250	17,754	175,680
Amortization	10,903	138	45,779	17,140	2,513	11,811	88,284
Disposal	-	-	-	(4,966)	-	-	(4,966)
Closing accumulated amortization - March 31, 2019	<u>43,340</u>	<u>6,324</u>	<u>74,624</u>	<u>97,382</u>	<u>7,763</u>	<u>29,565</u>	<u>258,998</u>
Net book value - March 31, 2019	<u><u>65,688</u></u>	<u><u>-</u></u>	<u><u>154,274</u></u>	<u><u>31,673</u></u>	<u><u>5,500</u></u>	<u><u>29,493</u></u>	<u><u>286,628</u></u>

4. ACCUMULATED SURPLUS

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

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

Pursuant to Section 40 of the Act, in any financial year in which the RA incurs a loss and the Reserve Fund is not sufficient to meet the loss, the RA may carry forward and recoup the losses from any future surplus, before payment is made to the Consolidated Fund.

The Paid-up capital together with the Reserve Fund is not to exceed the RA's authorized capital of \$3.5 million. Any excess surplus must be paid to the Consolidated Fund. The sum of the Initial Paid-up Capital, Paid-up Capital and Reserve Fund as at March 31, 2020 was \$1,361,474 (2019: \$1,392,475).

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

On December 5, 2018, the RA was granted approval by the Minister of Home Affairs to carry forward realized deficits incurred on or before March 31, 2018.

On March 22, 2019, the RA was granted approval by the Minister of Finance to create a Litigation Reserve Fund and a Project Fund. The RA's Litigation Reserve Fund was approved to hold up to a maximum of one million, five hundred thousand dollars (\$1.5 million) and the Project Fund to hold monies for stated work plan projects and projects in progress.

No provisions for the Litigation Reserve Fund or for the Project Fund were made during the year (2019 - \$263,341 and \$543,425 respectively). The Litigation Reserve Fund and the Project Fund as at March 31, 2020 amounted to \$263,341 (2019: \$ nil) and \$313,484 (2019: \$ nil) respectively.

REGULATORY AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

MARCH 31, 2020

4. ACCUMULATED SURPLUS (continued)

The movements in Operating Fund, Initial Paid-up Capital, Paid-up Capital, Reserve Fund, Litigation Reserve Fund, Project Fund and Accumulated deficit balances during the year were as follows:

Table 1 – March 31, 2020, accumulated surplus

	Operating Fund	Initial Paid-up Capital	Paid-up Capital	Reserve Fund	Accumulated deficit	Litigation Reserve Fund	Project Fund	Total
	\$	\$	\$	\$	\$	\$	\$	\$
ACCUMULATED SURPLUS, BEGINNING OF YEAR	-	1,000,000	361,474	31,001	-	-	-	1,392,475
Litigation Reserve Fund, beginning of year	-	-	-	-	-	263,341	-	263,341
Project Fund, beginning of year	-	-	-	-	-	-	543,425	543,425
Utilised Project Fund	-	-	-	-	-	-	(229,941)	(229,941)
Annual deficit	(380,098)	-	-	-	-	-	-	(380,098)
Intra-fund transfers	380,098	-	-	(31,001)	(349,097)	-	-	-
Distribution to the Consolidated Fund	-	-	-	-	-	-	-	-
ACCUMULATED SURPLUS, END OF YEAR	-	1,000,000	361,474	-	(349,097)	263,341	313,484	1,589,202

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NOTES TO THE FINANCIAL STATEMENTS

MARCH 31, 2020

4. ACCUMULATED SURPLUS (continued)

Table 2 – March 31, 2019, accumulated surplus

	Operating Fund	Initial paid- up capital	Paid-up capital	Reserve Fund	Total
	\$	\$	\$	\$	\$
ACCUMULATED SURPLUS, BEGINNING OF YEAR	-	1,000,000	346,926	16,452	1,363,378
Annual surplus	864,959	-	-	-	864,959
Provision for Litigation Reserve Fund	(263,341)	-	-	-	(263,341)
Provision for Project Fund	(543,425)	-	-	-	(543,425)
Intra-fund transfers	(29,097)	-	14,548	14,549	-
Distribution to the Consolidated Fund	(29,096)	-	-	-	(29,096)
ACCUMULATED SURPLUS, END OF YEAR	-	1,000,000	361,474	31,001	1,392,475

REGULATORY AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

MARCH 31, 2020

5. EXPENSES BY OBJECT

The following is a summary of expenses by object:

	2020	2019
	\$	\$
GENERAL ADMINISTRATION		
Salaries, employee benefits and commissioners' honoraria (Note 6)	3,445,455	2,512,202
Training and travel	471,829	72,497
Rent and utilities	314,059	215,005
Information technology	128,684	66,934
Advertising and public relations	120,382	96,030
Office services	89,706	82,219
Bank charges and lease interest	56,383	63,723
Communication and meetings	34,358	24,311
Other personnel costs	17,368	4,088
Membership fees	11,155	6,133
Subscriptions	9,400	2,604
Staff recruitment	7,328	6,683
Repairs and maintenance	3,484	3,730
Miscellaneous	3,274	1,563
	<u>4,712,865</u>	<u>3,157,722</u>
PROFESSIONAL SERVICES		
Technical consultancy	1,406,087	1,450,302
Non-technical consultancy	279,899	791,753
Accounting fees	88,920	11,070
Audit fees	30,000	30,000
	<u>1,804,906</u>	<u>2,283,125</u>

REGULATORY AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

MARCH 31, 2020

6. SALARIES, EMPLOYEE BENEFITS AND COMMISSIONERS' HONORARIA

This account consists of:

	<u>2020</u>	<u>2019</u>
	\$	\$
Salaries, bonuses and commissioners' honoraria	2,854,259	2,070,664
Payroll tax	323,365	246,478
Health insurance	120,225	85,166
Pension	115,996	82,172
Social insurance	31,610	22,722
Housing allowance	-	5,000
	<u>3,445,455</u>	<u>2,512,202</u>

Employee benefits include the following:

(a) Salaries, bonuses and commissioners' honoraria

i) Chief Executive compensation

The Chief Executive received a gross salary of \$272,500 during the year ended March 31, 2020 relative to the gross salary received of \$66,250 in the prior year, for the period effective on January 7, 2019 to March 31, 2019.

ii) Commissioners' Honoraria

The RA has five Commissioners. In accordance with the provisions of the Act, each Commissioner is selected by a Selection Committee of the Ministry of Home Affairs that consists of the Minister responsible for justice, as Chairman; the Minister responsible for labour; the Opposition Leader or his or her designate; and the Minister(s) responsible for the regulated sectors. The responsibilities of the Board of Commissioners are quite broad and diverse. Amongst other things, they are responsible for the strategic direction and governance of the RA and for providing general direction to the Chief Executive. They are also responsible for making administrative determinations such as statutory instruments, adjudication decisions and orders, that may be required to effect the RA's regulatory functions.

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

(a) Salaries, bonuses and commissioners' honoraria (continued)

ii) Commissioners' Honoraria (continued)

The total amount of honoraria paid to the Commissioners was \$540,000 (2019: \$531,000).

(b) Compensated absences

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

Maternity and paternity leave does not accumulate or vest and therefore an expense and liability is only recognized when extended leave is applied for and approved. During the year there was one application for maternity leave benefit which was approved and fully utilized by the end of the year and therefore, no liability has been accrued in the accounts.

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

Vacation days accumulate and vest and therefore a liability is accrued each year. The accrued vacation liability as at March 31, 2020 is \$33,838 (2019: \$23,366) and is included in accounts payable and accrued liabilities.

(c) Health insurance

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

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

(d) Pension plans

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

i) Defined contribution plan

The RA has a defined contribution plan administered by Colonial Pension Services Ltd. (the "Plan") for the majority of its eligible employees. A defined contribution plan is a post-employment benefit plan under which the RA pays fixed contributions. The RA has no legal or constructive obligations to pay further contributions. Employee contributions to the Plan are 5% of gross salary matched by the RA.

The RA's contributions are recognized as employee benefit expenses when they are due and totaled \$102,622 (2019: \$69,012) during the year.

ii) Defined benefit plan

The RA contributes to the Public Service Superannuation Fund (the "PSSF"), which is a defined benefit plan, administered by the Government and covers the remainder of The RA's eligible employees, all of whom were previous employees of the Government. Contributions of 8% of gross salary are required from both the employee and the RA and have been included in salaries and employee benefits. As part of the agreement to transfer this employee group to the RA, the RA is not required to make contributions to the PSSF with respect to the quantified actuarial deficiencies. As a result, the current year contributions to the PSSF represent the total liability of the RA. The RA's contributions to the PSSF during the year were \$13,374 (2019: \$13,160).

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NOTES TO THE FINANCIAL STATEMENTS

MARCH 31, 2020

7. CONTRACTUAL OBLIGATIONS

On June 15, 2019, the RA entered a five-year contractual operating lease term at a cost of \$853,820 and \$485,125 for office space and service charge, respectively, inclusive of increase in rented space of 3,617 square footage as part of the office expansion project.

The rent and service charge expense recognized during the year was \$163,993 (2019: \$119,770) and \$81,800 (2019: \$51,813) respectively.

As at March 31, 2020, the total remaining obligation under the operating lease for office space was \$859,156. The future minimum lease payments in the ensuing fiscal years are as follows:

	\$
2020/21	267,789
2021/22	267,789
2022/23	267,789
2023/24	55,789

In addition, the RA has entered into various contracts relating to operational support and delivery of services. The aforementioned contracts have commencement terms prior to March 31, 2020 and the latest contract termination date is December 31, 2022. These contractual obligations will become liabilities in the future when the terms of the contracts are met. The remaining obligations of the contracts were as follows:

	2020/21	2021/22	2022/23
	\$	\$	\$
Operational	35,182	5,400	4,050
Consultancy	301,019	-	-
IT support	5,034	-	-
	<u>341,235</u>	<u>5,400</u>	<u>4,050</u>

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NOTES TO THE FINANCIAL STATEMENTS

MARCH 31, 2020

8. OBLIGATION UNDER CAPITAL LEASE

Effective January 16, 2020, the RA entered into a three-year lease for office equipment at an effective interest rate of 5%, which ownership would transfer over to the RA at the end of the lease.

As at March 31, 2020, the present value of the minimum lease payments was \$13,847 and is recorded as a liability and a tangible capital asset in the financial statements. The interest and maintenance charge expense recognized during the year was \$183 (2019: \$786).

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

	\$
2020/21	5,400
2021/22	5,400
2022/23	<u>4,050</u>
Total minimum lease payments	14,850
Less amounts representing interest	<u>(1,003)</u>
Present value of net minimum capital lease payments	<u><u>13,847</u></u>

9. ACCOUNTS RECEIVABLE

This account consists of:

	2020	2019
	\$	\$
ICOL, Handset and Spectrum Fees*	5,958,418	5,867,016
TD&R and Bulk Generation Fees**	674,035	663,893
Class Licenses***	6,075	-
Less impairment loss	<u>(69,218)</u>	-
	<u>6,569,310</u>	<u>6,530,909</u>

Impairment :

	2020	2019
	\$	\$
RA Fees – Loss taken to Statement of Operations	23,073	-
Government Authorization Fees – Loss taken as reduction in Accounts receivable and in Due to Government of Bermuda	<u>46,145</u>	-
Total impairment	<u>69,218</u>	-

*The ICOL, Handset and Spectrum Fees include the quarter 4 fees of \$4,864,253 (2019: \$5,731,224) which were due May 31, 2020.

** TD&R and Bulk Generation Fees include the quarter 4 fees of \$661,435 (2019: \$663,893) which were due on May 31, 2020.

***Class license fees are due from Bermuda Shipping and Maritime Authority in relation to the issuance of the Class 9a Radio licenses.

10. RELATED PARTY TRANSACTIONS

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

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

a) Transactions with related parties:

i. Transactions with related parties during the year included:

	Due to Government of Bermuda at the beginning of year April 1, 2019	Expense during the year	Collection of fees on behalf of the Government	Payments / Remittance made during the year	Due to the Government of Bermuda at year-end March 31, 2020
	\$	\$	\$	\$	\$
GEHI and PSSF	5,545	23,098	23,455	(52,087)	11
Payroll tax	101,901	323,365	137,296	(423,557)	139,005
Social insurance	4,310	31,610	32,256	(63,076)	5,100
ICOLs, handset and spectrum fees *	4,304,197	-	17,290,044	(12,886,414)	8,707,827
TD&R and bulk generation fees	92,554	-	188,007	(137,528)	143,033
Class licenses **	134,553	-	447,751	(211,847)	370,457
Other (Note 10 (b), (c))	692,331	-	-	-	692,331
	<u>5,335,391</u>	<u>378,073</u>	<u>18,118,809</u>	<u>(13,774,509)</u>	<u>10,057,764</u>

* The ICOL fees due to government are disclosed net of the impairment loss of \$46,145.

**The Class license fees includes \$6,075 due from the Bermuda Shipping and Maritime Authority for the issuance of the Class 9a Radio licenses.

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NOTES TO THE FINANCIAL STATEMENTS

MARCH 31, 2020

10. RELATED PARTY TRANSACTIONS (continued)

a) Transactions with related parties: (continued)

ii. Transactions with related parties during the prior year included:

	Due to Government of Bermuda at the beginning of year April 1, 2018	Expense during the year	Collection of fees on behalf of the Government	Payments / Remittance made during the year	Due to the Government of Bermuda at year-end March 31, 2019
		\$	\$	\$	\$
GEHI and PSSF	3,741	22,492	23,224	(43,912)	5,545
Payroll tax	135,003	242,337	96,109	(371,548)	101,901
Social insurance	3,033	22,722	22,147	(43,592)	4,310
ICOLs, handset and spectrum fees	4,037,543	-	18,654,049	(18,387,395)	4,304,197
TD&R and bulk generation fees	80,319	-	195,237	(183,002)	92,554
Class licenses	45,585	-	499,035	(410,067)	134,553
Other (Note 10 (b), (c))	-	-	692,331	-	692,331
	<u>4,305,224</u>	<u>287,551</u>	<u>20,182,132</u>	<u>(19,439,516)</u>	<u>5,335,391</u>

b) Balance due from Telecommunications (Bermuda & West Indies) Limited ("Digicel") (Note 20 (c))

	Balance at beginning of year April 1, 2019	Receipts during the year	Payments/ Remittance made during the year	Balance at end of year March 31, 2020
	\$	\$	\$	\$
Handset fees due from Digicel and due to the Government of Bermuda	<u>614,921</u>	<u>-</u>	<u>-</u>	<u>614,921</u>

MARCH 31, 2020

10. RELATED PARTY TRANSACTIONS (continued)

- b) Balance due from Telecommunications (Bermuda & West Indies) Limited ("Digicel") (Note 20 (c)) (continued)

	Balance at beginning of year April 1, 2018	Receipts during the year	Payments/ Remittance made during the year	Balance at end of year March 31, 2019
	\$	\$	\$	\$
Handset fees due from Digicel and due to the Government of Bermuda	614,921	-	-	614,921

- c) Balance due to Government in relation to the GlobeNet Cobos Submarinos Bermuda Ltd ("GlobeNet") generated revenue from the Indefeasible Right of Use ("IRU") agreement between TeleBermuda International Limited ("TBI") and GlobeNet during the period April 2013 to December 2017 (Note 20 (d))

	Balance at beginning of year April 1, 2019	Receipts during the year	Payments/ Remittance made during the year	Balance at end of year March 31, 2020
	\$	\$	\$	\$
ICOL fees due to Government in relation to the GlobeNet IRU with TBI	77,410	-	-	77,410

	Balance at beginning of year April 1, 2018	Receipts during the year	Payments/ Remittance made during the year	Balance at end of year March 31, 2019
	\$	\$	\$	\$
ICOL fees due to Government in relation to the GlobeNet IRU with TBI	77,410	-	-	77,410

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NOTES TO THE FINANCIAL STATEMENTS

MARCH 31, 2020

10. RELATED PARTY TRANSACTIONS (continued)

d) Distribution payable to the Consolidated Fund of the Government of Bermuda (Note 20 (b)):

	Balance at beginning of year April 1, 2019	Distribution to the Consolidated Fund	Payments/ Remittance made during the year	Balance at end of year March 31, 2020
	\$	\$	\$	\$
Distribution payable to the Consolidated Fund of the Government of Bermuda	<u>722,950</u>	<u>-</u>	<u>-</u>	<u>722,950</u>
	Balance at beginning of year April 1, 2018	Distribution to the Consolidated Fund	Payments/ Remittance made during the year	Balance at end of year March 31, 2019
	\$	\$	\$	\$
Distribution payable to the Consolidated Fund of the Government of Bermuda	<u>693,854</u>	<u>29,096</u>	<u>-</u>	<u>722,950</u>

11. BANK BORROWING

Bank borrowing consists of the following:

	<u>2020</u>	<u>2019</u>
	\$	\$
Clarien Bank Limited Revolving Line of Credit Facility	<u>1,016,063</u>	<u>-</u>

On October 24, 2019, the Ministry of Finance issued a letter pursuant to Section 45(2) of the Regulatory Authority Act 2011 approving the borrowing of \$1,500,000 from Clarien Bank Limited to assist in short-term working capital requirements. On November 25, 2019, the RA established a Revolving Line of Credit with Clarien Bank Limited in the amount of \$1,500,000. This facility which expires December 20, 2021, bears a fixed interest of 5.0% per annum. As at March 31, 2020, the RA had a drawdown of \$1,015,081 and interest due of \$982.

12. PREPAID EXPENSES

This account consists of:

	2020	2019
	\$	\$
Insurance services	25,567	27,363
Software licenses & other subscriptions	23,402	20,248
Numbering services	12,906	4,443
Government levies	9,667	2,039
Professional memberships	4,881	2,141
Communication services	1,466	4,222
Computer & IT equipment maintenance	300	3,139
	<u>78,189</u>	<u>63,595</u>

13. FINANCIAL RISK MANAGEMENT

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

a) Credit risk

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

The RA is exposed to credit risk in the event of non-performance by licensed carriers. This risk is mitigated through frequent monitoring and follow up on outstanding receivables. To this end 99% of the accounts receivable are deemed recoverable and 1% deemed impaired. The impaired receivables amount to \$69,218, of which \$46,145 relates to Government authorization fees and \$23,073 relates to RA fees (Note 20 (g)). The Accounts Receivables balance on the statement of financial position is disclosed net of the impairment loss.

13. FINANCIAL RISK MANAGEMENT (continued)

a) Credit risk (continued)

There have been no significant changes from the previous year in the exposure to risk or policies, procedures and methods to measure credit risk.

b) Liquidity risk

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

The following table sets out the expected cash flows of financial liabilities:

	Within 1 year \$	1 to 5 years \$	Total \$
Expected cash outflows			
Accounts payable and accrued liabilities	554,042	-	554,042
Bank borrowing	1,016,063	-	1,016,063
Obligation under capital lease	9,030	4,817	13,847
Due to Government of Bermuda	10,057,764	-	10,057,764
Distribution payable to the Consolidated Fund	693,894	29,056	722,950
Total expected cash outflows	<u>12,330,793</u>	<u>33,873</u>	<u>12,364,666</u>

There have been no significant changes from the previous year in the exposure to risk or policies, procedures and methods to measure liquidity risk.

c) Market risk

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

13. FINANCIAL RISK MANAGEMENT (continued)

c) Market risk (continued)

i) Currency risk

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

ii) Interest rate risk

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

There have been no significant changes from the previous year in the exposure to risk or policies, procedures and methods to measure market risk.

14. FEES FROM INTEGRATED COMMUNICATIONS OPERATING LICENSES

The Regulatory Authority fees were maintained at 1.75% of the ICOL holders' relevant turnover for the year from April 1, 2019 to March 31, 2020 in accordance with the Electronic Communications (Regulatory Authority Fees) Regulations 2018.

15. FEES FROM TRANSMISSION, DISTRIBUTION AND RETAIL (TD&R) AND BULK GENERATION LICENSES

The RA began receiving fees for the regulation of the electricity sector effective April 1, 2017. TD&R fees are based on total kWh sales throughout the period and are calculated at a rate of \$0.00475 per kWh. Bulk Generation fees are based on total MW of installed capacity and are calculated at a rate of \$1,000 per MW for Utility Scale Electricity Generation and \$1,500 per MWh for Waste-to-Energy generation. These fees are in accordance with the Electricity (Regulatory Authority Fees) Regulations 2018.

16. SERVICE FEES

The RA service fees generated during the year were in accordance with the Regulatory Authority (Service Fees) Regulations 2018.

17. BUDGET

The budgeted expenditures for the fiscal year April 1, 2019 to March 31, 2020 were \$3,444,500 (Schedule 1) for the electronic communications sector and \$2,802,000 (Schedule 2) for the electricity sector. This budget was approved by the Minister of Finance on March 29, 2019.

18. NEW AND AMENDED STANDARDS NOT YET EFFECTIVE

The Public Sector Accounting Board has issued a number of new public sector accounting standards and amendments to standards that are not yet effective for the year ended March 31, 2020.

In particular, the new and amended standards, which become effective for annual periods beginning on or after April 1, 2020 include:

PS 3400 Revenue, effective April 1, 2023 – Establishes standards on how to account for and report on revenue. It differentiates between revenue arising from transactions that include performance obligations, referred to as "exchange transactions", and transactions that do not have performance obligations, referred to as "non-exchange transactions".

PS 3160, Public Private Partnerships, effective April 1, 2023 – In April 2021, PSAB issued PS 3160, Public Private Partnerships, to provide guidance on the recognition, measurement, presentation, and disclosure of public private partnerships.

PS 3280 – Asset Retirement Obligations, effective April 1, 2022 – Section PS 3280 was issued in August 2018 to provide guidance on the recognition and measurement of obligations that arise from the retirement of tangible capital assets.

PS 3450 – Financial Instruments, effective April 1, 2022 – Section PS 3450 provides guidance on the recognition, measurement, presentation, and disclosure of financial instruments, including derivatives.

PS 2601 – Foreign Currency Translation, effective April 1, 2022 – Section PS 2601 replaces the guidance in Section PS 2600, Foreign Currency Translation. Under Section PS 2601, exchange gains and losses arising on monetary assets and liabilities prior to settlement are recorded in the statement of remeasurement gains and losses.

18. NEW AND AMENDED STANDARDS NOT YET EFFECTIVE (continued)

PS 1201 – Financial Statement Presentation effective April 1, 2022 – Section PS 1201 introduces the statement of remeasurement for gains and losses. Remeasurement gains and losses arise from: exchange gains and losses on items in the amortized cost category denominated in a foreign currency and unrealized gains and losses on financial instruments that are measured at fair value.

PS 3041 – Portfolio Investments effective April 1, 2022 – PS 3041 states that portfolio investments are measured in accordance with PS 3450, Financial Instruments unless they have concessionary terms such as little or no return on the government investment. Losses in the value of a portfolio investment that are not a temporary decline should be recognized and recorded in the statement of operations.

19. CONTINGENT LIABILITIES

The RA is faced with potential litigation from the Bermuda Telephone Company Ltd & Telecommunications (Bermuda & West Indies) (collectively, “Digicel”) and Logic Communications Ltd & Bermuda Digital Communications Ltd (both trading as One Communications, collectively “OneComm”) in relation to the Market remedies matter. However, the potential exposure cannot be estimated by the time of issuing the financial statements.

20. SUBSEQUENT EVENTS

a) COVID 19- Pandemic

The RA continues to closely monitor the evolution of this pandemic, including how it may affect its operations or financial conditions and its related economic, social and public health implications remain uncertain. The RA has not observed any material impact on its operations or financial position and there have been no other significant events or transactions that require adjustments or disclosures as a result of the COVID-19 outbreak at the issuance of these financial statements.

b) On April 1, 2020, the RA remitted \$693,854 of the \$722,950 Distribution payable to the Consolidated Fund of the Government of Bermuda. The balance of \$29,096 was remitted on August 24, 2021 and this settled the amount owed for the period April 1, 2013, to March 31, 2018 (Note 10 (d)).

20. SUBSEQUENT EVENTS (continued)

- c) Handset fees payment plan from Telecommunications (Bermuda & West Indies) Limited (“Digicel”) (Note 10 (b))

On May 14, 2020, the RA received the handset fees payment plan from Digicel regarding the withheld \$614,921 (“the fee”) owed to the RA from the fee filing submitted on the February 28, 2017. The amount was outstanding due to a legacy dispute case which was subsequently resolved since Digicel is statutorily required to pay the fee pursuant to section 11 of the Electronic Communications Act 2011 (the “ECA”) and section 44 of the Regulatory Authority Act 2011 (the “RAA”).

The RA has recorded this balance as an accounts receivable and Balance due to Government on the Statement of Financial Position for the year ended March 31, 2020. The full amount was remitted to Government by December 31, 2021.

- d) GlobeNet Cobos Submarinos Bermuda Ltd. (“GlobeNet”) Deed of Settlement (Note 10 (c))

On June 22, 2020, GlobeNet and the RA signed a deed of settlement of the amount equal to \$135,605 stemming from several Indefeasible Right of Use (“IRU”) agreements held between TeleBermuda International Limited (“TBI”) and GlobeNet for which GlobeNet did not declare the revenue since the RA’s inception. Consequently, GlobeNet’s revenues were understated for the period effective April 1, 2013 to December 31, 2017 when the IRU was terminated. To this end the RA has recorded this balance as an accounts receivable and Balance due to Government on the Statement of Financial Position for the year ended March 31, 2020.

The corresponding total ICOL fees amounting to \$135,605 (\$77,410 for Government Authorization fees and \$58,195 for RA fees) were paid by GlobeNet on July 13, 2020. This balance was remitted to the Government in August 2021.

- e) On October 5, 2020 the RA fully settled the balance due on the line of credit due at March 31, 2020 (Note 11). On November 25, 2020 the RA withdrew \$1,000,000 on the line of credit and this balance was subsequently settled in full on September 16, 2021.

The RA renewed the revolving line of credit with Clarien Bank Limited on December 20, 2021, for 2 years at an interest rate of 5% per annum and with a withdrawal limit of \$1,500,000, however, no drawdowns have been made since. This line of credit is guaranteed by the Government.

20. SUBSEQUENT EVENTS (continued)

- f) The litigation matter between the RA and the former employee due to alleged breach of contract was settled on November 17, 2020 for \$50,000.
- g) World on Wireless Limited went into liquidation in December 2021 and therefore all the outstanding receivables due from them have been deemed impaired (Note 9).
- h) On May 19, 2022, the Minister of Home Affairs approved to carry forward the realized deficit as at March 31, 2020 which amounted to \$349,097 net of the Reserve Fund of \$31,001.
- i) On February 29, 2024, the RA sought approval from the Minister of Home Affairs to spend up to \$560,000 to fund the RA's investigation into Bermuda Electric Light Company's North Power Station. On the same day, the Minister granted approval of an overspend and deficit carry-forward in relation to this matter.

21. COMPARATIVE FIGURES

Certain comparative figures have been reclassified and disclosed to confirm to the current year's presentation.

REGULATORY AUTHORITY

SCHEDULE 1:

REVENUE AND EXPENSES BY SECTOR - ELECTRONIC COMMUNICATIONS

MARCH 31, 2020

	2020	2020	2019
	Budget	Actual	Actual
	\$	\$	\$
REVENUES			
Fees from Integrated Communications			
Operating Licences	3,486,000	3,457,778	3,527,707
Interest	-	10	-
Gain on disposal of tangible capital assets	-	-	100
	<u>3,486,000</u>	<u>3,457,788</u>	<u>3,527,807</u>
EXPENSES			
General Administration			
Salaries, employee benefits and commissioners' honoraria	1,867,000	1,876,724	1,214,745
Training and travel	57,500	217,825	32,703
Rent and utilities	106,783	157,029	107,502
Information technology	20,770	64,342	33,467
Advertising and public relations	4,900	60,191	47,765
Office services	46,868	43,532	39,631
Bank charges and lease interest	59,500	20,349	14,267
Communication and meetings	70,300	17,179	11,681
Miscellaneous	3,715	16,763	5,994
Membership fees	6,364	5,577	3,066
Staff recruitment	-	3,664	3,341
	<u>2,243,700</u>	<u>2,483,175</u>	<u>1,514,162</u>
Professional Services			
Technical consultancy	817,408	612,015	801,255
Non-technical consultancy	368,392	177,018	379,859
Accounting fees	-	44,460	5,535
Audit fees	15,000	15,000	15,000
	<u>1,200,800</u>	<u>848,493</u>	<u>1,201,649</u>
Loss on disposal of tangible capital assets	-	3,899	-
Amortization of tangible capital assets	-	80,550	67,032
Accounts receivable impairment loss	-	23,073	-
	<u>3,444,500</u>	<u>3,439,190</u>	<u>2,782,843</u>
ANNUAL SURPLUS	<u>41,500</u>	<u>18,598</u>	<u>744,964</u>

REGULATORY AUTHORITY

SCHEDULE 2:

REVENUE AND EXPENSES BY SECTOR - ELECTRICITY

MARCH 31, 2020

	2020 Budget \$	2020 Actual \$	2019 Actual \$
REVENUES			
Fees from Electricity Licences	2,866,000	2,801,076	2,866,283
Service fees	-	25,000	-
	<u>2,866,000</u>	<u>2,826,076</u>	<u>2,866,283</u>
EXPENSES			
General Administration			
Salaries, employee benefits and commissioners' honoraria	1,732,000	1,568,731	1,297,457
Training and Travel	57,500	254,004	39,794
Rent and utilities	106,783	157,030	107,502
Information technology	20,770	64,342	33,467
Advertising and public relations	4,900	60,191	48,265
Office services	46,868	46,174	42,588
Bank charges and lease interest	37,500	36,034	49,456
Communication and meetings	42,900	17,179	12,631
Miscellaneous	3,715	16,763	5,994
Membership fees	6,364	5,578	3,066
Staff recruitment	-	3,664	3,341
	<u>2,059,300</u>	<u>2,229,690</u>	<u>1,643,561</u>
Professional Services			
Technical consultancy	542,000	794,072	649,047
Non-technical consultancy	185,700	102,882	411,893
Accounting fees	-	44,460	5,535
Audit fees	15,000	15,000	15,000
	<u>742,700</u>	<u>956,414</u>	<u>1,081,475</u>
Loss on disposal of tangible capital assets	-	3,899	-
Amortization of tangible capital assets	-	34,770	21,252
	<u>2,802,000</u>	<u>3,224,772</u>	<u>2,746,288</u>
(DEFICIT) ANNUAL SURPLUS	<u>64,000</u>	<u>(398,696)</u>	<u>119,995</u>