

BARRISTERS AND ACCOUNTANTS AML/ATF BOARD

FINANCIAL STATEMENTS

MARCH 31, 2014



Office of the Auditor General

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INDEPENDENT AUDITOR'S REPORT

To the Members of the Barristers and Accountants AML/ATF Board

I have audited the accompanying financial statements of the Barristers and Accountants AML/ATF Board, which comprise the statement of financial position as at March 31, 2014, and the statement of operations and changes in net assets and the statement of 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 accounting standards for not-for-profit organizations 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 Barristers and Accountants AML/ATF Board as at March 31, 2014 and the results of its operations and its cash flows for the year then ended in accordance with accounting standards for not-for-profit organizations generally accepted in Bermuda and Canada.

A handwritten signature in black ink, appearing to read 'H. A. Jacobs Matthews', with a long horizontal flourish extending to the right.

Hamilton, Bermuda
November 21, 2014

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

BARRISTERS AND ACCOUNTANTS AML/ATF BOARD

STATEMENT OF FINANCIAL POSITION

MARCH 31, 2014

	2014	2013
ASSETS		
CURRENT ASSETS	\$	\$
Cash and cash equivalents	157,588	189,478
Accounts receivable (note 5)	<u>35,700</u>	<u>2,100</u>
	<u>193,288</u>	<u>191,578</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	-	470
Deferred revenue (note 6)	<u>164,000</u>	<u>170,000</u>
	164,000	170,470
NET ASSETS		
Unrestricted net assets	<u>29,288</u>	<u>21,108</u>
	<u>193,288</u>	<u>191,578</u>
CONTRACTUAL OBLIGATIONS (note 8)		

The accompanying notes are an integral part of these financial statements

BARRISTERS AND ACCOUNTANTS AML/ATF BOARD
STATEMENT OF OPERATIONS AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED MARCH 31, 2014

	2014	2013
	\$	\$
REVENUES		
Grant revenue (note 4)	204,000	194,000
Registration fees	-	7,400
Interest	-	122
	<u>204,000</u>	<u>201,522</u>
EXPENSES		
Supervisor consulting fees (note 8)	140,000	136,333
Chairman fees and taxes	38,610	26,453
General office expenses	16,800	17,500
Bank charges	180	105
Advertising	-	2,156
Miscellaneous	230	385
	<u>195,820</u>	<u>182,932</u>
EXCESS OF REVENUES OVER EXPENSES	8,180	18,590
NET ASSETS, BEGINNING OF YEAR	21,108	2,518
NET ASSETS, END OF YEAR	<u>29,288</u>	<u>21,108</u>

The accompanying notes are an integral part of these financial statements

BARRISTERS AND ACCOUNTANTS AML/ATF BOARD

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED MARCH 31, 2014

	2014	2013
	\$	\$
CASH FLOWS FROM OPERATING ACTIVITIES:		
Excess of revenues over expenses	8,180	18,590
Changes in non-cash working capital:		
Increase in accounts receivable	(33,600)	(2,053)
Decrease in accounts payable and accrued liabilities	(470)	(8,806)
Decrease in deferred registration fees	-	(2,800)
(Decrease) increase in deferred revenues	(6,000)	8,000
	<hr/>	<hr/>
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(31,890)	12,931
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	189,478	176,547
	<hr/>	<hr/>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>157,588</u>	<u>189,478</u>

The accompanying notes are an integral part of these financial statements

BARRISTERS AND ACCOUNTANTS AML/ATF BOARD

NOTES TO THE FINANCIAL STATEMENTS

MARCH 31, 2014

1. AUTHORITY AND NATURE OF OPERATIONS

The Barristers and Accountants AML/ATF Board (the "Board") is a statutory board established on January 20, 2011 jointly by the Bermuda Bar Association (the "Association") and the Chartered Professional Accountants of Bermuda ("CPA Bermuda") under their respective incorporating Acts of Parliament.

The function of the Board is to act as the supervisory authority for regulated professional firms of barristers and accountants as per section 5 and part 4A of the Proceeds of Crime (Anti-Money Laundering and Anti-Terrorist Financing Supervision and Enforcement) Act 2008 (the "Act"). On August 10, 2012, the Minister of Justice, in exercise of the power conferred by section 4 of the Act, designated the Board, per Designation Order BA 64/2012, as a supervisory authority in relation to independent professionals as defined in Proceeds of Crime (Anti-Money Laundering and Anti-Terrorist Financing) Regulations 2008.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation

These financial statements have been prepared in accordance with accounting standards for not-for-profit organizations generally accepted in Bermuda and Canada. For financial reporting purposes, the Board is classified as a not-for-profit organization and has adopted accounting policies appropriate for this classification. The policies considered particularly significant are set out below:

(a) Revenue recognition

The Board follows the deferral method of accounting for grant revenue. Restricted grant revenue is recognized as revenue in the year in which the related expenses are incurred. Unrestricted grant revenue is recognized as revenue when received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured. Restricted grant revenue for which the related restrictions remain unfulfilled are accumulated as deferred revenue.

Registration fees are payable by regulated professional firms only once upon initial registration and are recorded as revenue when they are received and receivable.

(b) Cash and cash equivalents

Cash and cash equivalents include all cash held with financial institutions that can be withdrawn without prior notice or penalty.

BARRISTERS AND ACCOUNTANTS AML/ATF BOARD

NOTES TO THE FINANCIAL STATEMENTS

MARCH 31, 2014

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Use of estimates

These financial statements are prepared in accordance with accounting standards for not-for-profit organizations 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. Actual results could differ from these estimates.

(d) Financial instruments

The Board's financial instruments consist of cash and cash equivalents, accounts receivable, and accounts payable and accrued liabilities. It is management's opinion that the Board is not exposed to significant interest rate, currency or credit risks arising from these financial instruments.

Cash and cash equivalents: The carrying values of amounts reported in the statement of financial position for these financial instruments approximate their fair values.

Other assets and liabilities: The carrying value of accounts receivable and accounts payable and accrued liabilities approximates their fair values due to their relative short-term nature.

3. ECONOMIC DEPENDENCE

The Board is economically dependent upon grants from the Association and CPA Bermuda for its daily operations and cash flow.

4. GRANT REVENUE

The grant revenue amount consists of the following:

	<u>2014</u>	<u>2013</u>
	\$	\$
Bermuda Bar Association	170,000	162,000
Chartered Professional Accountants of Bermuda	34,000	32,000
	<u>204,000</u>	<u>194,000</u>

BARRISTERS AND ACCOUNTANTS AML/ATF BOARD

NOTES TO THE FINANCIAL STATEMENTS

MARCH 31, 2014

5. ACCOUNTS RECEIVABLE

Accounts receivable represents an amount owed from the former Supervisor (note 11).

6. DEFERRED REVENUE

The Board received \$164,000 (2013 - \$170,000) from the Association as grant for the period April 1, 2014 to March 31, 2015. The amount will be recognized as revenue in that financial year.

7. RELATED PARTY TRANSACTIONS

The Board receives funding from the Association and CPA Bermuda (note 4).

The Board rents an office space at a cost of \$16,800 per annum (2013 - \$7,000) from Sterling Management Limited which is owned by the Chairman.

Sterling Management Limited pays the quarterly payroll tax on behalf of the Board and is subsequently reimbursed.

8. CONTRACTUAL OBLIGATIONS

Effective April 1, 2013, the Board entered into a contract with a Consultant, as Supervisor, for the purpose of assisting the Board to ensure that regulated professional firms comply with requirements of Part 4A of the Act and the Board's regulations. This contract will expire on September 30, 2015. The remaining obligation under this contract is \$210,000 (2013 - \$350,000) for consultant fees.

The Board has entered into a contract for the provision of office accommodation and certain support services. The initial term of this contract ended March 31, 2013 and was extended to June 30, 2014. The remaining obligation under this contract is \$4,200 (2013 - \$21,000) for office accommodation.

BARRISTERS AND ACCOUNTANTS AML/ATF BOARD

NOTES TO THE FINANCIAL STATEMENTS

MARCH 31, 2014

9. FINANCIAL RISK MANAGEMENT

The Board has exposure to counterparty credit risk, liquidity risk and market risk associated with its financial assets and liabilities. The Board members have overall responsibility for the establishment and oversight of its risk management framework. The Board's risk management program seeks to minimize potential adverse effects on the Board's financial performance. The Board manages its risks and risk exposures through sound business practices.

(a) Credit risk

Credit risk arises from cash held with banks and accounts receivable. The maximum exposure to credit risk is equal to the carrying values of these financial instruments. Cash and cash equivalents is cash held in current bank accounts. Credit risk associated with cash and cash equivalents is minimized substantially by ensuring that these financial assets are invested with highly rated financial institutions. The Board determines, on a continuous basis, amounts receivable on the basis of amounts it is reasonably certain to receive based on their estimated realizable value.

(b) Liquidity risk

Liquidity risk is the risk the Board will not be able to meet its financial obligations as they fall due.

The Board's objective in managing liquidity is to ensure that it will always have sufficient liquidity to meet its commitments when due, without incurring unacceptable losses or risking damage to the Board's reputation. The Board manages exposure to liquidity risk by closely monitoring supplier and other liabilities, generating positive cash flows from operations and establishing and maintaining good relationships with various financial institutions.

(c) Market risk

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

(i) Foreign exchange risk

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

BARRISTERS AND ACCOUNTANTS AML/ATF BOARD

NOTES TO THE FINANCIAL STATEMENTS

MARCH 31, 2014

9. FINANCIAL RISK MANAGEMENT (continued)

(ii) Interest rate risk

The Board is exposed to changes in interest rates, which may impact interest income on their current account balance.

10. CAPITAL MANAGEMENT

The Board's objective when managing capital is to hold sufficient unrestricted net assets to enable it to withstand negative unexpected financial events. The Board seeks to achieve this objective through receipt of grants from the Association and CPA Bermuda, and excess of revenues over expenses. The Board maintains sufficient liquidity to meet its short-term obligations as they fall due. The Board is not subject to any externally imposed capital requirements.

11. SUBSEQUENT EVENT

On May 30, 2014 a consent order was signed regarding the overpayments to the former Supervisor in 2013. A payment plan was established of \$500 per month from July 1, 2014 to December 1, 2014, \$2,000 per month from January 1, 2015 to May 1, 2016 and the last installment \$865 on June 1, 2016 in settlement of the judgment debt, including accrued interest. The first payment of \$500 was received on July 1, 2014.