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H. LAVITY STOUTT COMMUNITY COLLEGE

Financial Statements
For the year ended July 31, 2018

H. LAVITY STOUTT COMMUNITY COLLEGE

Financial Statements
For the year ended July 31, 2018

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At July 31, 2018

Board of Governors and Committees

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Mrs. Eileene L. Parsons, OBE (Deputy Chair)
Dr. Janet D. Smith (Ex-Officio President)
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Mr. Wendell M. Gaskin
Mr. Andre A. Francis
Dr. Henry Jarecki
Dr. Marcia Potter
Mrs. Erlin Vanterpool (*term expired Dec. 31, 2017*)
Ms. Sonia George
Mrs. Jennifer Potter-Questelles (*term expired Dec. 31, 2017*)
Mrs. Sharon Flax-Brutus
Mr. Cromwell Smith
Dr. Lydia Pickering (*term expired Dec. 31, 2017*)
Ms. Marnie Romney
Ms. Colleen Farrington
Mrs. Lorna Smith, OBE
Mrs. Sandy Harrigan-Underhill
Prof. Emeritus Arthur Richardson

Legal Counsel

Sabals Law
Abbott Building
P.O. Box 3169
Road Town, Tortola VG 1110
British Virgin Islands

Bursar

Ms. Italia Penn, CPA, CGMA

Assistant Bursar

Mrs. Elenore Rowland-George

Registered Office

P.O. Box 3097
Road Town, Tortola VG 1110
British Virgin Islands

Development Committee

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Mrs. Surbi Williams, HR Manager (College Liaison)

This section of the annual financial report of H. Lavity Stoutt Community College ("HLSCC" or "College") provides an overview and analysis of the College's financial performance during the fiscal years ended July 31, 2018 and July 31, 2017. This overview has been prepared by management, along with the financial statements and related footnote disclosures, and should be read in conjunction with them. The financial statements, footnotes and this discussion are the responsibility of management.

Overview of the Financial Statements
This presentation is designed to provide readers with a broad overview of the College's finances, in a manner similar to a private sector business. These financial statements focus on the College's overall financial condition, its results of operations and its cash flows. The entity-wide financial statements consist of:

The Statement of Net Assets, which presents the College's financial position at the end of the year, includes all assets and liabilities. The difference between total assets and total liabilities is net assets and provides an indicator of the College's present financial condition. Over time, increases or decreases in the College's net assets shows whether its financial health is improving or deteriorating. Assets and liabilities are generally measured using current values; capital assets are stated at historical cost, less an allowance for depreciation.

The Statement of Revenues, Expenses and Changes in Net Assets presents the College's operating results for the period. Revenues and expenses are generally reported using the accrual method of accounting, which records transactions as soon as they occur, regardless of when cash is exchanged. Usage of capital assets is reported as depreciation expense, which amortizes the cost of assets over their estimated useful lives. Revenues and expenses are reported as either operating or non-operating. Operating revenues are derived primarily from government grants, tuition and other fees, and auxiliary enterprises, such as the Bookstore and Performing Arts.

The Statement of Cash Flows presents information about cash receipts and cash payments during the period. This statement also assists users in assessing the College's ability to generate net cash flows, its ability to meet its obligations as they come due, and its potential need for external financing.

The Notes to and forming part of the Financial Statements provide additional information that is essential to a full understanding of the data provided in the entity-wide financial statements.

Financial Highlights
As of July 31, 2018, the College's assets exceeded it liabilities by $11,608,997 (net assets). Of this amount, $2,802,762 is classified as unrestricted current funds. These unrestricted current funds may be used to meet the College's ongoing obligations. The largest component ($8,779,902) of net assets is the College's investment in capital assets, which represents its land, buildings, furniture and equipment, and other assets net of accumulated depreciation. The College uses these capital assets to provide educational services to its students. As of July 31, 2018, operating revenues were $11,870,174. This included Government grants for $8,000,000 or 67% of total operating revenues. Total operating expenses (excluding depreciation) was $8,851,952.

Analysis of Net Assets as of July 31, 2018

The Statement of Net Assets includes all of the assets and liabilities of the College using the previously-described accrual method of accounting, which is similar to the accounting presentation used by businesses. Net Assets is a measure of the College's financial condition. In summary form, Net Assets consisted of:

	2018
Assets	
Current assets	4,217,309
Non-current assets	8,806,235
Total assets	$ 13,023,544
Liabilities	
Current liabilities	1,414,547
Non-current liabilities	—
Total liabilities	$ 1,414,547
Net Assets	
Invested in capital assets, net of related debt	8,779,902
Restricted	26,333
Unrestricted	2,802,762
Total net assets	$ 11,608,997
Total liabilities and net assets	$ 13,023,544

At July 31, 2018, the College owned $13,023,544 in total assets. Current assets included cash and cash equivalents of $3.820 million; receivables and prepayments of $0.315 million; and other assets of $0.083 million.

The College's largest non-current asset is its investment in capital assets (land, buildings, furniture and equipment), net of accumulated depreciation of $8.780 million, which is used to provide student services.

Current liabilities at July 31, 2018 were $1,414,547 and included payroll liabilities of $0.560 million; and trade and other payables of $0.796 million. The College's total current assets of $4,217,309 were sufficient to cover the current liabilities of $1,414,547. This represents a current ratio of 2.98 and is considered financially healthy and capable of paying off its current obligations.

Net Assets represents the residual interest in HLSCC's assets after liabilities are deducted. Net Assets at July 31, 2018 were $11,608,997 and include the "investment in capital assets, net of accumulated depreciation and related debt" of $8,779,902; restricted assets of $26,333 are subjected to externally imposed restrictions governing their use. Unrestricted assets of $2,802,762 are not subject to external restrictions governing their use and are used primarily for general operations.

Analysis of Revenues, Expenses and Changes in Net Assets for the year ended July 31, 2018
The Statement of Revenues, Expenses and Changes in Net Assets represents the College's operating results, as well as its non-operating revenues and expenses, and reconciles the changes in Net Assets (discussed above). In summary form, the year's results were:

		2018
Total operating revenues		11,870,174
Total operating expenes (excluding depreciation)		8,851,952
Net operating surplus	$	3,018,222
Non-operating revenues		—
Non-operating expenses		1,000,744
Net surplus	$	2,017,478
Total increase in net assets		2,017,478
Net assets, beginning of year		9,591,519
Net assets, ending of year	$	11,608,997

Revenues:
The largest source of operating revenues for the College for the year ended July 31, 2018 was Government grants which totalled $8,000,000 or 67% of total operating revenues. Government subvention is used primarily to fund current operations and free tuition. Other operating income totalled $3,870,174 or 33% and includes tuition and other fees of $504,524 or 4%.

Expenses:
The College expended $8,851,952 on operating expenses including salaries and benefits, materials and services, and utilities. Academic expenses represent the largest percentage of total operating expenses at 44%, or $3,891,759. Institutional Support represents 42% of total operating expenses, or $3,708,999. Non-operating expenses (depreciation) totalled $1,000,744.

Analysis of the Statement of Cash Flows for the year ended July 31, 2018
This statement provides a measurement of the College's financial health by supplying information about cash receipts and cash payments during the year. It also assists users in assessing the College's ability to generate net cash flows, its ability to meet its obligations as they come due, and its potential need for external financing. GASB principles promulgate four major sources of cash flows: Cash flows from operating activities, cash flows from non-capital financing activities, cash flows from capital and related financing activities, and cash flows from investing activities.

	2018
Cash provided by/(used in):	
Operating activities	3,946,907
Capital financing activities	(818,362)
Net increase in cash	$ 3,128,545
Cash, beginning of year	690,959
Cash, ending of year	$ 3,819,504

The primary uses of cash from operating activities were from decreases in accounts receivable and increases in accounts payable. Cash acquisition of capital assets was the primary use of cash from capital financing activities.

Economic Factors and Next Year's Budget
The next few years will be very challenging for the College. HLSCC must strive to find the proper balance between affordability for its students and the accessibility and quality of its instructional programs and services. It is evident that the College cannot rely solely upon the Government for additional resources but must continue to align its expenses with available resources.

Contacting the College's Financial Management
This financial report is designed to provide our stakeholders, and creditors with a general overview of the College's finances. Questions concerning any of the information in this report or requests for additional financial information should be addressed to:

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INDEPENDENT AUDITOR'S REPORT TO THE AUDITOR GENERAL,

GOVERNMENT OF THE BRITISH VIRGIN ISLANDS

Report on the Financial Statements

We have audited the financial statements of H. Lavity Stoutt Community College (the "College"), which comprise the statement of net assets as at July 31, 2018, and the statements of revenues, expenses and changes in net assets and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory information, as set out on pages 8 to 20.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we 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. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the College as of July 31, 2018, and its financial performance and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 2-5 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Baker Tilly (BVI) Limited

Chartered Accountants
Tortola, British Virgin Islands
2 October 2019

H. LAVITY STOUTT COMMUNITY COLLEGE

Statements of Net Assets
At July 31, 2018
Expressed in U.S. Dollars

	Note				2018	2017
		Capital fund	Current funds Restricted	Current funds Unrestricted	Total	Total
Assets						
Current assets						
Cash and cash equivalents		—	—	3,819,504	3,819,504	690,959
Receivables and prepayments	5	—	—	314,829	314,829	855,669
Due from other College funds		—	—	—	—	—
Inventory		—	—	82,976	82,976	301,993
Total current assets		—	—	4,217,309	4,217,309	1,848,621
Non-current assets						
Investments	6	—	26,333	—	26,333	25,773
Capital assets	8	8,779,902	—	—	8,779,902	9,090,255
Total non-current assets		8,779,902	26,333	—	8,806,235	9,116,028
Total assets		8,779,902	26,333	4,217,309	13,023,544	10,964,649
Liabilities						
Current liabilities						
Accounts payable and accrued expenses	7	—	—	1,356,025	1,356,025	1,264,939
Deferred income		—	—	58,522	58,522	108,191
Due to College funds		—	—	—	—	—
Total liabilities		—	—	1,414,547	1,414,547	1,373,130
Net assets		$ 8,779,902	$ 26,333	$ 2,802,762	$ 11,608,997	$ 9,591,519

Approved on behalf of the Board of Governors on October 2, 2019

President

Bursar

H. LAVITY STOUTT COMMUNITY COLLEGE

Statements of Revenues, Expenses and Changes in Net Assets
For the year ended July 31, 2018
Expressed in U.S. Dollars

	Note				2018	2017
		Capital fund	Current funds Restricted	Current funds Unrestricted	Total	Total
Operating revenues						
Government grants		—	—	8,000,000	8,000,000	8,255,550
Tuition and other fees		—	—	504,524	504,524	1,076,912
Other gifts and grants		—	—	135,075	135,075	176,972
Other income	9	—	560	3,230,015	3,230,575	406,002
Total operating revenues		—	560	11,869,614	11,870,174	9,915,436
Operating expenses						
Academic expenses		—	—	3,891,759	3,891,759	4,916,621
Allowance for doubtful debts		—	—	78,571	78,571	66,948
Auxiliary expenses		—	—	309,110	309,110	296,466
Institutional support		—	—	3,708,999	3,708,999	4,275,740
Library costs		—	—	161,607	161,607	203,888
Fundraising		—	—	93,071	93,071	80,170
Repairs and maintenance		—	—	608,835	608,835	728,212
Total operating expenses		—	—	8,851,952	8,851,952	10,568,045
Non-operating expenses						
Depreciation	8	1,000,744	—	—	1,000,744	992,775
Total non-operating expenses		1,000,744	—	—	1,000,744	992,775
Change in net assets		(1,000,744)	560	3,017,662	2,017,478	(1,645,384)
Opening net assets		7,705,938	25,773	1,859,808	9,591,519	11,236,903
Closing net assets		$ 6,705,194	$ 26,333	$ 4,877,470	$ 11,608,997	$ 9,591,519

H. LAVITY STOUTT COMMUNITY COLLEGE

Statements of Cash Flows
For the year ended July 31, 2018
Expressed in U.S. Dollars

	2018				2017
	Capital fund	Current funds Restricted	Current funds Unrestricted	Total	Total
Cash flows from operating activities:					
Change in net assets	(1,000,744)	560	3,017,662	2,017,478	(1,645,384)
Adjustments to reconcile change in net assets to net cash provided by operating activities:					
Depreciation	1,000,744	—	—	1,000,744	992,775
Loss on disposal of fixed assets	127,971	—	—	127,971	8,075
Change in operating assets and liabilities:					
Decrease/(increase) in accounts receivable	—	—	540,840	540,840	(228,160)
Decrease in inventory	—	—	219,017	219,017	134,887
Increase in investments	—	(560)	—	(560)	(530)
Decrease in deferred income	—	—	(49,669)	(49,669)	(9,074)
Increase/(decrease) in accounts payable	—	—	91,086	91,086	(231,988)
Net cash provided by operating activities	127,971	—	3,818,936	3,946,907	(979,399)
Cash flows from capital and related financing activities:					
Purchase of capital assets	(818,362)	—	—	(818,362)	(126,688)
Net cash used in capital and related financing activities	(818,362)	—	—	(818,362)	(126,688)
Net increase/(decrease) in cash and cash equivalents	(690,391)	—	3,818,936	3,128,545	(1,106,087)
Cash and cash equivalents at beginning of year	(118,613)	—	809,572	690,959	1,797,046
Cash and cash equivalents at end of year	$ (809,004)	$ —	$ 4,628,508	$ 3,819,504	$ 690,959

1. GENERAL INFORMATION

H. Lavity Stoutt Community College (the "College" or "HLSCC") is a body corporate established in the British Virgin Islands (the "Territory") under the British Virgin Islands Community College Act, 1990, as amended. The principal objective of the College, which began its first academic year on January 14, 1990, is to provide a comprehensive educational program that includes education and training, which link economic and human resources development.

2. SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies adopted in the preparation of the College's financial statements are set out below.

a) Basis of preparation

The accompanying financial statements are prepared in accordance with accounting principles generally accepted in the United States of America, as prescribed by the Governmental Accounting Standards Board ("GASB").

The College follows the "business-type" activities requirements of GASB Statement No. 35, "Basic Financial Statements and Management's Discussion and Analysis for Public Colleges and Universities," which provides that the following sections be included in the College's annual financial report:

- Management's discussion and analysis;
- Basic financial statements, including statement of net assets, statement of revenues, expenses and changes in net assets and statement of cash flows for the College; and
- Notes to and forming part of the financial statements.

The accompanying financial statements have been prepared using the accrual basis of accounting whereby all revenues are recorded when earned and all expenses are recorded when they are incurred.

Operating revenues of the College consist of tuition and fees, grants and contracts, departmental activities, auxiliary activities and other miscellaneous revenues. Transactions related to capital financing activities, non-capital financing activities, investing activities and appropriation from the Government of the British Virgin Islands are components of non-operating income or expenses. When an expense is incurred for which both restricted and unrestricted net assets are available, the College applies the restricted or unrestricted resources at its discretion provided all terms of the restriction have been followed.

b) Use of estimates

The preparation of financial statements in conformity with accounting standards generally accepted in the United States of America, as prescribed by GASB, requires management to make estimates and assumptions relating to the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the year. Significant items subject to such estimates and assumptions include the carrying amount of capital assets, valuation of allowances for receivables and inventories. Actual results could differ from those estimates.

2. **SIGNIFICANT ACCOUNTING POLICIES** (Cont'd)

c) **Cash and cash equivalents**

The College considers cash on hand, cash in banks, net of overdrafts, and investments with original maturities of ninety days or less when purchased, as cash and cash equivalents. Cash and cash equivalents held in the capital fund represents funds held by the College for transactions of a long-term investment or capital nature.

d) **Net assets**

i) ***Unrestricted net assets***

Unrestricted net assets are free of donor-imposed restrictions. Unrestricted net assets may be designated for specific purposes by actions of the Board of Governors and may include, but are not exclusive to, education and general institutional support. Contributions, gains and other income, whose restrictions are met in the same reporting period, are reported as unrestricted support.

ii) ***Restricted net assets***

Restricted net assets include gifts and pledges which require that the corpus be made available for spending in accordance with donor restrictions.

iii) ***Capital fund***

Capital fund activities reflect transactions of a capital nature including contributions to be used for facilities and equipment. Cash is transferred among the College's funds as required for the performance of the College funds' stated purposes.

e) **Accounts receivable**

Accounts receivable are recorded at the invoiced amount and do not bear interest. Amounts collected on accounts receivable are included in net cash provided by operating activities in the statement of cash flows. The allowance for doubtful accounts is the College's best estimate of the amount of probable credit losses in the College's existing accounts receivable. The College determines the allowance based on historical write-off experience. The College reviews its allowance for doubtful accounts on a quarterly basis. Account balances over 365 days are reviewed individually for collectability. Account balances are charged against the allowance after all means of collection have been exhausted and the potential for recovery is considered remote. The College does not have any off-balance-sheet credit exposure related to its customers.

f) **Inventory**

Inventories are stated at the lower of cost or market value. Cost is determined using the first-in, first-out method (FIFO) for all inventory items.

2. **SIGNIFICANT ACCOUNTING POLICIES** (Cont'd)

g) **Capital assets**

Property, plant and equipment are stated at cost less accumulated depreciation. A capitalization threshold of $1,000 and a useful life threshold of one year or more are used for all asset categories. Maintenance and repairs are expensed as incurred and improvements are capitalized. When assets are retired or disposed of, the cost and accumulated depreciation thereon are removed from the financial statements, and gains and losses are included in operations in the statement of revenues, expenses and changes in net assets.

All capital expenditures for land, buildings, furniture and equipment, motor vehicles, library books and paintings and artwork are recorded as additions to the capital fund when the assets are placed in service and carried at cost at the date of the acquisition or fair value at the date of donation.

Depreciation is computed on a straight-line basis over the estimated useful lives of assets as follows:

Land	Not depreciated
Buildings	3 – 5%
Capital improvements	5 – 20%
Furniture and equipment	10 – 50%
Motor vehicles	20%
Library books	10 – 20%
Paintings and artwork	10%

h) **Investments**

All investments are measured at fair value with changes in their fair value recognized in the statement of revenues, expenses and changes in net assets, except that any financial instrument that does not have a quoted market price in an active market and whose fair value cannot be reliably measured is stated at cost less impairment losses (refer to accounting policy n). If a reliable measurement subsequently becomes available, the instrument is measured at fair value.

i) **Revenue recognition**

Government grants, gifts, other grants and investment income relating to unrestricted contributions are recognized as operating revenues in the statement of revenues, expenses and changes in net assets as received.

Tuition revenue is recognized in the fiscal year in which the revenue was earned. Financial aid amounts provided through the Tuition Assistance Program are fully discounted.

Restricted contributions and investment income are recognized as non-operating revenues in the year in which the related revenues are received.

Contributions restricted for the purchase of capital assets are recognized as non-operating revenues and are amortized at a rate corresponding with the depreciation rate for the related capital assets.

2. **SIGNIFICANT ACCOUNTING POLICIES** (Cont'd)

j) **Deferred revenue**

Deferred revenue results when tuition payments are received in advance for the Fall semester of the following calendar year. These payments are recorded as a liability until the tuition is earned. Once earned, the liability is reduced and revenue is recognized in the statement of revenues, expenses and changes in net assets.

k) **Expenditure recognition**

All expenses are recognised on the accrual basis.

l) **Employee benefits**

The College established a contributory, defined-contribution pension scheme effective March 1, 2001 to grant pensions to its officers and employees (the "Pension Fund"). The Pension Fund is currently being funded by the College at 8% of gross salaries per annum whilst employees contribute at a minimum rate of 4%. Contributions payable by the College during the year are charged to the statement of revenues, expenses and changes in net assets.

Prior to 2001, retirement benefits payable were calculated for eligible employees and recorded on the statement of net assets as a liability and as an expense on the statement of revenues, expenses and changes in net assets. Upon retirement, balances are paid to applicable employees.

m) **Operating lease payments**

Payments made under operating leases are recognized in the statement of revenues, expenses and changes in net assets on a straight-line basis over the term of the lease.

n) **Impairment**

The carrying amounts of the College's assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. The recoverable amount is estimated as the greater of an asset's net selling price and value in use. An impairment loss is recognised in the statement of revenues, expenses and changes in net assets whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount.

If in a subsequent period, the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the write-down, the write-down is reversed through the statement of revenues, expenses and changes in net assets.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

2. **SIGNIFICANT ACCOUNTING POLICIES** (Cont'd)

o) **Contingent liabilities**

Certain conditions may exist as of the reporting date, which may result in a loss to the College but which will only be resolved when one or more future events occur or fail to occur. The College assess such contingent liabilities, and such assessment inherently involves an exercise of judgment. In assessing loss contingencies related to legal proceedings that are pending against the College or unasserted claims that may result in such proceedings, the College evaluates the perceived merits of any legal proceedings or unasserted claims as well as the perceived merits of the amount of relief sought or expected to be sought therein.

If the assessment of a contingency indicates that there is a present obligation as a result of a past event, that it is probable that an outflow of resources will be required to settle the obligation, and the amount of the obligation can be reliably estimated, then the estimated liability is accrued in the College's financial statements. If the assessment indicates that there is a possible obligation, or is probable but cannot be estimated, then the nature of the contingent liability, together with an estimate of the range of possible loss, if determinable and material, is disclosed.

Loss contingencies considered remote are generally not disclosed.

3. **CONCENTRATION OF RISK**

a) **Credit risk**

Credit risk represents the accounting loss that would be recognized at the reporting date if counterparties failed to perform as contracted.

Financial instruments that subject the College to credit risk consist principally of cash and cash equivalents and receivables, which includes student receivables. To reduce exposure to credit risk on student receivables, the College has implemented a credit policy to ensure that credit-worthy students are granted credit. Students are required to pay their balances in full prior to final examinations. The Government of the British Virgin Islands (the "BVI Government") also implemented a Tuition Assistance Program that covers the tuition fees of qualifying students.

The College is exposed to credit-related losses in the event of non-performance by counterparties to financial instruments. The College invests available cash with various reputable banks.

The College is exposed to credit-related losses in the event of non-performance by such counterparties to financial instruments, but management does not expect any banking institution to fail to meet its obligations. The extent of the College's exposure to credit risk in respect to these financial assets approximates their carrying values as recorded in the statement of net assets.

3. **CONCENTRATION OF RISK** (Cont'd)

b) **Market risk**

Market risk arises from the use of interest bearing, tradeable and foreign currency financial instruments. It is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (price risk), interest rates (interest rate risk) and foreign exchange rates (foreign currency risk).

i) ***Interest rate risk***

The financial instruments exposed to interest rate risk comprise cash and cash equivalents and investments. The College is exposed to fair value interest rate risk on investments to the extent that prevailing interest rates may fluctuate from the fixed interest rate stated in Note 6. There is an inherent risk that during the period to maturity these rates may be lower than the prevailing market rates.

ii) ***Foreign currency risk***

At July 31, 2018 and July 31, 2017, the College had no significant financial assets and financial liabilities denominated in currencies other than the US dollar. As a result, the College is not exposed to significant foreign currency risk.

c) **Liquidity risk**

Liquidity risk is the risk that the College may not be able to generate sufficient cash resources to settle its obligations in full as they fall due or can only do so on terms that are materially disadvantageous. The College is exposed to liquidity risk from its financial liabilities represented by accounts payable and accrued liabilities which are due within one year. The cash and cash equivalents are considered to be on demand apart from the small amount restricted. Net receivables are deemed to be fully collectible.

4. **TAXATION**

The College is an "educational institution" within the meaning of section 8(d) of the Income Tax Act (Cap. 206) of the British Virgin Islands and is deemed to be exempt from income tax.

Effective January 1, 2005, the BVI Government, by virtue of the introduction of the Payroll Taxes Act, 2004, effectively abolished both personal and corporate income tax in the Territory. Further, beginning January 1, 2005, the College became subject to a payroll tax equating to 6% of all salaries, wages and benefits paid to employees.

Expressed in U.S. Dollars

5. RECEIVABLES AND PREPAYMENTS

	2018	2017
Student receivables	238,898	465,255
Less: Allowance for doubtful debts	(20,465)	—
	218,433	465,255
General receivables	88,548	45,222
Less: Allowance for doubtful debts	(2,919)	(2,919)
	85,629	42,303
Government subventions receivable	—	325,000
Prepayments and other receivables	10,767	23,111
	$ 314,829	$ 855,669

Student receivables - allowance for doubtful debts

	2018	2017
Balance at beginning of year	—	1,285,987
Bad debt expense	78,571	66,948
Write off bad debts	(58,106)	(1,352,935)
Balance at end of year	$ 20,465	$ —

General receivables - allowance for doubtful debts

	2018	2017
Balance at beginning of year	2,919	73,600
Bad debt expense	—	—
Write off bad debts	—	(70,681)
Balance at end of year	$ 2,919	$ 2,919

6. INVESTMENTS

	2018	2017
Residential Accredit Loans Inc. Series 2002-QS10 Class 1A3 R/MD 6.50% 10/25/2032	$26,333	$25,773

7. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	2018	2017
Trade payables and accrued expenses	740,242	464,932
Personnel costs	560,031	749,771
Other payables	55,752	50,236
	$1,356,025	$1,264,939

Expressed in U.S. Dollars

8. **CAPITAL ASSETS**

	Land	Buildings	Capital improvements	Furniture and equipment	Motor vehicles	Library books	Paintings and artwork	Total
Cost:								
At July 31, 2017	2,935,810	15,310,206	1,223,807	3,820,216	150,691	100,419	19,192	23,560,341
Additions	—	—	726,294	58,498	33,570	—	—	818,362
Disposals	—	(73,291)	(174,623)	(696,248)	(90,846)	(99,775)	—	(1,134,783)
Reclass and adjustments	—	—	(21,691)	21,691	—	—	—	—
At July 31, 2018	2,935,810	15,236,915	1,753,787	3,204,157	93,415	644	19,192	23,243,920
Accumulated depreciation:								
At July 31, 2017	—	10,262,698	767,731	3,217,880	107,272	100,065	14,440	14,470,086
Charge for the year	—	714,699	57,851	220,750	6,395	129	920	1,000,744
Disposals/sale of fixed assets	—	(61,242)	(127,444)	(645,996)	(72,355)	(99,775)	—	(1,006,812)
Reclass and adjustments	—	—	(5,218)	5,218	—	—	—	—
At July 31, 2018	—	10,916,155	692,920	2,797,852	41,312	419	15,360	14,464,018
Net book value:								
At July 31, 2018	$ 2,935,810	$ 4,320,760	$ 1,060,867	$ 406,305	$ 52,103	$ 225	$ 3,832	$ 8,779,902
At July 31, 2017	$ 2,935,810	$ 5,047,508	$ 456,076	$ 602,336	$ 43,419	$ 354	$ 4,752	$ 9,090,255

Expressed in U.S. Dollars

8. CAPITAL ASSETS

	Land	Buildings	Capital improvements	Furniture and equipmen	Motor vehicles	Library books	Paintings and artwork	Total
Cost:								
At July 31, 2016	2,935,810	15,310,206	1,157,984	3,769,817	169,828	100,419	19,192	23,463,256
Additions	—	—	97,539	29,149	—	—	—	126,688
Disposals	—	—	(4,786)	(2,650)	(19,137)	—	—	(26,573)
Reclass and adjustments	—	—	(26,930)	23,900	—	—	—	(3,030)
At July 31, 2017	2,935,810	15,310,206	1,223,807	3,820,216	150,691	100,419	19,192	23,560,341
Accumulated depreciation:								
At July 31, 2016	—	9,575,446	720,695	2,973,145	116,203	99,936	13,414	13,498,839
Charge for the year	—	687,252	47,976	246,186	10,206	129	1,026	992,775
Disposals/sale of fixed assets	—	—	(940)	(1,451)	(19,137)	—	—	(21,528)
At July 31, 2017	—	10,262,698	767,731	3,217,880	107,272	100,065	14,440	14,470,086
Net book value:								
At July 31, 2017	$ 2,935,810	$ 5,047,508	$ 456,076	$ 602,336	$ 43,419	$ 354	$ 4,752	$ 9,090,255
At July 31, 2016	$ 2,935,810	$ 5,734,760	$ 437,289	$ 796,672	$ 53,625	$ 483	$ 5,778	$ 9,964,417

Expressed in U.S. Dollars

9. OTHER INCOME

In September 2017, the British Virgin Islands experienced two of the most devastating hurricanes (Irma and Maria) in the history of the Territory. The total estimated damage to the College was $10 million. Of the $10 million submitted insurance claims, HLSCC collected approximately $3.3 million during the year.

10. RETIREMENT BENEFITS SCHEME

A defined contribution retirement benefits scheme ("Pension Fund") was implemented under authorization of the College's Board of Governors.

For the years ended July 31, 2018 and July 31, 2017, the College contributed at a rate of 8.0% of the gross salary of qualifying participating employees to the scheme. Employees are required to contribute towards the scheme at a minimum rate of 4.0% for 2018 and 2017.

Zurich International Life Limited administers the funds contributed. Contributions by the College for the years ended July 31, 2018 and July 31, 2017 were $159,147 and $160,696, respectively.

11. RELATED PARTY TRANSACTIONS

BVI Government Grant:
The College receives grants from the BVI Government during its normal course of business to assist with the funding of its operations and capital expenditure projects. During the years ended July 31, 2018 and July 31, 2017, HLSCC received a total of $8,000,000 and $8,255,550, respectively.

Payments to the Board of Governors:
For the years ended July 31, 2018 and July 31, 2017, HLSCC paid stipends to the Board of Governors in the amount of $56,800 and $59,000, respectively.

12. OPERATING LEASES

The College leases office space in Virgin Gorda and commercial and storage space in Road Town, British Virgin Islands. The Virgin Gorda lease had a term of three years commencing April 1, 2014 and expired March 31, 2017. The lease was renewed commencing April 1, 2017 with an expiration date of March 31, 2020.

Future minimum lease payments as at July 31, 2018 are as follows:

	2018	2017
One year	72,000	72,000
Two to three years	48,000	120,000
	$120,000	$192,000

13. CONTINGENT LIABILITY

At July 31, 2018, the College potentially has a contingent liability arising from the provision of retirement benefits for other employees not currently participants of the Pension Fund (see note 10) totaling $1,060,216.