

CORPORATION OF HAMILTON

Audited Financial Statements
(With Independent Auditors' Report Thereon)

December 31, 2014

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Bermuda

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INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF CORPORATION OF HAMILTON

We have audited the accompanying financial statements of the Corporation of Hamilton (the "Corporation"), which comprise the statement of financial position as at December 31, 2014, and the statements of operations, changes in accumulated surplus, changes in net debt and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles 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

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 Bermuda and Canada. Those standards require that we 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.

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 present fairly, in all material respects, the financial position of the Corporation as at December 31, 2014, and its financial performance and cash flows for the year then ended in accordance with accounting principles generally accepted in Bermuda and Canada.

Emphasis of a Matter

The accompanying financial statements have been prepared assuming that the Corporation will continue as a going concern. We draw attention to Notes 2 and 14 to the financial statements which describe the potential impact on the Corporation of the \$18 million judgement against the Corporation. These conditions indicate the existence of a material uncertainty that may cast significant doubt about the Corporation's ability to continue as a going concern. Management's plans in regard to these conditions are described in Note 2. The financial statements do not include any adjustments that might result from the outcome of this material uncertainty.

Our opinion is not qualified in respect of these matters.

Maure Stephens & Butterfield

Chartered Professional Accountants
Hamilton, Bermuda
July 15, 2015

CORPORATION OF HAMILTON

Statement of Financial Position

December 31, 2014

(Expressed in Bermuda Dollars)

	<u>2014</u>	<u>2013</u>
Financial assets		
Cash and cash equivalents	\$ 1,874,673	\$ 2,269,073
Accounts receivable, net (Note 3)	2,034,856	1,064,219
Recoverable costs	<u>33,903</u>	<u>314,185</u>
Total financial assets	<u>3,943,432</u>	<u>3,647,477</u>
Financial liabilities		
Accounts payable and accrued liabilities (Note 4)	7,835,208	7,017,817
Due to Mexico Infrastructure Finance LLC (Note 14)	18,000,000	-
Long-term loan (Note 6)	8,049,857	8,712,280
Retirement benefit liability (Note 7)	<u>1,273,786</u>	<u>1,287,453</u>
Total financial liabilities	<u>35,158,851</u>	<u>17,017,550</u>
Net debt	<u>(31,215,419)</u>	<u>(13,370,073)</u>
Non-financial assets		
Tangible capital assets, net (Note 5)	63,526,504	63,823,146
Inventory of materials and supplies	625,973	692,365
Prepaid expenses	<u>21,303</u>	<u>250,000</u>
Total non-financial assets	<u>64,173,780</u>	<u>64,765,511</u>
Accumulated surplus	<u>\$ 32,958,361</u>	<u>\$ 51,395,438</u>

See accompanying notes to the financial statements.

Signed on behalf of the Corporation of Hamilton:



Charles R Gosling, Mayor



Edward Benevides, Secretary



Tanya Iris, Treasurer

CORPORATION OF HAMILTON

Statement of Operations

For the Year Ended December 31, 2014
 (Expressed in Bermuda Dollars)

	Budget <u>2014</u>	Actual <u>2014</u>	Actual <u>2013</u>
Revenue			
Property taxes	\$ 8,278,050	\$ 8,534,243	\$ 8,469,630
Government grant			5,000,000
Goods wharfage	4,373,523	4,453,373	-
Car parking fees	4,316,300	4,265,540	4,213,247
Sewage disposal contracts	2,294,666	2,298,518	2,065,184
Rents from properties	882,986	861,461	867,563
Other permit and license fees	282,000	335,837	420,204
Ships wharfage	100,000	210,686	-
City Hall rents	90,000	89,460	88,885
Interest	2,000	1,004	3,832
Dock charges	100,000	(848)	-
Miscellaneous	20,300	41,520	60,626
Total revenue (Note 12)	20,739,825	21,090,794	21,189,171
Expenditures			
Loss on guarantee (Note 14)		18,000,000	-
Administrative and general expenses	8,496,764	8,157,699	7,902,800
Sanitation services	3,370,026	3,398,173	3,340,426
Street operations and maintenance	2,449,497	2,974,351	3,806,884
Parks and gardens maintenance	1,660,675	1,583,002	1,601,000
Wharf operations and maintenance	1,271,565	1,487,491	1,256,555
Works depot expenses	1,117,341	1,140,805	1,112,124
Provision for doubtful accounts	130,000	847,901	137,931
Sewerage maintenance and operating	726,294	616,098	564,420
Interest and finance charges	438,918	528,441	570,822
City Hall maintenance	495,072	446,517	504,943
Property maintenance	248,932	193,827	123,078
Car parks expenses	195,828	147,373	224,695
Development costs	25,000	6,193	37,447
Total expenditures (Notes 9 and 12)	20,625,912	39,527,871	21,183,125
Excess (shortfall) of revenue over expenditures	\$ 113,913	\$ (18,437,077)	\$ 6,046

See accompanying notes to the financial statements.

CORPORATION OF HAMILTON

Statement of Changes in Accumulated Surplus

For the Year Ended December 31, 2014
(Expressed in Bermuda Dollars)

	<u>2014</u>	<u>2013</u>
Accumulated surplus, beginning of year	\$ 51,395,438	\$ 51,420,108
Excess (shortfall) of revenue over expenditures	(18,437,077)	6,046
Change in reserves (Note 8)	<u>-</u>	<u>(30,716)</u>
Accumulated surplus, end of year	<u>\$ 32,958,361</u>	<u>\$ 51,395,438</u>

See accompanying notes to the financial statements.

CORPORATION OF HAMILTON

Statement of Changes in Net Debt

For the Year Ended December 31, 2014
(Expressed in Bermuda Dollars)

	<u>2014</u>	<u>2013</u>
Excess (shortfall) of revenue over expenditures	\$ (18,437,077)	\$ 6,046
Acquisition of tangible capital assets, net	(1,247,617)	(2,032,986)
Amortization of tangible capital assets, net	1,544,258	1,498,294
Acquisition of inventory	(554,756)	(971,772)
Consumption of inventory	621,149	831,768
Acquisition of prepaid expenses	(385,376)	(563,458)
Consumption of prepaid expenses	614,073	443,745
Disposal of reserve	<u>-</u>	<u>(30,716)</u>
Decrease in net debt	(17,845,346)	(819,079)
Net debt, beginning of year	<u>(13,370,073)</u>	<u>(12,550,994)</u>
Net debt, end of year	<u>\$ (31,215,419)</u>	<u>\$ (13,370,073)</u>

See accompanying notes to the financial statements.

CORPORATION OF HAMILTON

Statement of Cash Flows

For the Year Ended December 31, 2014

(Expressed in Bermuda Dollars)

	<u>2014</u>	<u>2013</u>
Cash flows from operating activities		
Excess (shortfall) of revenue over expenditures	\$ (18,437,077)	\$ 6,046
Adjustments for non-cash items and working capital changes:		
Amortization of tangible capital assets, net	1,544,258	1,498,294
Increase in accounts receivable	(970,637)	(337,717)
Decrease (increase) in recoverable costs	280,282	(276,682)
Increase in accounts payable and accrued liabilities	817,391	1,378,332
Decrease in retirement benefit liability	(13,667)	(32,517)
Decrease (increase) in inventory of materials and supplies	66,393	(140,004)
Decrease (increase) in prepaid expenses	<u>228,697</u>	<u>(119,712)</u>
Net cash from (used in) operating activities	<u>(16,484,360)</u>	<u>1,976,040</u>
Cash flows from investing activities		
Acquisition of tangible capital assets, net	(1,247,617)	(2,032,986)
Disposal of reserves	<u>-</u>	<u>(30,716)</u>
Net cash used in investing activities	<u>(1,247,617)</u>	<u>(2,063,702)</u>
Cash flows from financing activities		
Increase in guarantee indebtedness	18,000,000	-
Bank loan repayments	<u>(662,423)</u>	<u>(822,597)</u>
Net cash from (used in) financing activities	<u>17,337,577</u>	<u>(822,597)</u>
Net decrease in cash and cash equivalents	(394,400)	(910,259)
Cash and cash equivalents, beginning of year	<u>2,269,073</u>	<u>3,179,332</u>
Cash and cash equivalents, end of year	<u>\$ 1,874,673</u>	<u>\$ 2,269,073</u>
Supplemental cash flow disclosure:		
Interest paid for the year	\$ 528,441	\$ 570,822
Interest received for the year	\$ 1,004	\$ 3,832

See accompanying notes to the financial statements.

CORPORATION OF HAMILTON

Notes to the Financial Statements

December 31, 2014

(Expressed in Bermuda Dollars)

1. **General**

The Corporation of Hamilton (the "Corporation") is responsible for the provision of certain municipal services within the boundaries of the City of Hamilton (the "City") in accordance with the Municipalities Act 1923. The principal sources of revenue include property taxes, government grant, sewage disposal and car parking fees. The various expenditures are controlled by committees established for sanitation, sewerage, wharfs, parks, properties, streets, finance and City Hall.

2. **Significant accounting policies**

These financial statements have been prepared in accordance with accounting principles generally accepted in Bermuda and Canada as provided by the Public Sector Accounting Board ("PSAB") of the Chartered Professional Accountants of Canada ("CPA Canada").

The preparation of financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenditures for the year. Actual amounts could differ from those estimates. Significant areas requiring the use of management estimates relate to the measurement of post-employment benefits, the amortization of tangible capital assets, the recoverability of accounts receivable and the estimate of accrued and contingent liabilities.

Going concern

Mexico Infrastructure Finance LLC ("MIF") obtained a summary judgement in the amount of US\$18 million against the Corporation on May 27, 2015, (See Note 14) under the Guarantee given by the Corporation for the loan to Par-la-Ville Hotel and Residences, Ltd ("PHRL"). MIF is now seeking enforcement of the \$18 million judgement debt against the Corporation and PHRL that raises substantial doubt about the Corporation's ability to continue as a going concern, if forced to repay this debt out of current income. The Corporation will therefore need to raise funds and is considering several options including the sale of assets and debt financing or a combination of both. Any debt financing would have to take the Municipalities Act 1923 into consideration as the Act specifies that the Corporation's debt limit cannot exceed twenty million dollars. The outcome of these options cannot be predicted at this time. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

CORPORATION OF HAMILTON

Notes to the Financial Statements

December 31, 2014

(Expressed in Bermuda Dollars)

2. Significant accounting policies (continued)

These financial statements have been prepared on a going concern basis which assumes that the Corporation will continue to operate for the foreseeable future. This is dependent on the following assumptions:

- there being no further reforms to the Municipalities Act 1923 impacting on the Corporation's ability to continue to operate;
- the ability of the Corporation to meet its liabilities as they fall due and operate in line with its latest forecasts and projections.

The financial statements do not include any adjustments to the carrying values of the assets and liabilities if the Corporation is unable to continue as a going concern. Such adjustments could be material.

The following are the significant accounting policies adopted by the Corporation:

(a) Revenues

Revenues are recorded on the accrual basis and recognized when earned. Amounts that have been received in advance of services being rendered are recorded as deferred revenue until the Corporation discharges the obligations that led to the collection of funds.

Government grants are recognized when the funds have been committed and collection is reasonably assumed.

(b) Budget information

Unaudited budget information approved by the Corporation and the Minister responsible for the Municipalities in March 2014 is presented using a basis consistent with that used for actual results.

(c) Expenditures

Expenditures are recorded on an accrual basis in the period in which the goods or services are acquired or a liability is incurred.

CORPORATION OF HAMILTON

Notes to the Financial Statements

December 31, 2014

(Expressed in Bermuda Dollars)

2. Significant accounting policies (continued)

(d) Non-financial assets

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

(i) Tangible capital assets

Tangible capital assets are recorded at cost which includes amounts that are directly attributable to the acquisition, construction, development or betterment of the asset. The costs, less residual values, of the tangible capital assets, excluding land, are amortized on a straight line basis over their estimated useful lives as follows:

<u>Assets</u>	<u>Useful Life – Years</u>
Betterments	50
Buildings	40 – 100
Fixed plant and equipment	3 – 50
Mobile plant and vehicles	8 – 15
Roads	100
Sewer lines	40 – 100
Wharves	75

Annual amortization is charged in the year of acquisition and in the year of disposal. Assets under construction are not amortized until the asset is available for productive use.

Subsequent expenditures incurred after the assets have been put into operation, such as repairs and maintenance and overhaul costs, are charged to profit and loss in the period the costs are incurred. However, expenditures that result in an increase in the future economic benefit in excess of the originally assessed standard of performance of the existing asset are capitalized as an additional cost of property, plant and equipment. When assets are sold or retired, their cost, accumulated amortization and accumulated impairment losses are eliminated from the accounts and any resulting gain or loss is included in the statement of operations of such period.

Leasehold improvements are amortized over the terms of the lease or the estimated useful life of the improvements, whichever is shorter.

Contributions of tangible capital assets

Tangible capital assets received as contributions are recorded at their fair values at the date of receipt and also are recorded as revenue.

Works of art and cultural and heritage assets

Works of art and cultural and heritage assets are not recorded as assets in these financial statements.

CORPORATION OF HAMILTON

Notes to the Financial Statements

December 31, 2014

(Expressed in Bermuda Dollars)

2. Significant accounting policies (continued)

Methods used for determining the cost of each major category of tangible capital assets

The financial information recorded includes the actual or estimated historical cost of the tangible capital assets. When historical cost records were not available, other methods were used to estimate the costs and accumulated amortization of the assets. The Corporation applied a consistent method of estimating the replacement or reproduction cost of the tangible capital assets for which it did not have historical cost records, except in circumstances where it could be demonstrated that a different method would provide a more accurate estimate of the cost of a particular type of tangible capital asset. After defining replacement or reproduction cost, the Canada Non-residential Building Construction Price Index formulated by Statistics Canada was used as a resource for determining appropriate indices in order to deflate the replacement or reproduction cost to an estimated historical cost at the year of acquisition.

(ii) Inventories

Inventories are comprised of supplies and materials to be used to maintain properties and other assets of the Corporation, and are valued at the lower of average cost and net realizable value.

Impairment of non-financial assets

At each balance sheet date, tangible capital assets, net, and other long-lived assets are reviewed for impairment whenever events or circumstances indicate that the carrying amount of an asset exceeds its recoverable amount. The excess shall be recognized as impairment loss in the statement of operations and the assets or cash-generating units are written down to their recoverable amounts. The recoverable amount is the higher of an asset's net selling price and value in use. The net selling price is the amount obtainable from the sale of an asset in an arm's length transaction, while value in use is the present value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessment of the time value of money and the risks specific to the asset. Recoverable amounts are estimated for individual assets or, if it is not possible, for the cash-generating unit to which the assets belongs.

Impairment losses recognized in prior years are reversed when there is an indication that the impairment losses recognized for the asset no longer exist or have decreased. The reversal is recorded as income in the statement of operations. However, the increased carrying amount of an asset due to the reversal of an impairment loss is recognized only to the extent that it does not exceed the carrying amount that would have been determined had impairment loss not been recognized for that asset in the prior periods.

(e) Pension plans and other post retirement benefits

The Corporation sponsors a defined contribution pension plan and a deferred annuity plan, together covering all eligible employees. The cost of both of these plans is expensed as earned by the employees. The Corporation makes monthly contributions in accordance with the plan agreements to the employees' individual accounts, which are administered by an insurance company pursuant to and in accordance with the National Pension Scheme (Occupational Pensions) Act 1998 and applicable amendments thereto and regulations.

CORPORATION OF HAMILTON

Notes to the Financial Statements

December 31, 2014

(Expressed in Bermuda Dollars)

2. **Significant accounting policies** (continued)

The Corporation sponsors a defined benefit plan for post-retirement medical healthcare benefits of its eligible former employees. The Corporation closed this plan for new members with effect from August 2008. The Corporation pays 50% of the total premiums due to the insurer with the remainder being assumed by the insured. The cost of accrued retirement benefit obligations is actuarially determined using the projected unit credit method and represents the Corporation's share of the present value of future premiums for former employees over their expected lives. Actuarial gains and losses on the accrued retirement benefit obligation arise from differences between actual and expected experience and from changes to actuarial assumptions used to determine the accrued benefit obligation. Actuarial gains and losses on the accrued benefit obligation are recognized over the average remaining life of the former employees.

The expenses related to these plans are included in wages and salaries (See Notes 9 and 12).

(f) Cash and cash equivalents

Cash includes cash on hand and in banks. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash with original maturities of three months or less from dates of acquisition and that are subject to an insignificant risk of changes in value.

(g) Receivables

Receivables are recognized and carried at their nominal values or invoice amounts as reduced by appropriate allowances for doubtful accounts.

Bad debts, if any, are written off during the year.

(h) Allowance for doubtful accounts

The Corporation provides allowance for doubtful accounts when there is evidence that the Corporation will not be able to collect all amounts due according to the original terms of receivables. The amount of provision is equal to the estimated collection losses based on past collection experience and management's review of the current status of the long-outstanding receivables.

(i) Payables and provisions

Payables are stated at their nominal values.

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

(j) Leases

The Corporation as Lessor

Costs, including depreciation, incurred in earning the lease income are recognized as an expense. Lease income (excluding receipts for services provided such as insurance and maintenance) is recognized on a straight-line basis over the lease term. Lease income is lodged to rents from properties in the statement of operations.

CORPORATION OF HAMILTON

Notes to the Financial Statements

December 31, 2014

(Expressed in Bermuda Dollars)

2. **Significant accounting policies** (continued)

(k) Accounting estimates

In the process of preparing the financial statements, the Corporation estimates the appropriate carrying values of certain assets and liabilities that are not readily apparent from other sources. Actual amounts could differ from those estimates.

(l) Related parties

Parties are considered related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions. Directors, officers, shareholders, associates or companies and other related interests that directly or indirectly control or are controlled by or under common control are considered related parties.

(m) Segment disclosures

A segment is defined as a distinguishable activity or group of activities of a government for which it is appropriate to separately report financial information to achieve the objectives of the standard. The Corporation has adopted PSAB Section PS 2700 and has provided definitions of segments used by the Corporation as well as presented financial information in segmented format in Note 12.

(n) Future accounting standards

Financial instruments

PSAB issued Section PS 3450 "Financial Instruments" in March 2011. This section proposes reporting on the nature and extent of risks associated with financial instruments held and issued by an entity. Financial instruments which are quoted in an active market will need to apply fair value measurement (e.g. equity investments or derivatives). All other non-derivative financial instruments will be measured at cost or amortized cost unless the entity elects to apply the fair value option. To support meaningful budget to actual comparisons, when fair value measurement is applied, the presentation of surplus/deficit will need to be reported both excluding and including any re-measurement gains or losses. Early adoption is permitted. This standard is effective for the Corporation's December 31, 2015 financial statements and management does not anticipate a significant impact as a result of adoption.

Financial statement presentation

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

CORPORATION OF HAMILTON

Notes to the Financial Statements

December 31, 2014

(Expressed in Bermuda Dollars)

3. Accounts receivable

Accounts receivable are shown net of an allowance for doubtful accounts of \$791,904 (2013 - \$669,610).

4. Due to the Government of Bermuda

Included in accounts payable and accrued liabilities is an amount of \$4,362,973 (2013 - \$4,362,973) may be due to the Government of Bermuda that represents an accrual for the estimated amount owing by the Corporation in relation to the operations of the Hamilton Fire Service.

The Corporation has a contingent asset of \$3,850,000 (2013 - \$3,500,000) related to the rental revenue expected from the Government of Bermuda for rental of the fire service property. As a lease agreement has not yet been finalized, and no amounts have been received from the Government in relation to this rent, no amount has been recorded related to this revenue in the current year financial statements. It is management's intention to offset the operations accrual up to December 31, 2012, with the rental revenue of the same period once the lease is finalized. Post December 31, 2012, it is management's intention to offset the rental revenue against the tipping fees due to the Government.

5. Tangible capital assets, net

	Balance at December 31, <u>2013</u>	<u>Additions</u>	<u>Disposals</u>	Balance at December 31, <u>2014</u>
Cost				
Land	\$ 12,052,112	\$ —	\$ —	\$ 12,052,112
Betterments	846,427	627,774	—	1,519,201
Buildings	40,481,992	521,858	—	41,003,850
Fixed plant and equipment	8,985,489	420,318	—	9,405,807
Mobile plant and equipment	2,966,773	22,000	—	2,988,773
Roads	869,191	—	—	869,191
Sewer lines	3,320,558	—	—	3,320,558
Wharf	20,191,312	—	—	20,191,312
Assets under construction	<u>1,864,109</u>	<u>(389,333)</u>	<u>—</u>	<u>1,474,776</u>
Total	\$ 91,577,963	\$ 1,247,617	\$ —	\$ 92,825,580
	Balance at December 31, <u>2013</u>	<u>Amortization expense</u>	<u>Disposals</u>	Balance at December 31, <u>2014</u>
Accumulated amortization				
Land	\$ —	\$ —	\$ —	\$ —
Betterments	123,984	20,751	—	144,735
Buildings	9,714,356	585,762	—	10,300,118
Fixed plant and equipment	4,108,660	420,037	—	4,528,697
Mobile plant and equipment	1,649,176	194,342	—	1,843,518
Roads	390,389	7,833	—	398,222
Sewer lines	1,277,410	46,346	—	1,323,756
Wharf	<u>10,490,842</u>	<u>269,187</u>	<u>—</u>	<u>10,760,030</u>
Total	\$ 27,754,817	\$ 1,544,258	\$ —	\$ 29,299,076

CORPORATION OF HAMILTON

Notes to the Financial Statements

December 31, 2014

(Expressed in Bermuda Dollars)

5. Tangible capital assets, net (continued)

Net book value	Balance at December 31, <u>2013</u>	Balance at December 31, <u>2014</u>
Land	\$ 12,052,112	\$ 12,052,112
Betterments	722,443	1,374,466
Buildings	30,767,636	30,703,732
Fixed plant and equipment	4,876,829	4,877,109
Mobile plant and equipment	1,317,597	1,145,255
Roads	478,802	470,969
Sewer lines	2,043,148	1,996,803
Wharf	9,700,470	9,431,283
Assets under construction	<u>1,864,109</u>	<u>1,474,776</u>
Total	\$ 63,823,146	\$ 63,526,504

6. Long-term loan

The Corporation has the following long-term loans outstanding:

	<u>2014</u>	<u>2013</u>
Capital G Bank Limited (Capital G; 2014-Clarien Bank)	\$ 7,657,205	\$ 8,276,479
Bank of N.T. Butterfield & Son Limited (Butterfield Bank)	392,652	435,801
Total	\$ 8,049,857	\$ 8,712,280

On April 19, 2010, the Corporation obtained an \$11 million loan facility to finance the construction of its Works Depot on Laffan Street, Hamilton, from Capital G Bank Limited (the "Bank") of which \$10.6 million was drawn down in 2010 and 2011. As security for the loan, the Bank holds a registered mortgage over the property.

The loan is to be repaid over 15 years from the date it was granted, at an interest rate of 1.75% above the Bank's Bermuda dollar base rate. The effective interest rate is 5.25% (2013 - 5.25%) per annum.

Monthly payments of interest were required during the construction phase. Commencing December 31, 2011, the loan will be repaid in annual installments of blended interest and principal \$1,068,075.

In June 2012, the Corporation obtained a loan from Butterfield Bank (the "Bank") in the amount of \$500,000 to purchase and upgrade land on the corner of Court and Dundonald Streets. The loan carries an interest rate of 4.75% and repayment over 10 years. As security for the loan, the Bank holds a registered mortgage over the property.

CORPORATION OF HAMILTON

Notes to the Financial Statements

December 31, 2014

(Expressed in Bermuda Dollars)

6. Long-term loan (continued)

The future minimum principal payments are as follows:

	<u>Capital G</u>	<u>Butterfield Bank</u>	<u>Total</u>
2015	\$ 643,774	\$ 46,139	\$ 689,913
2016	678,397	48,379	726,776
2017	714,883	50,728	765,611
2018	753,330	53,191	806,521
2019 and thereafter	<u>4,866,821</u>	<u>194,216</u>	<u>5,061,036</u>
Total	\$ 7,657,205	\$ 392,652	\$ 8,049,857

7. Pension plans and other post-retirement benefits

As described in Note 2(e), the Corporation sponsors a defined contribution pension plan and a deferred annuity plan, together covering all eligible employees. Contributions to these plans by employees are at the rate of 5% of remuneration, which is matched by the Corporation for the defined contribution plan. The Corporation's contributions under the defined annuity plan are equal to the amount required to pay up the cost of the annuities applicable to the current year of employment.

Pension and deferred annuity contributions for the year are as follows:

	<u>2014</u>	<u>2013</u>
Corporation's contributions	\$ 495,462	\$ 495,958
Employee contributions	<u>\$ 363,316</u>	<u>\$ 352,952</u>

The Corporation also sponsors a defined benefit plan for post-retirement medical healthcare benefits to eligible former employees. This plan was valued by actuaries as at December 31, 2014. Information about this plan is as follows:

	<u>2014</u>	<u>2013</u>
Accrued benefit obligation		
Balance, beginning of year	\$ 1,732,492	\$ 1,795,087
Interest cost	87,107	89,813
Benefits paid	(146,637)	(168,745)
Actuarial loss (gain)	<u>(128,015)</u>	<u>16,336</u>
Balance, end of year	<u>\$ 1,544,946</u>	<u>\$ 1,732,492</u>

CORPORATION OF HAMILTON

Notes to the Financial Statements

December 31, 2014

(Expressed in Bermuda Dollars)

7. Pension plans and other post-retirement benefits (continued)

	<u>2014</u>	<u>2013</u>
Plan assets		
Fair value, beginning of year	\$ -	\$ -
Employer contributions	146,637	168,745
Benefits paid	<u>(146,637)</u>	<u>(168,745)</u>
Fair value, end of year	<u>\$ -</u>	<u>\$ -</u>
Funded status		
Accrued benefit obligation	\$ 1,544,946	\$ 1,732,492
Unamortized actuarial loss	<u>(271,160)</u>	<u>(445,039)</u>
Retirement benefit liability	<u>\$ 1,273,786</u>	<u>\$ 1,287,453</u>

The significant assumptions used are as follows:

	<u>2014</u>	<u>2013</u>
Accrued benefit obligation:		
Discount rate	5.25%	5.25%
Benefits cost for the year:		
Discount rate	5.25%	5.25%
Healthcare cost trend rates:		
Rates in years 2014 to 2015	6.5%	6.5%
Ultimate rate in 2016 and beyond	6.5%	6.5%

Increasing or decreasing the assumed healthcare cost trend rates by one percentage point would have the following effects for 2014:

	<u>Increase</u>	<u>Decrease</u>
Total of service cost and interest cost	\$ 6,656	\$ 7,227
Accrued benefit obligation	<u>\$ 111,678</u>	<u>\$ 126,777</u>

CORPORATION OF HAMILTON

Notes to the Financial Statements

December 31, 2014

(Expressed in Bermuda Dollars)

7. Pension plans and other post-retirement benefits (continued)

The elements of the Corporation's retirement healthcare benefit costs recognized during the year are as follows:

	<u>2014</u>	<u>2013</u>
Interest cost	\$ 87,107	\$ 89,813
Actuarial loss (gain)	<u>(128,015)</u>	<u>16,336</u>
Element of retirement benefit costs before adjustments	(40,908)	106,149
Adjustments to recognize the long-term nature of retirement benefit costs:		
Difference between recognized and actual actuarial loss	<u>173,879</u>	<u>30,078</u>
Employee future benefit cost recognized	<u>\$ 132,971</u>	<u>\$ 136,227</u>

8. Reserves

The Corporation may appropriate reserves for specific purposes. Reserves consist of the following funds included within accumulated surplus:

	<u>2014</u>	<u>2013</u>
CB Tucker fund	\$ <u>32,500</u>	\$ <u>32,500</u>
Total	<u>\$ 32,500</u>	<u>\$ 32,500</u>

9. Expenditures by object

	<u>2014</u>	<u>2013</u>
Wages, salaries and benefits	\$ 10,154,293	\$ 10,184,877
Contract services	7,502,189	7,200,370
Supplies and materials	1,689,170	1,620,330
Interest and finance	18,637,961	679,254
Amortization of tangible capital assets, net	<u>1,544,258</u>	<u>1,498,294</u>
Total	<u>\$ 39,527,871</u>	<u>\$ 21,183,125</u>

CORPORATION OF HAMILTON

Notes to the Financial Statements

December 31, 2014

(Expressed in Bermuda Dollars)

10. Capital commitments

The Corporation has contractual commitments for capital expenditures as at December 31, 2014, in the amount of \$377,000 (2013 - \$948,000), which will be paid for in 2015.

11. Financial instruments

The estimated fair values of the Corporation's cash and cash equivalents, accounts receivable, recoverable costs and accounts payable and accrued liabilities approximate their respective carrying values due to their short-term nature. The estimated fair value of the long-term loan approximates its carrying value as the loan attracts market rates of interest. The Corporation is not exposed to significant currency risk from its financial instruments as these are denominated in either Bermuda dollars or United States dollars.

(a) Interest rate risk

The Corporation is exposed to interest rate fluctuations with respect to the long-term loan and retirement benefit liability which bears interest at floating rates as disclosed in Notes 6 and 7, respectively. Management does not believe that the impact of interest rate fluctuations will be significant.

(b) Credit risk

The Corporation's cash and cash equivalents are held with three financial institutions based in Bermuda. The Corporation has accounts receivable from a wide range of individuals, businesses, and government organizations. Management actively monitors outstanding accounts receivable. The Corporation's maximum exposure to credit risk is represented by the carrying amount of its financial assets in the statement of financial position.

12. Segmented reporting

The Corporation provides a range of services to both residents and businesses within the boundaries of the City. Certain services such as connection to the City sewer lines are available to persons/businesses outside the City boundaries on a fee basis. Most revenue lines have been allocated directly to the relevant segment. However, taxation has been split equally between Governance and Civic Services, Sanitation and Sewer, and Public Works in order to defray some of the costs of providing these services. Effective April 2011, the Corporation received a grant from the Bermuda Government in lieu of wharfage. As of April 1, 2014, the government has returned the right of the Corporation to charge goods wharfage on imported goods. For segmented disclosure purposes, these services are grouped and reported under service areas/departments that are responsible for providing such services. They are as follows:

Governance and Civic Services

City Hall provides for the Mayoral and Council functions, Theatre and Arts facilitation, Corporate, Finance, Engineering and Event administration. Parks are included under this caption because of public entertainment that is provided in them.

Sanitation and Sewer

Sanitation and Sewer is responsible for the general cleanliness of the City including daily garbage collection and maintenance of the sewer system.

CORPORATION OF HAMILTON

Notes to the Financial Statements

December 31, 2014

(Expressed in Bermuda Dollars)

12. **Segmented reporting** (continued)

Public Works and Planning

Public Works and Planning provides maintenance services to ensure that roads, traffic lights, street lights, Corporation vehicles and equipment are in good working order. In addition, any future major construction development is handled by this segment.

Parking

Parking which includes both on and off-street parking is administered through this department. Consideration is given to the availability of car parking spaces in order to meet the public demand for parking.

Wharf

Wharf is responsible for the security of the waterfront in the City. Good working order of the docks for both cruise ships and cargo vessels is of prime importance for efficient transfer of goods and passengers through the port.

CORPORATION OF HAMILTON

Notes to the Financial Statements

December 31, 2014

(Expressed in Bermuda Dollars)

	2014					2013
	Governance and Civic	Sanitation and Sewer	Public Works and Planning	Parking	Wharf	Total
Revenue						
Property taxes	\$2,844,747	\$2,844,748	\$2,844,748	\$	\$	\$8,469,630
Government grant						5,000,000
Wharfage Government					4,453,373	4,453,373
Car parking fees				4,265,540		4,265,540
Sewer disposal contracts		2,298,518				2,298,518
Rents from properties	771,224	31,590	6,431		52,216	861,461
Other permit and license fees	12,218	128,473		1,100	194,046	335,837
Wharfage – Ships					210,686	210,686
City Hall rents	89,460					89,460
Miscellaneous		41,520				41,520
Interest	1,004					1,004
Dock storage					(848)	(848)
	<u>3,718,653</u>	<u>5,344,849</u>	<u>2,851,179</u>	<u>4,266,640</u>	<u>4,909,473</u>	<u>21,090,794</u>
Expenditures						
Wages and salaries	5,446,434	2,644,012	1,911,204	66,183	86,460	10,184,877
Contract services	3,664,960	1,177,819	1,309,364	54,835	1,295,211	7,200,370
Supplies and material	463,774	186,010	907,211	26,357	105,818	1,620,330
Amortization	266,916	296,942	312,821	314,981	352,598	1,498,294
Interest and finance	18,637,961					18,637,961
	<u>28,480,045</u>	<u>4,304,783</u>	<u>4,440,600</u>	<u>462,356</u>	<u>1,840,087</u>	<u>39,527,871</u>
Excess (shortfall) of revenue over expenditures	<u>\$ (24,761,392)</u>	<u>\$ (1,040,066)</u>	<u>\$ (1,589,421)</u>	<u>\$ 3,804,284</u>	<u>\$ 3,069,386</u>	<u>\$ 6,046</u>
						<u>\$ (18,437,077)</u>

CORPORATION OF HAMILTON

Notes to the Financial Statements

December 31, 2014

(Expressed in Bermuda Dollars)

13. Contingencies

- i. In 2011, the management team of the Corporation became a certified voluntary collective bargaining unit represented by the BPSU. In June 2012 the Corporation's Council questioned whether they were in compliance with the law under the Trade Union Act 1965 and a 21-day notice of industrial action was given by the BPSU. The notice was withdrawn when the matter was directed to arbitration by the Minister of Home Affairs. Subsequently, a writ was filed on behalf of the management team against the Bermuda Government and the Corporation in order for the Supreme Court to determine the legal standing of the certified collective bargaining unit. On March 28, 2014, the Supreme Court ruled that the management team of the Corporation cannot belong to a collective bargaining unit. In June 2014, the plaintiffs in the case were ordered to pay Corporation's legal costs. Legal costs for the Corporation totaled \$254,000 and the awarded costs were \$120,000 leaving a net expense to the Corporation of \$134,000.
- ii. In December 2012, the Corporation entered into a 262 year lease with a group for lease of all the City's waterfront properties and the City Hall car park. There is no resolution on record for the approval of this lease by the Corporation. This lease was treated as an operating lease. In addition, the Corporation entered into a development agreement for the phased development of the leased properties. There has been no impact on the financial statements relating to the development lease. Section 20 of the Municipalities Act 1923, as amended in October 2013 applied retroactively to any agreement for 21 years or longer entered into by the Corporation on or after January 1, 2012. Under Section 20, the waterfront lease required the approval of the Legislature. The House of Assembly did not approve the lease in March 2014 invalidating the waterfront lease. Allied Trust and Allied Development are suing the Bermuda Government for damages related to the cancellation of the lease. This lawsuit currently has no impact on the Corporation's operations.
- iii. In March 2013, the Ombudsman for Bermuda announced that she is launching a Systemic Investigation into the Corporation on her own motion. The Ombudsman's report was tabled in parliament and released to the public in December 2013. In December 2013, based on the Ombudsman's report, the Minister responsible for Municipalities instituted financial stewardship over the Financial Administration and treasury functions of the Corporation. As per the Municipalities Act 1923, Section 7B, as amended in October 2013, the Minister of Finance issued financial instructions to the Corporation and the financial stewardship ceased effective March 13, 2014. In December 2014, the Corporation filed a writ against the Ombudsman as part of the constitutional writ against the Attorney General and the Minister of Home Affairs. The Chief Justice ruled in March 2015 that there was no case against the Ombudsman and the Minister responsible for the Municipalities authorized the Corporation to pay the Ombudsman's legal costs of \$14,100. The case has been deferred by the Chief Justice for the new council to determine the next course of action.
- iv. In 2013, the law firm of J2 Chambers were paid a retainer of \$270,000 to represent the Corporation on various legal matters. In April 2015, the Corporation filed court proceeding against J2 Chambers to obtain copies of all invoices. Subsequent J2 Chambers filed a defamation suit against the Mayor and Secretary of the Corporation as a result of letters written to the supreme court and the Bar council. The Chief Justice ruled that the law firm was to produce invoices to the Corporation, redacted if necessary. In addition to invoices the Corporation has requested confirmation of engagements and scope of work for matters not pertaining to the retainers paid. To date no invoices have been received.
- v. In April 2014, the Government returned the right to the Corporation to charge demurrage on goods left on the Hamilton Docks. Stevedoring Services Limited ("Stevedoring") has challenged the Corporation's right to collect the demurrage and maintains that the current license agreement provides for the terms and conditions to renew for another lease period. In December 2014, arbitration proceedings commenced between the Corporation and Stevedoring. The Corporation is seeking the following declarations: 1) That the license does not automatically renew; 2) That Stevedoring is in breach of the Terminal Operators Licence Agreement dated February 2011; 3) They may terminate the Licence Agreement; 4) A total of the demurrage charged by Stevedoring from February 2011 to date and an order that this be paid to the Corporation. Interest and costs are also claimed. Both parties have requested the arbitor to delay the arbitration to June 2015, to allow the newly elected council to evaluate and determine the next course of action.

CORPORATION OF HAMILTON

Notes to the Financial Statements

December 31, 2014

(Expressed in Bermuda Dollars)

13. Contingencies (continued)

- vi. On June 2, 2014, the Corporation commenced civil proceedings against the Attorney General to determine the Corporation's ability to regulate parking on its properties within the City. On November 5, 2014, Bermuda's Chief Justice ruled against the Corporation and determined the Hamilton Pay & Display Parking Vehicle Wheel Clamping Ordinance 2007 and the Hamilton Pay and Display Voucher Parking Amendment Ordinance 2010 were not valid since the Ordinances were not published in the Official Gazette and were not sent to the Cabinet Secretary for formatting, numbering and publishing. The Hamilton Traffic and Parking Ordinance 2013 which was published but not numbered by the Cabinet Secretary was also deemed to be invalid. These Ordinances were also retrospectively rendered invalid when section 17(2) of the Municipalities Amendment Act 2013 became effective in October 2013. In addition the Chief Justice ruled that the Corporation could not utilise its authority via a resolution but must use the authority of an ordinance. This ruling means that the Corporation currently has no legal authority to clamp or regulate vehicles illegally parked in the City. The Corporation lodged an appeal against the ruling in January 2015, the appeal is scheduled for November 2015. The ruling has had a significant negative impact on the Corporation's parking revenue.
- vii. The Corporation's original budget for 2014 included a Government Grant of \$1,250,000 for the period January to March 2014. This was the last payment of the \$5,000,000 grant promised to the Corporation for the Bermuda Government's 2013/2014 financial year. The last payment was withheld by the Minister and was not paid to the Corporation. This payment has not been accrued in the financial statements.
- viii. In April 2014, the Corporation entered into a host staging agreement with the CBM (formerly the National Conference of Black Mayors or NCBM) for the purpose of hosting a CBM conference in Bermuda in 2014. The hosting fee of \$100,000 was paid to the CBM for the event and a further budget of \$250,000 was established for the Corporation's obligations under the staging agreement. The event was scheduled to take place November 12 -16 2014, but on October 23, the Corporation announced that due to the Ebola outbreak in Africa a large number of attendees could not attend the event so the decision was made to move the conference event to 2015. The announced dates of April 2015, were premature as negotiations between the Fairmont Southampton Princess and the CBM has failed to result in a contract. The Corporation expended \$162,578 with the Fairmont Southampton Princess for food and beverage and incidentals in relation to the staging agreement. The CBM have stated that the event would take place in 2015 although no further details have been provided as of the date of these financial statements.

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Notes to the Financial Statements

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14. Due to Mexico Infrastructure Finance LLC ("MIF")

In 2012, the Corporation entered into a Development Agreement and Ground lease with Par-la-Ville Hotel and Residence Ltd ("PHRL") to build a luxury hotel and condominium residence in the Par-la-Ville Car Park ("the Project"). The lease was treated as an operating lease in the financial statements and was sent to Parliament for approval when Section 20 of the Municipalities Act 1923 was amended and applied retroactively to any agreement for 21 years or longer entered into by the Corporation on or after January 1, 2012. Under Section 20, the agreement must be approved by the Legislature. The Par-la-Ville lease was approved by Parliament in November 2013.

MIF and PHRL negotiated a Credit Agreement in which MIF agreed to loan PHRL \$18 million as Bridge Financing for the construction of the Project. In order to advance the agreement the Corporation agreed to guarantee the loan by providing a mortgage over the property. In March 2013, the Minister gave permission to MIF to take a mortgage over the Par-La-Ville Car Park. In June 2014, Section 37 of the Municipalities Act 1923 was amended to enable the Corporation to guarantee the financing. The approval of the Guarantee also encompassed approval of the terms and conditions of the Credit Agreement.

The Credit Agreement was signed on July 9, 2014. That same day the Corporation passed a resolution to guarantee the loan and pledge the car park property as collateral. Under the terms and conditions of the Escrow Agreement the loan proceeds were to remain in escrow until such time as PHRL had secured a Permanent Loan comprising a loan of \$225 million and an equity investment of \$100 million or for such substantially similar financing structure from a Permanent Lender. The Corporation authorized the release of the funds from the escrow account in October 2014.

Due to the Default on repayment of the loan on December 30, 2014, MIF initiated legal proceedings against the Corporation and PHRL. On March 31, 2015, the Par-La-Ville Car Park was taken over by the appointed Joint Receivers. On May 27, 2015, the Supreme Court awarded summary judgement to MIF over claims against PHRL and the Corporation. The \$18 million judgement against the Corporation accrues interest from the date of judgement at the rate of 7% per annum or \$3,452 per day until the obligation is satisfied. MIF is not limited to proceeding against the Par-La-Ville Car Park to obtain satisfaction of its judgement against the Corporation.

In accordance with the terms of the Credit Agreement, the Borrower, PHRL, was due to pay the Corporation \$900,000 upon the closing of the Permanent Loan. In July 2015, the Corporation issued a statutory demand for payment of the monies due within three weeks. Non-payment will result in the Corporation petitioning the Supreme Court to wind up the company in accordance with Section 161 (e) of the Companies Act 1981.

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Notes to the Financial Statements

December 31, 2014

(Expressed in Bermuda Dollars)

15. Subsequent events

The Corporation evaluated events and transactions occurring from January 1, 2015 through to July 15, 2015, for potential recognition or disclosure in the notes to the financial statements.

On January 19, 2015, the Mayor gave notice that all Corporation meetings would be cancelled for a minimum of 6 weeks. The Mayor explained that the complete disregard for the Code of Ethics and Conduct had forced the situation. Consequently six (6) Council Members called for the Mayor to resign. On January 26, 2015, the Minister of Home Affairs assumed stewardship over the Governance, financial and operational functions of the Corporation citing grave concerns over the Corporation's ability to function properly. In May 2015 the Municipalities Amendment (No 2) Bill 2015 was passed by the Senate which gives the Government direct control over the affairs of the Corporation. The amendment permits the Minister to issue binding directions to the Corporation; to authorize the Minister to appoint an *ex officio* representative to sit on each Corporation's Council; to require the Minister to signify his support for any resolution or ordinance and; to generally improve current provisions relating to temporary stewardship and the council's ability to interact with government departments in general. This amendment was passed by the House of Assembly in July 2015.

A new Mayor and council were elected in May 2015.

Management believes that there are no other post year-end events that need to be reflected in the financial statements or disclosed in the notes to the financial statements.