

The accompanying report of KPMG is for the sole and exclusive use of the Corporation. No person, other than the Corporation, is authorized to rely upon the report of KPMG unless KPMG expressly so authorizes. Furthermore, the report of KPMG is as of June 8, 2016 except as to Note 14 (b), which is as of June 17, 2016 and KPMG has carried out no procedures of any nature subsequent to that date which in any way extends that date

CORPORATION OF HAMILTON

Annual Financial Statements
(With Independent Auditor's Report Thereon)

December 31, 2015



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INDEPENDENT AUDITOR'S REPORT

To the Members of The 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, 2015 and the statements of operations, changes in accumulated surplus, change in net debt and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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 an 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 our 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, we consider internal control relevant to the Corporation'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 Corporation'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, these financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2015, and its results of operations, its changes in net debt and its cash flows for the year then ended in accordance with public sector accounting standards generally accepted in Bermuda and Canada.

Emphasis of 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.

Comparative information

The financial statements for the year ended December 31, 2014, excluding the prior period adjustments described in Note 15 to the financial statements, were audited by another firm of Chartered Professional Accountants who issued an unqualified opinion containing an emphasis of matter paragraph due to a material uncertainty over going concern on July 15, 2015.

As part of our audit of the financial statements as at and for the year ended December 31, 2015, we audited the prior period adjustments described in Note 15 to the financial statements that were applied to restate the comparative information as at and for the year ended December 31, 2014. In our opinion the prior period adjustments are appropriate and have been properly applied.

KPMG Audit Limited

Chartered Professional Accountants
Hamilton Bermuda

June 8, 2016 except as to Note 14(b), which is as of June 17, 2016.

CORPORATION OF HAMILTON

Statement of Financial Position

December 31, 2015

(Expressed in Bermuda Dollars)

	<u>2015</u>	<u>2014</u> (As restated - Note 15)
Financial assets		
Cash and cash equivalents	\$ 3,184,907	\$ 1,874,673
Accounts receivable, net (Notes 3, 7 and 15)	2,252,841	2,620,078
Recoverable costs	<u>16,872</u>	<u>33,903</u>
Total financial assets	<u>5,454,620</u>	<u>4,528,654</u>
Financial liabilities		
Accounts payable and accrued liabilities (Note 4)	9,995,945	8,466,500
Due to Mexico Infrastructure Finance LLC (Note 14)	18,000,000	18,000,000
Long-term loan (Note 6)	7,350,179	8,049,857
Pension plans and other post retirement benefits (Note 7)	<u>1,226,781</u>	<u>1,273,786</u>
Total financial liabilities	<u>36,572,905</u>	<u>35,790,143</u>
Net debt	<u>(31,118,285)</u>	<u>(31,261,489)</u>
Non-financial assets		
Tangible capital assets, net (Note 5 and 6)	63,955,525	63,526,504
Inventory of materials and supplies	561,605	625,973
Prepaid expenses	<u>43,254</u>	<u>21,303</u>
Total non-financial assets	<u>64,560,384</u>	<u>64,173,780</u>
Accumulated surplus	<u>\$ 33,442,099</u>	<u>\$ 32,912,291</u>

The accompanying notes are an integral part of 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, 2015
(Expressed in Bermuda Dollars)

	Budget <u>2015</u>	Actual <u>2015</u>	Actual <u>2014</u> (As restated - Note 15)
Revenue			
Property taxes	\$ 8,475,375	\$ 8,526,787	\$ 8,534,243
Goods wharfage	5,738,088	6,054,443	4,453,373
Car parking fees	3,903,160	3,362,750	4,265,540
Sewage disposal contracts	2,294,666	2,250,902	2,298,518
Rents from properties	824,726	910,820	861,461
Other permit and license fees	320,440	511,229	335,837
Ships wharfage	144,000	359,333	210,686
City Hall rents	90,000	80,123	89,460
Miscellaneous (Note 15)	37,354	51,821	51,367
Interest	600	946	1,004
Dock charges	—	100	(848)
	<hr/>	<hr/>	<hr/>
Total revenue (Note 12)	21,828,409	22,109,254	21,100,641
Expenditures			
Loss on guarantee (Note 14)	—	—	18,000,000
Administrative and general expenses	8,202,949	7,831,936	8,048,179
Sanitation services	3,394,442	3,478,087	3,398,173
Street operations and maintenance	2,754,490	3,410,954	3,605,643
Parks and gardens maintenance	1,649,809	1,633,104	1,583,002
Wharf operations and maintenance	1,039,077	1,358,643	1,487,491
Interest and finance charges	515,221	1,326,676	637,961
Works depot expenses	1,111,325	1,271,870	1,140,805
Sewerage maintenance and operating	686,836	453,686	616,098
City Hall maintenance	638,112	393,791	446,517
Property maintenance	124,527	162,566	193,827
Car parks expenses	182,722	140,480	147,373
Provision for doubtful accounts	130,000	115,375	847,901
Development costs	—	2,278	6,193
	<hr/>	<hr/>	<hr/>
Total expenditures (Notes 9 and 12)	20,429,510	21,579,446	40,159,163
	<hr/>	<hr/>	<hr/>
Excess (shortfall) of revenue over expenditures	\$ 1,398,899	\$ 529,808	\$ (19,058,522)
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The accompanying notes are an integral part of the financial statements.

CORPORATION OF HAMILTON

Statement of Changes in Accumulated Surplus

For the Year Ended December 31, 2015
(Expressed in Bermuda Dollars)

	<u>2015</u>	<u>2014</u> (As restated - Note 15)
Accumulated surplus, beginning of year	\$ 32,912,291	\$ 51,970,813
Excess (shortfall) of revenue over expenditures	<u>529,808</u>	<u>(19,058,522)</u>
Accumulated surplus, end of year	<u>\$ 33,442,099</u>	<u>\$ 32,912,291</u>

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

CORPORATION OF HAMILTON

Statement of Changes in Net Debt

For the Year Ended December 31, 2015
(Expressed in Bermuda Dollars)

	<u>2015</u>	<u>2014</u> (As restated - Note 15)
Excess (shortfall) of revenue over expenditures	\$ 529,808	\$ (19,058,522)
Acquisition of tangible capital assets, net	(2,004,674)	(1,247,617)
Amortization of tangible capital assets, net	1,575,653	1,544,258
Acquisition of inventory	(935,291)	(554,756)
Consumption of inventory	999,659	621,149
Acquisition of prepaid expenses	(430,835)	(385,376)
Consumption of prepaid expenses	<u>408,884</u>	<u>614,073</u>
Decrease (increase) in net debt	143,204	(18,466,791)
Net debt, beginning of year	<u>(31,261,489)</u>	<u>(12,794,698)</u>
Net debt, end of year	<u>\$ (31,118,285)</u>	<u>\$ (31,261,489)</u>

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

CORPORATION OF HAMILTON

Statement of Cash Flows

For the Year Ended December 31, 2015
(Expressed in Bermuda Dollars)

	<u>2015</u>	<u>2014</u> (As restated - Note 15)
Cash flows from operating activities		
Excess (shortfall) of revenue over expenditures	\$ 529,808	\$ (19,058,522)
Adjustments for non-cash items and working capital changes:		
Amortization of tangible capital assets, net	1,575,653	1,544,258
Changes in non-cash working capital balances:		
Decrease (increase) in accounts receivable	367,237	(980,484)
Decrease in recoverable costs	17,031	280,282
Increase in accounts payable and accrued liabilities	1,529,445	1,448,683
Decrease in retirement benefit liability	(47,005)	(13,667)
Decrease in inventory of materials and supplies	64,368	66,393
Increase in guarantee indebtedness	-	18,000,000
(Increase) decrease in prepaid expenses	<u>(21,951)</u>	<u>228,697</u>
Net cash from operating activities	4,014,586	1,515,640
Cash flows from investing activities		
Acquisition of tangible capital assets, net	<u>(2,004,674)</u>	<u>(1,247,617)</u>
Net cash used in investing activities	(2,004,674)	(1,247,617)
Cash flows from financing activities		
Bank loan repayments	<u>(699,678)</u>	<u>(662,423)</u>
Net cash used in financing activities	(699,678)	(662,423)
Net increase (decrease) in cash and cash equivalents	1,310,234	(394,400)
Cash and cash equivalents, beginning of year	<u>1,874,673</u>	<u>2,269,073</u>
Cash and cash equivalents, end of year	\$ 3,184,907	\$ 1,874,673
Supplemental cash flow disclosure:		
Interest paid for the year	\$ 508,428	\$ 528,441
Interest received for the year	\$ 946	\$ 1,004

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

CORPORATION OF HAMILTON

Notes to the Financial Statements

December 31, 2015

(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, goods wharfage, 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 considered several options including the sale of assets and debt financing or a combination of both and finally settled on obtaining a loan from a local bank. Refer to note 14 for an update on the loan position. The Corporation is working with the Bermuda Government to find ways to increase revenue in order to repay the debt. The Corporation has reviewed its cash flow position for at least but not limited to the next 12 – 18 months and has determined there will be sufficient cash and revenues to continue as a going concern.

CORPORATION OF HAMILTON

Notes to the Financial Statements

December 31, 2015

(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.

(b) Budget information

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

(c) Expenditures

Expenditures are recorded on the accruals 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, 2015

(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 equipment	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 tangible capital assets. 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, 2015

(Expressed in Bermuda Dollars)

2. Significant accounting policies (continued)

(d) Non-financial assets (continued)

(i) Tangible capital assets (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 statement of financial position 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 is 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, 2015

(Expressed in Bermuda Dollars)

2. Significant accounting policies (continued)

(e) Pension plans and other post retirement benefits (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 an 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 the balance sheet date, that is, the amount the Corporation would rationally pay to settle the obligation to a third party.

CORPORATION OF HAMILTON

Notes to the Financial Statements

December 31, 2015

(Expressed in Bermuda Dollars)

2. Significant accounting policies (continued)

(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 recorded in rents from properties in the statement of operations.

(k) 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. Corporation members, 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.

(l) 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 *Segment disclosures* and has provided definitions of segments used by the Corporation as well as presented financial information in segmented format in Note 12.

(m) 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, 2019 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, 2019 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, 2015

(Expressed in Bermuda Dollars)

2. Significant accounting policies (continued)

(m) Future accounting standards (continued)

PSAB released Section PS 3260 *Contaminated Sites* which applies to all local governments for fiscal years beginning on or after April 1, 2014. The Section defines the activities included with regards to remediation of contaminated sites, establishes when to recognize and how to measure the liability, as well as discusses the presentation and disclosure requirements. The Corporation has analyzed the impact of this standard and has concluded there are no sites at which substances occur in concentrations that exceed the maximum acceptable amounts under an environmental standard. As such there are no financial implications which require updating the financial statements as a result of adoption of this standard.

3. Accounts receivable

Accounts receivable are shown net of an allowance for doubtful accounts of \$888,618 (2014 - \$791,904).

4. Due to the Government of Bermuda

Included in accounts payable and accrued liabilities is an amount of \$5,645,046 (2014 Restated - \$4,994,265) which 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. Tipping fees of \$1,718,642 (2014 - \$1,129,005) due to the Government of Bermuda have been accrued as at December 31, 2015.

The Corporation has a contingent asset of \$4,200,000 (2014 - \$3,850,000) 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.

5. Tangible capital assets, net

	Balance at December 31, 2014	Additions	Balance at December 31, 2015
Cost			
Land	\$ 12,052,112	\$ -	\$ 12,052,112
Betterments	1,519,201	1,236,911	2,756,112
Buildings	41,003,850	-	41,003,850
Fixed plant and equipment	9,405,807	209,504	9,615,311
Mobile plant and equipment	2,988,773	98,348	3,087,121
Roads	869,191	-	869,191
Sewer lines	3,320,558	-	3,320,558
Wharf	20,191,312	174,625	20,365,937
Assets under construction	<u>1,474,776</u>	<u>285,286</u>	<u>1,760,062</u>
Total	\$ 92,825,580	\$ 2,004,674	\$ 94,830,254

CORPORATION OF HAMILTON

Notes to the Financial Statements

December 31, 2015

(Expressed in Bermuda Dollars)

5. Tangible capital assets, net (continued)	Balance at December 31, <u>2014</u>	Amortization <u>expense</u>	Balance at December 31, <u>2015</u>
Accumulated amortization			
Land	\$ —	\$ —	\$ —
Betterments	144,735	35,705	180,440
Buildings	10,300,118	580,177	10,880,295
Fixed plant and equipment	4,528,697	444,524	4,973,221
Mobile plant and equipment	1,843,518	191,517	2,035,035
Roads	398,222	7,834	406,056
Sewer lines	1,323,756	46,346	1,370,102
Wharf	<u>10,760,030</u>	<u>269,550</u>	<u>11,029,580</u>
Total	\$ 29,299,076	\$ 1,575,653	\$ 30,874,729

Net book value	Balance at December 31, <u>2014</u>	Balance at December 31, <u>2015</u>
Land	\$ 12,052,112	\$ 12,052,112
Betterments	1,374,466	2,575,672
Buildings	30,703,732	30,123,555
Fixed plant and equipment	4,877,110	4,642,090
Mobile plant and equipment	1,145,255	1,052,086
Roads	470,969	463,135
Sewer lines	1,996,802	1,950,456
Wharf	9,431,282	9,336,357
Assets under construction	<u>1,474,776</u>	<u>1,760,062</u>
Total	\$ 63,526,504	\$ 63,955,525

6. **Long-term loan**

The Corporation has the following long-term loans outstanding:

	<u>2015</u>	<u>2014</u>
Clarien Bank Limited ("Clarien Bank")	\$ 7,002,770	\$ 7,657,205
Bank of N.T. Butterfield & Son Limited ("Butterfield Bank")	<u>347,409</u>	<u>392,652</u>
Total	\$ 7,350,179	\$ 8,049,857

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 Clarien Bank of which \$10.6 million was drawn down in 2010 and 2011. As security for the loan, Clarien 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 Clarien Bank's Bermuda dollar base rate. The effective interest rate is 5.25% at December 31, 2015 (2014 - 5.25%) per annum.

CORPORATION OF HAMILTON

Notes to the Financial Statements

December 31, 2015

(Expressed in Bermuda Dollars)

6. Long-term loan (continued)

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

In June 2012, the Corporation obtained a loan from Butterfield 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, Butterfield Bank holds a registered mortgage over the property.

The future minimum principal payments are as follows:

	Clarien Bank	Butterfield Bank	Total
2016	\$ 678,397	\$ 48,379	\$ 726,776
2017	714,883	50,728	765,611
2018	753,330	53,191	806,521
2019	793,846	55,773	849,619
2020 and thereafter	<u>4,062,314</u>	<u>139,338</u>	<u>4,201,652</u>
Total	<u>\$ 7,002,770</u>	<u>\$ 347,409</u>	<u>\$ 7,350,179</u>

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:

	2015	2014
Corporation's contributions	\$ 556,521	\$ 495,462
Employee contributions	\$ 403,984	\$ 363,316

Included in accounts receivable is a pension surplus balance of \$591,507 (2014 - \$585,222), which represents the Corporation's contributions for former employees whose employment ceased prior to the end of the vesting period. The pension surplus can be offset against future pension contributions payable by the Corporation.

CORPORATION OF HAMILTON

Notes to the Financial Statements

December 31, 2015

(Expressed in Bermuda Dollars)

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

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, 2015. Information about this plan is as follows:

	<u>2015</u>	<u>2014</u>
Accrued benefit obligation		
Balance, beginning of year	\$ 1,544,946	\$ 1,732,492
Interest cost	77,115	87,107
Benefits paid	(152,159)	(146,637)
Actuarial loss (gain)	<u>45,991</u>	<u>(128,015)</u>
 Balance, end of year	 \$ 1,515,893	 \$ 1,544,947
	<u> </u>	<u> </u>
	<u>2015</u>	<u>2014</u>
Plan assets		
Fair value, beginning of year	\$ -	\$ -
Employer contributions	152,159	146,637
Benefits paid	<u>(152,159)</u>	<u>(146,637)</u>
 Fair value, end of year	 \$ -	 \$ -
	<u> </u>	<u> </u>
Funded status		
Accrued benefit obligation	\$ 1,515,893	\$ 1,544,946
Unamortized actuarial loss	<u>(289,112)</u>	<u>(271,160)</u>
 Retirement benefit liability	 \$ 1,226,781	 \$ 1,273,786
	<u> </u>	<u> </u>

The significant assumptions used are as follows:

	<u>2015</u>	<u>2014</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 2015 to 2016	6.5%	6.5%
Ultimate rate in 2016 and beyond	6.5%	6.5%

CORPORATION OF HAMILTON

Notes to the Financial Statements

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(Expressed in Bermuda Dollars)

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

Increasing or decreasing the assumed healthcare cost trend rates by one percentage point would have the following effects for 2015:

	<u>Increase</u>	<u>Decrease</u>
Total of service cost and interest cost	\$ 5,863	\$ (5,282)
Accrued benefit obligation	\$ 100,520	\$ (91,174)

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

	<u>2015</u>	<u>2014</u>
Interest cost	\$ 77,115	\$ 87,107
Actuarial loss (gain)	<u>45,991</u>	<u>(128,015)</u>
Element of retirement benefit costs before adjustments	123,106	(40,908)
Adjustments to recognize the long-term nature of retirement benefit costs:		
Difference between recognized and actual actuarial loss	<u>(17,952)</u>	<u>173,879</u>
Employee future benefit cost recognized	\$ 105,154	\$ 132,971

8. Reserves

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

	<u>2015</u>	<u>2014</u>
CB Tucker fund	\$ <u>32,500</u>	\$ <u>32,500</u>
Total	\$ 32,500	\$ 32,500

9. Expenditures by object

	<u>2015</u>	<u>2014</u>
Wages, salaries and benefits	\$ 10,069,446	\$ 10,154,293
Contract services	6,300,204	7,502,189
Supplies and materials	1,656,686	1,689,170
Interest and finance	1,326,676	18,637,961
Amortization of tangible capital assets, net	<u>1,575,653</u>	<u>1,544,258</u>
Total	\$ 20,928,665	\$ 39,527,871

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Notes to the Financial Statements

December 31, 2015

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10. Capital commitments

The Corporation has contractual commitments for capital expenditures as at December 31, 2015, in the amount of \$100,086 (2014 - \$377,000), which will be paid for in 2016.

11. Financial instruments

The estimated fair values of the Corporation's cash and cash equivalents, accounts receivable, recoverable costs and accounts payable 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.

(c) Liquidity risk

Liquidity risk is the risk that the Corporation will encounter difficulties meeting its financial obligations as they become due. The table below summarizes the Corporations contractual undiscounted cash flows. Balances due within twelve months are met within the Corporation's normal thirty day cycle of disbursements.

	<u>Total</u>	<u>0-3 months</u>	<u>4-12 months</u>	<u>Greater than 1 year</u>
December 31, 2015				
Accounts payable	8,388,006	8,010,497	377,509	—
Due to Mexico Infrastructure LLC	18,000,000	18,000,000	—	—
Long term loan	7,473,048	15,729	1,115,262	6,342,057
December 31, 2014				
Accounts payable	7,479,624	7,157,123	322,501	—
Due to Mexico Infrastructure LLC	18,000,000	18,000,000	—	—
Long term loan	8,195,229	15,729	1,115,262	7,064,238

CORPORATION OF HAMILTON

Notes to the Financial Statements

December 31, 2015

(Expressed in Bermuda Dollars)

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. As of April 1, 2014, the government 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.

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, 2015

(Expressed in Bermuda Dollars)

12. **Segmented reporting (continued)**

	2015					2014
	Governance and Civic	Sanitation and Sewer	Public Works and Planning	Parking	Wharf	Total
Revenue						
Property taxes	\$ 2,842,262	\$ 2,842,263	\$ 2,842,262	\$ -	\$ -	\$ 8,526,787
Goods wharfage	-	-	-	-	6,054,443	6,054,443
Car parking fees	-	-	-	3,362,750	-	3,362,750
Sewer disposal contracts	-	2,250,902	-	-	-	2,250,902
Rents from properties	835,388	9,521	15,606	-	50,305	910,820
Other permit and license fees	150,796	158,868	-	(1,500)	203,065	511,229
Ships wharfage	-	-	-	-	359,333	359,333
City Hall rents	80,123	-	-	-	-	80,123
Miscellaneous	6,285	45,536	-	-	-	51,821
Interest	946	-	-	-	-	946
Dock storage	-	-	-	-	100	100
	<u>3,915,800</u>	<u>5,307,090</u>	<u>2,857,868</u>	<u>3,361,250</u>	<u>6,667,246</u>	<u>22,109,254</u>
Expenditures						
Wages, salaries and benefits	5,451,344	2,684,486	1,775,602	71,728	86,286	10,069,446
Contract services	3,313,539	1,036,804	1,338,666	45,219	1,216,757	6,950,985
Supplies and material	447,018	210,484	920,053	23,532	55,599	1,656,686
Amortization of tangible capital assets	261,646	305,080	343,889	314,981	350,057	1,575,653
Interest and finance	1,326,676	-	-	-	-	1,326,676
	<u>10,800,223</u>	<u>4,236,854</u>	<u>4,378,210</u>	<u>455,460</u>	<u>1,708,699</u>	<u>21,579,446</u>
Excess (shortfall) of revenue over expenditures	<u>\$ (6,884,423)</u>	<u>\$ 1,070,236</u>	<u>\$ (1,520,342)</u>	<u>\$ 2,905,790</u>	<u>\$ 4,958,547</u>	<u>\$ 529,808</u>
						<u>\$ (19,058,522)</u>

CORPORATION OF HAMILTON

Notes to the Financial Statements

December 31, 2015

(Expressed in Bermuda Dollars)

13. Contingencies

- i. 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. In August 2015, the courts ruled that they can no longer seek to challenge the validity of the voiding of the agreements and may only seek constitutional relief with a view to obtaining adequate compensation. This lawsuit currently has no impact on the Corporation's operations.
- ii. 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. The Corporation has taken steps to implement some of the Ombudsman's recommendations.
- iii. 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. Invoices were received in July 2015. The Corporation is still pursuing legal action to obtain the legal files and have filed a complaint with the Bar Council and Attorney General.
- iv. 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, with the Corporation seeking the following: 1) the license does not automatically renew; 2) Stevedoring is in breach of the Terminal Operators Licence Agreement dated February 2011; 3) They may terminate the Licence Agreement; 4) an order that a total of the demurrage charged by Stevedoring from February 2011 to date 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. A non-renewable agreement was signed with Stevedoring in February 2016, which will cover a five year period commencing March 2016 and continues their exclusive licence to operate the Port of Hamilton Docks.

CORPORATION OF HAMILTON

Notes to the Financial Statements

December 31, 2015

(Expressed in Bermuda Dollars)

13. Contingencies (continued)

- v. 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. The Corporation is working with the Bermuda Government to determine an acceptable solution.

CORPORATION OF HAMILTON

Notes to the Financial Statements

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(Expressed in Bermuda Dollars)

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

- a) In 2012, the Corporation entered into a Development Agreement and Ground Lease with Par-la-Ville Hotel and Residences Ltd ("PHRL") to build a luxury hotel and condominium residence in the Par-la-Ville car park (the "Project"). In November 2013 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.

Mexico Infrastructure Fund Limited ("MIF"), PHRL and the Corporation executed a credit agreement (the "Credit Agreement") on July 9, 2014 in which MIF agreed to loan PHRL \$18 million as bridge financing for the construction of the Project. The Credit Agreement was executed on the basis that the Corporation agreed to:

1. provide a mortgage over the property known as the Par-la-Ville car park (the "Property"); and
2. guarantee the loan (the "Guarantee").

In March 2013, the Minister gave permission for the Corporation to grant MIF a mortgage over the Property. On March 28, 2013 the Corporation passed a resolution to pledge the car park property as collateral. On December 16, 2013 the Corporation passed a resolution to provide the Guarantee for the loan. In June 2014, Section 37 of the Municipalities Act 1923 was amended to enable the Corporation to provide the Guarantee. In July 9, 2014 the Minister gave permission for the Corporation to provide the Guarantee.

On July 9, 2014, an escrow agreement was entered into between MIF, PHRL, the Corporation and Bank of New York Mellon ("the Escrow Agent"). Under the terms and conditions of the escrow agreement, the Escrow Agent was to hold the loan proceeds until such time as PHRL had secured permanent financing comprising debt of \$225 million and equity of \$100 million or a "substantially similar financing structure from the Permanent Lender". The Corporation authorized the release of the funds from the escrow account in October 2014 based on an agreement reached between PHRL and Argyle Limited, a company which PHRL represented to the Corporation as the "Permanent Lender".

Due to the default on repayment of the loan by PHRL on December 30, 2014, MIF initiated legal proceedings against the Corporation and PHRL. On March 31, 2015, Joint Receivers were appointed over the Property. On May 27, 2015, the Supreme Court awarded summary judgment to MIF over claims against PHRL and the Corporation. The judgment against the Corporation is for \$18 million accrues interest from the date of judgment at the rate of 7% per annum or \$3,452 per day until the obligation is satisfied. As at December 31, 2015 an amount of \$752,548 (2014 - \$nil) has been accrued as interest. As a result of the judgment, MIF is not limited to proceeding against the Par-La-Ville car park to obtain satisfaction of its judgment against the Corporation, as the judgment provides for the extension of MIF's equitable rights to all of the Corporation's assets. In September 2015 MIF filed a summons to garnish the bank accounts and a writ to seize the assets of the Corporation with the Supreme Court of Bermuda in an effort to receive payment to satisfy the judgement. To date no action has been taken.

In accordance with the terms of the Credit Agreement, PHRL was due to pay the Corporation \$900,000 upon the closing of financing from the Permanent Lender. In July 2015, the Corporation issued a statutory demand for payment. PHRL did not make this payment and on August 28, 2015 the Corporation petitioned the Supreme Court to wind up PHRL in accordance with Section 161 (e) of the Companies Act 1981. Joint provisional liquidators were appointed over PHRL on October 9, 2015.

CORPORATION OF HAMILTON

Notes to the Financial Statements

December 31, 2015

(Expressed in Bermuda Dollars)

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

In December 2015, the House of Assembly passed an amendment to the Municipalities Act, permitting the Corporation to increase their debt limit from \$20 to \$30 million, thereby allowing a loan to be obtained to cover the \$18 million plus interest due to MIF. The Corporation is currently in negotiations to acquire a bank loan. The terms and conditions of the loan were approved by Parliament in March 2016 in accordance with Section 20 (1) of the Municipalities Act. The Corporation continues to pursue the loan and other financial and legal options with its Counsel and the Bermuda Government.

- b) On June 14, 2016, the Corporation submitted an application to the courts to overturn the summary judgement made in May 2015 by the Chief Justice on the basis that the guarantee issued to MIF was outside the remit of the Corporation.

15. Prior period adjustments

- a) In 2016, the Corporation was made aware of a pension surplus account balance of \$591,507 as at December 31, 2015 (2014 - \$585,222) held with their third party pension provider. This surplus balance is made up of an accumulation of pension contributions forfeited by members of staff that terminated or withdrew from the pension scheme prior to their vesting period. Those former employees received their portion of pension funds and the employer's portion is returned to the Corporation's surplus account. Management has restated the previously issued financial statements for the year ended December 31, 2014 and has recorded a prior period adjustment to its accumulated surplus as at January 1, 2014, the effects of which are presented below.
- b) The Hamilton Fire Service was originally set up by the Corporation and then transferred to the Government of Bermuda. At that time, the Corporation agreed to assist with paying a share of the Fire Service costs and entered into a Memorandum of Understanding ("MOU") with the Government of Bermuda to this effect. The last payment under the terms of the MOU was made in 2008. However, based on confirmations received from the Government of Bermuda, the Corporation continued to accrue for potential expenses payable, and as explained in note 4, an amount of \$4,362,973 was included as an amount due to the Government of Bermuda in the financial statements for the year ended December 31, 2014, representing fire service expense for the period to December 31, 2013. No accrual was made for the 2014 fire service expenses as there is no signed agreement between the Corporation and the Government of Bermuda. The Corporation also expects to offset any liability for fire service expenses against the contingent asset related to rental revenue expected from the Government of Bermuda for rental of the fire service property (see, note 4). The Government of Bermuda has subsequently confirmed amounts owing for the 2014 and 2015 fire service expenses of \$631,292 and \$650,781, respectively, which have been accrued for by the Corporation as a contingent liability. The Corporation has restated the previously issued financial statements for the year ended December 31, 2014 to record a prior period adjustment of \$631,292 for the 2014 fire service expense.

CORPORATION OF HAMILTON

Notes to the Financial Statements

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(Expressed in Bermuda Dollars)

15. Prior period adjustment (continued)

	As originally reported	Adjustment	As restated
Statement of Financial Position			
Accumulated surplus – December 31, 2014 (a)	\$ 32,958,361	\$ (46,070)	\$ 32,912,291
Accounts receivable – December 31, 2014 (a)	2,034,856	585,222	2,620,078
Accounts payable and accrued liabilities – December 31, 2014 (b)	7,835,208	631,292	8,466,500
Statement of Operations			
Miscellaneous income – December 31, 2014 (a)	41,520	9,847	51,367
Street operations and maintenance – December 31, 2014 (b)	2,974,351	631,292	3,605,643
Statement of Changes in Accumulated Surplus			
Accumulated surplus – January 1, 2014	51,395,438	575,375	51,970,813
Shortfall of revenue over expenditures – December 31, 2014	(18,437,077)	(621,445)	(19,058,522)
Accumulated surplus – December 31, 2014	32,958,361	(46,070)	32,912,291
Statement of Cash Flows			
Shortfall of revenue over expenditures – December 31, 2014	(18,437,077)	(621,445)	(19,058,522)
Increase in accounts receivable – December 31, 2014	(970,637)	(9,847)	(980,484)
Increase in accounts payable – December 31, 2014	(817,391)	(631,292)	(1,448,683)

16. Subsequent events

The Corporation evaluated events and transactions occurring from January 1, 2016 through to June 17, 2016, for potential recognition or disclosure in the notes to the financial statements.

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.