

**CORPORATION OF HAMILTON**

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

December 31, 2016

The accompanying report of KPMG Audit Limited ("KPMG") is for the sole and exclusive use of the Corporation of Hamilton (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 15, 2017 and KPMG has carried out no procedures of any nature subsequent to that date which in any way extends that date.



**KPMG Audit Limited**  
Crown House  
4 Par-la-Ville Road  
Hamilton HM 08 Bermuda

Mailing Address:  
P.O. Box HM 906  
Hamilton HM DX Bermuda

Telephone +1 441 295 5063  
Fax +1 441 295 9132  
Internet [www.kpmg.bm](http://www.kpmg.bm)

## **INDEPENDENT AUDITOR'S REPORT**

To the Members of The Corporation of Hamilton

Report on the Audit of the Financial Statements

### **Opinion**

We have audited the financial statements of The Corporation of Hamilton (the "Corporation"), which comprise the statement of financial position as at December 31, 2016, the statements of operations, changes in accumulated surplus, net debt and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2016, and its financial performance and its cash flows for the year then ended in accordance with public sector accounting standards generally accepted in Bermuda and Canada.

### **Basis for Opinion**

We conducted our audit in accordance with International Standards on Auditing ("ISA"). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Corporation in accordance with the ethical requirements that are relevant to our audit of the financial statements in Bermuda and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### **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 ongoing legal proceedings 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.

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

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

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

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



## **Auditor's Responsibilities for the Audit of the Financial Statements**

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

As part of an audit in accordance with ISA, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Corporation's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Corporation to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

*KPMG Audit Limited*

Chartered Professional Accountants  
Hamilton Bermuda  
June 15, 2017

**CORPORATION OF HAMILTON**

Statement of Financial Position

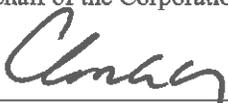
December 31, 2016

(Expressed in Bermuda Dollars)

	<u>2016</u>	<u>2015</u>
<b>Financial assets</b>		
Cash and cash equivalents	\$ 4,984,764	\$ 3,184,907
Accounts receivable, net (Notes 3 and 7)	1,598,481	2,252,841
Recoverable costs	<u>93,028</u>	<u>16,872</u>
Total financial assets	<u>6,676,273</u>	<u>5,454,620</u>
<b>Financial liabilities</b>		
Accounts payable and accrued liabilities (Notes 4 and 11)	10,415,015	9,995,945
Due to Mexico Infrastructure Finance LLC (Notes 11 and 14)	-	18,000,000
Long-term loans (Notes 6 and 11)	6,613,599	7,350,179
Pension plans and other post retirement benefits (Note 7)	<u>1,174,852</u>	<u>1,226,781</u>
Total financial liabilities	<u>18,203,466</u>	<u>36,572,905</u>
<b>Net debt</b>	<u>(11,527,193)</u>	<u>(31,118,285)</u>
<b>Non-financial assets</b>		
Tangible capital assets, net (Note 5)	64,140,723	63,955,525
Inventory of materials and supplies	456,608	561,605
Prepaid expenses	<u>43,172</u>	<u>43,254</u>
Total non-financial assets	<u>64,640,503</u>	<u>64,560,384</u>
<b>Accumulated surplus</b>	<u>\$ 53,113,310</u>	<u>\$ 33,442,099</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, 2016

(Expressed in Bermuda Dollars)

	Budget <u>2016</u>	Actual <u>2016</u>	Actual <u>2015</u>
<b>Revenue</b>			
Property taxes	\$ 8,635,520	\$ 8,588,847	\$ 8,526,787
Goods wharfage	5,854,000	6,322,083	6,054,443
Car parking fees	3,709,000	2,882,818	3,362,750
Sewage disposal contracts	2,241,629	2,284,546	2,250,902
Rents from properties	841,026	941,678	910,820
Other permit and license fees	329,440	435,120	511,229
Ships wharfage	349,000	358,940	359,333
Dock charges	-	188,424	100
City Hall rents	90,000	100,533	80,123
Miscellaneous	37,300	49,946	51,821
Interest	<u>640</u>	<u>12,012</u>	<u>946</u>
Total revenue (Note 12)	<u>22,087,555</u>	<u>22,164,947</u>	<u>22,109,254</u>
<b>Expenditures</b>			
Administrative and general expenses (Note 14)	9,393,524	8,880,196	7,831,936
Sanitation services	3,523,375	3,526,558	3,478,087
Street operations and maintenance	2,337,274	2,934,794	3,410,954
Parks and gardens maintenance	1,721,572	1,478,677	1,633,104
Wharf operations and maintenance	1,097,977	1,252,660	1,358,643
Works depot expenses	1,150,304	1,092,795	1,271,870
Interest and finance charges	1,506,253	552,461	1,326,676
Sewerage maintenance and operating	778,529	517,933	453,686
City Hall maintenance	432,807	474,898	393,791
Car parks expenses	142,231	200,328	140,480
Property maintenance	174,756	171,669	162,566
Provision for doubtful accounts	168,000	163,315	115,375
Development costs	<u>-</u>	<u>-</u>	<u>2,278</u>
Total expenditures (Notes 9 and 12)	<u>22,426,602</u>	<u>21,246,284</u>	<u>21,579,446</u>
Excess (shortfall) of revenue over expenditures before undernoted item	(339,047)	918,663	529,808
Derecognition of liability on guarantee (Note 14)	<u>-</u>	<u>18,752,548</u>	<u>-</u>
Excess (shortfall) of revenue over expenditures	<u>\$ (339,047)</u>	<u>\$ 19,671,211</u>	<u>\$ 529,808</u>

*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, 2016  
*(Expressed in Bermuda Dollars)*

---

	<u>2016</u>	<u>2015</u>
Accumulated surplus, beginning of year	\$ 33,442,099	\$ 32,912,291
Excess of revenue over expenditures	<u>19,671,211</u>	<u>529,808</u>
Accumulated surplus, end of year	<u>\$ 53,113,310</u>	<u>\$ 33,442,099</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, 2016  
(Expressed in Bermuda Dollars)

---

	<u>2016</u>	<u>2015</u>
Excess of revenue over expenditures	\$ 19,671,211	\$ 529,808
Acquisition of tangible capital assets, net	(1,831,761)	(2,004,674)
Amortization of tangible capital assets, net	1,646,563	1,575,653
Acquisition of inventory	(637,277)	(935,291)
Consumption of inventory	742,274	999,659
Acquisition of prepaid expenses	(435,678)	(430,835)
Consumption of prepaid expenses	<u>435,760</u>	<u>408,884</u>
Decrease in net debt	19,591,092	143,204
Net debt, beginning of year	<u>(31,118,285)</u>	<u>(31,261,489)</u>
Net debt, end of year	\$ (11,527,193)	\$ (31,118,285)

---

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

**CORPORATION OF HAMILTON**

## Statement of Cash Flows

For the Year Ended December 31, 2016  
(Expressed in Bermuda Dollars)

	<u>2016</u>	<u>2015</u>
<b>Cash flows from operating activities</b>		
Excess of revenue over expenditures	\$ 19,671,211	\$ 529,808
Adjustments for non-cash items		
Amortization of tangible capital assets, net	1,646,563	1,575,653
Derecognition of liability on guarantee	(18,000,000)	-
Changes in non-cash working capital balances:		
Decrease in accounts receivable	654,360	367,237
(Increase) decrease in recoverable costs	(76,156)	17,031
Increase in accounts payable and accrued liabilities	419,070	1,529,445
Decrease in pension plans and other post retirement benefits	(51,929)	(47,005)
Decrease in inventory of materials and supplies	104,997	64,368
Decrease (increase) in prepaid expenses	<u>82</u>	<u>(21,951)</u>
Net cash from operating activities	<u>4,368,198</u>	<u>4,014,586</u>
<b>Cash flows from investing activities</b>		
Acquisition of tangible capital assets, net	<u>(1,831,761)</u>	<u>(2,004,674)</u>
Net cash used in investing activities	<u>(1,831,761)</u>	<u>(2,004,674)</u>
<b>Cash flows from financing activities</b>		
Bank loan repayments	<u>(736,580)</u>	<u>(699,678)</u>
Net cash used in financing activities	<u>(736,580)</u>	<u>(699,678)</u>
Net increase in cash and cash equivalents	1,799,857	1,310,234
Cash and cash equivalents, beginning of year	<u>3,184,907</u>	<u>1,874,673</u>
Cash and cash equivalents, end of year	<u>\$ 4,984,764</u>	<u>\$ 3,184,907</u>
<b>Supplemental cash flow disclosure:</b>		
Interest paid for the year	<u>\$ 469,800</u>	<u>\$ 508,428</u>
Interest received for the year	<u>\$ 12,012</u>	<u>\$ 946</u>

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

# CORPORATION OF HAMILTON

Notes to the Financial Statements

December 31, 2016

(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 public sector accounting standards generally accepted in Bermuda and Canada 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 and other retirement benefits, the amortization of tangible capital assets, the recoverability of accounts receivable and the estimate of accrued and contingent liabilities and contingent assets.

### *Going concern*

Mexico Infrastructure Finance LLC (“MIF”) obtained a summary judgment in the amount of US\$18 million against the Corporation on May 27, 2015, (see Note 14) under a guarantee given by the Corporation for the loan to Par-la-Ville Hotel and Residences, Ltd (“PHRL”). MIF sought enforcement of the \$18 million judgment debt against the Corporation and PHRL that raised 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 and guarantee position. The Corporation was working with the Bermuda Government to find ways to increase revenue in order to repay the debt. In November 2016, the Corporation sought and won a judgment in the Supreme Court to have the May 27, 2015 summary judgment set aside (see Note 14). The judge ruled that MIF cannot recover the loan from the Corporation by enforcing the guarantee which the court has ruled to be ultra vires. In May 2017, the Court of Appeal upheld the Supreme Court ruling that the guarantee was ultra vires. The Corporation is, therefore, not liable for the guarantee. The judgment does not prevent MIF from using other causes of action to recover the funds. In June 2017 MIF served notice of its application for leave to appeal to the Privy Council against the Court of Appeal’s ultra vires judgement. The Corporation intends to resist the appeal.

If MIF should pursue this matter via another action the ability to repay any such liability arising from such action out of current income will still be a concern as all attempts to raise additional revenue through legislation have failed. 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, 2016

(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 accruals 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 2015 is presented using a basis consistent with that used for the 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.

### (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
Wharfs	75

## CORPORATION OF HAMILTON

Notes to the Financial Statements

December 31, 2016

(Expressed in Bermuda Dollars)

---

### 2. Significant accounting policies (continued)

#### (d) Non-financial assets (continued)

##### (i) Tangible capital assets (continued)

Annual amortization is charged in the year of acquisition and in the year of disposal. Land is not amortized. 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 tangible capital assets in these financial statements.

##### *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.

## CORPORATION OF HAMILTON

Notes to the Financial Statements

December 31, 2016

(Expressed in Bermuda Dollars)

---

### 2. Significant accounting policies (continued)

#### (d) Non-financial assets (continued)

##### (iii) 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.

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 (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.

## CORPORATION OF HAMILTON

Notes to the Financial Statements

December 31, 2016

(Expressed in Bermuda Dollars)

---

### 2. Significant accounting policies (continued)

#### (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 statement of financial position 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 amortization, 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.

## CORPORATION OF HAMILTON

Notes to the Financial Statements

December 31, 2016

(Expressed in Bermuda Dollars)

---

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

#### (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.

### 3. **Accounts receivable**

Accounts receivable are shown net of an allowance for doubtful accounts of \$1,008,162 (2015 - \$888,618).

### 4. **Due to the Government of Bermuda and accounts payable and accrued liabilities**

#### *Due to the Government of Bermuda*

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. The last payment was made in 2008 as a formal agreement had never been signed for this arrangement and the peppercorn lease as described below had expired. However, based on confirmations received from the Government of Bermuda, the Corporation has continued to accrue for potential expenses payable. Included in accounts payable and accrued liabilities is an amount of \$6,270,950 (2015 - \$5,645,046) which may be due to the Government of Bermuda that represents fire service expense in relation to the operations of the Hamilton Fire Service. The Corporation does not expect to pay these funds.

The Corporation also expects payment of \$4,550,000 (2015 - \$4,200,000) from the Government of Bermuda related to rental revenue for the fire service property. The original lease for the property which was for a period of 25 years and an annual rent of only \$1 ended in 2008 and a new lease agreement has never been finalized. As no amounts have been received from the Government in relation to this rent, no amount has been recorded related to this revenue or contingent asset in the current or prior year financial statements.

Tipping fees of \$2,336,626 (2015 - \$1,718,642) due to the Government of Bermuda have been accrued as at December 31, 2016 and are included in vendor accounts payable.

**CORPORATION OF HAMILTON**

Notes to the Financial Statements

December 31, 2016

(Expressed in Bermuda Dollars)

**4. Due to the Government of Bermuda and accounts payable and accrued liabilities (continued)**

Accounts payable and accrued liabilities is comprised of:

	<u>2016</u>	<u>2015</u>
Due to Government of Bermuda for fire services	\$ 6,270,950	\$ 5,645,046
Vendor accounts payable	3,153,091	2,643,356
Accrued interest on amount due to MIF (Note 14)	-	752,548
Accrued liabilities	424,373	536,719
Unearned revenue	217,289	202,980
Employee benefits payable	167,853	23,380
Interest payable	121,276	122,884
Other payables	<u>60,183</u>	<u>69,032</u>
	<u>\$ 10,415,015</u>	<u>\$ 9,995,945</u>

**5. Tangible capital assets, net**

	<u>2015</u>	<u>Additions</u>	<u>Transfers</u>	<u>2016</u>
<b>Cost</b>				
Land	\$ 12,052,112	\$ -	\$ -	\$ 12,052,112
Betterments	2,756,112	-	96,956	2,853,068
Buildings	41,003,850	-	84,843	41,088,693
Fixed plant and equipment	9,615,311	7,379	957,731	10,580,421
Mobile plant and equipment	3,087,121	2,647	37,658	3,127,426
Roads	869,191	-	-	869,191
Sewer lines	3,320,558	-	207,586	3,528,144
Wharf	20,365,937	-	86,587	20,452,524
Assets under construction	<u>1,760,062</u>	<u>2,036,567</u>	<u>(1,686,193)</u>	<u>2,110,436</u>
Total	<u>\$ 94,830,254</u>	<u>\$ 2,046,593</u>	<u>\$ (214,832)</u>	<u>\$ 96,662,015</u>

	<u>2015</u>	<u>Amortization expense</u>	<u>2016</u>
<b>Accumulated amortization</b>			
Betterments	\$ 180,440	\$ 63,363	\$ 243,803
Buildings	10,880,295	574,067	11,454,362
Fixed plant and equipment	4,973,221	486,594	5,459,815
Mobile plant and equipment	2,035,035	192,994	2,228,029
Roads	406,056	7,834	413,890
Sewer lines	1,370,102	46,346	1,416,448
Wharf	<u>11,029,580</u>	<u>275,365</u>	<u>11,304,945</u>
	<u>\$ 30,874,729</u>	<u>\$ 1,646,563</u>	<u>\$ 32,521,292</u>

**CORPORATION OF HAMILTON**

Notes to the Financial Statements

December 31, 2016

(Expressed in Bermuda Dollars)

5. **Tangible capital assets, net** (continued)

	<u>2015</u>	<u>2016</u>
<b>Net book value</b>		
Land	\$ 12,052,112	\$ 12,052,112
Betterments	2,575,672	2,609,265
Buildings	30,123,555	29,634,331
Fixed plant and equipment	4,642,090	5,120,606
Mobile plant and equipment	1,052,086	899,397
Roads	463,135	455,301
Sewer lines	1,950,456	2,111,696
Wharf	9,336,357	9,147,579
Assets under construction	<u>1,760,062</u>	<u>2,110,436</u>
	<u>\$ 63,955,525</u>	<u>\$ 64,140,723</u>

Assets under construction are not subject to depreciation until placed into service.

6. **Long-term loans**

The Corporation has the following long-term loans outstanding:

	<u>2016</u>	<u>2015</u>
Clarien Bank Limited (“Clarien Bank”)	\$ 6,310,159	\$ 7,002,770
Bank of N.T. Butterfield & Son Limited (“Butterfield Bank”)	<u>303,440</u>	<u>347,409</u>
	<u>\$ 6,613,599</u>	<u>\$ 7,350,179</u>

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 5.75% at December 31, 2016 (2015 - 5.25%) per annum.

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:

	<u>Clarien Bank</u>	<u>Butterfield Bank</u>	<u>Total</u>
2017	\$ 702,721	\$ 49,749	\$ 752,470
2018	740,515	52,164	792,679
2019	780,341	54,697	835,038
2020	822,309	57,352	879,661
2021 and thereafter	<u>3,264,273</u>	<u>89,478</u>	<u>3,353,751</u>
Total	<u>\$ 6,310,159</u>	<u>\$ 303,440</u>	<u>\$ 6,613,599</u>

**CORPORATION OF HAMILTON**

Notes to the Financial Statements

December 31, 2016

(Expressed in Bermuda Dollars)

**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>2016</u>	<u>2015</u>
Corporation's contributions	\$ 469,754	\$ 556,521
	=====	=====
Employee contributions	\$ 359,768	\$ 403,984
	=====	=====

Included in accounts receivable is a pension surplus balance of \$168,315 (2015 - \$591,507), 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.

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, 2016. Information about this plan is as follows:

	<u>2016</u>	<u>2015</u>
<b>Accrued benefit obligation</b>		
Balance, beginning of year	\$ 1,515,893	\$ 1,544,946
Interest cost	75,389	77,115
Benefits paid	(159,831)	(152,159)
Actuarial loss	<u>25,204</u>	<u>45,991</u>
Balance, end of year	\$ 1,456,655	\$ 1,515,893
	=====	=====
<b>Plan assets</b>		
Fair value, beginning of year	\$ -	\$ -
Employer contributions	159,831	152,159
Benefits paid	<u>(159,831)</u>	<u>(152,159)</u>
Fair value, end of year	\$ -	\$ -
	=====	=====
<b>Funded status</b>		
Accrued benefit obligation	\$ 1,456,655	\$ 1,515,893
Unamortized actuarial loss	<u>(281,803)</u>	<u>(289,112)</u>
Retirement benefit liability	\$ 1,174,852	\$ 1,226,781
	=====	=====

**CORPORATION OF HAMILTON**

Notes to the Financial Statements

December 31, 2016

(Expressed in Bermuda Dollars)

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

The significant assumptions used are as follows:

	<u>2016</u>	<u>2015</u>
<b>Accrued benefit obligation:</b>		
Discount rate	5.75%	5.25%
<b>Benefits cost for the year:</b>		
Discount rate	5.25%	5.25%
<b>Healthcare cost trend rates:</b>		
Rates in years 2016 to 2017	6.5%	6.5%
Ultimate rate in 2017 and beyond	7.0%	6.5%

Increasing or decreasing the assumed healthcare cost trend rates by one percentage point would have the following effects for 2016:

	<u>Increase</u>	<u>Decrease</u>
Total of service cost and interest cost	\$ 5,277	\$ (4,787)
Accrued benefit obligation	\$ 91,123	\$ (83,033)

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

	<u>2016</u>	<u>2015</u>
Interest cost	\$ 75,389	\$ 77,115
Actuarial loss	<u>25,204</u>	<u>45,991</u>
Element of retirement benefit costs before adjustments	100,593	123,106
Adjustments to recognize the long-term nature of retirement benefit costs:		
Difference between recognized and actual actuarial loss	<u>7,309</u>	<u>(17,952)</u>
Employee future benefit cost recognized	<u>\$ 107,902</u>	<u>\$ 105,154</u>

# CORPORATION OF HAMILTON

Notes to the Financial Statements

December 31, 2016

(Expressed in Bermuda Dollars)

---

## 8. Reserves

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

	<u>2016</u>	<u>2015</u>
CB Tucker fund	\$ 32,500	\$ 32,500

## 9. Expenditures by object

	<u>2016</u>	<u>2015</u>
Wages, salaries and benefits	\$ 9,633,667	\$ 10,069,446
Contract services	7,566,382	6,950,985
Supplies and materials	1,847,211	1,656,686
Amortization of tangible capital assets, net	1,646,563	1,575,653
Interest and finance	<u>552,461</u>	<u>1,326,676</u>
	\$ 21,246,284	\$ 21,579,446

## 10. Capital commitments

The Corporation has contractual commitments for capital expenditures as at December 31, 2016, in the amount of \$216,753 (2015 - \$100,086), which will be paid for in 2017.

## 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 loans approximate its carrying value as the loans 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 loans 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.

# CORPORATION OF HAMILTON

Notes to the Financial Statements

December 31, 2016

(Expressed in Bermuda Dollars)

## 11. Financial instruments (continued)

### (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>
<b>December 31, 2016</b>				
Accounts payable	10,076,450	9,789,046	287,404	–
Long-term loans	6,734,875	15,729	1,115,262	5,603,884
<b>December 31, 2015</b>				
Accounts payable	9,670,080	9,292,571	377,509	–
Due to Mexico Infrastructure LLC	18,000,000	18,000,000	–	–
Long-term loans	7,473,064	15,729	1,115,262	6,342,073

## 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 and Planning in order to defray some of the costs of providing these services. From 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, 2016

(Expressed in Bermuda Dollars)

12. **Segmented reporting** (continued)

	2016					2015	
	Governance and Civic	Sanitation and Sewer	Public Works and Planning	Parking	Wharf	Total	Total
<b>Revenue</b>							
Property taxes	\$ 2,862,949	\$ 2,862,949	\$ 2,862,949	\$ –	\$ –	\$ 8,588,847	\$ 8,526,787
Goods wharfage	–	–	–	–	6,322,083	6,322,083	6,054,443
Car parking fees	–	–	–	2,882,818	–	2,882,818	3,362,750
Sewer disposal contracts	–	2,284,546	–	–	–	2,284,546	2,250,902
Rents from properties	842,199	40,187	5,297	–	53,995	941,678	910,820
Other permit and license fees	22,427	193,209	–	–	219,484	435,120	511,229
Ships wharfage	–	–	–	–	358,940	358,940	359,333
Dock storage	–	–	–	–	188,424	188,424	100
City Hall rents	100,533	–	–	–	–	100,533	80,123
Miscellaneous	5,292	44,654	–	–	–	49,946	51,821
Interest	12,012	–	–	–	–	12,012	946
	<u>3,845,412</u>	<u>5,425,545</u>	<u>2,868,246</u>	<u>2,882,818</u>	<u>7,142,926</u>	<u>22,164,947</u>	<u>22,109,254</u>
<b>Expenditures</b>							
Wages, salaries and benefits	5,186,821	2,574,206	1,705,895	82,350	84,395	9,633,667	10,069,446
Contract services	4,478,969	1,038,335	912,402	37,351	1,099,325	7,566,382	6,950,985
Supplies and material	482,306	431,951	783,387	80,627	68,940	1,847,211	1,656,686
Amortization of tangible capital assets	255,522	305,061	418,025	315,376	352,579	1,646,563	1,575,653
Interest and finance	552,461	–	–	–	–	552,461	1,326,676
	<u>10,956,079</u>	<u>4,349,553</u>	<u>3,819,709</u>	<u>515,704</u>	<u>1,605,239</u>	<u>21,246,284</u>	<u>21,579,446</u>
Derecognition of liability on guarantee	<u>18,752,548</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>18,752,548</u>	<u>–</u>
Excess (shortfall) of revenue over expenditures	<u>\$ 11,641,881</u>	<u>\$ 1,075,992</u>	<u>\$ (951,463)</u>	<u>\$ 2,367,114</u>	<u>\$ 5,537,687</u>	<u>\$ 19,671,211</u>	<u>\$ 529,808</u>

## CORPORATION OF HAMILTON

Notes to the Financial Statements

December 31, 2016

*(Expressed in Bermuda Dollars)*

---

### 13. Contingencies

- (a) 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. On July 27, 2016 proceedings were issued for possession of the Corporation's files and J2 Chambers was ordered to deliver the files to the Corporations' attorneys together with costs. J2 Chambers failed to forward the files and a judgement in default of appearance was obtained on February 23, 2017. Contempt proceedings against J2 Chambers were filed on April 26, 2017 when the files had still not been delivered. A date for the hearing of the contempt proceedings is pending.
- (b) 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 ruling has had a significant negative impact on the Corporation's parking revenue.

On March 24, 2017 the Court of Appeals upheld the November 5, 2014 ruling that the Corporation could not utilise its authority via a resolution but must use the authority of an ordinance. The Corporation must use the procedures in Section 38 of the Municipalities Act 1923 for the regulation and control of parking.

- (c) In 2016 MIF retained the services of a US law firm to initiate litigation against the Corporation and two of its officers and a third party claiming that their fraudulent, grossly negligent and conspiratorial actions resulted in the improper release of funds of \$13,759,855 for the development of a luxury hotel and condominium residence at the Par-la-Ville car park from an escrow account. The parties named in the lawsuit were given 15 days from the date of the letter of October 15, 2016 to pay the funds to the US law firm. MIF is also seeking to recover consequential/special and punitive damages, as well as attorneys' fees, interest and costs. The Corporation's lawyers wrote to the US law firm and have asked for this matter to be set aside due to the Supreme Court appeal (Note 14). No further action has been taken in this matter and the US law firm has confirmed that MIF will not be initiating proceedings pending resolution of the ongoing legal proceedings in Bermuda.

## CORPORATION OF HAMILTON

Notes to the Financial Statements

December 31, 2016

*(Expressed in Bermuda Dollars)*

---

### 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 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, purportedly to enable the Corporation to provide the Guarantee. On 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 was for \$18 million and 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, 2016 an amount of \$1,805,425 (2015 - \$752,548) has been accrued as interest. As a result of the judgment, MIF was not limited to proceeding against the Par-La-Ville car park to obtain satisfaction of its judgment against the Corporation, as the judgment provided 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 pending the result of further ongoing legal proceedings.

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, 2016

*(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 negotiated with a local bank 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 bank loan has been put on hold pending the outcome of the ongoing legal proceedings.

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.

On November 18, 2016, the Supreme Court ruled that the Corporation had no power to guarantee the loan from MIF to build a hotel on the Par-la-Ville car park. The Court resolved that in providing the guarantee, the Corporation had acted ultra vires. Therefore, the previously unchallenged Consent Order that had required the Corporation to pay MIF the loan plus interest was set aside. The Corporation ceased accruing interest on the due to MIF balance of \$18 million with effect from November 18, 2016. The judge’s decision was appealed by MIF in the March 2017 session of the appellate court. In the March 2017 session, the Corporation also appealed the judge’s decision not to award costs to the Corporation. On May 12, 2017 the Court of Appeal dismissed the appeal and upheld the Supreme Court ruling that (i) in providing the guarantee, the Corporation acted ultra vires and (ii) the Corporation’s application to set aside the Consent Order was not an abuse of process. Therefore the guarantee cannot be enforced against the Corporation and the Corporation is not liable for the guaranteed sum of \$18 million. In June 2017 MIF have served notice of its application to appeal this decision to the Privy Council.

As the guarantee cannot presently be enforced against the Corporation and the Corporation is not liable for the guaranteed sum of \$18 million (pending the outcome of the appeal to the Privy Council) the Corporation has derecognised the liability related to the guarantee of \$18 million together with previously accrued interest of \$752,548 and this reversal of \$18,752,548 is included in the statement of operations for the year ended December 31, 2016.

The Joint Provisional Liquidators of PHRL have brought proceedings in the High Court of Justice in England against a number of parties in order to recover funds loaned to PHRL and subsequently transferred to Argyle Limited. As the creditor who appeared to have the major economic interest in the liquidation of PHRL at the time, the Corporation agreed, in August 2016, to place a deposit of \$275,000 with the courts for these proceedings to cover any potential costs should the Corporation lose the case. The Corporation expects a successful outcome to this case and that the full deposit will be returned. However as the recovery of the deposit is contingent on the outcome of the ongoing proceedings the deposit of \$275,000 has been expensed and is included in administrative and general expenses in the statement of operations for the year ended December 31, 2016.

In May 2016, the Corporation paid \$25,000 for the winding up of Argyle Limited and in August 2016 a further \$100,000 was paid and expensed to fund the liquidation of PHRL, the Skyline Trust and Argyle Limited.

### **15. Subsequent events**

The Corporation evaluated events and transactions occurring from January 1, 2017 through to June 15, 2017, 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.