CORPORATION OF HAMILTON

Consolidated Financial Statements
(With Auditors' Report Thereon)

Year Ended December 31, 2007

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AUDITORS' REPORT TO MEMBERS OF THE CORPORATION OF HAMILTON

We have audited the consolidated statement of financial position of the Corporation of Hamilton (the "Corporation") as at December 31, 2007 and the consolidated statements of financial activities and changes in financial position for the year then ended. These financial statements are the responsibility of the Corporation's management. 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 plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2007 and the results of its financial activities and its changes in financial position for the year then ended in accordance with accounting principles generally accepted in Bermuda and Canada.

The financial statements as at and for the year ended December 31, 2006 were audited by another firm of chartered accountants, except for the prior period adjustment as described in notes 2(f) and 14 to the financial statements.

KPMG

Chartered Accountants
Hamilton, Bermuda
June 27, 2008

CORPORATION OF HAMILTON

Consolidated Statement of Financial Position

December 31, 2007
(Expressed in Bermuda Dollars)

	2007	2006 (As restated)
Financial assets		
Cash and cash equivalents	$ 10,080,516	$ 8,116,656
Accounts receivable (Note 3)	1,730,733	2,061,481
Recoverable costs	3,698	80,123
Total financial assets	11,814,947	10,258,260
Liabilities		
Accounts payable and accrued liabilities	2,126,509	2,045,845
Due to the Government of Bermuda (Note 4)	580,000	458,460
Long term loans – current (Note 8)	1,244,212	1,565,442
Long term loans – long term (Note 8)	2,472,120	3,716,335
Retirement benefit liability (Note 9)	1,458,063	1,399,225
Total liabilities	7,880,904	9,185,307
Net financial assets	3,934,043	1,072,953
Non financial assets		
Capital assets (Notes 5, 6, 7 and 8)	3,716,332	5,281,777
Inventory of materials and supplies	580,518	551,890
Prepaid expense	416,357	82,943
	$ 8,647,250	$ 6,989,563
Equity		
Financial equity		
Reserves (Note 10)	$ 227,319	$ 259,738
Surplus	7,423,056	6,094,992
	7,650,375	6,354,730
Other equity	996,875	634,833
	$ 8,647,250	$ 6,989,563

Contingencies (Note 11)

See accompanying notes to consolidated financial statements

Signed on behalf of the Corporation of Hamilton

Edward Benevides, Secretary

Sutherland Madeiros, Mayor

CORPORATION OF HAMIL . ON

Consolidated Statement of Financial Activities

December 31, 2007
(Expressed in Bermuda Dollars)

	Budget 2007 (Note 2(b))	Actual 2007	Actual 2006 (As restated)
Revenue			
Goods wharfage	$ 6,985,000	$ 6,908,130	$ 7,029,646
Property taxes	6,850,000	6,764,706	6,420,537
Car parking fees	3,922,000	3,797,522	3,744,986
Sewage disposal contracts	1,550,000	1,567,540	1,412,347
Dock charges	1,100,000	1,212,022	1,006,263
Rents from properties	863,000	1,003,092	854,345
Other permit and license fees	349,000	780,197	413,700
Ships wharfage	350,000	449,723	375,350
Interest	100,000	326,090	175,881
Miscellaneous	48,000	91,992	48,915
City Hall rents	96,000	83,177	77,585
Total revenue	22,213,000	22,984,191	21,559,555
Expenditures			
Administrative and general expenses	$ 4,796,700	$ 5,015,874	$ 4,435,155
Sanitation services	4,357,400	4,028,373	3,942,904
Street operations and maintenance	2,788,800	2,457,255	1,942,796
Wharf operations and maintenance	2,469,550	2,149,777	1,673,928
Parks and gardens maintenance	1,918,150	1,692,743	1,516,006
Works depot expenses	2,090,700	1,224,089	944,447
Fire service contributions	1,224,000	871,535	969,107
Sewerage maintenance and operating	1,207,825	638,544	646,341
City Hall maintenance	823,200	706,473	697,809
Car parks expenses	806,150	602,411	593,413
Interest and finance charges	375,000	386,208	451,309
Property maintenance	322,750	215,042	103,087
Development costs	194,000	90,842	230,227
Bad debt expense	50,000	43,935	71,989
Total expenditures	23,424,225	20,123,101	18,218,518
Excess (deficiency) of revenue over expenditures	$ (1,211,225)	$ 2,861,090	$ 3,341,037

See accompanying notes to consolidated financial statements

CORPORATION OF HAMIL . ON

Consolidated Statement of Financial Activities (continued)

December 31, 2007

		Actual 2007		Actual 2006
Financial equity, beginning of year:				
As previously reported	$	7,753,955	$	5,863,797
Prior period adjustment (Note 14)		(1,399,225)		(1,372,512)
As restated		6,354,730		4,491,285
Excess (deficiency) of revenue over expenditures		2,861,090		3,341,037
Repayment of debt		(1,565,445)		(1,477,592)
Financial equity, end of year	$	7,650,375	$	6,354,730

See accompanying notes to consolidated financial statements

CORPORATION OF HAMIL..ON

Consolidated Statement of Changes in Financial Position

December 31, 2007
(Expressed in Bermuda Dollars)

	2007	2006 (As restated)
Cash provided by (used in):		
Operating activities		
Excess of revenue over expenditures	$ 2,861,090	$ 3,356,193
Changes in working capital items:		
Accounts receivable	330,748	(186,367)
Recoverable costs	76,425	(59,993)
Accounts payable and accrued liabilities	80,664	740,307
Due to the Government of Bermuda	121,540	(280,893)
Retirement benefit liability	58,838	11,557
Net cash used in operating activities	3,529,305	3,580,804
Financing activities		
Repayment of debt	(1,565,445)	(1,477,592)
Net cash used in financing activities	(1,565,445)	(1,477,592)
Increase in cash and cash equivalents	1,963,860	2,103,212
Cash and cash equivalents, beginning of year	8,116,656	6,013,444
Cash and cash equivalents, end of year	$ 10,080,516	$ 8,116,656
Interest paid for the year	$ 298,480	$ 383,707
Interest received for the year	$ 326,090	$ 175,881

See accompanying notes to consolidated financial statements

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 principal sources of revenue include goods wharfage, property taxes 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 consolidated 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 Canadian Institute of Chartered Accountants (CICA).

Effective January 1, 2007, the Corporation adopted the recommended financial statement presentation guidelines under CICA Public Sector Accounting Standards. This change has been adopted on a retrospective basis, with 2006 comparative figures classified on a consistent basis with the current year's presentation. The statement of capital fund assets and liabilities and statement of current fund assets and liabilities previously reported by the Corporation as at December 31, 2006 have been combined into a consolidated statement of financial position. The Corporation's current fund surplus of $6,989,563 (as restated) as at December 31, 2006 has been reclassified into its separate equity components as follows:

	2006 (As restated)
Financial equity	
Reserves	$ 259,738
Surplus	6,094,992
	6,354,730
Other equity	634,833
Total equity	$ 6,989,563

Management is required 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 statement of financial position and the reported amounts of revenues and expenditures for the year. Actual amounts could differ from those estimated. Significant areas requiring the use of management estimates relate to the determination of post-employment benefits, the recoverability of accounts receivable and accrual for contingencies.

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

(a) Revenues

Revenues are recorded on the accrual basis and recognised 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

Unaudited budget information approved by the Corporation on December 14, 2006, is presented using a basis consistent with that used for actual results.

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

(c) *Expenditures*

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

(d) *Capital assets*

Capital expenditures are expensed in the period they are acquired or constructed. Those capital expenditures financed with borrowed funds are capitalized at cost in the period acquired or constructed and amortized over the term of the loan. The carrying value of capital assets is reduced by the periodic repayments of principal on the loan such that the aggregate amount of the carrying value of assets is equal to the amount of the long term loan outstanding (see Notes 5, 6, 7 and 8).

(e) *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 estimated market value.

(f) *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 pays 50% of the total premiums due to the insurer. 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. The excess of the net accumulated actuarial gains and losses over 10% of the accrued benefit obligation is recognized over the average remaining life of the former employees.

Effective January 1, 2007 the Corporation changed its accounting policy for its defined benefit plan for post-retirement medical healthcare benefits in order to conform with the CICA Public Sector Accounting Standard PS 3250: Retirement Benefits. This change in accounting policy has been applied retroactively and comparative figures for the year ended December 31, 2006 have been restated accordingly (see also Note 14). Previously the cost of post-retirement healthcare benefits was expensed as incurred.

(g) *Cash and cash equivalents*

Cash and cash equivalents are comprised of cash on hand, demand deposits and short term deposits with an original maturity of less than ninety days.

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

(h) Future accounting changes

(i) Tangible capital assets

The Corporation is in the process of accumulating information and developing its accounting policies related to its tangible capital assets in order to comply with the new PSAB Section 3150 *Tangible Capital Assets*. This new standard will be applicable to the Corporation's 2009 annual financial statements. This section will require the Corporation to record all capital assets in the statement of financial position. As at December 31, 2007, the cost and accumulated amortization have not yet been determined for the individual classes of tangible capital assets and hence details concerning the major categories of tangible capital assets and the effect on the Corporation's financial statement position have not been determined.

(ii) Segment disclosures

PSAB Section 2700 Segment Disclosures establishes standards on how to define and disclose segments in the Corporation's consolidated financial statements. Key financial information will be required to be separated out to provide relevant information for accountability and decision-making purposes. This new standard will be applicable to the Corporation's 2008 annual financial statements. Adoption of this standard is not expected to affect the Corporation's financial position but is expected to affect the disclosures in the Corporation's financial statements.

(iii) Financial statement presentation

PSAB Section 1200 *Financial Statement Presentation* replaces the former PSAB Section 1800 in providing guidance on the Corporation's financial statement presentation and disclosures. This standard will be required to be adopted for the 2009 financial statements. The Corporation is currently evaluating the impact of this new standard for the preparation of the 2009 statements.

3. **Accounts receivable**

Accounts receivable are shown net of a provision for doubtful accounts of $469,337 (2006 - $460,000).

4. **Due to the Government of Bermuda**

The amount due to the Government of Bermuda represents an accrual for the estimated amount owing by the Corporation as at December 31, 2007, in relation to the operations of the Hamilton Fire Service for the year then ended.

5. **Bull's Head multi-storey car park**

During 1995 the Corporation constructed a multi-storey car park at Bull's Head, Hamilton at a cost of $6,500,000. Effective October 20, 1995, the Corporation issued bonds aggregating $6,500,000 to provide long-term financing of the construction costs of the car park. The bonds were due October 20, 2010, bore interest at 8% paid semi-annually in the same currency as the bond principal and were issued in multiples of $2,500 in either Bermuda or US dollars. On July 30, 2003, the bonds outstanding were fully redeemed using the proceeds from a sinking fund combined with a long-term bank loan of $4,000,000 of which $529,211 (2006 - $1,569,621) is outstanding at December 31, 2007 (Note 8).

6. **Bull's Head additional floor**

The Corporation commenced construction of an additional floor to the Bull's Head car park in 2003. The total cost of this project to December 31, 2007 was $3,890,067. The project was financed by way of a long-term bank loan of which $1,156,978 (2006 - $1,569,621) is outstanding at December 31, 2007 (Note 8).

7. **Sewerage pumping station**

The Corporation completed construction of the sewerage pumping station for the City of Hamilton on February 8, 2002, at a cost of $8,930,771. The project was financed through the following sources of funding of which a long-term bank loan of $2,030,143 (2006 - $2,318,111) is outstanding at December 31, 2007 (Note 8).

Bank loan	$ 3,300,152
Government grant	1,600,000
Transfers from current fund	4,030,619
Total	$ 8,930,771

8. **Long-term loans**

As at December 31, 2007, the Corporation had the following long-term loans outstanding:

	2007	2006
Bank of NT Butterfield – Bull's Head multi-storey car park	$ 529,211	$ 1,394,045
Bank of NT Butterfield – Bull's Head multi-storey car park: additional floor	1,156,978	1,569,621
Bank of Bermuda – Sewerage pumping station	2,030,143	2,318,111
Total	$ 3,716,332	$ 5,281,777

Repayments of long-term debt principal required in the next five years and thereafter are as follows:

2008	$ 1,244,212
2009	740,000
2010	646,978
2011	345,000
2012	360,000
Thereafter	380,142
	$ 3,716,332

(a) *Bull's Head multi-storey car park*

The Corporation has entered into a loan facility agreement with the Bank of N.T. Butterfield & Son Ltd. (the "Bank"). The loan has a fixed rate of interest of 5.75% and is being repaid with equal monthly installments of $76,867, which consists of principal and interest, over a 5-year period terminating in June 2008. The Bank holds as security a $4,000,000 first equitable charge over the Bull's Head car parking facility. Interest expense for the year was $57,571 (2006 - $105,774) which was charged to the consolidated statement of financial activities.

8. **Long-term loans**

(b) Bull's Head additional floor

This loan bears interest at 1.5% above LIBOR and is to be repaid with equal monthly installments of $42,426, which consists of principal and interest, over an 11-year period terminating in June 2010. The Bank has accepted as security a negative pledge from the Corporation not to assume further debt on the Bull's Head car parking facility without the Bank's written consent. Interest expense for the year was $97,102 (2006 - $117,491), which was charged to the consolidated statement of financial activities.

(c) Sewerage pumping station

The Corporation has entered into a loan agreement with the Bank of Bermuda Limited. The loan bears interest at 1% above the Bank of Bermuda's base rate and is to be repaid over the 15-year period terminating in April 2013 with equal monthly installments of $35,815, which consist of principal and interest. Interest expense for the year was $143,806 (2006 - $160,441) which was charged to the consolidated statement of financial activities.

9. **Pension plans and other post-retirement benefits**

As described in Note 2(f), 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 amount is matched by the Corporation for the defined contribution plan. The Corporation's contributions under the defined annuity plan is 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 were as follows:

		2007		2006
Corporation's contributions	$	436,860	$	354,222
Employee contributions	$	321,925	$	335,739

The Corporation also sponsors a defined benefit plan for post-retirement medical healthcare benefits to eligible former employees. Information about this plan is as follows:

		2007		2006
Accrued benefit obligation				
Balance, beginning of year	$	1,662,348	$	1,372,512
Interest cost		90,354		67,603
Benefits paid		(39,088)		(40,890)
Actuarial (gain) loss		(88,776)		263,123
Balance, end of year	$	1,624,838	$	1,662,348

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

		2007		2006
Plan assets				
Fair value, beginning of year	$	–	$	–
Employer contributions		39,088		40,890
Benefits paid		(39,088)		(40,890)
Fair value, end of year	$	–	$	–
Funded status				
Accrued benefit obligation	$	1,624,838	$	1,662,348
Unamortised actuarial loss		(166,775)		(263,123)
Retirement benefit liability	$	1,458,063	$	1,399,225

The significant assumptions used are as follows:

	2007	2006
Accrued benefit obligation:		
Discount rate	5.50%	5.50%
Benefits costs for the year:		
Discount rate	5.50%	5.00%
Healthcare cost trend rates:		
Rates in years 2007 to 2008	7.50%	7.50%
Rates in years 2009 to 2013	6.50%	6.50%
Ultimate rate in 2014 and beyond	5.50%	5.50%

Increasing or decreasing the assumed healthcare cost trend rates by one percentage point would have the following effects for 2007:

		Increase		Decrease
Total of service cost and interest cost	$	7,156	$	(6,288)
Accrued benefit obligation	$	118,565	$	(105,016)

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

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

	2007	2006
Interest cost	$ 90,354	$ 67,603
Actuarial (gain) loss	(88,776)	263,123
Element of retirement benefit costs before adjustments	1,578	330,726
Adjustments to recognize the long-term nature of retirement benefit costs:		
Difference between recognized and actual actuarial loss	96,348	(263,123)
Recognised retirement benefit cost	$ 97,926	$ 67,603

10. **Reserves**

The Corporation may appropriate reserves for specific purposes. At December 31, 2007, reserves consist of the following funds:

	2006	Change during year	2007
Millenium project	$ 200,000	$ (32,419)	$ 167,581
Benbow collection	27,238	-	27,238
CB Tucker fund	32,500	-	32,500
Total	$ 259,738	$ (32,419)	$ 227,319

11. **Contingencies**

As at December 31, 2007, there is an unsettled legal claim against the Corporation in an amount of $468,000 the outcome of which is not presently determinable. The Corporation has made an accrual of $80,000, which is included in accounts payable and accrued liabilities, which represents its best estimate, based on legal advice received, of the expected settlement amount.

12. **Expenditures by object**

	2007	2006
Wages, salaries and benefits	$ 10,877,682	$ 9,383,089
Contract services	6,780,021	6,069,797
Supplies, materials and capital	2,048,737	2,306,963
Interest and bank charges	416,661	458,669
Total	$ 20,123,101	$ 18,218,518

13. **Financial instruments**

The estimated fair values of the Corporation's financial instruments, being cash, accounts receivable, and recoverable costs, accounts payable and due to Government of Bermuda approximate their respective carrying values due to their short term nature. The estimated fair values of long-term loans approximate their carrying values as they attract 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 certain loans payable which bear interest at floating rates as disclosed in Note 8. Management does not believe that the impact of interest rate fluctuations will be significant.

(b) Credit risk

The Corporation's financial instrument exposed to credit risk is accounts receivable. The Corporation has accounts receivable from a wide range of individuals, businesses, and government organizations. Management actively monitors outstanding accounts receivable.

14. **Prior period adjustment and comparative figures**

As explained in Note 2(f), the Corporation has changed its accounting policy for its defined benefit plan for post-retirement medical healthcare benefits. The change has been accounted for on a retroactive basis with the comparative figures for the year ended December 31, 2006 being restated accordingly to recognise a retirement benefit obligation of $1,399,225 as at that date (see also Note 9). The effect on the opening consolidated statement of financial position as at January 1, 2006 was a decrease in reserves and an increase in liabilities of $1,372,512 to reflect the retirement benefit obligation at that date. The excess (deficiency) of revenues over expenditures for the year ended December 31, 2006 has been reduced by $26,713 as a result of the additional future benefit cost recognized.

Certain comparative figures have also been reclassified to conform with the financial statement presentation adopted for the current year (see Note 2).