

CORPORATION OF HAMILTON

Audited Financial Statements
(With Independent Auditors' Report Thereon)

December 31, 2012

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Bermuda

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**INDEPENDENT AUDITORS' REPORT TO THE
MEMBERS OF CORPORATION OF HAMILTON**

We have audited the accompanying financial statements of Corporation of Hamilton (the "Corporation"), which comprise the statement of financial position as at December 31, 2012, and the statements of operations, changes in accumulated surplus, changes in net debt and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information. The financial statements of Corporation of Hamilton as of and for the year ended December 31, 2011, were audited by other auditors whose report, dated May 2, 2012, expressed an unqualified opinion with emphasis of a matter on those consolidated financial statements. We also audited the adjustments described in Note 15 that were applied to restate the 2011 consolidated financial statements. In our opinion, such adjustments are appropriate and have been properly applied.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in Bermuda and Canada. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2012, and its financial performance and cash flows for the year then ended in accordance with accounting principles generally accepted in Bermuda and Canada.

Emphasis of a Matter

We draw attention to Note 2 to the financial statements which describe the potential impact on the Corporation of the Municipalities Reform Act 2010. These conditions, along with other factors set out in Note 2, indicate the existence of a material uncertainty that may cast doubt about the Corporation's ability to continue as a going concern.

We also draw attention to Note 13 (v) to the financial statements regarding the Systemic Investigation by the Ombudsman for Bermuda. The Ombudsman's report has not been issued as of the date of issuance of these financial statements.

The Corporation is required by the Municipalities Act 1923 as amended by the Municipalities Reform Act 2010 (the "Act") to forward to the Minister responsible for municipalities its audited statements at any time prior to the thirtieth day of June in each year. As disclosed in Note 16 to the financial statements, the Corporation is not in compliance with this requirement of the Act for the year ended December 31, 2012.

Our opinion is not qualified in respect of these matters.

Moore Stephens & Butterfield

Chartered Accountants
Hamilton, Bermuda
July 25, 2013

CORPORATION OF HAMILTON

Statement of Financial Position

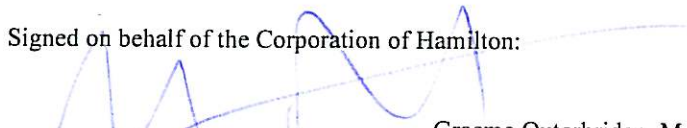
December 31, 2012

(Expressed in Bermuda Dollars)

	<u>2012</u>	<u>2011</u> (As restated) Note 15
Financial assets		
Cash and cash equivalents	\$ 3,179,332	\$ 2,288,715
Funds held in escrow (Notes 14 and 15)	-	1,003,710
Accounts receivable (Note 3)	726,502	808,841
Recoverable costs	<u>37,503</u>	<u>29,716</u>
Total financial assets	<u>3,943,337</u>	<u>4,130,982</u>
Financial liabilities		
Accounts payable and accrued liabilities (Note 4)	5,639,484	5,183,344
Long-term loan (Note 6)	9,534,877	9,823,622
Retirement benefit liability (Note 7)	<u>1,319,970</u>	<u>1,346,815</u>
Total liabilities	<u>16,494,331</u>	<u>16,353,781</u>
Net debt	<u>(12,550,994)</u>	<u>(12,222,799)</u>
Non-financial assets		
Tangible capital assets, net (Note 5)	63,288,453	63,078,107
Inventory of materials and supplies	552,361	484,902
Prepaid expenses	<u>130,288</u>	<u>-</u>
	<u>63,971,102</u>	<u>63,563,009</u>
Accumulated surplus (Note 8)	<u>\$ 51,420,108</u>	<u>\$ 51,340,210</u>

See accompanying notes to the financial statements.

Signed on behalf of the Corporation of Hamilton:


 Graeme Outerbridge, Mayor


 Edward Benevides, Secretary


 Tanya Iris, Treasurer

CORPORATION OF HAMILTON

Statement of Operations

For the Year Ended December 31, 2012
(Expressed in Bermuda Dollars)

	Budget <u>2012</u>	Actual <u>2012</u>	Actual <u>2011</u>
Revenue			
Property taxes	\$ 8,468,000	\$ 8,405,861	\$ 8,757,766
Government grant	5,500,000	5,000,000	4,000,000
Car parking fees	4,311,200	4,542,453	4,063,505
Sewage disposal contracts	2,060,000	2,068,393	2,058,200
Rents from properties	1,146,000	1,001,360	1,102,294
Other permit and license fees	256,000	344,320	341,365
City Hall rents	96,000	92,170	95,015
Interest	3,000	4,762	4,737
Dock charges	-	1,042	17,596
Goods wharfage	-	-	1,264,474
Ships wharfage	-	-	8,812
Miscellaneous	<u>43,000</u>	<u>42,034</u>	<u>44,496</u>
Total revenue (Note 12)	<u>21,883,200</u>	<u>21,502,395</u>	<u>21,758,260</u>
Expenses			
Administrative and general expenses	7,199,630	7,425,141	7,054,008
Street operations and maintenance	4,615,164	4,268,784	4,972,437
Sanitation services	3,405,329	3,494,032	3,547,566
Parks and gardens maintenance	1,628,295	1,624,581	1,635,495
Works depot expenses	1,011,759	1,211,687	1,044,905
Wharf operations and maintenance	1,288,385	1,139,259	1,060,023
Sewerage maintenance and operating	798,744	660,214	783,346
Interest and finance charges	525,000	613,881	593,271
City Hall maintenance	555,778	361,043	561,683
Car parks expenses	337,837	186,549	358,784
Development costs	240,000	181,879	78,059
Property maintenance	170,000	143,227	78,295
Bad debt expense	<u>80,000</u>	<u>112,220</u>	<u>35,903</u>
Total expenses (Note 9)	<u>21,855,921</u>	<u>21,422,497</u>	<u>21,803,775</u>
Annual surplus (deficit)	<u>\$ 27,279</u>	<u>\$ 79,898</u>	<u>\$ (45,515)</u>

See accompanying notes to the financial statements.

CORPORATION OF HAMILTON

Statement of Changes in Accumulated Surplus

For the Year Ended December 31, 2012
(Expressed in Bermuda Dollars)

	<u>2012</u>	<u>2011</u>
Accumulated surplus, beginning of year	\$ 51,340,210	\$ 51,385,725
Annual surplus (deficit)	<u>79,898</u>	<u>(45,515)</u>
Accumulated surplus, end of year	<u>\$ 51,420,108</u>	<u>\$ 51,340,210</u>

See accompanying notes to the financial statements.

CORPORATION OF HAMILTON

Statement of Changes in Net Debt

For the Year Ended December 31, 2012

(Expressed in Bermuda Dollars)

	<u>2012</u>	<u>2011</u>
Annual surplus (deficit)	\$ 79,898	\$ (45,515)
Acquisition of tangible capital assets, net	(1,684,479)	(1,263,367)
Net loss on disposal of tangible capital assets, net	17,010	14,245
Amortization of tangible capital assets, net	1,457,123	1,355,806
Acquisition of inventory	(886,198)	(723,549)
Consumption of inventory	818,739	740,897
Acquisition of prepaid expenses	<u>(130,288)</u>	<u>-</u>
Increase (decrease) in net debt	(328,195)	78,517
Net debt, beginning of year	<u>(12,222,799)</u>	<u>(12,301,316)</u>
Net debt, end of year	\$ <u>(12,550,994)</u>	\$ <u>(12,222,799)</u>

See accompanying notes to the financial statements.

CORPORATION OF HAMILTON

Statement of Cash Flows

For the Year Ended December 31, 2012
(Expressed in Bermuda Dollars)

	<u>2012</u>	<u>2011</u> (As restated) Note 15
Cash flows from operating activities		
Annual surplus (deficit)	\$ 79,898	\$ (45,515)
Adjustments for non-cash items and working capital changes:		
Amortization of tangible capital assets, net	1,457,123	1,355,806
Net loss on disposal of tangible capital assets	17,010	6,245
Decrease in accounts receivable	82,339	1,947,892
Increase in recoverable costs	(7,787)	(3,860)
Increase (decrease) in accounts payable and accrued liabilities	456,138	(528,761)
Decrease in accrued interest payable	-	(122,456)
Decrease in retirement benefit liability	(26,843)	(56,713)
Decrease (increase) in inventory of materials and supplies	(67,459)	17,348
Increase in prepaid expenses	<u>(130,288)</u>	<u>-</u>
Net cash from operating activities	<u>1,860,131</u>	<u>2,569,986</u>
Cash flows from investing activities		
Acquisition of tangible capital assets, net	(1,684,479)	(1,263,367)
Proceeds on disposal of tangible capital assets, net	-	8,000
Withdrawal of funds held in escrow (Notes 14 and 15)	<u>1,003,710</u>	<u>-</u>
Net cash used in investing activities	<u>(680,769)</u>	<u>(1,255,367)</u>
Cash flows from financing activities		
Proceeds from bank loan	500,000	1,066,421
Bank loan repayments	<u>(788,745)</u>	<u>(738,282)</u>
Net cash from (used in) financing activities	<u>(288,745)</u>	<u>328,139</u>
Net increase in cash and cash equivalents	890,617	1,642,758
Cash and cash equivalents, beginning of year	<u>2,288,715</u>	<u>645,957</u>
Cash and cash equivalents, end of year	<u>\$ 3,179,332</u>	<u>\$ 2,288,715</u>
Supplemental cash flow disclosure:		
Interest paid for the year	<u>\$ 613,881</u>	<u>\$ 593,271</u>
Interest received for the year	<u>\$ 4,762</u>	<u>\$ 4,737</u>

See accompanying notes to the financial statements.

CORPORATION OF HAMILTON

Notes to the Financial Statements

December 31, 2012

1. General

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

The 2011 consolidated financial statements include the accounts of a related Trust (See Note 14).

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 Canadian Institute of Chartered Accountants ("CICA").

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 estimated. 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.

The comparative financial statements are prepared on a consolidated basis. All transactions between the Corporation and the Trust have been eliminated on consolidation.

Going concern

In August 2010 the Municipalities Reform Act 2010 was passed in the Bermuda legislature which became effective from April 1, 2011 and, among other things, removed the right of the Corporation to charge goods wharfage for imported goods passing through the City of Hamilton's docks, ships wharfage for ships docking at the Corporation's property and dock charges derived from storage of containers which remain on the dock after 5 days of free storage. Historical revenues from these sources amounted to approximately 30% of annual revenues of the Corporation. In lieu of this lost revenue, the Government of Bermuda (the "Government") granted the Corporation an amount of \$5 million for the period from April 2011 to March 2012 which is approximately \$1.5 million short of its budgeted receipts for the same period. The grant has been received on a quarterly basis since April 2011.

An additional \$250,000 was granted and paid by the Government in October 2011 to compensate for a rate increase in wharfage fees from 1.11% to 1.25% for goods cleared through the wharf.

The Government budget for 2013/14 was presented to Parliament on February 22, 2013, which disclosed that \$5 million has been committed as a grant to the Corporation for the year ending March 31, 2014.

The Corporation has prepared its budget for the year ending December 31, 2013, assuming that it will receive the grant of \$5.0 million.

CORPORATION OF HAMILTON

Notes to the Financial Statements

December 31, 2012

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:

- the receipt in a timely manner in advance of each quarter of the grant due from the Government for the period to March 2014;
- a commitment from the Government to provide a grant for the year ending March 2015 and in future years and there being no further reforms to the Municipalities Act impacting on the Corporation's ability to continue to operate; and
- the ability of the Corporation to meet its liabilities as they fall due and operate in line with its latest forecasts and projections.

Based on the above assumption, management is of the opinion that the Corporation can meet its current liabilities as they become due, and that the going concern basis is appropriate.

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

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

(a) Revenues

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

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

(b) Budget information

Unaudited budget information approved by the Corporation on December 7, 2011, is presented using a basis consistent with that used for actual results.

(c) Expenditures

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

CORPORATION OF HAMILTON

Notes to the Financial Statements

December 31, 2012

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

(d) *Non-financial assets*

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

(i) *Tangible capital assets*

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

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

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

Subsequent expenditures incurred after the assets have been put into operation, such as repairs and maintenance and overhaul costs are charged to income in the period the costs are incurred. However, expenditures that result in an increase in the future economic benefits in excess of the originally assessed standard of performance of the existing asset are capitalized as an additional cost of property, plant and equipment. When assets are sold or retired, their cost, accumulated depreciation and 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 value 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, 2012

2. Significant accounting policies (continued)

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

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

(ii) Inventories

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

Impairment of non-financial assets

At each balance sheet date, tangible capital assets, net, and other long-lived assets are reviewed for impairment whenever events or circumstances indicate that the carrying amount of an asset exceeds its recoverable amount. The excess shall be recognized as impairment loss in the statement of income and the assets or cash-generating units are written down to their recoverable amount. 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 income. However, the increased carrying amount of an asset due to 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, 2012

2. Significant accounting policies (continued)

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

The expenses related to these plans are included in wages and salaries (see Note 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 change in value.

(g) Receivables

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

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

(h) Allowance for doubtful accounts

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

(i) Payables and provisions

Payables are stated at their nominal value.

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

(j) Leases

The Corporation as Lessor

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

CORPORATION OF HAMILTON

Notes to the Financial Statements

December 31, 2012

2. Significant accounting policies (continued)

(k) *Accounting estimates*

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

(l) *Related parties*

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

(m) *Segment disclosures*

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

(n) *Future accounting standards*

Financial instruments

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

Financial statement presentation

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

CORPORATION OF HAMILTON

Notes to the Financial Statements

December 31, 2012

3. **Accounts receivable**

Accounts receivable are shown net of a provision for doubtful accounts of \$532,635 (2011 - \$440,158).

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

Included in accounts payable and accrued liabilities is an amount of \$3,672,568 (2011- \$2,978,950) due to the Government of Bermuda that represents an accrual for the estimated amount owing by the Corporation in relation to the operations of the Hamilton Fire Service.

The Corporation has a contingent asset of \$2,800,000 (2011 - \$2,100,000) 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 Government in relation to this rent, no amount has been recorded related to this revenue in the current financial statements. It is management's intention to offset the operations accrual with the rental income once the lease is finalized.

5. **Tangible capital assets, net**

	Balance at December 31, <u>2011</u>	<u>Additions</u>	<u>Disposals</u>	Balance at December 31, <u>2012</u>
Cost				
Land	\$ 11,649,612	\$ 402,500	\$ -	\$ 12,052,112
Betterments	778,644	-	-	778,644
Buildings	39,993,830	351,742	-	40,345,572
Fixed plant and equipment	7,146,748	1,545,368	(110,336)	8,581,780
Mobile plant and equipment	2,439,082	113,261	-	2,552,343
Roads	869,191	-	-	869,191
Sewer lines	3,320,558	-	-	3,320,558
Wharf	19,693,567	497,745	-	20,191,312
Assets under construction	<u>2,079,601</u>	<u>(1,226,137)</u>	<u>-</u>	<u>853,464</u>
Total	\$ 87,970,833	\$ 1,684,479	\$ (110,336)	\$ 89,544,976

	Balance at December 31, <u>2011</u>	<u>Amortization expense</u>	<u>Disposals</u>	Balance at December 31, <u>2012</u>
Accumulated amortization				
Land	\$ -	\$ -	\$ -	\$ -
Betterments	91,962	15,515	-	107,477
Buildings	8,577,273	568,401	-	9,145,674
Fixed plant and equipment	3,442,553	361,459	(93,326)	3,710,686
Mobile plant and equipment	1,265,712	191,700	-	1,457,412
Roads	374,722	7,834	-	382,556
Sewer lines	1,184,718	46,345	-	1,231,063
Wharf	<u>9,955,786</u>	<u>265,869</u>	<u>-</u>	<u>10,221,655</u>
Total	\$ 24,892,726	\$ 1,457,123	\$ (93,326)	\$ 26,256,523

CORPORATION OF HAMILTON

Notes to the Financial Statements

December 31, 2012

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

Net book value	Balance at December 31, <u>2011</u>	Balance at December 31, <u>2012</u>
Land	\$ 11,649,612	\$ 12,052,112
Betterments	686,682	671,167
Buildings	31,416,558	31,199,898
Fixed plant and equipment	3,704,195	4,871,094
Mobile plant and equipment	1,173,370	1,094,931
Roads	494,469	486,635
Sewer lines	2,135,840	2,089,495
Wharf	9,737,781	9,969,657
Assets under construction	<u>2,079,601</u>	<u>853,464</u>
Total	<u>\$ 63,078,107</u>	<u>\$ 63,288,453</u>

6. **Long-term loan**

The Corporation has the following long-term loans outstanding:

	<u>2012</u>	<u>2011</u>
Capital G Bank Limited (Capital G)	\$ 9,057,926	\$ 9,823,622
Bank of N.T. Butterfield & Son Limited (Butterfield Bank)	476,951	-
Total	<u>\$ 9,534,877</u>	<u>\$ 9,823,622</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 Capital G Bank Limited (the "Bank") of which \$10.6 million was drawn down in 2010 and 2011. As security for the loan, the Bank holds a registered mortgage over the property.

The loan is to be repaid over 15 years from the date it was granted, at an interest rate of 1.75% above the Bank's Bermuda dollar base rate. The effective interest rate is 5.25% (2011 – 5.25%) per annum.

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

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

CORPORATION OF HAMILTON

Notes to the Financial Statements

December 31, 2012

6. Long-term loan (continued)

Future minimum principal payments are as follows:

	<u>Capital G</u>	<u>Butterfield Bank</u>	<u>Total</u>
2013	\$ 592,534	\$ 41,145	\$ 633,679
2014	623,642	43,142	666,784
2015	656,383	45,237	701,620
2016	690,843	47,433	738,326
2017 and thereafter	<u>6,494,524</u>	<u>299,927</u>	<u>6,794,468</u>
Total	<u>\$ 9,057,926</u>	<u>\$ 476,884</u>	<u>\$ 9,534,877</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 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:

	<u>2012</u>	<u>2011</u>
Corporation's contributions	\$ 518,159	\$ 490,641
Employee contributions	<u>\$ 365,941</u>	<u>\$ 400,252</u>

The Corporation also sponsors a defined benefit plan for post-retirement medical healthcare benefits to eligible former employees. This plan was valued by actuaries as at December 31, 2012. Information about this plan is as follows:

	<u>2012</u>	<u>2011</u>
Accrued benefit obligation		
Balance, beginning of year	\$ 1,939,432	\$ 1,803,214
Interest cost	97,082	68,892
Benefits paid	(180,485)	(161,814)
Actuarial loss/(gain)	<u>(60,942)</u>	<u>229,140</u>
Balance, end of year	<u>\$ 1,795,087</u>	<u>\$ 1,939,432</u>

CORPORATION OF HAMILTON

Notes to the Financial Statements

December 31, 2012

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

	<u>2012</u>	<u>2011</u>
Plan assets		
Fair value, beginning of year	\$ -	\$ -
Employer contributions	180,485	161,814
Benefits paid	<u>(180,485)</u>	<u>(161,814)</u>
Fair value, end of year	<u>\$ -</u>	<u>\$ -</u>
Funded status		
Accrued benefit obligation	\$ 1,795,087	\$ 1,939,432
Unamortized actuarial loss	<u>(475,117)</u>	<u>(592,617)</u>
Retirement benefit liability	<u>\$ 1,319,970</u>	<u>\$ 1,346,815</u>

The significant assumptions used are as follows:

	<u>2012</u>	<u>2011</u>
Accrued benefit obligation:		
Discount rate	5.25%	5.25%
Benefits cost for the year:		
Discount rate	5.25%	4.0%
Healthcare cost trend rates:		
Rates in years 2012 to 2013	7.5%	7.5%
Ultimate rate in 2014 and beyond	6.5%	6.5%

Increasing or decreasing the assumed healthcare cost trend rates by one percentage point would have the following effects for 2012:

	<u>Increase</u>	<u>Decrease</u>
Total of service cost and interest cost	\$ 7,975	\$ 7,113
Accrued benefit obligation	<u>\$ 137,659</u>	<u>\$ 123,037</u>

CORPORATION OF HAMILTON

Notes to the Financial Statements

December 31, 2012

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

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

	<u>2012</u>	<u>2011</u>
Interest cost	\$ 97,082	\$ 68,892
Actuarial loss/(gain)	<u>(60,942)</u>	<u>229,140</u>
Element of retirement benefit costs before adjustments	36,140	298,032
Adjustments to recognize the long-term nature of retirement benefit costs:		
Difference between recognized and actual actuarial loss	<u>117,501</u>	<u>(192,931)</u>
Employee future benefit cost recognized	<u>\$ 153,641</u>	<u>\$ 105,101</u>

8. Reserves

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

	<u>2012</u>	<u>2011</u>
Benbow collection	\$ 30,716	\$ 30,716
CB Tucker fund	<u>32,500</u>	<u>32,500</u>
Total	<u>\$ 63,216</u>	<u>\$ 63,216</u>

9. Expenditures by object

	<u>2012</u>	<u>2011</u>
Wages, salaries and benefits	\$ 10,450,975	\$ 10,800,935
Contract services	7,051,258	6,961,398
Supplies and materials	1,746,316	2,001,625
Interest and finance	716,825	684,010
Amortization	<u>1,457,123</u>	<u>1,355,807</u>
Total	<u>\$ 21,422,497</u>	<u>\$ 21,803,775</u>

CORPORATION OF HAMILTON

Notes to the Financial Statements

December 31, 2012

10. **Capital commitments**

The Corporation has contractual commitments for capital expenditures as at December 31, 2012, in the amount of \$175,000 (2011 - \$385,000), which will be paid for in 2013.

11. **Financial instruments**

The estimated fair values of the Corporation's cash and cash equivalents, accounts receivable, recoverable costs and accounts payable and accrued liabilities approximate their respective carrying values due to their short term nature. The estimated fair value of the long-term loan approximates its carrying values 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 loan payable and retirement benefit liability which bears interest at floating rates as disclosed in Notes 6 and 7. 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 two financial institutions based in Bermuda. The Corporation has accounts receivable from a wide range of individuals, businesses, and government organizations. Management actively monitors outstanding accounts receivable. The Corporation's maximum exposure to credit risk is represented by the carrying amount of its financial assets in the statement of financial position.

12. **Segmented reporting**

The Corporation provides a range of services to both residents and businesses within the boundaries of the City. Certain services such as connection to the City sewer lines are available to persons/businesses outside the City boundaries on a fee basis. Most revenue lines have been allocated directly to the relevant segment. However, taxation has been split equally between, Governance and Civic Services, Sanitation and Sewer, and Public Works in order to defray some of the costs of providing these services. Effective April 2011, the Corporation received a grant from the Bermuda Government in lieu of wharfage. The grant will now appear within the captions Governance and Civic as it can no longer be considered revenue from wharf operations. For segmented disclosure purposes, these services are grouped and reported under service areas/departments that are responsible for providing such services. They are as follows:

Governance and Civic Services

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

Sanitation and Sewer

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

CORPORATION OF HAMILTON

Notes to the Financial Statements

December 31, 2012

12. **Segmented reporting** (continued)

Public Works and Planning

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

Parking

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

Wharf

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

CORPORATION OF HAMILTON

Notes to the Financial Statements

December 31, 2012

(Expressed in Bermuda Dollars)

12. **Segmented reporting (continued)**

	2012					2011	
	Governance and Civic	Sanitation and Sewer	Public Works and Planning	Parking	Wharf	Total	Total
Revenues							
Property taxes	\$ 2,801,953	\$2,801,954	\$ 2,801,954	-	-	\$ 8,405,861	\$ 8,757,766
Car parking fees	-	-	-	4,542,452	-	4,542,452	4,063,505
Government grant	5,000,000	-	-	-	-	5,000,000	4,000,000
Sewer disposal contracts	-	2,068,393	-	-	-	2,068,393	2,058,200
Rents for properties	1,001,360	-	-	-	-	1,001,360	1,102,294
Other permit and license fees	195	-	81,755	-	198,092	280,042	341,365
City Hall rents	92,170	-	-	-	-	92,170	95,015
Interest	4,762	-	-	-	-	4,762	4,737
Dock charges	-	-	-	-	1,042	1,042	17,596
Goods wharfage	-	-	-	-	-	-	1,264,474
Ships wharfage	-	-	-	-	-	-	8,812
Miscellaneous	100,249	-	-	-	6,064	106,313	44,496
	<u>9,000,689</u>	<u>4,870,347</u>	<u>2,883,709</u>	<u>4,542,452</u>	<u>205,198</u>	<u>21,502,395</u>	<u>21,758,260</u>
Expenditures							
Wages and salaries	5,099,050	2,737,957	2,403,744	64,121	146,103	10,450,975	10,800,935
Contract services	3,207,475	1,263,589	1,586,106	108,655	885,433	7,051,258	6,961,402
Supplies and material	506,364	152,015	966,440	13,774	107,723	1,746,316	2,001,621
Amortization	262,797	287,493	256,825	316,974	333,034	1,457,123	1,355,807
Interest and finance	716,825	-	-	-	-	716,825	684,010
	<u>9,792,511</u>	<u>4,441,054</u>	<u>5,213,115</u>	<u>503,524</u>	<u>1,472,293</u>	<u>21,422,497</u>	<u>21,803,775</u>
Annual surplus (deficit)	<u>\$ (791,822)</u>	<u>\$ 429,293</u>	<u>\$ (2,329,406)</u>	<u>\$ 4,038,928</u>	<u>\$ (1,267,095)</u>	<u>\$ 79,898</u>	<u>\$ (45,515)</u>

CORPORATION OF HAMILTON

Notes to the Financial Statements

December 31, 2012

13. Contingencies

- i. In 2011 the management team of the Corporation became a certified collective bargaining unit represented by the BPSU. In June 2012 the Corporation of Hamilton Council questioned whether they were in compliance with the law under the Trade Union Act 1965 and a 21 day notice of industrial action was given by the BPSU. The notice was withdrawn when the matter was directed to arbitration by the Minister of Home Affairs. Subsequently, a writ has been filed on behalf of the management against the Bermuda Government and the Corporation of Hamilton in order for the Supreme Court to determine the legal standing of the certified collective bargaining unit.
- ii. Subsequent to the year-end, in an effort to continue progress on the Par-la-Ville Hotel and Residences ("PVHR") project, the Corporation resolved to pledge the car park property as collateral and to grant a mortgage of \$18million to the lender for a bridge loan to the developer of PVHR to enable the full funding of the project. As a result of this resolution the Corporation has made a request for legislative changes to the Municipalities Act. The lease to PVHR, granted in 2012, is treated as an operating lease in the financial statements.
- iii. In December 2012 the Corporation entered into a 262 year lease with a group for lease of all the city waterfront properties and the city hall car park. This lease is treated as an operating lease in the 2012 financial statements. In addition, the Corporation entered into a development agreement for the phased development of the leased properties. There is no impact on the 2012 financial statements relating to the development lease.
- iv. In 2012 a study on the question of remuneration for the Mayor and Council as a Policy and Practice was commissioned. The report was completed and tabled for discussion. To date a request has been made to the Minister of Home Affairs to amend the Municipalities act to authorize compensation for the members of the Corporation.
- v. In March 2013, the Ombudsman for Bermuda announced that she is launching a Systemic Investigation into the Corporation of Hamilton on her own motion. The Ombudsman's report has not been issued as of the date of issuance of these financial statements.

14. Related party transactions

In 2010, persuaded that the intention of the Government of Bermuda (the "Government") to repeal the Municipalities Act 1923 could result in the direct or indirect confiscation, without payment, of the Corporation's properties if the said properties remained in its name, the Corporation was desirous to lease its properties for 20 years (with an option to renew for a further 20 years and an option to purchase) to a trust, the sole purpose of which was to preserve and protect its properties from expropriation by the Government and to hold the properties in trust for the benefit of the City of Hamilton, present and future electorates.

The then elected council of the Corporation of Hamilton established an irrevocable trust, known as The Democracy Trust ("the Trust") and entered into a lease agreement with the Corporation for its properties in accordance with the terms noted in the preceding paragraph.

The Trust, by various subleases, leased the property back to the Corporation on the same terms as the originating lease.

Hence, the net effect of the lease payments under the originating and subleases is Nil.

CORPORATION OF HAMILTON

Notes to the Financial Statements

December 31, 2012

14. Related party transactions (continued)

In addition, the Trust retained legal counsel for the potential legal battle with the Government with funding of \$1million provided by the Corporation. This amount is presented as funds held in escrow in the balance sheet (See Note 15).

The Trust was dissolved in November 2012 with all lease agreements terminated and the remaining funds held in escrow being returned to the Corporation.

All transactions and balances between the Corporation and the Trust were eliminated on consolidation in the 2011 consolidated financial statements (See Note 2).

15. Restatement of prior year consolidated financial statements

As discussed in Note 14, the Trust retained legal counsel for the potential legal battle with funding of \$1million provided by the Corporation. This amount was previously included in cash and cash equivalents.

Management has restated the prior year consolidated financial statements to adjust the \$1million and recorded it as funds held in escrow (See Note 14). The effect of the adjustment on the financial statements is presented below.

	As Previously Reported	Adjustment	As Restated
Consolidated Statement of Financial Position at December 31, 2011			
Cash and cash equivalents	\$ 3,292,425	\$ (1,003,710)	\$ 2,288,715
Funds held in escrow	\$ -	\$ 1,003,710	\$ 1,003,710
Consolidated Statements of Cash Flows for the year ended December 31, 2011			
Cash and cash equivalents, beginning of year	\$ 1,649,667	\$ (1,003,710)	\$ 645,957
Cash and cash equivalents, end of year	\$ 3,292,425	\$ (1,003,710)	\$ 2,288,715

16. Regulatory non-compliance

The Corporation is non-compliant with the filing of its audited statements under Section 41 of the Municipalities Act 1923 as amended by Section 6 of the Municipalities Reform Act 2010 which states that it shall be the duty of each Corporation at any time prior to the thirtieth day of June in each year to forward to the Minister responsible for municipalities a statement in detail duly audited by some auditor to be approved by the Corporation showing the receipts and expenditure of the Corporation to the end of the previous year. Work related to the Democracy Trust and other Subsequent Events caused the delay. The Corporation requested a one month extension to file audited statements on July 31, 2013.

17. Comparatives

Certain comparative figures have been reclassified to conform with the presentation of the current year's financial statements.

CORPORATION OF HAMILTON

Notes to the Financial Statements

December 31, 2012

18. Subsequent events

The Corporation evaluated events and transactions occurring from January 1, 2013, through to July 25, 2013, 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.