

THE BERMUDA HOUSING TRUST

Financial Statements
March 31, 2016

December 15th, 2016

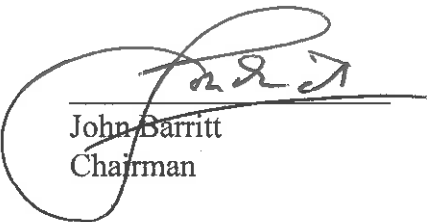
Management's Responsibility for the Financial Statements

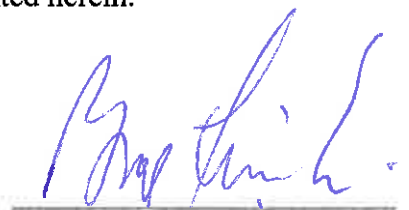
These financial statements have been prepared by those charged with governance, who are responsible for the reliability, integrity and objectivity of the information provided. The preparation of financial statements necessarily involves using management's best estimates and judgments, where appropriate.

Those charged with governance are responsible for maintaining a comprehensive system of accounting records, internal controls, policies and management practices, designed to provide reasonable assurance that transactions are properly authorized and in compliance with legislation, assets are safeguarded, and reliable financial information is available on a timely basis.

The Bermuda Housing Trust's Board of Trustees (the "Board") through the Finance Committee, is responsible for financial reporting and internal controls. The Finance Committee meets periodically to discuss matters relating to financial reporting, internal control and audits. The Finance Committee also reviews the financial statements before recommending approval by the Board. The financial statements have been approved by the Board and have been examined by the Office of the Auditor General.

The accompanying Independent Auditor's Report is presented herein.


John Barritt
Chairman


Bruce Wilkie
Chairman, Finance Committee

DATE December 15/2016



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INDEPENDENT AUDITOR'S REPORT

The Board of Trustees of The Bermuda Housing Trust

I have audited the accompanying financial statements of The Bermuda Housing Trust, which comprise the statement of financial position as at March 31, 2016, and the statements of operations and accumulated surplus, remeasurement gains and losses, change in net debt and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with auditing standards generally accepted in Bermuda and Canada. Those standards require that I 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.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of The Bermuda Housing Trust as at March 31, 2016, and the results of its operations, remeasurement gains and losses, changes in its net debt and its cash flows for the year then ended in accordance with public sector accounting standards generally accepted in Bermuda and Canada.

Hamilton, Bermuda
December 15, 2016



Heather Thomas, CPA, CFE, CGMA
Auditor General

THE BERMUDA HOUSING TRUST
STATEMENT OF FINANCIAL POSITION
As at March 31, 2016

	2016	2015
	\$	\$
FINANCIAL ASSETS		
Cash and cash equivalents (Note 3)	1,255,861	1,109,364
Accounts receivable (Note 4)	3,154	7,718
Portfolio investments (Note 5)	512,135	333,278
	<u>1,771,150</u>	<u>1,450,360</u>
LIABILITIES		
Accounts payable and accrued liabilities	58,400	97,410
Rental deposits	80,699	79,490
Deferred rental income	15,291	18,730
Long-term debt (Note 7)	7,241,670	7,598,823
	<u>7,396,060</u>	<u>7,794,453</u>
NET DEBT	<u>(5,624,910)</u>	<u>(6,344,093)</u>
NON-FINANCIAL ASSETS		
Prepaid expenses	13,788	10,933
Tangible capital assets (Note 6)	14,384,984	14,874,684
	<u>14,398,772</u>	<u>14,885,617</u>
ACCUMULATED SURPLUS	<u>8,773,862</u>	<u>8,541,524</u>
Accumulated surplus is comprised of:		
Accumulated surplus from operations	8,548,221	8,294,644
Accumulated remeasurement gains	225,641	246,880
	<u>8,773,862</u>	<u>8,541,524</u>
CONTRACTUAL OBLIGATIONS (Note 15)		

The accompanying notes are an integral part of these financial statements

THE BERMUDA HOUSING TRUST
STATEMENT OF OPERATIONS AND ACCUMULATED SURPLUS
For the year ended March 31, 2016

	2016 Budget (Note 14) \$	2016 Actual \$	2015 Actual \$
REVENUES			
Rental income (Note 10)	1,862,000	1,867,320	1,858,076
50th anniversary contributions	-	60,500	-
Investment income	-	11,040	15,184
Other contributions	-	3,800	1,700
Contribution from Bank of Bermuda Foundation	-	-	50,000
Realized gain on sale of portfolio investments	-	-	171,870
	<u>1,862,000</u>	<u>1,942,660</u>	<u>2,096,830</u>
EXPENSES (Note 11)			
Amortization of tangible capital assets (Note 6)	-	605,274	662,618
Dr. Cann Park	353,700	346,712	177,420
Interest	-	300,000	496,119
General administration	210,000	134,802	96,989
Purvis Park	214,887	133,755	58,045
Elizabeth Hills	81,132	49,611	37,776
Ferguson Park	133,633	46,829	83,783
Professional services	20,000	41,000	60,986
Heydon Park	72,348	30,923	96,548
Realized loss on sale of portfolio investments	-	177	-
	<u>1,085,700</u>	<u>1,689,083</u>	<u>1,770,284</u>
OPERATING SURPLUS FOR THE YEAR	<u>776,300</u>	253,577	326,546
ACCUMULATED SURPLUS FROM OPERATIONS, BEGINNING OF YEAR		<u>8,294,644</u>	<u>7,968,098</u>
ACCUMULATED SURPLUS FROM OPERATIONS, END OF YEAR		<u>8,548,221</u>	<u>8,294,644</u>

The accompanying notes are an integral part of these financial statements

THE BERMUDA HOUSING TRUST
STATEMENT OF REMEASUREMENT GAINS AND LOSSES
For the year ended March 31, 2016

	2016	2015
	\$	\$
ACCUMULATED REMEASUREMENT GAINS, BEGINNING OF YEAR	<u>246,880</u>	<u>486,771</u>
Unrealized losses attributable to:		
Portfolio investments	(21,416)	(68,021)
Amounts reclassified to the statement of operations and accumulated surplus:		
Portfolio investments	<u>177</u>	<u>(171,870)</u>
Net remeasurement losses for the year	<u>(21,239)</u>	<u>(239,891)</u>
ACCUMULATED REMEASUREMENT GAINS, END OF YEAR	<u><u>225,641</u></u>	<u><u>246,880</u></u>

The accompanying notes are an integral part of these financial statements

THE BERMUDA HOUSING TRUST
STATEMENT OF CHANGE IN NET DEBT
For the year ended March 31, 2016

	2016	2015
	\$	\$
NET DEBT, BEGINNING OF YEAR	<u>(6,344,093)</u>	<u>(6,936,484)</u>
Operating surplus for the year	253,577	326,546
Acquisition of tangible capital assets (Note 6)	(115,574)	(156,882)
Amortization of tangible capital assets (Note 6)	605,274	662,618
Change in prepaid expenses	(2,855)	-
Net remeasurement losses	<u>(21,239)</u>	<u>(239,891)</u>
Decrease in net debt during the year	<u>719,183</u>	<u>592,391</u>
NET DEBT, END OF YEAR	<u><u>(5,624,910)</u></u>	<u><u>(6,344,093)</u></u>

The accompanying notes are an integral part of these financial statements

THE BERMUDA HOUSING TRUST
STATEMENT OF CASH FLOWS
For the year ended March 31, 2016

	2016	2015
	\$	\$
CASH FLOWS FROM OPERATING ACTIVITIES		
Operating surplus for the year	253,577	326,546
Adjustment for items not affecting cash:		
Amortization of tangible capital assets	605,274	662,618
Realized loss (gain) on sale of portfolio investments	177	(171,870)
	<u>859,028</u>	<u>817,294</u>
Changes in non-cash working capital:		
Decrease in accounts receivable	4,564	4,389
Increase in prepaid expenses	(2,855)	-
Decrease in contributions receivable	-	1,500,000
Decrease in accounts payable and accrued liabilities	(39,010)	(2,856)
Increase (decrease) in rental deposits	1,209	(625)
(Decrease) increase in deferred rental income	(3,439)	2,336
	<u>819,497</u>	<u>2,320,538</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Investments in portfolio investments	(245,420)	-
Proceeds from sale of portfolio investments	45,147	221,790
	<u>(200,273)</u>	<u>221,790</u>
CASH FLOWS USED IN CAPITAL ACTIVITIES		
Purchase of tangible capital assets	(115,574)	(156,882)
CASH FLOWS USED IN FINANCING ACTIVITIES		
Repayments of long-term debt	(357,153)	(2,017,172)
NET INCREASE IN CASH AND CASH EQUIVALENTS	146,497	368,274
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>1,109,364</u>	<u>741,090</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>1,255,861</u>	<u>1,109,364</u>
SUPPLEMENTAL CASH FLOW INFORMATION		
Unrestricted cash	763,139	971,280
Restricted cash	492,722	138,084
	<u>1,255,861</u>	<u>1,109,364</u>
Total cash and cash equivalents	<u>1,255,861</u>	<u>1,109,364</u>
Interest paid	<u>312,847</u>	<u>502,828</u>

The accompanying notes are an integral part of these financial statements

THE BERMUDA HOUSING TRUST
NOTES TO THE FINANCIAL STATEMENTS
March 31, 2016

1. AUTHORITY AND NATURE OF OPERATIONS

The Bermuda Housing Trust (the "Trust") was constituted in its present form by an Act of Parliament on August 3, 1965. The function of the Trust is to initiate and administer programs for the relief of poverty, suffering and misfortune among elderly persons in Bermuda by providing accommodation for such persons on favourable terms.

2. SIGNIFICANT ACCOUNTING POLICIES

Pursuant to standards established by the Public Sector Accounting Board of the Chartered Professional Accountants Canada, the Trust is classified as a government not-for-profit organization. These financial statements have prepared in accordance with public sector accounting standards generally accepted in Bermuda and Canada and the accounting policies considered particularly significant are set out below:

(a) Revenue recognition

Rental income is recognized on an accrual basis. Deferred rental income is classified as a liability on the statement of financial position until it is recognized as earned income during the accounting period to which it relates.

Dividends received on investments are recognized when the shareholder's right to receive payment has been established.

Interest is recognized as it accrues daily, by reference to the principal outstanding and at the effective yield on the asset.

Government transfers are recognized as revenues when the transfer is authorized and any eligibility criteria are met, except to the extent that the transfer stipulations give rise to an obligation that meets the definition of a liability. Transfers are recognized as deferred revenue when transfer stipulations give rise to a liability. Transfer revenue is recognized in the statement of operations and accumulated surplus as the stipulation liabilities are settled.

(b) Donations

All donations are accounted for as revenue when received. The Trust records the value of donated goods and services at fair value when the fair value can be reasonably estimated, and the goods and services used in the normal course of operations would otherwise have been purchased or incurred.

(c) Cash and cash equivalents

Cash and cash equivalents, other than restricted cash, include all cash on deposit with financial institutions that can be withdrawn without prior notice or penalty, and term deposits with an original maturity of 90 days or less.

The restricted cash includes cash with a local bank that can only be used for debt financing.

THE BERMUDA HOUSING TRUST
NOTES TO THE FINANCIAL STATEMENTS
March 31, 2016

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(d) Accounts receivable

Accounts receivable are recognized at their carrying values, less any allowance for doubtful accounts. Interest is not accrued on overdue accounts receivable.

Bad debts, if any, are charged against the allowance for doubtful accounts.

(e) Allowance for doubtful accounts

The Trust provides allowance for doubtful accounts when there is evidence that the Trust 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.

(f) 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 period and are not intended for sale in the normal course of operations.

(g) Tangible capital assets and amortization

Tangible capital assets are initially measured at cost or fair market value. The cost of an asset consists of its purchase price and costs directly attributable to making the asset ready for its intended use.

Subsequent expenditures incurred after the assets have been put into operation, such as repairs and maintenance and overhaul costs are charged to expenses in the period the costs are incurred. However, expenses 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 the tangible capital assets. When assets are sold or retired, their cost and accumulated amortization are eliminated from the accounts and any resulting gain or loss is included in the statement of operations and accumulated surplus.

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

Amortization is computed using the straight-line method over the estimated useful lives of the tangible capital assets as follows:

Buildings	-	40 years
Furniture and fixtures	-	10 years
Office furniture	-	10 years
Office equipment	-	5 years
Computer equipment	-	3 years
Computer software	-	3 years
Leasehold improvements	-	lease term

THE BERMUDA HOUSING TRUST
NOTES TO THE FINANCIAL STATEMENTS
March 31, 2016

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(h) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization. All other borrowing costs are recognized in the statement of operations and accumulated surplus in the period in which they are incurred.

(i) Measurement uncertainty

These financial statements are prepared in accordance with public sector accounting standards generally accepted in Bermuda and Canada. These standards require management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the year. Significant areas requiring the use of estimates include the provision of doubtful accounts and estimated useful lives of capital assets. Estimates are based on the best information available at the time of preparation of the financial statements and are reviewed annually to reflect new information as it becomes available. Actual results could differ from these estimates.

(j) Financial instruments

The Trust's financial instruments consist of cash and cash equivalents, accounts receivable, portfolio investments, accounts payable and accrued liabilities, rental deposits and long-term debt. It is management's opinion that the Trust is not exposed to significant interest rate, currency and credit risks arising from these financial instruments.

The following methods and assumptions were used by the Trust in estimating fair value amounts recognized for financial instruments:

Cash and cash equivalents:

The carrying amounts reported in the statement of financial position for these financial instruments equal their fair value due to their relative short-term nature.

Portfolio investments:

The fair value of these financial instruments is estimated using bid prices quoted in active markets. They are initially recognized at cost and subsequently carried at fair value.

THE BERMUDA HOUSING TRUST
NOTES TO THE FINANCIAL STATEMENTS
 March 31, 2016

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(j) Financial instruments (cont'd)

The Trust classifies its investments using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

- Level 1 Quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 Market-based inputs other than quoted prices that are observable for the asset or liability either directly or indirectly.
- Level 3 Inputs for the asset or liability that are not based on observable market data; assumptions are based on the best internal and external information available and are most suitable and appropriate based on the type of financial instrument being valued in order to establish what the transaction price would have been on the measurement date in an arm's length transaction.

Unrealized gains and losses from changes in fair value of financial instruments are recognized in the statement of remeasurement gains and losses until such time the financial instrument is derecognized due to disposal or impairment. When the financial instrument is derecognized, the cumulative amount of gains and losses is reversed from the statement of remeasurement gains and losses and recognized in the statement of operations and accumulated surplus.

Dividends attributable to financial instruments are reported in the statement of operations and accumulated surplus.

Transaction costs related to financial instruments measured at fair value are expensed as incurred. Transaction costs are added to the carrying value of financial instruments in the cost or amortized cost category when they are initially recognized.

Other assets and liabilities:

Accounts receivable, accounts payable and accrued liabilities, rental deposits and long-term debt are measured at cost or amortized cost.

3. CASH AND CASH EQUIVALENTS

	2016	2015
Term deposits	\$ 629,041	\$ 900,427
Cash deposits	626,820	208,937
	<u>\$ 1,255,861</u>	<u>\$ 1,109,364</u>

Cash deposits of \$492,722 (2015 - \$138,084) are subject to an externally imposed restriction by HSBC Bank Bermuda Limited (the "Bank"), giving the Bank a first security position over a deposit account, the loan servicing account, which was created to receive rental income from the Trust's properties to be used to pay the long-term debt. These amounts are not available for any other purposes without the approval of the Bank.

THE BERMUDA HOUSING TRUST
NOTES TO THE FINANCIAL STATEMENTS
March 31, 2016

4. ACCOUNTS RECEIVABLE

The accounts receivable balance consists of the following:

	2016	2015
Rent receivable	\$ 10,905	\$ 15,741
Allowance for doubtful accounts	<u>(7,751)</u>	<u>(8,023)</u>
	<u>\$ 3,154</u>	<u>\$ 7,718</u>

5. PORTFOLIO INVESTMENTS

	2016		2015	
	<u>Fair Value</u>	<u>Cost</u>	<u>Fair Value</u>	<u>Cost</u>
Mutual Funds (16,342 shares)	\$ 194,946	\$ 199,945	\$ -	\$ -
Bank of N.T. Butterfield & Son Limited (100,000 shares)	169,000	45,125	198,000	45,125
Ascendant Group Limited (formerly BELCO Holdings) (20,908 shares)	114,994	33,480	108,722	33,480
Keytech Limited (8,852 shares)	<u>33,195</u>	<u>7,793</u>	<u>26,556</u>	<u>7,793</u>
	<u>\$ 512,135</u>	<u>\$ 286,343</u>	<u>\$ 333,278</u>	<u>\$ 86,398</u>

The fair value hierarchy of the Trust's portfolio investments as at March 31, 2016 are as follows:

	<u>Level 1</u>	<u>Level 2</u>	<u>Total</u>
Mutual Funds	\$ 144,247	\$ 50,699	\$ 194,946
Bank of N.T. Butterfield & Son Limited	169,000	-	169,000
Ascendant Group Limited	114,994	-	114,994
Keytech Limited	<u>33,195</u>	<u>-</u>	<u>33,195</u>
	<u>\$ 461,436</u>	<u>\$ 50,699</u>	<u>\$ 512,135</u>

As at March 31, 2015, all portfolio investments were within Level 1 of the fair value hierarchy.

THE BERMUDA HOUSING TRUST
NOTES TO THE FINANCIAL STATEMENTS
March 31, 2016

6. TANGIBLE CAPITAL ASSETS

	2016									
	Elizabeth Hills	Purvis Park	Heydon Park	Ferguson Park	Dr. Cann Park	Furniture & fixtures	Office equipment	Computer equipment & Software	Leasehold Improvements	Total
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Opening cost	1,229,356	1,291,292	1,319,318	3,131,228	14,925,672	41,092	14,099	8,951	41,166	22,002,174
Additions	-	25,200	-	-	90,374	-	-	-	-	115,574
Closing cost	1,229,356	1,316,492	1,319,318	3,131,228	15,016,046	41,092	14,099	8,951	41,166	22,117,748
Opening accumulated amortization	1,031,684	977,241	1,147,991	1,125,622	2,742,302	39,391	14,099	7,994	41,166	7,127,490
Amortization	38,429	57,764	36,770	79,250	391,244	919	-	898	-	605,274
Closing accumulated amortization	1,070,113	1,035,005	1,184,761	1,204,872	3,133,546	40,310	14,099	8,892	41,166	7,732,764
Net book value	159,243	281,487	134,557	1,926,356	11,882,500	782	-	59	-	14,384,984

	2015									
	Elizabeth Hills	Purvis Park	Heydon Park	Ferguson Park	Dr. Cann Park	Furniture & fixtures	Office equipment	Computer equipment & Software	Leasehold Improvements	Total
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Opening cost	1,227,081	1,242,825	1,294,157	3,131,228	14,844,693	41,092	14,099	8,951	41,166	21,845,292
Additions	2,275	48,467	25,161	-	80,979	-	-	-	-	156,882
Closing cost	1,229,356	1,291,292	1,319,318	3,131,228	14,925,672	41,092	14,099	8,951	41,166	22,002,174
Opening accumulated amortization	968,298	904,238	1,087,388	1,046,501	2,357,971	38,473	13,800	7,037	41,166	6,464,872
Amortization	63,386	73,003	60,603	79,121	384,331	918	299	957	-	662,618
Closing accumulated amortization	1,031,684	977,241	1,147,991	1,125,622	2,742,302	39,391	14,099	7,994	41,166	7,127,490
Net book value	197,672	314,051	171,327	2,005,606	12,183,370	1,701	-	957	-	14,874,684

The land for Elizabeth Hills was donated to the Trust and is recorded at a nominal value of \$2. Lands for Purvis Park and Heydon Park have each been leased to the Trust for 99 years by the Government of Bermuda (the "Government") and Heydon Trust, respectively. Land at Ferguson Park and Dr. Cann Park have each been leased to the Trust for 129 years and 99 years, respectively, by Bermuda Land Development Company Limited ("BLDC").

THE BERMUDA HOUSING TRUST
NOTES TO THE FINANCIAL STATEMENTS
March 31, 2016

7. LONG-TERM DEBT

On February 23, 2006, the Trust secured a ten-year \$12.5 million construction loan with the Bank for development of 100 seniors' homes at Dr. Cann Park. The interest rate for this loan is at the Bank's Bermuda dollar base rate plus 1.25% per annum. The loan is primarily secured by an assignment of rental income from the lease of the property. In addition, the Bank has a conditional assignment of any lease agreements entered into by the Trust with prospective tenants. The Bank also has an assignment by way of security and charge over concluded leases granted by BLDC. The Bank was also provided a certificate from a recognized Bermuda insurer that appropriate insurance is in force and that the Bank is named as a mortgage and loss payee. Lastly, the loan is secured by a conditional assignment by way of security of the fixed price construction contract. The term of the facility allowed for an interest only period, commencing from the first draw-down and expiring 24 months thereafter or upon substantial completion of the Dr. Cann Park Project whichever comes earlier.

Additionally, on February 9, 2006, the Bank of Bermuda Foundation (the "Foundation") pledged to donate up to \$2.5 million upon completion of the Dr. Cann Project. An initial installment of \$1 million was received by the Trust during the fiscal year 2009, of which, \$500,000 was applied against the loan. In the fiscal year 2015, the final installment of \$1.5 million was received and was used to further reduce the long-term debt principal.

On September 7, 2007, the capitalized interest payable and the principal amount outstanding amounting to \$672,599 and \$11,827,401 respectively, totaling \$12.5 million were converted into a term loan. The loan is for a term of 8 years or such longer date as the Bank in its absolute discretion may agree in writing. The term loan shall be repaid by monthly amortized installments of capital and interest of approximately \$85,000 per month (\$1,020,000 per annum). The Trust shall make a bullet payment equal to any outstanding balances of the facility together with interest and other costs and expenses on or before the expiration of the amortized term.

On February 1, 2016, the Trust negotiated an amendment to the long-term debt agreement with the Bank. The new agreement calls for monthly loan payments of \$70,000, of which \$50,000 will be discharged to principal and interest and \$20,000 to a maintenance sinking fund for maintenance projects to Dr. Cann Park as agreed by the Bank. The interest rate on the loan has been amended to the greater of 3.5% per annum or HSBC Commercial Base Rate less 0.75%. In addition, the Trust may make ad hoc balloon payments reducing the principal of the loan without penalty, in amounts of \$180,000 or more, and further decreasing the interest rate by 10 basis points, subject to a floor equating to the greater of the HSBC Commercial Base Rate - 1.25% or interest rate of 3.5%. Per the agreement, the loan shall be repaid in full on or before June 8, 2018. All amounts owing to the Bank under the loan shall at all times be secured by the following:

- (a) a conditional assignment of rents pertaining to any lease agreements entered into by the Trust with tenants of the apartments within Dr. Cann Park and/or over the rental income emanating therefrom in form or substance acceptable to the Bank;
- (b) an equitable charge (the "Equitable Charge") in a form acceptable to the Bank over a lease of Dr. Cann Park dated September 17, 2014 (the "Ground Lease") granted by BLDC;

THE BERMUDA HOUSING TRUST
NOTES TO THE FINANCIAL STATEMENTS
 March 31, 2016

7. LONG-TERM DEBT (cont'd)

- (c) an estoppel waiver from BLDC confirming that BLDC consents to the charging of the Ground Lease and accepts the Bank's entitlements under the Equitable Charge in an event of default by the Trust of this facility letter; and
- (d) a pledge agreement incorporating an assignment and charge over the account held by the Trust at the Bank (which inter alia shall hold the maintenance sinking fund).

The loan agreement also includes a negative pledge that the Trust shall not create or permit to subsist any mortgage, pledge, lien, charge, assignment, hypothecation or security interest or any other agreement or arrangement having the effect of conferring security over and in respect of any of its assets other than those in favour of the Bank without the prior written consent of the Bank.

Principal and interest payments made by the Trust during the year amounted to \$357,153 (2015 - \$2,017,172) and \$312,847 (2015 - \$502,828) respectively.

Interest payable on long-term debt included on the statement of financial position at March 31, 2016 was \$18,382 (2015 - \$31,228).

Management estimates future principal repayments, until maturity, as follows:

2017	\$ 316,086
2018	\$ 328,964
2019	\$ 6,596,620

8. RELATED PARTY TRANSACTIONS

The Trust is related to all Government departments, ministries, funds, agencies and quasi-autonomous non-governmental organizations under the common control of the Government. Also, the Trust is related to organizations that the Government jointly controls or significantly influences.

The Trust enters into transactions with these entities in the normal course of business and such transactions are measured at the exchange amount which is the amount of consideration established and agreed by the related parties.

Significant transactions with the Government and other related parties include:

	Transactions for the year		Due at year-end	
	2016	2015	2016	2015
	\$	\$	\$	\$
Revenues and receivables:				
Subsidized rent	947,486	912,906	-	-
50th anniversary contributions	25,000	-	-	-
	<u>972,486</u>	<u>912,906</u>	<u>-</u>	<u>-</u>

THE BERMUDA HOUSING TRUST
NOTES TO THE FINANCIAL STATEMENTS
 March 31, 2016

8. RELATED PARTY TRANSACTIONS (cont'd)

	Transactions for the year		Due at year-end	
	2016	2015	2016	2015
	\$	\$	\$	\$
Expenses and payables:				
Others	12,000	12,000	12,000	12,000
Accounting and bookkeeping	7,000	7,000	7,000	7,000
Security services	2,545	2,016	-	-
Social insurance	2,063	1,700	257	261
Payroll tax	1,984	1,698	767	-
	<u>25,592</u>	<u>24,414</u>	<u>20,024</u>	<u>19,261</u>

9. POST-EMPLOYMENT BENEFITS AND COMPENSATED ABSENCES

(a) Pension plan

The Trust has a defined contribution pension plan whereby the Trust matches employee contributions of 5% (2015 - 5%) of current salary levels. The Trust's contributions to the plan during the year totaled \$1,525 (2015 - \$3,234). These contributions represent the total liability of the Trust. The pension scheme is administered by BF&M Limited.

(b) Compensated absences

Compensated absences include maternity leave, sick leave and vacation days. All these benefits are unfunded.

Maternity leave does not accumulate or vest and therefore an expense and liability is only recognized when extended leave is applied for and approved. There was no maternity leave applied for or approved during the current year and therefore, no liability has been accrued in the accounts.

Sick leave does not accumulate or vest, and like maternity leave, a liability is recorded only when extended leave is applied for and approved. There was no extended sick leave applied for or approved during the current year and therefore, no liability has been accrued in the accounts.

Vacation days accumulate and vest and therefore a liability is accrued each period. The accrued vacation liability as of March 31, 2016 is Nil (2015 - Nil).

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10. RENTAL INCOME

Rental income earned is reported as follows:

	2016	2015
Total rental income earned during the year	\$ 1,867,320	\$ 1,858,076
Less: Unrestricted rental income	<u>(997,320)</u>	<u>(838,076)</u>
Restricted rental income	<u>\$ 870,000</u>	<u>\$ 1,020,000</u>

Restricted rental income relates to all rental income received from the tenants of Dr. Cann Park. The amounts are subject to an externally imposed restriction by the Bank, giving the Bank a first security position over all rental income received from tenants of Dr. Cann Park.

The cash received from restricted rental income was applied to the long-term debt (note 7) as follows:

	2016	2015
Principal payments	\$ 357,153	\$ 517,172
Interest payments	312,847	502,828
Maintenance sinking fund	<u>200,000</u>	<u>-</u>
Total payments	<u>\$ 870,000</u>	<u>\$ 1,020,000</u>

The maintenance sinking fund is available for the following purposes:

- (a) To carry out stair replacement works at the Dr. Cann Park property, the cost of which shall be evidenced by an independent engineer or surveyor's report;
- (b) To carry out other non-routine maintenance at Dr. Cann Park the cost of which exceeds \$40,000 which shall be evidenced by an independent engineer or surveyor's report;
- (c) To make voluntary prepayments against the facility; and
- (d) To carry out other projects as agreed with the Bank.

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11. EXPENSES BY OBJECT

The following is a summary of expenses by object:

	<u>2016</u>	<u>2015</u>
Amortization of tangible capital assets (Note 6)	\$ 605,274	\$ 662,618
Repairs and maintenance	470,300	322,019
Interest	300,000	496,119
Salaries and employee benefits	87,695	76,701
Insurance	85,367	85,945
Water and sewage	34,052	22,544
Telephone and electricity	23,984	28,766
Support services	22,000	28,175
Professional services	19,000	32,811
50 th anniversary	12,699	-
Rent (Note 15)	12,000	12,000
Office	4,520	1,909
Trustees' fees	4,500	3,800
Bank charges and fees	3,172	748
Security services	2,545	2,016
Realized loss on sale of portfolio investments	177	-
Bad debt (recovery)	114	(6,087)
Miscellaneous	1,684	200
	<u>\$ 1,689,083</u>	<u>\$ 1,770,284</u>

12. FINANCIAL RISK MANAGEMENT

The Trust has exposure to counterparty credit risk, liquidity risk and market risk associated with its financial assets and liabilities. The Board of Trustees has overall responsibility for the establishment and oversight of the Trust's risk management framework. The Trust's risk management program seeks to minimize potential adverse effects on the Trust's financial performance. The Trust manages its risks and risk exposures through a combination of insurance and sound business practices. The following analysis provides a measure of the risks at the reporting date.

(a) Credit risk

Credit risk arises from cash held with banks and credit exposure to customers, including outstanding accounts receivable. The maximum exposure to credit risk is equal to the carrying value (net of allowances) of the financial assets. The objective of managing counterparty credit risk is to prevent losses on financial assets. The Trust assesses the credit quality of counterparties, taking into account their financial position, past experience and other factors.

THE BERMUDA HOUSING TRUST
NOTES TO THE FINANCIAL STATEMENTS
 March 31, 2016

12. FINANCIAL RISK MANAGEMENT (cont'd)

(i) Cash and cash equivalents

Cash and cash equivalents consist of cash on hand and current account balances with banks. Credit risk associated with cash and cash equivalents is minimized substantially by ensuring that these financial assets are invested with highly rated financial institutions.

(ii) Accounts receivable

Accounts receivable consist primarily of receivables from rental units. The Trust's credit risk arises from the possibility that a counterparty which owes the Trust money is unable or unwilling to meet its obligations in accordance with the terms and conditions in the contracts with the Trust, which would result in a financial loss for the Trust. This risk is mitigated through established credit management techniques, including monitoring counterparty's creditworthiness, obtaining references and taking security deposits. In the year ended March 31, 2016, the maximum credit risk to which the Trust is exposed is equal to the carrying value of its accounts receivable.

The amounts outstanding at the year end were as follows:

	Total	Current	31-90 days	90+ days
Accounts receivable	\$ 10,905	\$ 1,937	\$ 1,217	\$ 7,751
Less: Impairment allowance	<u>(7,751)</u>	<u>-</u>	<u>-</u>	<u>(7,751)</u>
Net receivables	<u>\$ 3,154</u>	<u>\$ 1,937</u>	<u>\$ 1,217</u>	<u>\$ -</u>

There are no significant changes from the previous year in the exposure to risk or policies, procedures and methods to measure credit risk.

(b) Liquidity risk

Liquidity risk is the risk the Trust will not be able to meet its financial obligations as they fall due. The Trust's objective in managing liquidity is to ensure that it will always have sufficient liquidity to meet its commitments when due, without incurring unacceptable losses or risking damage to the Trust's reputation. The Trust manages exposure to liquidity risk by closely monitoring supplier and other liabilities, focusing on debtor collection, generating positive cash flows from operations and establishing and maintaining good relationships with various financial institutions.

THE BERMUDA HOUSING TRUST
NOTES TO THE FINANCIAL STATEMENTS
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12. FINANCIAL RISK MANAGEMENT (cont'd)

The following table sets out the expected cash flows of financial liabilities:

	Total	Current	31-90 days	90+ days
Long-term debt	\$ 7,241,670	\$ 50,000	\$ 150,000	\$ 7,041,670
Rental deposits	80,699	-	-	80,699
Accrued expenses	37,382	18,382	-	19,000
Trade payables	18,722	18,722	-	-
Deferred rental income	15,291	15,291	-	-
Benefits payable	2,296	2,296	-	-
	<u>\$ 7,396,060</u>	<u>\$ 104,691</u>	<u>\$ 150,000</u>	<u>\$ 7,141,369</u>

There are no significant changes from the previous year in the exposure to risk or policies, procedures and methods to measure liquidity risk.

(c) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates, will affect the fair value of recognized assets and liabilities or future cash flows of the Trust's results of operations.

(i) Foreign exchange risk

The Trust's business transactions are mainly conducted in Bermuda dollars and, as such, it has minimal exposure to foreign exchange risk.

(ii) Interest rate risk

The Trust is exposed to changes in interest rates which impact interest income on short-term deposits and interest expense on long-term debt.

(iii) Price risk

The Trust is exposed to price risk due to potential fluctuations in the market price of its portfolio investments which may decline in the future.

There are no significant changes from the previous year in the exposure to risk or policies, procedures and methods to measure market risk.

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13. CAPITAL MANAGEMENT

The Trust's objective when managing capital is to hold sufficient accumulated surplus to enable it to withstand negative unexpected financial events. The Trust seeks to achieve this objective through receipt of rental income and maintaining an operating surplus. The Trust seeks to maintain sufficient liquidity to meet its short-term obligations as they come due. The Trust is subject to externally imposed restrictions (see Notes 3 and 10).

14. BUDGET

The amounts represent the operating budget approved by the Board on September 17, 2015.

15. CONTRACTUAL OBLIGATIONS

Effective January 1, 2014, the Trust entered into a three-year lease for office space at an annual rent of \$12,000 payable in equal monthly installments of \$1,000 in advance on the first day of each month. As at year-end, the remaining obligation under the lease is \$9,000.

16. COMPARATIVE FIGURES

Certain comparative figures have been reclassified and restated to conform to the current year's presentation.