THE BERMUDA HOUSING TRUST

FINANCIAL STATEMENTS

MARCH 31, 2015

Office of the Auditor General
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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, 2015, and the statements of operations and accumulated surplus from operations, 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, 2015, and the results of its operations, remeasurement gains and losses, change in net debt and its cash flows for the year then ended in accordance with public sector accounting standards generally accepted in Bermuda and Canada.

Hamilton, Bermuda
October 22, 2015

Heather A. Jacobs Matthews, JP, FCPA, FCA, CFE
Auditor General

THE BERMUDA HOUSING TRUST
STATEMENT OF FINANCIAL POSITION
As at March 31, 2015

	2015 $	2014 $
FINANCIAL ASSETS		
Cash and cash equivalents (Note 3)	1,109,364	741,090
Accounts receivable (Note 4)	7,718	12,107
Portfolio investments (Note 5)	333,278	623,089
Contributions receivable	-	1,500,000
	1,450,360	2,876,286
LIABILITIES		
Accounts payable and accrued liabilities	97,410	100,266
Rental deposits	79,490	80,115
Deferred rental income	18,730	16,394
Long-term debt (Note 7)	7,598,823	9,615,995
	7,794,453	9,812,770
NET DEBT	(6,344,093)	(6,936,484)
NON-FINANCIAL ASSETS		
Prepaid expenses	10,933	10,933
Tangible capital assets (Note 6)	14,874,684	15,380,420
	14,885,617	15,391,353
	8,541,524	8,454,869
ACCUMULATED SURPLUS		
Accumulated surplus is comprised of:		
Accumulated surplus from operations	8,294,644	7,968,098
Accumulated remeasurement gains	246,880	486,771
	8,541,524	8,454,869

CONTRACTUAL OBLIGATIONS (Note 15)

THE BERMUDA HOUSING TRUST
STATEMENT OF OPERATIONS AND ACCUMULATED SURPLUS FROM OPERATIONS
For the year ended March 31, 2015

	2015 Budget (Note 14) $	2015 Actual $	2014 Actual $
REVENUES			
Rental income (Note 10)	1,814,000	1,858,076	1,829,514
Contribution from Bank of Bermuda Foundation	50,000	50,000	-
Investment income	-	15,184	32,940
Other contributions	-	1,700	1,650
Realized gain on sale of portfolio investments	-	171,870	-
	1,864,000	2,096,830	1,864,104
EXPENSES (Note 11)			
Dr. Cann Park	212,956	177,420	206,041
Heydon Park	91,506	96,548	32,095
Ferguson Park	67,187	83,783	50,573
Purvis Park	108,466	58,045	44,492
Elizabeth Hills	103,885	37,776	74,429
Amortization of tangible capital assets (Note 6)	740,000	662,618	709,663
Interest	573,000	496,119	587,918
General administration	119,000	96,989	111,130
Professional services	33,000	60,986	41,000
	2,049,000	1,770,284	1,857,341
OPERATING (DEFICIT) SURPLUS FOR THE YEAR	(185,000)	326,546	6,763
ACCUMULATED SURPLUS FROM OPERATIONS, BEGINNING OF YEAR		7,968,098	7,961,335
ACCUMULATED SURPLUS FROM OPERATIONS, END OF YEAR		8,294,644	7,968,098

THE BERMUDA HOUSING TRUST
STATEMENT OF REMEASUREMENT GAINS AND LOSSES
For the year ended March 31, 2015

	2015	2014
	$	$
ACCUMULATED REMEASUREMENT GAINS, BEGINNING OF YEAR	486,771	441,552
Realized gains attributable to:		
Portfolio investments	(171,870)	-
Unrealized (losses) gains attributable to:		
Portfolio investments	(68,021)	45,219
ACCUMULATED REMEASUREMENT GAINS, END OF YEAR	246,880	486,771

THE BERMUDA HOUSING TRUST
STATEMENT OF CHANGE IN NET DEBT
For the year ended March 31, 2015

	2015	2014
	$	$
NET DEBT, BEGINNING OF YEAR	(6,936,484)	(7,619,063)
Operating surplus for the year	326,546	6,763
Acquisition of tangible capital assets (Note 6)	(156,882)	(79,066)
Amortization of tangible capital assets (Note 6)	662,618	709,663
Net remeasurement (losses) gains	(239,891)	45,219
Change in net debt during the year	592,391	682,579
NET DEBT, END OF YEAR	(6,344,093)	(6,936,484)

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, 2015

	2015	2014
	$	$
CASH FLOWS FROM OPERATING ACTIVITIES		
Operating surplus for the year	326,546	6,763
Adjustment for items not affecting cash:		
Amortization of tangible capital assets (Note 6)	662,618	709,663
Realized gain on sale of portfolio investments	(171,870)	-
	817,294	716,426
Changes in non-cash working capital:		
Decrease (increase) in accounts receivable	4,389	(6,485)
Decrease in contributions receivable	1,500,000	-
Decrease in accounts payable and accrued liabilities	(2,856)	(8,027)
(Decrease) increase in rental deposits	(625)	1,678
Increase in deferred rental income	2,336	2,910
Cash flows from operating activities	2,320,538	706,502
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of portfolio investments	221,790	-
CASH FLOWS USED IN CAPITAL ACTIVITIES		
Purchase of tangible capital assets (Note 6)	(156,882)	(79,066)
CASH FLOWS USED IN FINANCING ACTIVITIES		
Repayments of long-term debt (Note 7)	(2,017,172)	(428,739)
NET INCREASE IN CASH AND CASH EQUIVALENTS	368,274	198,697
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	741,090	542,393
CASH AND CASH EQUIVALENTS, END OF YEAR	1,109,364	741,090
SUPPLEMENTAL CASH FLOW INFORMATION		
Unrestricted cash	971,280	652,586
Restricted cash (Note 3)	138,084	88,504
Total cash and cash equivalents	1,109,364	741,090
Interest paid	502,828	591,261

The accompanying notes are an integral part of these financial statements

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 investment are recognized when the shareholder's right to receive payment has been established.

(b) Donations

All tangible 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 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.

(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.

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(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 donated 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 revenue in the period the costs are incurred. However, expenditures that result in an increase in the future economic benefit in excess of the originally assessed standard of performance of the existing asset are capitalized as an additional cost of tangible capital assets. When assets are sold or retired, their cost and accumulated amortization are eliminated from the accounts and any resulting gain or loss is included in the statement of operations and accumulated surplus from 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.

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

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 from operations 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. 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 and rental deposits. 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 approximate their fair values 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.

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 changes in fair value 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 remeasurement gains and losses is reversed from the statement of remeasurement gains and losses and the realized gain or loss is recognized in the statement of operations and accumulated surplus from operations.

When a decline in fair value is determined to be other than temporary, the amount of the loss is reversed from accumulated remeasurement gains and losses and recognized in the statement of operations and accumulated surplus from operations. On sale, the amount held in the accumulated remeasurement gains and losses associated with that instrument is reversed and recognized in the statement of operations and accumulated surplus from operations.

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

Transaction costs related to financial instruments are expensed as incurred.

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

Certain items such as prepaid expenses, tangible capital assets and deferred rental income are excluded from fair value disclosure as they are not financial instruments.

3. CASH AND CASH EQUIVALENTS

	2015	2014
Term deposits	$ 900,427	$ 600,354
Cash deposits	208,937	140,736
	$1,109,364	$ 741,090

Cash deposits of $138,084 (2014 - $88,504) 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 which was created to receive all rent and income from Dr. Cann Park. These amounts are not available for other purposes without the approval of the Bank.

4. ACCOUNTS RECEIVABLE

The accounts receivable balance consists of the following:

	2015	2014
Rent receivable	$ 15,741	$ 20,977
Allowance for doubtful accounts	(8,023)	(14,110)
Dividend receivable	-	5,240
	$ 7,718	$ 12,107

5. PORTFOLIO INVESTMENTS

	2015		2014	
	Fair Value	Cost	Fair Value	Cost
Bank of N.T. Butterfield & Son Limited (2015 - 100,000 shares) (2014 - 200,000 shares)	$ 198,000	$ 45,125	$ 396,000	$ 90,245
Ascendant Group Limited (formerly BELCO Holdings (2015 - 20,908 shares) (2014 – 20,908 shares)	108,722	33,480	157,855	33,480
Keytech Limited (2015 – 8,852 shares) (2014 – 8,852 shares)	26,556	7,793	45,234	7,793
West Hamilton Holdings Limited (2015 - Nil shares) (2014 - 4,000 shares)	-	-	24,000	4,800
	$ 333,278	$ 86,398	$ 623,089	$ 136,318

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

6. TANGIBLE CAPITAL ASSETS

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

2014	Elizabeth Hills	Purvis Park	Heydon Park	Ferguson Park	Dr. Cann Park	Furniture & fixtures	Office equipment	Computer equipment & Software	Leasehold Improvements	Total
	$	$	$	$	$	$	$	$	$	$
Opening cost	1,226,212	1,217,447	1,244,208	3,131,228	14,844,693	41,092	14,099	6,081	41,166	21,766,226
Additions	869	25,378	49,949	-	-	-	-	2,870	-	79,066
Closing 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
Opening accumulated amortization	881,348	813,230	1,022,601	967,378	1,972,409	37,554	13,499	6,024	41,166	5,755,209
Amortization	86,950	91,008	64,787	79,123	385,562	919	301	1,013	-	709,663
Closing 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
Net book value	258,783	338,587	206,769	2,084,727	12,486,722	2,619	299	1,914	-	15,380,420

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 the Bermuda Land Development Company Limited.

7. LONG-TERM DEBT

On April 6, 2006, the Trust secured a ten-year $12.5 million construction loan with HSBC Bank Bermuda Limited (“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. 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. In addition, the Bank of Bermuda Foundation (the “Foundation”) pledged to donate up to $2.5 million upon completion of the Dr. Cann Project. In this regard, an installment of $1 million was received by the Trust during fiscal year 2009. A further instalment of $1.5 million was received during the year; and the amount used to reduce the long-term debt principal. As of March 31, 2015, $Nil (2014 - $1.5 million) is outstanding from the Foundation.

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. Principal and interest payments made by the Trust during the year amounted to $2,017,172 (2014 - $428,739) and $502,828 (2014 - $591,261) respectively.

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

2016	$ 579,844
2017	$ 615,608
2018	$ 653,577
2019	$ 5,749,795

8. RELATED PARTY TRANSACTIONS

The Trust is related to all Government ministries, departments, agencies and quasi-autonomous non-governmental organizations under the common control of the Government. 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	
	2015	2014	2015	2014
	$	$	$	$
Accounting and consulting	7,000	7,000	7,000	7,000
Security services	2,016	2,283	-	-
Social insurance	1,700	1,667	261	996
Payroll tax	1,698	1,736	-	-
	12,414	12,686	7,261	7,996

9. EMPLOYEE BENEFITS

(a) Pension plan

The Trust has a defined contribution pension plan whereby the Trust matches employee contributions of 5% of current salary levels, with no contributions being made in respect of past services. The Trust's contributions to the plan during the year totaled $3,234 (2014 - $3,306). These contributions represent the total liability of the Trust and are recognized in the accounts on a current basis. 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 accumulates but does not 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. The accrued vacation liability as of March 31, 2015 is Nil (2014 - Nil).

10. RENTAL INCOME

Rental income earned is reported as follows:

	2015	2014
Total rental income earned during the year	$ 1,858,076	$ 1,829,514
Less: Unrestricted rental income	(838,076)	(809,514)
Restricted rental income	$ 1,020,000	$ 1,020,000

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

10. RENTAL INCOME (cont'd)

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

	2015	2014
Principal payments	$ 517,172	$ 428,739
Interest payments	502,828	591,261
Total loan payments	$ 1,020,000	$ 1,020,000

11. EXPENSES BY OBJECT

The following is a summary of expenses by object:

	2015	2014
Amortization of tangible capital assets (Note 6)	$ 662,618	$ 709,663
Interest	496,119	587,918
Repairs and maintenance	322,019	260,732
Insurance	85,945	95,578
Salaries and employee benefits	76,701	78,387
Professional services	32,811	18,000
Telephone and electricity	28,766	34,175
Support services	28,175	23,000
Water and sewage	22,544	24,320
Rent (Note 15)	12,000	12,000
Trustees' fees	3,800	3,350
Security services	2,016	2,283
Office	1,909	2,335
Bank charges and fees	748	929
Miscellaneous	200	224
Bad and doubtful debts	(6,087)	4,447
	$ 1,770,284	$ 1,857,341

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.

(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.

(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, 2015, the maximum credit risk to which the Trust is exposed is equal to the carrying value of its accounts receivable.

(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.

12. FINANCIAL RISK MANAGEMENT (cont'd)

(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.

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 July 17, 2014.

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 $21,000.

16. SUBSEQUENT EVENTS

On May 21, 2015, the Trust negotiated several amendments to the existing loan agreement with HSBC Bank Bermuda Limited ("the Bank") described in Note 7. Consequently, a restated agreement was executed and backdated to take effect April 1, 2015. It includes the following amendments:

- The expiry date of the loan is extended from June 6, 2016 to June 6, 2018;
- The interest rate of the loan has been reduced to the Bank's Bermuda dollar base rate minus 0.75%;
- Monthly instalments have been reduced to $70,000, of which, (1) $50,000 will be used to discharge principal and interest (based on the interest rate and an 18-year amortization schedule) and (2) $20,000 will be set aside to a Maintenance Sinking Fund for purposes of maintenance projects at the Dr. Cann Park; and
- The Trust may make prepayments to reduce the principal balance without being penalized, and that for every prepayment of $180,000 or more, the interest rate will be decreased by a further 10 basis points, subject to a floor equal to the Bank's Bermuda dollar base rate minus 1.25%.