

THE BERMUDA HOUSING TRUST

FINANCIAL STATEMENTS

MARCH 31, 2014



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, 2014, 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, 2014, 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
November 25, 2014



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

THE BERMUDA HOUSING TRUST
STATEMENT OF FINANCIAL POSITION

As at March 31, 2014

	2014	2013
	\$	\$
		Restated (Note 16)
FINANCIAL ASSETS		
Cash and cash equivalents (Note 3)	741,090	542,393
Accounts receivable (Note 4)	12,107	5,622
Contributions receivable (Note 7)	1,500,000	1,500,000
Portfolio investments (Note 5)	623,089	577,870
	<u>2,876,286</u>	<u>2,625,885</u>
LIABILITIES		
Accounts payable and accrued liabilities	100,266	108,293
Rental deposits	80,115	78,437
Deferred rental income	16,394	13,484
Long-term debt (Note 7)	9,615,995	10,044,734
	<u>9,812,770</u>	<u>10,244,948</u>
NET DEBT	<u>(6,936,484)</u>	<u>(7,619,063)</u>
NON-FINANCIAL ASSETS		
Prepaid expenses	10,933	10,933
Tangible capital assets (Note 6)	15,380,420	16,011,017
	<u>15,391,353</u>	<u>16,021,950</u>
ACCUMULATED SURPLUS	<u>8,454,869</u>	<u>8,402,887</u>
Accumulated surplus is comprised of:		
Accumulated surplus from operations	7,968,098	7,961,335
Accumulated remeasurement gains	486,771	441,552
	<u>8,454,869</u>	<u>8,402,887</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 FROM OPERATIONS
For the year ended March 31, 2014

	2014 \$ Budget (Note 14)	2014 \$ Actual	2013 \$ Actual Restated (Note 16)
REVENUES			
Rental income (Note 10)	1,814,000	1,829,514	1,830,732
Investment income	50,585	32,940	31,850
Contribution from Bank of Bermuda Foundation (Note 7)	-	-	1,500,000
Other contributions	-	1,650	-
Government grant (Note 8)	-	-	86,000
	<u>1,864,585</u>	<u>1,864,104</u>	<u>3,448,582</u>
EXPENSES (Note 11)			
Dr. Cann Park	192,707	206,041	207,102
Elizabeth Hills	76,203	74,429	94,723
Ferguson Park	74,147	50,573	61,539
Purvis Park	53,099	44,492	136,508
Heydon Park	33,344	32,095	30,154
Amortization of tangible capital assets	-	709,663	750,796
Interest	591,261	587,918	613,938
General administration	111,000	111,130	118,563
Professional services	41,000	41,000	40,089
	<u>1,172,761</u>	<u>1,857,341</u>	<u>2,053,412</u>
OPERATING SURPLUS FOR THE YEAR	<u>691,824</u>	6,763	1,395,170
ACCUMULATED SURPLUS FROM OPERATIONS, BEGINNING OF YEAR		<u>7,961,335</u>	<u>6,566,165</u>
ACCUMULATED SURPLUS FROM OPERATIONS, END OF YEAR		<u>7,968,098</u>	<u>7,961,335</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, 2014

	2014	2013
	\$	\$
ACCUMULATED REMEASUREMENT GAINS, BEGINNING OF YEAR	441,552	418,242
Unrealized gains attributable to:		
Portfolio investments	<u>45,219</u>	<u>23,310</u>
ACCUMULATED REMEASUREMENT GAINS, END OF YEAR	<u>486,771</u>	<u>441,552</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, 2014

	2014	2013
	\$	\$
		Restated (Note 16)
NET DEBT, BEGINNING OF YEAR	<u>(7,619,063)</u>	<u>(9,641,420)</u>
Operating surplus for the year	6,763	1,395,170
Acquisition of tangible capital assets (Note 6)	(79,066)	(146,641)
Amortization of tangible capital assets (Note 6)	709,663	750,796
Change in prepaid expenses	-	(278)
Net remeasurement gains	<u>45,219</u>	<u>23,310</u>
Change in net debt during the year	<u>682,579</u>	<u>2,022,357</u>
NET DEBT, END OF YEAR	<u>(6,936,484)</u>	<u>(7,619,063)</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, 2014

	2014	2013
	\$	\$
		Restated (Note 16)
CASH FLOWS FROM OPERATING ACTIVITIES		
Operating surplus for the year	6,763	1,395,170
Adjustment for items not affecting cash:		
Amortization of tangible capital assets (Note 6)	709,663	750,796
	<u>716,426</u>	<u>2,145,966</u>
Changes in non-cash working capital:		
Increase in accounts receivable	(6,485)	(2,698)
Increase in contributions receivable	-	(1,500,000)
Increase in prepaid expenses	-	(278)
(Decrease) increase in accounts payable and accrued liabilities	(8,027)	5,815
Increase (decrease) in rental deposits	1,678	(1,069)
Increase (decrease) in deferred rental income	2,910	(10,580)
	<u>706,502</u>	<u>637,156</u>
CASH FLOWS USED IN CAPITAL ACTIVITIES		
Purchase of tangible capital assets (Note 6)	(79,066)	(146,641)
	<u>(79,066)</u>	<u>(146,641)</u>
CASH FLOWS USED IN FINANCING ACTIVITIES		
Repayments of long-term debt (Note 7)	(428,739)	(403,806)
	<u>(428,739)</u>	<u>(403,806)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	198,697	86,709
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	542,393	455,684
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>741,090</u>	<u>542,393</u>
SUPPLEMENTAL CASH FLOW INFORMATION		
Unrestricted cash	652,586	453,564
Restricted cash (Note 3)	88,504	88,829
	<u>741,090</u>	<u>542,393</u>
Total cash and cash equivalents	<u>741,090</u>	<u>542,393</u>
Interest paid	<u>591,261</u>	<u>616,194</u>

The accompanying notes are an integral part of these financial statements

THE BERMUDA HOUSING TRUST
NOTES TO THE FINANCIAL STATEMENTS

March 31, 2014

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 ("PSAB") of the Chartered Professional Accountants ("CPA") Canada, the Trust is classified as a government not-for-profit organization. These financial statements are 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.

Interest is recognized as it accrues on a time proportion basis, 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 from operations as the stipulation liabilities are settled.

(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.

THE BERMUDA HOUSING TRUST
NOTES TO THE FINANCIAL STATEMENTS
March 31, 2014

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

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

THE BERMUDA HOUSING TRUST
NOTES TO THE FINANCIAL STATEMENTS
March 31, 2014

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) Use of estimates

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, contributions 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.

THE BERMUDA HOUSING TRUST
NOTES TO THE FINANCIAL STATEMENTS
March 31, 2014

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 and rental deposits 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.

THE BERMUDA HOUSING TRUST
NOTES TO THE FINANCIAL STATEMENTS
March 31, 2014

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(k) Adoption of CPA Canada Public Sector Accounting Standards

On April 1, 2013, the Trust adopted the requirements of the CPA Canada Public Sector Accounting Standards *PS 1201 - Financial Statement Presentation*, *PS 2601 - Foreign Currency Translation*, *PS 3041 - Portfolio Investments*, *PS 3410 - Government Transfers* and *PS 3450 - Financial Instruments*. These financial statements are the first for which the Trust has applied public sector accounting standards ("PSAS").

PS 1201 - Financial Statement Presentation establishes general reporting principles and standards for the disclosure of information in the financial statements. This section applies in the period when PS 2601 - Foreign Currency Translation and PS 3450 - Financial Instruments are adopted. The Trust has adopted PS 1201 as at April 1, 2013.

PS 2601 - Foreign Currency Translation establishes standards on how to account for and report transactions that are denominated in a foreign currency. Even though this section applies to fiscal periods beginning on or after April 1, 2012, and permits early adoption, the application of this section retroactively is prohibited when an organization applies it in the same period it adopts PSAS for the first time. This section is applied in the period when PS 3450 - Financial Instruments is adopted. The Trust has adopted PS 2601 as at April 1, 2013.

PS 3041 - Portfolio Investments establishes standards on how to account for and report portfolio investments in the financial statements. This section applies in the period when PS 1201 - Financial Statement Presentation, PS 2601 - Foreign Currency Translation, and PS 3450 - Financial instruments are adopted. The Trust has adopted PS 3041 as at April 1, 2013.

PS 3410 - Government Transfers deals with how to account for and report government transfers. The Trust has adopted this section retroactively with restatement as at April 1, 2013.

PS 3450 - Financial Instruments deals with how to account for and report all types of financial instruments including derivatives. Even though the section applies to fiscal periods beginning on or after April 1, 2012, and permits early adoption, the application of this section retroactively is prohibited when an organization applies it in the same period it adopts PSAS for the first time. This section is applied in the period when PS 2601 - Foreign Currency Translation is adopted. The Trust has adopted PS 3450 as at April 1, 2013.

THE BERMUDA HOUSING TRUST
NOTES TO THE FINANCIAL STATEMENTS
 March 31, 2014

3. CASH AND CASH EQUIVALENTS

	2014	2013
Cash deposits	\$ 140,736	\$ 242,215
Term deposits	600,354	300,178
	\$ 741,090	\$ 542,393

Cash deposits of \$88,504 (2013 - \$88,829) are subject to an externally imposed restriction by HSBC Bank Bermuda Limited, 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:

	2014	2013
Rent receivable	\$ 20,977	\$ 18,668
Dividend receivable	5,240	1,064
Allowance for doubtful accounts	(14,110)	(14,110)
	\$ 12,107	\$ 5,622

5. PORTFOLIO INVESTMENTS

	2014		2013	
	Fair Value	Cost	Fair Value	Cost
Ascendant Group Limited (formerly BELCO Holdings) (20,908 shares)	\$ 157,855	\$ 33,480	\$ 239,397	\$ 33,480
Bank of N.T. Butterfield & Son Limited (200,000 shares)	396,000	90,245	272,000	90,245
Keytech Limited (8,852 shares)	45,234	7,793	46,473	7,793
West Hamilton Holdings Limited (4,000 shares)	24,000	4,800	20,000	4,800
	\$ 623,089	\$ 136,318	\$ 577,870	\$ 136,318

As at March 31, 2014, all of the Trust's investments have been classified as Level 1 within the fair value hierarchy.

THE BERMUDA HOUSING TRUST
NOTES TO THE FINANCIAL STATEMENTS
March 31, 2014

6. TANGIBLE CAPITAL ASSETS

	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

	2013									
	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	1,126,981	1,207,435	3,131,228	14,825,291	41,092	14,099	6,081	41,166	21,619,585
Additions	-	90,466	36,773	-	19,402	-	-	-	-	146,641
Closing 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
Opening accumulated amortization	779,123	720,509	935,983	888,256	1,587,633	36,588	13,140	5,958	37,223	5,004,413
Amortization	102,225	92,721	86,618	79,122	384,776	966	359	66	3,943	750,796
Closing 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
Net book value	344,864	404,217	221,607	2,163,850	12,872,284	3,538	600	57	-	16,011,017

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.

THE BERMUDA HOUSING TRUST
NOTES TO THE FINANCIAL STATEMENTS
 March 31, 2014

7. LONG-TERM DEBT

On April 6, 2006, the Trust secured a ten-year \$12.5 million construction loan with HSBC Bank Bermuda Limited 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. At this time, unpaid interest payable was capitalized and added to the principal amount outstanding and the balance was converted to a term loan. In addition, the Bank of Bermuda Foundation agreed to donate up to \$2.5 million upon completion of the Dr. Cann Project. As of March 31, 2014 \$1.5 million (2013 - \$1.5 million) is receivable and has been accrued in the accounts.

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 \$428,739 (2013 - \$403,806) and \$591,261 (2013 - \$616,194) respectively.

Management estimates future principal repayments over the next five years as follows:

2015	\$455,429
2016	\$483,519
2017	\$513,342
2018	\$545,003
2019	\$578,618

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	
	2014	2013	2014	2013
	\$	\$	\$	\$
Government grant	-	86,000	-	-
Accounting and consulting	7,000	7,193	7,000	7,000
Security services	2,283	2,472	-	-
Support services	-	6,900	-	-
Payroll tax	1,736	1,736	-	-
Social insurance	1,667	1,124	996	997
	<u>12,686</u>	<u>105,425</u>	<u>7,996</u>	<u>7,997</u>

THE BERMUDA HOUSING TRUST
NOTES TO THE FINANCIAL STATEMENTS
 March 31, 2014

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 totalled \$3,306 (2013 - \$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) Other benefits

Other employee benefits 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, 2014 is Nil (2013 - Nil).

10. RENTAL INCOME

Rental income earned is reported as follows:

	<u>2014</u>	<u>2013</u>
Total rental income earned during the year	\$ 1,829,514	\$ 1,830,732
Less: Unrestricted rental income	<u>(809,514)</u>	<u>(810,732)</u>
Restricted rental income	<u>\$ 1,020,000</u>	<u>\$ 1,020,000</u>

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, giving the Bank a first security position over all rental income received from tenants of Dr. Cann Park.

THE BERMUDA HOUSING TRUST
NOTES TO THE FINANCIAL STATEMENTS
March 31, 2014

10. RENTAL INCOME (cont'd)

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

	<u>2014</u>	<u>2013</u>
Principal payments	\$ 428,739	\$ 403,806
Interest payments	<u>591,261</u>	<u>616,194</u>
Total loan payments	<u>\$ 1,020,000</u>	<u>\$ 1,020,000</u>

11. EXPENSES BY OBJECT

The following is a summary of expenses by object:

	<u>2014</u>	<u>2013</u>
Amortization of tangible capital assets (Note 6)	\$ 709,663	\$ 750,796
Interest	587,918	613,938
Repairs and maintenance	260,732	345,643
Insurance	95,578	95,300
Salaries and employee benefits	78,387	77,015
Telephone and electricity	34,175	32,419
Water and sewage	24,320	67,706
Support services	23,000	14,897
Professional services	18,000	25,193
Rent (Note 15)	12,000	12,000
Bad and doubtful debts	4,447	3,812
Trustees' fees	3,350	2,000
Office	2,335	1,987
Security services	2,283	6,772
Bank charges and fees	929	762
Miscellaneous	224	127
Catering and entertainment	-	3,045
	<u>\$ 1,857,341</u>	<u>\$ 2,053,412</u>

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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, 2014, 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.

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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 unrestricted net assets 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 October 24, 2013.

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 \$33,000.

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16. IMPACT OF CONVERSION ON ACCUMULATED SURPLUS

The following changes have been made to comply with the public sector accounting standards for government not-for-profit organizations, excluding the 4200 series of the standards.

	Previously			Previously		
	Stated	Adjustment	Restated	Stated	Adjustment	Restated
	2013	2013	2013	2012	2012	2012
	\$	\$	\$	\$	\$	\$
Invested in capital assets	5,528,783	(5,528,783)	-	5,716,632	(5,716,632)	-
Restricted net assets	88,829	(88,829)	-	89,299	(89,299)	-
Unrestricted net assets	1,906,223	(1,906,223)	-	310,234	(310,234)	-
Deferred capital contributions	437,500	(437,500)	-	450,000	(450,000)	-
Accumulated surplus	-	-	7,961,335	-	-	6,566,165

17. COMPARATIVE FIGURES

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

18. SUBSEQUENT EVENTS

On June 24, 2014, the Trust received an outstanding pledge of \$1,500,000 from the Bank of Bermuda Foundation (the "Foundation"). These funds were applied against the outstanding loan balance with HSBC Bank Bermuda Limited, in line with stipulations of the Foundation.

On September 17, 2014, the Trust received from the Foundation an unrestricted contribution of \$50,000 by way of special donation in honor of its 25th Anniversary.