

THE BERMUDA HOUSING TRUST

Financial Statements
March 31, 2018



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BERMUDA HOUSING TRUST


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 Board of Trustees is charged with governance of the Bermuda Housing Trust and is responsible for financial reporting and internal control. There is an Executive Committee which meets periodically, between regularly scheduled monthly meetings of the Board, to review and discuss matters relating to financial reporting, internal control and audits. The Executive Committee reviews the financial statements before taking them to the Board proper for approval. 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



Senator the Hon. Vance Campbell
Deputy Chairman

Date: January 17, 2019



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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, 2018, 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, 2018, and the results of its operations, its 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
January 17, 2019



Heather Thomas, CPA, CFE, CGMA
Auditor General

THE BERMUDA HOUSING TRUST
STATEMENT OF FINANCIAL POSITION
As at March 31, 2018

	2018	2017
	\$	\$
FINANCIAL ASSETS		
Cash and cash equivalents (Note 3)	1,894,382	1,578,216
Accounts receivable (Note 4)	10,303	3,500
Portfolio investments (Note 5)	821,392	684,174
	<u>2,726,077</u>	<u>2,265,890</u>
LIABILITIES		
Accounts payable and accrued liabilities	68,038	101,300
Rental deposits	91,823	83,520
Deferred income	33,680	21,117
Long-term debt (Note 7)	6,200,223	6,732,306
	<u>6,393,764</u>	<u>6,938,243</u>
NET DEBT	<u>(3,667,687)</u>	<u>(4,672,353)</u>
NON-FINANCIAL ASSETS		
Prepaid expenses	10,933	10,933
Tangible capital assets (Note 6)	13,323,815	13,849,134
	<u>13,334,748</u>	<u>13,860,067</u>
	<u>9,667,061</u>	<u>9,187,714</u>
ACCUMULATED SURPLUS		
Accumulated surplus is comprised of:		
Accumulated surplus from operations	9,136,003	8,791,319
Accumulated remeasurement gains	531,058	396,395
	<u>9,667,061</u>	<u>9,187,714</u>
CONTRACTUAL RIGHTS (Note 15)		
CONTRACTUAL OBLIGATIONS (Note 16)		

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, 2018

	2018 Budget (Note 14) \$	2018 Actual \$	2017 Actual \$
REVENUES			
Rental income (Note 10)	1,883,000	1,904,720	1,866,925
Contribution from Bank of Bermuda Foundation	-	40,000	35,000
Other contributions	62,500	34,977	21,750
Investment income	-	23,809	20,396
Bad debt recoveries	-	2,557	2,770
Realized gain on sale of portfolio investments	-	1,555	-
	<u>1,945,500</u>	<u>2,007,618</u>	<u>1,946,841</u>
EXPENSES (Note 11)			
Amortization of tangible capital assets (Note 6)	600,000	530,405	555,891
Dr. Cann Park	215,500	350,796	393,263
Interest	247,917	246,071	270,238
Elizabeth Hills	132,000	119,169	133,292
General administration	368,500	107,509	103,499
Ferguson Park	115,000	95,682	57,358
Professional services	21,000	89,889	74,926
Heydon Park	67,500	66,881	66,067
Purvis Park	101,500	56,532	49,209
	<u>1,868,917</u>	<u>1,662,934</u>	<u>1,703,743</u>
OPERATING SURPLUS FOR THE YEAR	<u><u>76,583</u></u>	<u>344,684</u>	<u>243,098</u>
ACCUMULATED SURPLUS FROM OPERATIONS, BEGINNING OF YEAR		<u>8,791,319</u>	<u>8,548,221</u>
ACCUMULATED SURPLUS FROM OPERATIONS, END OF YEAR		<u><u>9,136,003</u></u>	<u><u>8,791,319</u></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, 2018

	2018	2017
	\$	\$
ACCUMULATED REMEASUREMENT GAINS, BEGINNING OF YEAR	<u>396,395</u>	<u>225,641</u>
Unrealized gains attributable to:		
Portfolio investments	136,218	170,754
Amounts reclassified to the statement of operations and accumulated surplus:		
Portfolio investments	<u>(1,555)</u>	<u>-</u>
Net remeasurement gains for the year	<u>134,663</u>	<u>170,754</u>
ACCUMULATED REMEASUREMENT GAINS, END OF YEAR	<u>531,058</u>	<u>396,395</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, 2018

	2018	2017
	\$	\$
NET DEBT, BEGINNING OF YEAR	<u>(4,672,353)</u>	<u>(5,624,910)</u>
Operating surplus for the year	344,684	243,098
Acquisition of tangible capital assets (Note 6)	(5,086)	(20,041)
Amortization of tangible capital assets (Note 6)	530,405	555,891
Change in prepaid expenses	-	2,855
Net remeasurement gains	<u>134,663</u>	<u>170,754</u>
Decrease in net debt during the year	<u>1,004,666</u>	<u>952,557</u>
NET DEBT, END OF YEAR	<u><u>(3,667,687)</u></u>	<u><u>(4,672,353)</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, 2018

	2018	2017
	\$	\$
CASH FLOWS FROM OPERATING ACTIVITIES		
Operating surplus for the year	344,684	243,098
Adjustment for items not affecting cash:		
Amortization of tangible capital assets	530,405	555,891
Realized gain on sale of portfolio investments	(1,555)	-
	<u>873,534</u>	<u>798,989</u>
Changes in non-cash working capital:		
Increase in accounts receivable	(6,803)	(346)
Decrease in prepaid expenses	-	2,855
(Decrease) increase in accounts payable and accrued liabilities	(33,262)	42,900
Increase in rental deposits	8,303	2,821
Increase in deferred income	12,563	5,826
	<u>854,335</u>	<u>853,045</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Investments in portfolio investments	(33,090)	(1,285)
Proceeds from sale of portfolio investments	32,090	-
	<u>(1,000)</u>	<u>(1,285)</u>
CASH FLOWS USED IN CAPITAL ACTIVITIES		
Purchase of tangible capital assets	(5,086)	(20,041)
CASH FLOWS USED IN FINANCING ACTIVITIES		
Repayments of long-term debt (Note 7)	(532,083)	(509,364)
NET INCREASE IN CASH AND CASH EQUIVALENTS	316,166	322,355
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>1,578,216</u>	<u>1,255,861</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u><u>1,894,382</u></u>	<u><u>1,578,216</u></u>
SUPPLEMENTAL CASH FLOW INFORMATION		
Unrestricted cash	1,114,475	1,036,039
Restricted cash	779,907	542,177
	<u>1,894,382</u>	<u>1,578,216</u>
Interest paid	<u>247,917</u>	<u>270,238</u>

The accompanying notes are an integral part of these financial statements

THE BERMUDA HOUSING TRUST
NOTES TO THE FINANCIAL STATEMENTS

March 31, 2018

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 Canada, the Trust is classified as a government not-for-profit organization. These financial statements have been prepared in accordance with public sector accounting standards generally accepted in Bermuda and Canada.

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 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 and to build up cash reserves for the maintenance sinking fund (note 10).

THE BERMUDA HOUSING TRUST
NOTES TO THE FINANCIAL STATEMENTS
March 31, 2018

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 expenses 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, 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, 2018

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 to 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, 2018

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.

(k) New and Amended Public Sector Accounting Standards

PSAB has issued a number of new public sector accounting standards and amendments to standards that are not yet effective for the year ended March 31, 2018. In particular, the new and amended standards, which become effective for annual periods on or after April 1, 2018 are:

Restructuring Transactions, PS 3430	- Effective date April 1, 2018
Financial Statement Presentation, PS 1201	- Effective date April 1, 2019
Foreign Currency Translation, PS 2601	- Effective date April 1, 2021
Portfolio Investments, PS 3041	- Effective date April 1, 2021
Financial Instruments, PS 3450	- Effective date April 1, 2021
Asset Retirement Obligations, PS 3280	- Effective date April 1, 2021
Revenues, PS 3400	- Effective date April 1, 2021

The Board of Trustees (the "Board") is currently assessing the impact of the new and amended public sector accounting standards on the financial statements of the Trust.

THE BERMUDA HOUSING TRUST
NOTES TO THE FINANCIAL STATEMENTS
March 31, 2018

3. CASH AND CASH EQUIVALENTS

	2018	2017
Term deposits	\$ 913,963	\$ 914,020
Cash deposits	980,419	664,196
	\$ 1,894,382	\$ 1,578,216

Cash deposits of \$779,907 (2017 - \$542,177) 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 Dr. Cann Park to be used to pay the long-term debt. These amounts are not available for any other purposes without the approval of the Bank.

4. ACCOUNTS RECEIVABLE

The accounts receivable balance consists of the following:

	2018	2017
Rent receivable	\$ 4,752	\$ 7,606
Other receivables	7,102	-
Allowance for doubtful accounts	(1,551)	(4,106)
	\$ 10,303	\$ 3,500

5. PORTFOLIO INVESTMENTS

	2018		2017	
	Fair Value	Cost	Fair Value	Cost
Mutual Funds (16,576 shares)	\$ 215,085	\$ 202,893	\$ 208,191	\$ 201,230
Bank of N.T. Butterfield & Son Limited (10,000* shares)	410,000	45,125	302,000	45,125
Ascendant Group Limited (formerly BELCO Holdings) (20,908 shares)	177,718	33,480	156,810	33,480
Keytech Limited (8,852 shares)	18,589	7,793	17,173	7,793
	\$ 821,392	\$ 289,291	\$ 684,174	\$ 287,628

* On August 30, 2016, the Bank of N.T. Butterfield & Sons Limited shareholders approved a 10 to 1 reverse stock split with an effective date of September 6, 2016.

THE BERMUDA HOUSING TRUST
NOTES TO THE FINANCIAL STATEMENTS
March 31, 2018

5. PORTFOLIO INVESTMENTS (cont'd)

The fair value hierarchy of the Trust's portfolio investments as at March 31, 2018 are as follows:

	<u>Level 1</u>	<u>Level 2</u>	<u>Total</u>
Mutual Funds	\$ 98,219	\$ 116,866	\$ 215,085
Bank of N.T. Butterfield & Sons Limited	410,000	-	410,000
Ascendant Group Limited	177,718	-	177,718
Keytech Limited	<u>18,589</u>	<u>-</u>	<u>18,589</u>
	<u>\$ 704,526</u>	<u>\$ 116,866</u>	<u>\$ 821,392</u>

The fair value hierarchy as at March 31, 2017 are as follows:

	<u>Level 1</u>	<u>Level 2</u>	<u>Total</u>
Mutual Funds	\$ 124,527	\$ 83,664	\$ 208,191
Bank of N.T. Butterfield & Sons Limited	302,000	-	302,000
Ascendant Group Limited	156,810	-	156,810
Keytech Limited	<u>17,173</u>	<u>-</u>	<u>17,173</u>
	<u>\$ 600,510</u>	<u>\$ 83,664</u>	<u>\$ 684,174</u>

THE BERMUDA HOUSING TRUST
NOTES TO THE FINANCIAL STATEMENTS
March 31, 2018

6. TANGIBLE CAPITAL ASSETS

2018										
	Elizabeth Hills	Purvis Park	Heydon Park	Ferguson Park	Dr. Cann Park	Furniture & fixtures	Office equipment	Computer equipment & Software	Leasehold Improvements	Total
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Opening cost	1,234,553	1,316,492	1,319,318	3,131,228	15,030,890	41,092	14,099	8,951	41,166	22,137,789
Additions	-	-	5,086	-	-	-	-	-	-	5,086
Write off	(382,870)	(530,246)	(439,215)	(4,808)	(65,725)	-	-	-	-	(1,422,864)
Closing cost	851,683	786,246	885,189	3,126,420	14,965,165	41,092	14,099	8,951	41,166	20,720,011
Opening accumulated amortization	1,090,377	1,075,110	1,210,288	1,282,994	3,524,877	40,793	14,099	8,951	41,166	8,288,655
Amortization	15,921	22,571	21,883	78,160	391,718	152	-	-	-	530,405
Write off	(382,870)	(530,246)	(439,215)	(4,808)	(65,725)	-	-	-	-	(1,422,864)
Closing accumulated amortization	723,428	567,435	792,956	1,356,346	3,850,870	40,945	14,099	8,951	41,166	7,396,196
Net book value	128,255	218,811	92,233	1,770,074	11,114,295	147	-	-	-	13,323,815
2017										
	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	1,316,492	1,319,318	3,131,228	15,016,046	41,092	14,099	8,951	41,166	22,117,748
Additions	5,197	-	-	-	14,844	-	-	-	-	20,041
Closing cost	1,234,553	1,316,492	1,319,318	3,131,228	15,030,890	41,092	14,099	8,951	41,166	22,137,789
Opening 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
Amortization	20,264	40,105	25,527	78,122	391,331	483	-	59	-	555,891
Closing accumulated amortization	1,090,377	1,075,110	1,210,288	1,282,994	3,524,877	40,793	14,099	8,951	41,166	8,288,655
Net book value	144,176	241,382	109,030	1,848,234	11,506,013	299	-	-	-	13,849,134

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 ("BLDC").

THE BERMUDA HOUSING TRUST
NOTES TO THE FINANCIAL STATEMENTS
March 31, 2018

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 fixed price 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. This amount has been received 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.

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, 2018

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 \$532,083 (2017 - \$509,364) and \$247,917 (2017 - \$270,238) respectively.

Interest payable on long-term debt included on the statement of financial position at March 31, 2018 was \$16,138 (2017 - \$17,984).

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

2019	\$ 439,695
2020	302,876
2021	319,166
2022	336,331
2023	<u>4,802,155</u>
Total	<u>\$6,200,223</u>

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.

THE BERMUDA HOUSING TRUST
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8. RELATED PARTY TRANSACTIONS (cont'd)

Significant transactions with the Government and other related parties include:

	Transactions for the year		Due at year-end	
	2018	2017	2018	2017
	\$	\$	\$	\$
Revenues and receivables:				
Subsidized rent	997,933	1,032,675	-	-
Donated trustee fees	1,450	1,250	-	-
Bank of Bermuda Foundation	40,000	35,000	-	-
	<u>1,039,383</u>	<u>1,068,925</u>	<u>-</u>	<u>-</u>
Expenses and payables:				
Others	14,000	14,000	14,000	14,000
Accounting and bookkeeping	9,000	7,000	9,000	7,000
Security services	2,202	3,003	-	-
Social insurance	2,056	2,176	276	276
Payroll tax	1,600	2,436	900	900
	<u>28,858</u>	<u>28,615</u>	<u>24,176</u>	<u>22,176</u>

9. EMPLOYEE FUTURE BENEFITS

(a) Pension plan

The Trust has a defined contribution pension plan whereby the Trust matches employee contributions of 5% (2017 - 5%) of current salary levels. The Trust's contributions to the plan during the year totaled \$2,336 (2017 - \$2,778). 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.

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9. EMPLOYEE FUTURE BENEFITS (cont'd)

Compensated absences (cont'd)

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, however, a liability is not accrued each period.

10. RENTAL INCOME

Rental income earned is reported as follows:

	<u>2018</u>	<u>2017</u>
Total rental income earned during the year	\$ 1,904,720	\$ 1,866,925
Less: Unrestricted rental income	<u>(884,720)</u>	<u>(816,925)</u>
Restricted rental income	<u>\$ 1,020,000</u>	<u>\$ 1,050,000</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:

	<u>2018</u>	<u>2017</u>
Principal payments	\$ 352,083	\$ 329,364
Interest payments	247,917	270,636
Maintenance sinking fund	240,000	270,000
Additional principal payment	<u>180,000</u>	<u>180,000</u>
Total payments	<u>\$ 1,020,000</u>	<u>\$ 1,050,000</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.

THE BERMUDA HOUSING TRUST
NOTES TO THE FINANCIAL STATEMENTS
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11. EXPENSES BY OBJECT

The following is a summary of expenses by object:

	<u>2018</u>	<u>2017</u>
Repairs and maintenance	\$ 542,083	\$ 573,865
Amortization of tangible capital assets (Note 6)	530,405	555,891
Interest	246,071	270,238
Insurance	90,411	85,367
Salaries and employee benefits	73,778	70,807
Support services	34,425	25,950
Water and sewage	32,121	16,683
Consulting fees	30,463	27,976
Telephone and electricity	30,181	30,302
Professional services	25,000	21,000
Rent (Note 16)	12,000	12,000
Trustees' fees	4,300	3,350
Office	3,226	2,670
Bank charges and fees	2,996	1,157
Security services	2,002	3,003
Bad debt	1,466	-
Miscellaneous	2,006	3,484
	<u>\$ 1,662,934</u>	<u>\$ 1,703,743</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 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.

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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, 2018, 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:

	<u>Total</u>	<u>Current</u>	<u>31-90 days</u>
Accounts receivable	\$ 4,752	\$ 4,752	\$ -
Other receivables	7,102	7,102	-
Less: Impairment allowance	<u>(1,551)</u>	<u>-</u>	<u>(1,551)</u>
Net receivables	\$ <u>10,303</u>	\$ <u>11,854</u>	\$ <u>(1,551)</u>

There are no significant changes from 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.

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12. FINANCIAL RISK MANAGEMENT (cont'd)

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

	<u>Total</u>	<u>Current</u>	<u>31-90 days</u>	<u>90+ days</u>
Long-term debt	\$ 6,200,223	\$ 50,000	\$ 100,000	\$ 6,050,223
Rental deposits	91,823	-	-	91,823
Trade payables	30,904	30,904	-	-
Deferred income	<u>33,680</u>	<u>22,766</u>	<u>6,747</u>	<u>4,167</u>
	<u>\$ 6,356,630</u>	<u>\$ 103,670</u>	<u>\$ 106,747</u>	<u>\$ 6,146,213</u>

There are no significant changes from 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 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 February 28, 2017.

15. CONTRACTUAL RIGHTS

Contractual rights are rights of the Trust to economic resources arising from contracts or agreements that will result in both assets and revenues in the future when the terms of those contracts or agreements are met.

Estimated amounts that will be receivable or received in the next year for rental agreements of the properties the Trust administers is \$205,975.

16. CONTRACTUAL OBLIGATIONS

Effective January 1, 2017, 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.

On March 27, 2018 the Trust entered into a contract with a development officer to raise funds in either direct donations or pledges. The contract is effective April 1, 2018 to March 31, 2019 with remuneration of \$4,000 per month. As at year end, the obligation under the contract is \$48,000.

17. SUBSEQUENT EVENTS

On June 19, 2018 the Trust refinanced the maturing outstanding loan balance in the amount of \$6,200,000. The loan is for a period of five (5) years from the date of refinancing with monthly installments of \$49,840.42 and an interest rate of 0.50% per annum above the Bank's Base Rate.

In November 2018, the Trust sold 20,900 shares of its holdings in Ascendant Group Limited and received proceeds of \$351,766 in the transaction. The transaction resulted in a gain on sale of \$174,116.