

THE BERMUDA HOUSING TRUST

Financial Statements

March 31, 2021

THE BERMUDA HOUSING TRUST
STATEMENT OF FINANCIAL POSITION

As at March 31, 2021

	2021	2020
	\$	\$
FINANCIAL ASSETS		
Cash and cash equivalents (Note 3)	2,098,808	2,436,504
Accounts receivable, net (Note 4)	9,390	10,867
Portfolio investments (Note 5)	<u>848,358</u>	<u>577,073</u>
	<u>2,956,556</u>	<u>3,024,444</u>
LIABILITIES		
Accounts payable and accrued liabilities	191,960	53,020
Rental deposits	110,022	102,796
Deferred rental income	9,562	13,855
Long-term debt (Note 7)	<u>4,601,776</u>	<u>5,197,640</u>
	<u>4,913,320</u>	<u>5,367,311</u>
NET DEBT	<u>(1,956,764)</u>	<u>(2,342,867)</u>
NON-FINANCIAL ASSETS		
Prepaid expenses	14,447	13,900
Tangible capital assets (Note 6)	<u>12,977,913</u>	<u>12,906,476</u>
	<u>12,992,360</u>	<u>12,920,376</u>
	<u>11,035,596</u>	<u>10,577,509</u>
ACCUMULATED SURPLUS		
Accumulated surplus is comprised of:		
Accumulated surplus from operations	10,646,796	10,458,581
Accumulated remeasurement gains	<u>388,800</u>	<u>118,928</u>
	<u>11,035,596</u>	<u>10,577,509</u>

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, 2021

	2021 Budget (Note 14) \$	2021 Actual \$	2020 Actual \$
REVENUES			
Rental income (Note 10)	1,940,000	1,932,687	1,929,113
Contributions (Note 15)	83,500	49,300	115,405
Realized gain on sale of portfolio investments	-	34,994	-
Interest income	-	21,984	29,291
Investment income	-	18,309	19,020
Other	-	6,318	220
	<u>2,023,500</u>	<u>2,063,592</u>	<u>2,093,049</u>
EXPENSES (Note 11)			
Amortization of tangible capital assets (Note 6)	530,000	733,423	548,265
Interest	-	234,421	287,301
Dr. Cann Park	1,629,000	300,319	202,207
Professional services	-	104,547	116,233
General administration	365,000	141,268	123,523
Westcott Cottage	40,000	-	-
Purvis Park	88,000	48,899	43,790
Ferguson Park	114,000	114,821	71,510
Heydon Park	78,000	41,101	57,146
Elizabeth Hills	140,000	156,578	64,837
	<u>2,984,000</u>	<u>1,875,377</u>	<u>1,514,812</u>
OPERATING SURPLUS FOR THE YEAR	<u>(960,500)</u>	<u>188,215</u>	<u>578,237</u>
ACCUMULATED SURPLUS FROM OPERATIONS, BEGINNING OF YEAR		<u>10,458,581</u>	<u>9,880,344</u>
ACCUMULATED SURPLUS FROM OPERATIONS, END OF YEAR		<u>10,646,796</u>	<u>10,458,581</u>

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THE BERMUDA HOUSING TRUST
STATEMENT OF CHANGE IN NET DEBT
For the year ended March 31, 2021

	2021	2020
	\$	\$
NET DEBT, BEGINNING OF YEAR	<u>(2,342,867)</u>	<u>(2,658,129)</u>
Operating surplus for the year	188,215	578,237
Acquisition of tangible capital assets (Note 6)	(804,860)	(597,224)
Amortization of tangible capital assets (Note 6)	733,423	548,265
Addition to prepaid expenses	(14,447)	(13,900)
Use of prepaid expenses	13,900	13,905
Net remeasurement gains	<u>269,872</u>	<u>(214,021)</u>
Decrease in net debt during the year	<u>386,103</u>	<u>315,262</u>
NET DEBT, END OF YEAR	<u>(1,956,764)</u>	<u>(2,342,867)</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, 2021

	2021	2020
	\$	\$
ACCUMULATED REMEASUREMENT GAINS, BEGINNING OF YEAR	<u>118,928</u>	<u>332,949</u>
Unrealized gains (losses) attributable to: Portfolio investments	304,866	(214,021)
Amounts reclassified to the statement of operations and accumulated surplus:		
Portfolio investments	(34,994)	-
Net remeasurement gains (losses) for the year	<u>269,872</u>	<u>(214,021)</u>
ACCUMULATED REMEASUREMENT GAINS, END OF YEAR	<u>388,800</u>	<u>118,928</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, 2021

	2021	2020
	\$	\$
CASH FLOWS FROM OPERATING ACTIVITIES		
Operating surplus for the year	188,215	578,237
Adjustment for items not affecting cash:		
Amortization of tangible capital assets	733,423	548,265
Realized gain on sale of portfolio investments	<u>(34,994)</u>	<u>-</u>
	886,644	1,126,502
Changes in non-cash working capital:		
Decrease (increase) in accounts receivable	1,477	(3,289)
Increase in prepaid expenses	(547)	5
Increase (decrease) in accounts payable and accrued liabilities	138,940	(41,284)
Increase in rental deposits	7,227	4,856
(Decrease) increase in deferred rental income	<u>(4,293)</u>	<u>(2,900)</u>
Cash flows generated from operating activities	<u>1,029,448</u>	<u>1,083,890</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Addition to portfolio investments	(119,894)	(200,170)
Proceeds from sale of portfolio investments	<u>153,474</u>	<u>-</u>
Cash flows generated (used) in investing activities	<u>33,580</u>	<u>(200,170)</u>
CASH FLOWS USED IN CAPITAL ACTIVITIES		
Purchase of tangible capital assets	<u>(804,860)</u>	<u>(597,224)</u>
CASH FLOWS USED IN FINANCING ACTIVITIES		
Repayments of long-term debt (Note 7)	<u>(595,864)</u>	<u>(560,293)</u>
Cash flows used in financing activities	<u>(595,864)</u>	<u>(560,293)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	(337,696)	(273,797)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>2,436,504</u>	<u>2,710,301</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>2,098,808</u>	<u>2,436,504</u>
SUPPLEMENTAL CASH FLOW INFORMATION		
Unrestricted cash	987,129	1,130,443
Restricted cash	<u>1,111,679</u>	<u>1,306,061</u>
Total cash and cash equivalents	<u>2,098,808</u>	<u>2,436,504</u>
Interest paid	<u>234,421</u>	<u>287,301</u>

The accompanying notes are an integral part of these financial statements

THE BERMUDA HOUSING TRUST
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2021

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:

(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.

Trustees of the Trust contribute a significant number of hours and services each year assisting the Trust in carrying out its programs. Similarly, the Bermuda Housing Corporation and the Department of Works and Engineering provide architectural and engineering services respectively at no charge to the Trust. Where monetary value can be reasonably ascertained, those donations-in-kind are recorded at fair value. Where monetary value cannot be reasonably ascertained, those donations-in-kind have not been recognized.

THE BERMUDA HOUSING TRUST
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2021

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(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).

(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.

THE BERMUDA HOUSING TRUST
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2021

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(g) Tangible capital assets and amortization (cont'd)

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
Unit refurbishment	-	3 years
Computer equipment	-	3 years
Computer software	-	3 years
Leasehold improvements	-	lease term

(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:

THE BERMUDA HOUSING TRUST
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2021

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(j) Financial instruments (cont'd)

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 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.

THE BERMUDA HOUSING TRUST
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2021

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(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, 2021. In particular, the new and amended standards, which become effective for annual periods on or after April 1, 2022 are:

Foreign Currency Translation, PS 2601	- Effective date April 1, 2022
Portfolio Investments, PS 3041	- Effective date April 1, 2022
Financial Instruments, PS 3450	- Effective date April 1, 2022
Asset Retirement Obligations, PS 3280	- Effective date April 1, 2022
Revenue, PS 3400	- Effective date April 1, 2023

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.

3. CASH AND CASH EQUIVALENTS

	<u>2021</u>	<u>2020</u>
Term deposits	\$ 1,547,076	\$ 1,778,471
Cash deposits	551,732	658,033
	<u>\$ 2,098,808</u>	<u>\$ 2,436,504</u>

Cash and cash equivalents of \$ 1,111,679 (2020 - \$1,306,061) 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:

	<u>2021</u>	<u>2020</u>
Rent receivable	\$ 5,876	\$ 7,867
Other receivables	4,783	3,085
Allowance for doubtful accounts	(1,269)	(85)
	<u>\$ 9,390</u>	<u>\$ 10,867</u>

THE BERMUDA HOUSING TRUST
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2021

5. PORTFOLIO INVESTMENTS

	<u>2021</u>		<u>2020</u>	
	<u>Fair value</u>	<u>Cost</u>	<u>Fair value</u>	<u>Cost</u>
Mutual funds (17,104 shares)	\$ 243,315	\$ 214,408	\$ 204,553	\$ 205,187
Bank of N.T. Butterfield & Son Limited (10,000 * shares)	382,500	45,125	180,000	45,125
Butterfield Bermuda Fund Limited Series A (5,835 shares)	222,543	200,027	156,870	200,027
Ascendent Group Limited	-	-	242	13
One Communications Limited	-	-	35,408	7,793
	<u>\$848,358</u>	<u>\$459,560</u>	<u>\$ 577,073</u>	<u>\$ 458,145</u>

The fair value hierarchy of the Trust's portfolio investments as at March 31, 2021 are as follows:

	<u>Level 1</u>	<u>Level 2</u>	<u>Total</u>
Mutual funds	\$ 121,627	\$ 121,688	\$ 243,315
Bank of N.T. Butterfield & Sons Limited	382,500	-	382,500
Butterfield Bermuda Fund Limited Series A	222,543	-	222,543
	<u>\$ 726,670</u>	<u>\$ 121,688</u>	<u>\$ 848,358</u>

The fair value hierarchy of the Trust's portfolio investments as at March 31, 2020 are as follows:

	<u>Level 1</u>	<u>Level 2</u>	<u>Total</u>
Mutual funds	\$ 103,463	\$ 101,090	\$ 204,553
Bank of N.T. Butterfield & Son Limited	180,000	-	180,000
Ascendant Group Limited	242	-	242
One Communications Limited	35,408	-	35,408
Butterfield Bermuda Fund Limited Series A	156,870	-	156,870
	<u>\$ 475,983</u>	<u>\$ 101,090</u>	<u>\$ 577,073</u>

* 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, 2021

6. TANGIBLE CAPITAL ASSETS

2021											
	Elizabeth Hills	Purvis Park	Heydon Park	Ferguson Park	Dr Cann Park	Westcott Cottage	Furniture & Equipment	Computer equipment & software	Office equipment	Leasehold Improvements	Total
Opening cost	879,497	819,093	917,839	3,126,420	15,351,325	165,013	41,092	16,786	14,099	41,166	21,372,330
Additions	229,634	89,327	14,509	6,380	308,186	156,824	-	-	-	-	804,860
Closing cost	1,109,131	908,420	932,348	3,132,800	15,659,511	321,837	41,092	16,786	14,099	41,166	22,177,190
Opening accumulated amortization	764,194	619,511	821,513	1,512,582	4,640,193	-	41,033	11,563	14,099	41,166	8,465,854
Amortization	101,564	52,246	19,441	80,287	469,169	8,046	59	2,612	-	-	733,423
Closing accumulated amortization	865,758	671,757	840,954	1,592,869	5,109,361	8,046	41,092	14,174	14,099	41,166	9,199,277
Net book value	243,373	236,663	91,394	1,539,931	10,550,149	313,791	-	2,612	-	-	12,977,913

2020											
	Elizabeth Hills	Purvis Park	Heydon Park	Ferguson Park	Dr Cann Park	Westcott Cottage	Furniture & Equipment	Computer equipment & software	Office equipment	Leasehold Improvements	Total
Opening cost	851,683	806,523	901,539	3,126,420	14,983,633	-	41,092	8,951	14,099	41,166	20,775,106
Additions	27,814	12,570	16,300	-	13,901	-	-	7,835	-	-	78,420
Work in Progress	-	-	-	-	353,791	165,013	-	-	-	-	518,804
Closing cost	879,497	819,093	917,839	3,126,420	15,351,325	165,013	41,092	16,786	14,099	41,166	21,372,330
Opening accumulated amortization	739,175	589,818	806,547	1,434,506	4,242,333	-	40,994	8,951	14,099	41,166	7,917,589
Amortization	25,019	29,693	14,966	78,076	397,860	-	39	2,612	-	-	548,265
Closing accumulated amortization	764,194	619,511	821,513	1,512,582	4,640,193	-	41,033	11,563	14,099	41,166	8,465,854
Net book value	115,303	199,582	96,326	1,613,838	10,711,132	165,013	59	5,223	-	-	12,906,476

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, 2021

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 was at the Bank's Bermuda dollar base rate plus 1.25% per annum. The loan was primarily secured by an assignment of rental income from the lease of the property. In addition, the Bank had a conditional assignment of any lease agreements entered into by the Trust with prospective tenants. The Bank also had 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 was in force and that the bank was named as a mortgage and loss payee. Lastly, the loan was 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 came earlier.

Additionally, on February 9, 2006, the Centennial Bermuda Foundation, previously known as the Bank of Bermuda Foundation (the "Foundation") pledged to donate up to \$2.5 million upon completion of the Dr. Cann Park 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 was for a term of 8 years or such longer date as the bank in its absolute discretion may agree in writing. The term loan was repaid by monthly amortized installments of capital and interest of approximately \$85,000 per month (\$1,020,000 per annum). The Trust made 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 called 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 was amended to the greater of 3.5% per annum or HSBC Commercial Base Rate less 0.75%. In addition, the Trust could 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 could be repaid in full on or before June 8, 2018.

All amounts owing to the Bank under the loan at all times are 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, 2021

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.

On June 19, 2018 the Trust refinanced the maturing outstanding loan balance in the amount of \$6,128,406 with a new loan in the amount of \$6,149,606. The loan is for a period of five (5) years from the date of refinancing with monthly instalments of \$48,561 and an interest rate of 0.50% per annum above the Bank's Base Rate.

Principal and interest payments made by the Trust during the year amounted to \$595,864 (2020 – \$560,293) and \$234,421 (2020 – \$287,301), respectively.

Interest payable on long-term debt included on the statement of financial position at March 31, 2021 was \$14,373 (2020 – \$19,385).

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

2022	\$ 349,506
2023	368,303
2024	<u>3,883,967</u>
	<u>\$ 4,601,776</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
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2021

8. RELATED PARTY TRANSACTIONS (cont'd)

Significant transactions with the Government and other related parties include:

	Transactions for the		Due at year-end	
	2021	2020	2021	2020
	\$	\$	\$	\$
Revenue and receivables:				
Subsidized rent	977,663	928,158	-	-
Donated trustee fees	1,900	1,900	-	-
	<u>979,563</u>	<u>930,058</u>	<u>-</u>	<u>-</u>
Expenses and payables:				
Social insurance	816	1,613	-	287
Payroll tax	1,059	1,437	826	850
	<u>1,875</u>	<u>3,050</u>	<u>826</u>	<u>1,137</u>

9. EMPLOYEE FUTURE BENEFITS

(a) Pension plan

The Trust has a defined contribution pension plan whereby the Trust matches employee contributions of 5% (2020 – 5%) of current salary levels. The Trust's contributions to the plan during the year totaled \$3,533 (2020 – \$3,396). These contributions represent the total liability of the Trust. The pension scheme is administered by BF&M Limited.

(b) Compensated absences

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

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

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

Vacation days accumulate and vest, however a liability is not accrued each period.

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10. RENTAL INCOME

Rental income earned is reported as follows:

	<u>2021</u>	<u>2020</u>
Total rental income earned during the year	\$ 1,932,687	\$ 1,929,913
Less: Unrestricted rental income	<u>(839,550)</u>	<u>(842,163)</u>
Restricted rental income	<u>\$ 1,093,137</u>	<u>\$ 1,086,950</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>2021</u>	<u>2020</u>
Principal payments	\$ 346,411	\$ 310,771
Interest payments	234,421	287,301
Maintenance sinking fund	262,305	238,878
Additional principal payment	<u>250,000</u>	<u>250,000</u>
Total payments	<u>\$ 1,093,137</u>	<u>\$ 1,086,950</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
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11. EXPENSES BY OBJECT

The following is a summary of expenses by object:

	<u>2021</u>	<u>2020</u>
Amortization of tangible capital assets (note 6)	\$ 733,423	\$ 548,265
Repairs and maintenance	458,655	274,168
Interest	234,421	287,301
Insurance	98,234	97,104
Salaries and employee benefits	84,782	81,389
Water and sewage	60,796	36,319
Consulting fees	53,568	58,490
Support services	36,980	43,743
Telephone and electricity	25,664	40,589
Office	19,496	8,370
Security services	18,368	-
Tenant covid relief	14,744	-
Professional services	14,000	14,000
Rent (note 15)	12,000	12,000
Trustees' fees	4,750	5,100
Bank charges and fees	3,744	2,114
Bad debt	1,184	25
Miscellaneous	568	5,835
	<u>\$ 1,875,377</u>	<u>\$ 1,514,812</u>

12. FINANCIAL RISK MANAGEMENT

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

(a) Credit risk

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

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12. FINANCIAL RISK MANAGEMENT (cont'd)

(a) Credit risk (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, 2021, the maximum credit risk to which the Trust is exposed is equal to the carrying value of its accounts receivable.

The amounts outstanding at the year end were as follows:

	Total	Current	31-90 days
Accounts receivable	\$ 10,659	\$ 6,350	\$ 4,309
Less: impaired allowance	<u>(1,269)</u>	<u>-</u>	<u>(1,269)</u>
Net receivables	<u>\$ 9,390</u>	<u>\$ 6,350</u>	<u>\$ 3,040</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.

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

(b) Liquidity risk

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

	Total	Current	31-90 days	90+ days
				\$
Long-term debt	\$ 4,601,776	\$ 48,562	\$ 97,124	4,456,090
Rental deposits	110,022	-	-	110,022
Accounts payable and accrued liabilities	191,960	191,960	-	-
Deferred income	9,562	9,562	-	-
	<u>\$ 4,913,320</u>	<u>\$ 250,084</u>	<u>\$ 97,124</u>	<u>\$ 4,566,112</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.

THE BERMUDA HOUSING TRUST
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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 Note 3 and 10).

14. BUDGET

The amounts represent the operating cash flow budget approved by the Board on February 27, 2020.

15. CONTRIBUTIONS

The Trust in part relies on contributions that are often tied to specific initiatives or programmes. During the year, the Trust received funding as follows:

	<u>2021</u>	<u>2020</u>
Restricted	\$ 47,000	\$ 95,000
Unrestricted	<u>2,300</u>	<u>20,405</u>
Total contributions	<u>\$ 49,300</u>	<u>\$ 115,405</u>

Restricted contributions were received from Centennial Bermuda Foundation, previously known as the Bank of Bermuda Foundation (trustee strategic planning session); Bermuda Community Foundation (tenants emergency covid relief, resource officer, and security services); Chubb Charitable Foundation (refurbishment of units) and one trustee (tenants covid relief needs).

There are no deferred restricted contributions at year end, as the funds were fully expended in the manner they were intended during the year.

16. COMPARATIVE FIGURES

Where necessary comparative figures have been adjusted to conform to current year's presentation.

