

**CORPORATION OF HAMILTON**

**Annual Financial Statements**

(With Independent Auditor's Report Thereon)

December 31, 2020

*The accompanying report of KPMG Audit Limited ("KPMG") is for the sole and exclusive use of the Corporation of Hamilton (the "Corporation"). No person, other than the Corporation, is authorised to rely upon the report of KPMG unless KPMG expressly so authorises. Furthermore, the report of KPMG is as of June 29, 2021 and KPMG has carried out no procedures of any nature subsequent to that date which in any way extends that date.*



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## **INDEPENDENT AUDITOR'S REPORT**

### **To the Members of Corporation of Hamilton**

#### **Opinion**

We have audited the financial statements of Corporation of Hamilton (the "Corporation"), which comprise the statement of financial position as at December 31, 2020, the statements operations, changes in accumulated surplus, net debt and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2020, and its financial performance and its cash flows for the year then ended in accordance with Public Sector Accounting Standards generally accepted in Bermuda and Canada ("PSAS").

#### **Basis for opinion**

We conducted our audit in accordance with International Standards on Auditing ("ISA"). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report. We are independent of the Corporation in accordance with the International Ethics Standards Board for Accountants International Code of Ethics for Professional Accountants (including International Independence Standards) ("IESBA Code") together with the ethical requirements that are relevant to our audit of the financial statements in Bermuda, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### **Emphasis of matter**

We draw attention to Notes 2, 13 and 14 of the financial statements, which describe the potential impact on the Corporation of ongoing legal proceedings against the Corporation. The ultimate outcome of the matter cannot presently be determined and, accordingly, no provision for any financial effects on the Corporation that may result has been made in the financial statements. Our opinion is not modified in respect of this matter.

#### **Responsibilities of management and those charged with governance for the financial statements**

Management is responsible for the preparation and fair presentation of the financial statements in accordance with PSAS, 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.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Corporation or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Corporation's financial reporting process.



## Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISA will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISA, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Corporation's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Corporation's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Corporation to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

*KPMG Audit Limited*

Chartered Professional Accountants  
Hamilton, Bermuda  
June 29, 2020

**CORPORATION OF HAMILTON****Statement of Financial Position**

December 31, 2020

*(Expressed in Bermuda Dollars)*

	<u>2020</u>	<u>2019</u>
<b>Financial assets</b>		
Cash and cash equivalents	\$ 752,659	\$ 2,786,104
Short-term deposits	3,865,599	341,007
Accounts receivable, net (Notes 3 and 11)	1,339,112	1,258,530
Recoverable costs	<u>24,585</u>	<u>86,714</u>
<b>Total financial assets</b>	<u>5,981,955</u>	<u>4,472,355</u>
<b>Liabilities</b>		
Accounts payable and accrued liabilities (Notes 4 and 11)	6,740,568	6,338,389
Long-term loan (Note 6)	—	926,874
Pension plans and other post-retirement benefits (Note 7)	<u>888,940</u>	<u>974,750</u>
<b>Total liabilities</b>	<u>7,629,508</u>	<u>8,240,013</u>
<b>Net debt</b>	<u>(1,647,553)</u>	<u>(3,767,658)</u>
<b>Non-financial assets</b>		
Tangible capital assets, net (Note 5)	69,466,699	69,959,786
Inventory of materials and supplies	189,238	190,133
Prepaid expenses	<u>86,968</u>	<u>85,587</u>
<b>Total non-financial assets</b>	<u>69,742,905</u>	<u>70,235,506</u>
<b>Accumulated surplus</b>	<u>\$ 68,095,352</u>	<u>\$ 66,467,848</u>

*The accompanying notes are an integral part of the financial statements.*

Signed on behalf of the Corporation of Hamilton:

 Charles R Gosling, Mayor

 Tanya Iris, Chief Financial Officer

**CORPORATION OF HAMILTON**

## Statement of Operations

For the Year Ended December 31, 2020  
*(Expressed in Bermuda Dollars)*

	Budget 2020 (Note 2(b))	Actual 2020	Actual 2019
<b>Revenue</b>			
Property taxes	\$ 8,730,000	\$ 8,402,717	\$ 8,625,006
Goods wharfage	7,440,000	6,314,011	7,172,059
Car parking fees	4,528,560	3,052,000	4,309,477
Sewage disposal contracts	2,460,000	2,424,780	2,454,033
Rents from properties	741,536	539,011	851,787
Miscellaneous (Note 14)	135,948	521,809	132,397
Other permit and license fees	509,856	503,170	568,937
Sewage tax	420,000	423,768	426,057
Dock charges	480,000	227,352	460,516
Ships wharfage	276,000	216,657	297,370
City Hall rents	108,500	11,517	94,052
Interest	<u>7,200</u>	<u>4,781</u>	<u>7,511</u>
Total revenue (Note 12)	<u>25,837,600</u>	<u>22,641,573</u>	<u>25,399,202</u>
<b>Expenditures</b>			
Administrative and general expenses	9,947,341	7,543,916	10,135,900
Sanitation services	3,796,205	3,048,890	3,636,664
Street operations and maintenance	3,148,452	2,536,704	3,314,316
Works depot expenses	1,272,736	2,369,458	1,295,568
Parks and gardens maintenance	1,871,330	1,725,714	1,857,759
Wharf operations and maintenance	1,484,087	1,318,432	1,482,326
City Hall maintenance	440,101	826,896	348,636
Sewerage maintenance and operating	769,534	667,697	724,446
Car parks expenses	809,630	633,515	284,519
Interest and finance charges	179,190	184,628	325,251
Property maintenance	208,184	120,209	121,186
Bad debt expense	<u>144,000</u>	<u>38,010</u>	<u>72,000</u>
Total expenditures (Notes 9 and 12)	<u>24,070,790</u>	<u>21,014,069</u>	<u>23,598,571</u>
Excess of revenue over expenditures	<u>\$ 1,766,810</u>	<u>\$ 1,627,504</u>	<u>\$ 1,800,631</u>

*The accompanying notes are an integral part of the financial statements.*

**CORPORATION OF HAMILTON**

## Statement of Changes in Accumulated Surplus

For the Year Ended December 31, 2020  
(Expressed in Bermuda Dollars)

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	<u>2020</u>	<u>2019</u>
Accumulated surplus, beginning of year	\$ 66,467,848	\$ 64,667,217
Excess of revenue over expenditures	<u>1,627,504</u>	<u>1,800,631</u>
Accumulated surplus, end of year	<u>\$ 68,095,352</u>	<u>\$ 66,467,848</u>

*The accompanying notes are an integral part of the financial statements.*

**CORPORATION OF HAMILTON**

## Statement of Changes in Net Debt

For the Year Ended December 31, 2020  
(Expressed in Bermuda Dollars)

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	<u>2020</u>	<u>2019</u>
Excess of revenue over expenditures	\$ 1,627,504	\$ 1,800,631
Acquisition of tangible capital assets, net	(1,837,433)	(3,375,813)
Amortization of tangible capital assets, net	2,330,520	2,170,709
Acquisition of inventory	(509,420)	(509,906)
Consumption of inventory	510,315	518,540
Acquisition of prepaid expenses	(491,675)	(485,237)
Consumption of prepaid expenses	<u>490,294</u>	<u>573,279</u>
Decrease in net debt	2,120,105	692,203
Net debt, beginning of year	<u>(3,767,658)</u>	<u>(4,459,861)</u>
Net debt, end of year	\$ <u>(1,647,553)</u>	\$ <u>(3,767,658)</u>

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*The accompanying notes are an integral part of the financial statements.*

**CORPORATION OF HAMILTON**

## Statement of Cash Flows

For the Year Ended December 31, 2020  
*(Expressed in Bermuda Dollars)*

	<u>2020</u>	<u>2019</u>
<b>Cash flows from operating activities</b>		
Excess of revenue over expenditures	\$ 1,627,504	\$ 1,800,631
Adjustments for non-cash items		
Amortization of tangible capital assets, net	2,330,520	2,170,709
Changes in non-cash working capital balances:		
(Increase) decrease in accounts receivable	(80,582)	12,551
Decrease (increase) in recoverable costs	62,129	(5,504)
Increase in accounts payable and accrued liabilities	402,179	839,176
Decrease in pension plans and other post-retirement benefits	(85,810)	(98,152)
Decrease in inventory of materials and supplies	895	8,634
(Increase) decrease in prepaid expenses	<u>(1,381)</u>	<u>88,042</u>
Net cash from operating activities	<u>4,255,454</u>	<u>4,816,087</u>
<b>Cash flows from investing activities</b>		
Acquisition of tangible capital assets, net	(1,837,433)	(3,375,813)
Net investment in short-term deposits	<u>(3,524,592)</u>	<u>(6,167)</u>
Net cash used in investing activities	<u>(5,362,025)</u>	<u>(3,381,980)</u>
<b>Cash flows from financing activities</b>		
Bank loan repayments	<u>(926,874)</u>	<u>(1,393,181)</u>
Net cash used in financing activities	<u>(926,874)</u>	<u>(1,393,181)</u>
Net (decrease) increase in cash and cash equivalents	(2,033,445)	40,926
Cash and cash equivalents, beginning of year	<u>2,786,104</u>	<u>2,745,178</u>
Cash and cash equivalents, end of year	<u>\$ 752,659</u>	<u>\$ 2,786,104</u>
<b>Supplemental cash flow disclosure:</b>		
Interest paid for the year (Note 6)	<u>\$ 88,624</u>	<u>\$ 232,643</u>
Interest received for the year	<u>\$ 4,781</u>	<u>\$ 7,511</u>

*The accompanying notes are an integral part of the financial statements.*



# CORPORATION OF HAMILTON

## Notes to the Financial Statements

December 31, 2020

(Expressed in Bermuda Dollars)

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### 1. General

The Corporation of Hamilton (the "Corporation") is responsible for the provision of certain municipal services within the boundaries of the City of Hamilton (the "City") in accordance with the Municipalities Act 1923 (the "Act") as subsequently amended. The principal sources of revenue include property taxes, goods wharfage, sewage disposal and car parking fees. The various expenditures are controlled by committees established for sanitation, sewerage, wharfs, parks, properties, streets, finance and City Hall.

### 2. Significant accounting policies

These financial statements have been prepared in accordance with Public Sector Accounting Standards generally accepted in Bermuda and Canada ("PSAS") as provided by the Public Sector Accounting Board ("PSAB") of the Chartered Professional Accountants of Canada ("CPA Canada").

The preparation of financial statements in accordance with PSAS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenditures for the year. Actual amounts could differ from those estimates. Significant areas requiring the use of management estimates and assumptions are described in the following notes:

- Note 2(e) – the measurement of pension plans and other post-retirement benefits
- Note 3 – the recoverability of accounts receivable
- Notes 13 and 14 – the estimate of accrued and contingent liabilities

#### *Going concern*

#### *Legal proceedings by MIF against the Corporation*

Mexico Infrastructure Finance LLC ("MIF") obtained a summary judgment in the amount of US\$18 million against the Corporation on May 27, 2015, (see Note 14) under a guarantee given by the Corporation for the loan to Par-la-Ville Hotel and Residences, Ltd ("PHRL"). MIF sought enforcement of the \$18 million judgment debt against the Corporation and PHRL that may lead to uncertainty about the Corporation's ability to continue as a going concern, if forced to repay this debt out of current income. The judgement was set aside by the Supreme court in May 2015, the Court of Appeal in May 2017 and the Privy Council in January 2019 on the basis that the Corporation acted ultra vires (see Note 14).

MIF started additional legal proceedings against the Corporation in the Supreme Court of the State of New York on this matter (see Note 13b). The outcome of these legal proceedings is not yet known. Whilst the amounts that the Corporation may need to disburse as a result of these proceedings may be significant, as at December 31, 2020, management of the Corporation does not consider this condition to represent a material uncertainty in relation to going concern.

**2. Significant accounting policies** (continued)

*Municipalities Amendment Act*

As explained in Note 15, in March 2018 the Government of Bermuda passed the Municipalities Amendment Act which announced changes to the Act, and on March 13, 2019 the Municipal Reform Act 2019 (the "Reform Act") was passed in the Bermuda House of Assembly but was defeated in the Senate on March 22, 2019. In July 2020, the Government of Bermuda announced that it intends to continue with the proposed implementation of the Reform Act or similar new legislation. In March 2019 the Corporation filed a court case with the Bermuda Supreme Court on the basis that prior amendment acts, and the proposed Reform Act infringe upon the Constitutional rights of the Corporation. The Supreme Court rejected that claim in a judgement handed down on March 31, 2021. Whilst the legislation may impact the legal form of the entity, the activities of the Corporation are unlikely to be altered. On that basis, management of the Corporation does not consider the matters relating to the potential amendments to the legislation to result in a material uncertainty related to going concern.

*Impact of COVID-19*

In March 2020, the World Health Organization officially declared the outbreak of COVID-19 a global pandemic. During the year ended December 31, 2020, the Corporation observed a reduction in its revenues as a result of the pandemic. In particular, goods wharfage and car parking fees were significantly impacted as a result of reduced container volumes arriving in the docks and shelter in place restrictions reducing car parking demand. The Corporation also offered relief on property taxes, sewage fees and rent through 2020, however, there was no material impact to its revenues in relation to the relief granted.

In 2021, COVID-19 continues to cause disruption to businesses and economic activity in Bermuda. The Corporation remains vigilant in monitoring the financial impact on its operations and capital projects, as well as the impact on businesses within the City. Further rate relief has been granted on an as needed basis but there has been no material impact to the Corporation's revenue generating activities as a result.

Given the inherent uncertainties it is not possible to fully determine the ultimate impact of COVID-19 on the future operating and financial performance of the Corporation, or to provide a quantitative estimate of this impact. Nevertheless, COVID-19 did not impact management's assessment in relation to going concern.

Based on its latest financial results, forecasts and projections, these financial statements have been prepared on a going concern basis which assumes that the Corporation will continue to operate for the foreseeable future. This is dependent on the following assumptions:

- there being no further reforms to the Act impacting on the Corporation's ability to continue to operate; and
- the future outcome of any legal proceedings by MIF against the Corporation.

The following are the significant accounting policies adopted by the Corporation:

*(a) Revenues*

Revenues are recorded on the accruals basis and recognized when earned. Amounts that have been received in advance of services being rendered are recorded as deferred revenue until the Corporation discharges the obligations that led to the collection of funds.

*(b) Budget information*

Budget information approved by the Corporation and the Minister responsible for the Municipalities in December 2019 is presented using a basis consistent with that used for the actual results.

## CORPORATION OF HAMILTON

### Notes to the Financial Statements

December 31, 2020

(Expressed in Bermuda Dollars)

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## 2. Significant accounting policies (continued)

### (c) Expenditures

Expenditures are recorded on the accrual basis in the period in which the goods or services are acquired, or a liability is incurred.

### (d) 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 existing beyond the current year and are not intended for sale in the ordinary course of operations.

#### (i) Tangible capital assets

Tangible capital assets are recorded at cost which includes amounts that are directly attributable to the acquisition, construction, development, or betterment of the asset. The costs, less residual values, of the tangible capital assets, excluding land, are amortized on a straight-line basis over their estimated useful lives as follows:

<u>Assets</u>	<u>Useful life – Years</u>
Betterments	50
Buildings	40 – 100
Fixed plant and equipment	3 – 50
Mobile plant and equipment	8 – 15
Roads	100
Sewer lines	40 – 100
Wharfs	75

Annual amortization is charged in the year of acquisition and in the year of disposal. Land is not amortized. Assets under construction are not amortized until the asset is available for productive use.

Subsequent expenditures incurred after the assets have been put into operation, such as repairs and maintenance and overhaul costs, are charged to the statement of operations 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, accumulated amortization and accumulated impairment losses are eliminated from the financial statements and any resulting gain or loss is included in the statement of operations of such period.

#### *Contributions of tangible capital assets*

Tangible capital assets received as contributions are recorded at their fair values at the date of receipt and are also recorded as revenue.

#### *Works of art and cultural and heritage assets*

Works of art and cultural and heritage assets are not recorded as tangible capital assets in these financial statements.

## CORPORATION OF HAMILTON

### Notes to the Financial Statements

December 31, 2020

(Expressed in Bermuda Dollars)

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## 2. Significant accounting policies (continued)

### (d) Non-financial assets (continued)

#### (i) Tangible capital assets (continued)

##### *Methods used for determining the cost of each major category of tangible capital assets*

The financial information recorded includes the actual or estimated historical cost of the tangible capital assets. When historical cost records were not available, other methods were used to estimate the costs and accumulated amortization of the assets. The Corporation applied a consistent method of estimating the replacement or reproduction cost of the tangible capital assets for which it did not have historical cost records, except in circumstances where it could be demonstrated that a different method would provide a more accurate estimate of the cost of a particular type of tangible capital asset. After defining replacement or reproduction cost, the Canada Non-residential Building Construction Price Index formulated by Statistics Canada was used as a resource for determining appropriate indices in order to deflate the replacement or reproduction cost to an estimated historical cost at the year of acquisition.

#### (ii) Inventories

Inventories are comprised of supplies and materials to be used to maintain properties and other assets of the Corporation and are valued at the lower of average cost and net realizable value.

#### (iii) Impairment of non-financial assets

At each statement of financial position date, tangible capital assets, net, and other long-lived assets are reviewed for impairment whenever events or circumstances indicate that a tangible capital asset no longer contributes to the Corporation's ability to provide goods and services, or that the value of future economic benefits associated with the tangible capital asset is expected to be less than its net book value on a permanent basis. The excess is recognized as impairment loss in the statement of operations and the assets are written down to their residual value, or a revised estimate of the value of the asset's remaining service potential.

### (e) Pension plans and other post retirement benefits

The Corporation sponsors a defined contribution pension plan and a deferred annuity plan, together covering all eligible employees. The cost of both these plans is expensed as earned by the employees. The Corporation makes monthly contributions in accordance with the plan agreements to the employees' individual accounts, which are administered by an insurance company pursuant to and in accordance with the National Pension Scheme (Occupational Pensions) Act 1998 and applicable amendments thereto and regulations. The deferred annuity plan was terminated on August 31, 2018 (see Note 7).

The Corporation sponsors a defined benefit plan for post-retirement medical healthcare benefits of its eligible former employees. The Corporation closed this plan for new members with effect from August 2008. The Corporation pays 50% of the total premiums due to the insurer with the remainder being assumed by the insured. The cost of accrued retirement benefit obligations is actuarially determined and represents the Corporation's share of the present value of future premiums for former employees over their expected lives. Actuarial gains and losses on the accrued retirement benefit obligation arise from differences between actual and expected experience and from changes to actuarial assumptions used to determine the accrued benefit obligation. Actuarial gains and losses on the accrued benefit obligation are recognized over the average remaining life of the former employees.

The expenses related to these plans are included in wages, salaries and benefits (Notes 7, 9 and 12).

## CORPORATION OF HAMILTON

### Notes to the Financial Statements

December 31, 2020

(Expressed in Bermuda Dollars)

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#### 2. Significant accounting policies (continued)

##### (f) Cash and cash equivalents and short-term deposits

Cash includes cash on hand and in banks. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash with original maturities of three months or less from dates of acquisition and that are subject to an insignificant risk of changes in value. Short-term deposits are represented by deposits with an original maturity of greater than three months, which mature within twelve months after the financial year end date.

##### (g) Receivables

Receivables are recognized and carried at their original values or invoice amounts as reduced by appropriate allowances for doubtful accounts.

Bad debts, if any, are written off during the year.

##### (h) Allowance for doubtful accounts

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

##### (i) Payables and provisions

Payables are stated at their original values.

The Corporation recognizes a provision if a present obligation has arisen as a result of a past event, payment is probable, and the amount can be measured reliably. The amount recognized is the best estimate of the expenditure required to settle the present obligation at the statement of financial position date, that is, the amount the Corporation would rationally pay to settle the obligation to a third party.

##### (j) Leases

###### *The Corporation as lessor*

Costs, including amortization, incurred in earning lease income are recognized as an expense. Lease income (excluding receipts for services provided such as insurance and maintenance) is recognized on a straight-line basis over the lease term. Lease income is recorded in rents from properties in the statement of operations.

##### (k) Related parties

Parties are considered related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions. Corporation members, officers, shareholders, associates or companies and other related interests that directly or indirectly control or are controlled by or under common control are considered related parties. The changes to the Municipalities Act in March 2018 created a related party relationship between the Corporation and the Government of Bermuda (see Note 15). The implementation of the Municipal Reform Act 2019 has been delayed (Note 2). Therefore, the future impact on the relationship with the Government of Bermuda is not currently known.

## CORPORATION OF HAMILTON

### Notes to the Financial Statements

December 31, 2020

(Expressed in Bermuda Dollars)

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## 2. Significant accounting policies (continued)

### (l) Segment disclosures

A segment is defined as a distinguishable activity or group of activities of a government for which it is appropriate to separately report financial information to achieve the objectives of the standard. The Corporation has adopted PSAB Section PS 2700 *Segment disclosures* and has provided definitions of segments used by the Corporation as well as presented financial information in segmented format in Note 12.

### (m) Future accounting standards

#### *Financial instruments*

PSAB issued Section PS 3450 *Financial Instruments* in March 2011. This section proposes reporting on the nature and extent of risks associated with financial instruments held and issued by an entity. Financial instruments which are quoted in an active market will need to apply fair value measurement (e.g., equity investments or derivatives). All other non-derivative financial instruments will be measured at cost or amortized cost unless the entity elects to apply the fair value option. To support meaningful budget to actual comparisons, when fair value measurement is applied, the presentation of surplus/deficit will need to be reported both excluding and including any re-measurement gains or losses. Early adoption is permitted. This standard is effective for the Corporation's December 31, 2023 financial statements and management does not anticipate a significant impact as a result of adoption.

#### *Financial statement presentation*

In conjunction with Section PS 3450, PSAB also issued, Section PS 1201 which replaces the existing Section PS 1200, *Financial Statement Presentation*, and includes a new statement of re-measurement gains and losses. The new statement will report unrealized gains and losses associated with financial instruments in the fair value category, exchange gains and losses associated with monetary assets and liabilities denominated in a foreign currency, amounts reclassified to the statement of operations upon derecognition, and other comprehensive income reported when a public sector entity includes the results of its government business enterprises and partnerships in the financial statements. Early adoption is permitted. This standard is effective for the Corporation's December 31, 2023 financial statements and management does not anticipate a significant impact as a result of adoption.

#### *Asset retirement obligations*

PSAB issued section PS 3280 *Asset Retirement Obligations* which replaces the existing Section PS 3270 *Solid Waste Landfill Closure and Post-Closure Liability*. The section provides guidance for recognition and measurement of asset retirement obligations, including obligations that may not have previously been reported. The section requires entities to review existing agreements to identify retirement activities associated with their controlled tangible capital assets, and those that are no longer in productive use that should be reported. Early adoption is permitted. The standard is effective for the Corporation's December 31, 2023 financial statements and management does not anticipate a significant impact as a result of adoption.

## CORPORATION OF HAMILTON

### Notes to the Financial Statements

December 31, 2020

(Expressed in Bermuda Dollars)

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#### 2. Significant accounting policies (continued)

##### (m) Future accounting standards (continued)

###### *Revenue*

PSAB issued section PS 3400 *Revenue* in November 2018. This section provides guidance on accounting for, and reporting revenue transactions. It provides a detailed definition of revenue and how it should be measured and at what point in time it should be recognized. The section specifically differentiates between revenue arising from transactions that include performance obligations and transactions that do not have performance obligations. Revenue from transactions with performance obligations should be recognized when (or as) the public sector entity satisfies a performance obligation by providing the promised goods or services to a payer. Revenue from transactions with no performance obligations should be recognized when a public sector entity has the authority to claim or retain an inflow of economic resources and identifies a past transaction or event that gives rise to an asset. Early adoption is permitted. The standard is effective for the Corporation's December 31, 2024 financial statements and management does not anticipate a significant impact as a result of adoption.

#### 3. Accounts receivable

Accounts receivable of \$1,339,112 (2019 - \$1,258,530) are shown net of an allowance for doubtful accounts of \$1,327,000 (2019 - \$1,353,307).

#### 4. Due to the Government of Bermuda and accounts payable and accrued liabilities

##### *Due to the Government of Bermuda*

The Hamilton Fire Service was originally set up by the Corporation and then transferred to the Government of Bermuda. At that time, the Corporation agreed to assist with paying a share of the fire service costs. The last payment was made in 2008 as a formal agreement had never been signed for this arrangement and the peppercorn lease as described below had expired. However, based on confirmations received from the Government of Bermuda, the Corporation continued to accrue for potential expenses payable until October 2017.

The original lease for the property which was for a period of 25 years and an annual peppercorn rent of only \$1 ended in 2008 and a new lease agreement has never been finalized. However, as no amounts were received from the Government in relation to rent due subsequent to 2008, no amount was recorded that related to this revenue or contingent asset in the Corporation's financial statements.

In October 2017, the Government of Bermuda agreed to write off an amount receivable of \$6,270,950 from the Corporation and the Corporation also agreed to write off rental income of \$4,550,000 due from the Government with the expectation that the outstanding tipping fees due to the Government of Bermuda will also be waived. The derecognition of the fire service accrual of \$6,270,950 was included in the statement of operations for the year ended December 31, 2017.

**CORPORATION OF HAMILTON**

## Notes to the Financial Statements

December 31, 2020

*(Expressed in Bermuda Dollars)***4. Due to the Government of Bermuda and accounts payable and accrued liabilities** (continued)

As no waiver has yet been agreed, tipping fees of \$4,666,685 (2019 - \$4,278,342) due to the Government of Bermuda have continued to be accrued as at December 31, 2020 and are included in vendor accounts payable.

*Accounts payable and accrued liabilities*

Accounts payable and accrued liabilities is comprised of:

	<u>2020</u>	<u>2019</u>
Vendor accounts payable	\$ 5,790,387	\$ 5,341,769
Accrued liabilities	586,836	586,932
Employee benefits payable	190,931	232,586
Unearned revenue	140,423	127,988
Other payables	31,991	23,545
Interest payable	<u>—</u>	<u>25,569</u>
	\$ 6,740,568	\$ 6,338,389
	<u><u>          </u></u>	<u><u>          </u></u>



# CORPORATION OF HAMILTON

## Notes to the Financial Statements

December 31, 2020

(Expressed in Bermuda Dollars)

### 5. Tangible capital assets, net

	<u>2019</u>	<u>Additions</u>	<u>Disposals</u>	<u>Transfers</u>	<u>2020</u>
<b>Cost</b>					
Land	\$ 12,052,112	\$ —	\$ —	\$ —	\$ 12,052,112
Betterments	3,055,151	—	—	—	3,055,151
Buildings	41,742,133	—	—	973,578	42,715,711
Fixed plant and equipment	15,534,747	29,425	—	789,349	16,353,521
Mobile plant and equipment	4,739,391	—	—	225,504	4,964,895
Roads	869,191	—	—	—	869,191
Sewer lines	4,703,808	—	—	10,198	4,714,006
Wharf	22,597,806	—	—	59,454	22,657,260
Assets under construction	<u>2,870,986</u>	<u>1,808,008</u>	<u>—</u>	<u>(2,058,083)</u>	<u>2,620,911</u>
Total	\$ 108,165,325	\$ 1,837,433	\$ —	\$ —	\$ 110,002,758

	<u>2019</u>	<u>Amortization expense</u>	<u>2020</u>
<b>Accumulated amortization</b>			
Betterments	\$ 454,188	\$ 78,720	\$ 532,908
Buildings	13,208,762	616,589	13,825,351
Fixed plant and equipment	7,198,415	793,537	7,991,952
Mobile plant and equipment	2,854,990	289,546	3,144,536
Roads	437,392	7,834	445,226
Sewer lines	1,831,055	199,415	2,030,470
Wharf	<u>12,220,737</u>	<u>344,879</u>	<u>12,565,616</u>
	\$ 38,205,539	\$ 2,330,520	\$ 40,536,059

	<u>2019</u>	<u>2020</u>
<b>Net book value</b>		
Land	\$ 12,052,112	\$ 12,052,112
Betterments	2,600,963	2,522,243
Buildings	28,533,371	28,890,360
Fixed plant and equipment	8,336,332	8,361,569
Mobile plant and equipment	1,884,401	1,820,359
Roads	431,799	423,965
Sewer lines	2,872,753	2,683,536
Wharf	10,377,069	10,091,644
Assets under construction	<u>2,870,986</u>	<u>2,620,911</u>
	\$ 69,959,786	\$ 69,466,699

## CORPORATION OF HAMILTON

### Notes to the Financial Statements

December 31, 2020

(Expressed in Bermuda Dollars)

#### 6. Long-term loan

The Corporation has the following long-term loan outstanding:

	<u>2020</u>	<u>2019</u>
Clarien Bank Limited ("Clarien Bank")	\$ —	\$ 926,874
	\$ —	\$ 926,874
	<u>                    </u>	<u>                    </u>

On April 19, 2010, the Corporation obtained an \$11 million loan facility to finance the construction of its Works Depot on Laffan Street, Hamilton, from Clarien Bank of which \$10.6 million was drawn down in 2010 and 2011. As security for the loan, Clarien Bank held a registered mortgage over the property. In March 2020, the loan held with Clarien Bank was fully repaid. Interest paid during the year was \$88,624 (2019 - \$232,643).

#### 7. Pension plans and other post-retirement benefits

As described in Note 2(e), the Corporation sponsors a defined contribution pension plan and a deferred annuity plan, together covering all eligible employees. Contributions to these plans by employees are at the rate of 5% of remuneration, which is matched by the Corporation for the defined contribution plan. The Corporation's contributions under the deferred annuity plan are equal to the amount required to pay up the cost of the annuities applicable to the current year of employment. As at January 1, 2009 the deferred annuity plan was closed to new members. On August 31, 2018, the deferred annuity plan was terminated. All benefits accrued to August 31, 2018 were settled in accordance with the policy and the National Pension Scheme (Occupational Pensions) Act 1988.

Pension and deferred annuity contributions for the year are as follows:

	<u>2020</u>	<u>2019</u>
Corporation's contributions	\$ 371,091	\$ 379,433
	<u>                    </u>	<u>                    </u>
Employee contributions	\$ 421,761	\$ 427,100
	<u>                    </u>	<u>                    </u>

The Corporation also sponsors a defined benefit plan for post-retirement medical healthcare benefits to eligible former employees. This plan was valued by qualified actuaries as at December 31, 2020. Information about this plan is as follows:

	<u>2020</u>	<u>2019</u>
<b>Accrued benefit obligation</b>		
Balance, beginning of year	\$ 808,577	\$ 782,414
Interest cost	48,908	47,327
Benefits paid	(112,286)	(108,598)
Actuarial (gain) loss	<u>(32,931)</u>	<u>87,434</u>
Balance, end of year	<u>\$ 712,268</u>	<u>\$ 808,577</u>

**CORPORATION OF HAMILTON**

## Notes to the Financial Statements

December 31, 2020

*(Expressed in Bermuda Dollars)***7. Pension plans and other post-retirement benefits (continued)**

	<u>2020</u>	<u>2019</u>
<b>Plan assets</b>		
Fair value, beginning of year	\$ —	\$ —
Employer contributions	112,286	108,598
Benefits paid	<u>(112,286)</u>	<u>(108,598)</u>
Fair value, end of year	<u>\$ —</u>	<u>\$ —</u>
<b>Funded status</b>		
Accrued benefit obligation	\$ 712,268	\$ 808,577
Unamortized actuarial gain	<u>176,672</u>	<u>166,173</u>
Retirement benefit liability	<u>\$ 888,940</u>	<u>\$ 974,750</u>

The significant assumptions used are as follows:

	<u>2020</u>	<u>2019</u>
<b>Accrued benefit obligation:</b>		
Discount rate	6.5%	6.5%
<b>Benefits cost for the year:</b>		
Discount rate	6.5%	6.5%
<b>Healthcare cost trend rates:</b>		
Rates in years 2020 to 2021	6.0%	6.0%
Ultimate rate in 2021 and beyond	5.0%	6.0%

Increasing or decreasing the assumed healthcare cost trend rates by one percentage point would have the following effects for 2020:

	<u>Increase</u>	<u>Decrease</u>
Total of service cost and interest cost	\$ 2,804	\$ (2,583)
Accrued benefit obligation	<u>\$ 34,874</u>	<u>\$ (32,291)</u>

**CORPORATION OF HAMILTON**

## Notes to the Financial Statements

December 31, 2020

*(Expressed in Bermuda Dollars)***7. Pension plans and other post-retirement benefits (continued)**

The elements of the Corporation's retirement healthcare benefit costs recognized during the year are as follows:

	<u>2020</u>	<u>2019</u>
Interest cost	\$ 48,908	\$ 47,327
Actuarial (gain) loss	<u>(32,931)</u>	<u>87,434</u>
Element of retirement benefit costs before adjustments	15,977	134,761
Adjustments to recognize the long-term nature of retirement benefit costs:		
Difference between recognized and actual actuarial loss/gain	<u>10,499</u>	<u>(124,315)</u>
Employee future benefit cost recognized	<u>\$ 26,476</u>	<u>\$ 10,446</u>

**8. Reserves**

The Corporation may appropriate reserves for specific purposes. Reserves consist of the following funds included within accumulated surplus:

	<u>2020</u>	<u>2019</u>
CB Tucker fund	<u>\$ 32,500</u>	<u>\$ 32,500</u>

**9. Expenditures by object**

	<u>2020</u>	<u>2019</u>
Wages, salaries and benefits	\$ 10,346,323	\$ 11,141,693
Contract services	6,666,324	8,205,452
Amortization of tangible capital assets	2,330,520	2,170,709
Supplies and materials	1,486,274	1,755,466
Interest and finance	<u>184,628</u>	<u>325,251</u>
	<u>\$ 21,014,069</u>	<u>\$ 23,598,571</u>

**10. Capital commitments**

The Corporation has contractual commitments for capital expenditures as at December 31, 2020, in the amount of \$84,780 (2019 - \$111,108), which will be paid for in 2021.

## CORPORATION OF HAMILTON

### Notes to the Financial Statements

December 31, 2020

(Expressed in Bermuda Dollars)

#### 11. Financial instruments

The estimated fair values of the Corporation's cash and cash equivalents, accounts receivable, recoverable costs and accounts payable approximate their respective carrying values due to their short-term nature. The estimated fair value of the long-term loan approximates carrying value as the loan attracts market rates of interest. The Corporation is not exposed to significant currency risk from its financial instruments as these are denominated in either Bermuda dollars or United States dollars.

##### (a) Interest rate risk

The Corporation is exposed to interest rate fluctuations with respect to the retirement benefit liability which bears interest at floating rates as disclosed in Note 7. Management does not believe that the impact of interest rate fluctuations will be significant.

##### (b) Credit risk

The Corporation's cash and cash equivalents are held with three financial institutions based in Bermuda. The Corporation has accounts receivable from a wide range of individuals, businesses, and government organizations. Management actively monitors outstanding accounts receivable. The Corporation's maximum exposure to credit risk is represented by the carrying amount of its financial assets in the statement of financial position.

##### (c) Liquidity risk

Liquidity risk is the risk that the Corporation will encounter difficulties meeting its financial obligations as they become due. The table below summarizes the Corporation's contractual undiscounted cash flows. Balances due within twelve months are met within the Corporation's normal thirty-day cycle of disbursements.

	<u>Total</u>	<u>0-3 months</u>	<u>4-12 months</u>	<u>Greater than 1 year</u>
<b>December 31, 2020</b>				
Accounts payable	\$ 6,205,452	\$ 6,205,452	\$ –	\$ –
<b>December 31, 2019</b>				
Accounts payable	\$ 5,734,804	\$ 5,734,804	\$ –	\$ –
Long-term loan	952,443	952,443	–	–

#### 12. Segmented reporting

The Corporation provides a range of services to both residents and businesses within the boundaries of the City. Certain services such as connection to the City sewer lines are available to persons/businesses outside the City boundaries on a fee basis. Most revenue lines have been allocated directly to the relevant segment. However, taxation has been split equally between Governance and Civic Services, Sanitation and Sewer, and Public Works and Planning to defray some of the costs of providing these services. From April 1, 2014, the Government of Bermuda returned the right of the Corporation to charge goods wharfage on imported goods. For segmented disclosure purposes, these services are grouped and reported under service areas/departments that are responsible for providing such services. They are as follows:

##### *Governance and Civic Services*

City Hall provides for the Mayoral and Council functions, Theatre and Arts facilitation, Corporate, Finance, Engineering and Event administration. Parks are included under this caption because of public entertainment that is provided in them.

## CORPORATION OF HAMILTON

### Notes to the Financial Statements

December 31, 2020

(Expressed in Bermuda Dollars)

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#### 12. **Segmented reporting** (continued)

##### *Sanitation and Sewer*

Sanitation and Sewer is responsible for the general cleanliness of the City including daily garbage collection and maintenance of the sewer system.

##### *Public Works and Planning*

Public Works and Planning provides maintenance services to ensure that roads, traffic lights, streetlights, Corporation vehicles and equipment are in good working order. In addition, any future major construction development is handled by this segment.

##### *Parking*

Parking which includes both on and off-street parking is administered through this department. Consideration is given to the availability of car parking spaces to meet the public demand for parking.

##### *Wharf*

Wharf is responsible for the security of the waterfront in the City. Good working order of the docks for both cruise ships and cargo vessels is of prime importance for efficient transfer of goods and passengers through the port.

**CORPORATION OF HAMILTON**

Notes to the Financial Statements

December 31, 2020

(Expressed in Bermuda Dollars)

**12. Segmented reporting (continued)**

	2020						2019
	Governance and Civic Services	Sanitation and Sewer	Public Works and Planning	Parking	Wharf	Total	Total
<b>Revenue</b>							
Property taxes	\$ 2,800,906	\$ 2,800,906	\$ 2,800,905	\$ –	\$ –	\$ 8,402,717	\$ 8,625,006
Goods wharfage	–	–	–	–	6,314,011	6,314,011	7,172,059
Car parking fees	–	–	–	3,052,000	–	3,052,000	4,309,477
Sewer disposal contracts	–	2,424,780	–	–	–	2,424,780	2,454,033
Rents from properties	479,295	37,943	6,695	–	15,078	539,011	851,787
Miscellaneous	438,032	83,770	–	–	7	521,809	132,397
Other permit and license fees	–	227,258	–	–	275,912	503,170	568,937
Sewage tax	–	423,768	–	–	–	423,768	426,057
Ship's wharfage	–	–	–	–	216,657	216,657	297,370
Dock charges	–	–	–	–	227,352	227,352	460,516
City Hall rents	11,517	–	–	–	–	11,517	94,052
Interest	4,781	–	–	–	–	4,781	7,511
	<u>3,734,531</u>	<u>5,998,425</u>	<u>2,807,600</u>	<u>3,052,000</u>	<u>7,049,017</u>	<u>22,641,573</u>	<u>25,399,202</u>
<b>Expenditures</b>							
Wages, salaries and benefits	4,125,725	2,594,977	3,021,990	515,021	88,610	10,346,323	11,141,693
Contract services	3,361,200	850,448	1,216,795	63,662	1,174,219	6,666,324	8,205,452
Supplies and material	437,301	271,162	667,377	54,833	55,601	1,486,274	1,755,466
Amortization of tangible capital assets	252,007	378,824	941,563	339,199	418,927	2,330,520	2,170,709
Interest and finance	184,628	–	–	–	–	184,628	325,251
	<u>8,360,861</u>	<u>4,095,411</u>	<u>5,847,725</u>	<u>972,715</u>	<u>1,737,357</u>	<u>21,014,069</u>	<u>23,598,571</u>
Excess (shortfall) of revenue over expenditures	\$ (4,626,330)	\$ 1,903,014	\$ (3,040,125)	\$ 2,079,285	\$ 5,311,660	\$ 1,627,504	\$ 1,800,631

**13. Contingencies**

- (a) In July 2017 MIF filed proceedings against the Bank of New York Mellon (BNY Mellon) and the Corporation in the Supreme Court of the State of New York. The proceedings allege five causes of action against the Corporation, including breach of contract, breach of fiduciary duty, negligence, fraud and negligent misrepresentation. MIF is seeking damages in an amount to be determined at trial but not less than \$13,749,858 plus interest thereon to the date of entry of judgement.

In December 2017 the attorneys for BNY Mellon advised that BNY Mellon would seek indemnification from MIF and the Corporation for any losses, including attorneys fees, incurred in the litigation. Under the terms of the escrow agreement, the right to indemnification, if it exists at all, cannot be determined until the litigation is over. On December 15, 2017, the Corporation filed a motion to dismiss the case. BNY Mellon also filed a motion to dismiss on different grounds.

On March 14, 2019 the Corporation received notice that the request of both defendants to dismiss was denied with one exception. BNY Mellon's motion to dismiss the gross negligence tort claim was granted. On April 18, 2019 the Corporation filed their answer which is a document that responds to each of MIF's allegations. On June 14, 2019, the Supreme Court held a case management conference at which time the Court ordered that discovery proceed in accordance with the established schedule. Discovery is the exchange of documents, information and deposition testimony among the parties. On September 27, 2019, the Corporation filed a motion for summary judgement and judgement on the pleadings. On December 20, 2019 MIF filed its opposition to the motion. The motion comprises two parts; In the first part the Corporation seeks to dispose of all of MIF's claims based on the ultra vires defense (Notes 2 and 14). The Corporation argues that (1) just like the guarantee, the Corporation lacked the capacity to enter into the Escrow Agreement and (2) this lack of capacity means that MIF cannot pursue any of its contract and tort claims against the City of Hamilton. In the second part the Corporation seeks to dispose of all of MIF's tort claims. The motion was submitted to the Supreme Court on February 14, 2020. By Order dated August 7, 2020, the Court dismissed all of MIF's tort claims, but declined to dismiss MIF's breach of contract claim. On September 21, 2020, the Court denied the Corporation's motion for reconsideration regarding the remaining breach of contract claiming breach of contract claim.

As a part of the pre-trial process the sitting judge asked both parties to engage in a mediation process starting in February 2021. At this point in time there has been no resolution.

No provision has been included in the financial statements in relation to the above matters as based on legal advice the outcome cannot be determined.

The Corporation has also been notified of a potential claim by a third party which is itself subject to a claim by MIF in relation to the Par-la-Ville car park matter. Based on legal advice received the Corporation believes it has a strong defense against any potential claim by the third party and the possibility of a loss is remote. Accordingly, no provision has been included in the financial statements.



## CORPORATION OF HAMILTON

### Notes to the Financial Statements

December 31, 2020

(Expressed in Bermuda Dollars)

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#### 13. Contingencies (continued)

(b) On August 1, 2017, the attorneys for the Corporation wrote to the receivers of PHRL (Note 14) asking them to return any funds in their possession in relation to their appointment as receivers for the Par-la-Ville car park property (the "Property"). In response to the letter MIF filed a generally endorsed writ of summons in the Supreme Court of Bermuda on August 17, 2017. MIF's claim is for a declaration that the mortgage is valid and binding; a declaration that the appointment of the receivers is valid and binding; and a claim for further other relief and costs. They argue that the mortgage is an obligation discreet from the guarantee and enforceable in any event. Based on legal advice, the Corporation considers the mortgage document to be null and void since the guarantee has been held to be ultra vires (Notes 2 and 14). On August 21, 2019, MIF filed a summons application seeking to amend the writ. The case was heard on October 23, 2019 and the ruling was handed down on January 16, 2020 in favour of MIF who subsequently filed an amended writ for a declaration that the Corporation is estopped from denying the validity of the mortgage; that MIF has equitable title to the Property; and seeking damages and interest thereon or further relief. It is the Corporation's intention to move ahead in defending this matter. A two day trial is scheduled to begin on August 12, 2021. No provision has been made in the financial statements as based on legal advice the outcome cannot be determined.

#### 14. Mexico Infrastructure Finance LLC ("MIF")

In 2012, the Corporation entered into a Development Agreement and Ground Lease with Par-la-Ville Hotel and Residences Ltd ("PHRL") to build a luxury hotel and condominium residence in the Par-la-Ville car park (the "Project").

Mexico Infrastructure Fund Limited ("MIF"), PHRL and the Corporation executed a credit agreement (the "Credit Agreement") on July 9, 2014 in which MIF agreed to loan PHRL \$18 million as bridge financing for the construction of the Project. The Credit Agreement was executed on the basis that the Corporation agreed to:

1. provide a mortgage over the property known as the Par-la-Ville car park (the "Property"); and
2. guarantee the loan (the "Guarantee").

On July 9, 2014, an escrow agreement was entered into between MIF, PHRL, the Corporation and BNY Mellon ("the Escrow Agent"). Under the terms and conditions of the escrow agreement, the Escrow Agent was to hold the loan proceeds until such time as PHRL had secured permanent financing comprising debt of \$225 million and equity of \$100 million or a "substantially similar financing structure from the Permanent Lender". The Corporation authorized the release of the funds from the escrow account in October 2014 based on an agreement reached between PHRL and Argyle Limited, a company which PHRL represented to the Corporation as the "Permanent Lender".

Due to the default on repayment of the loan by PHRL, on December 30, 2014 MIF initiated legal proceedings against the Corporation and PHRL. On March 31, 2015, Joint Receivers were appointed over the Property. On May 27, 2015, the Supreme Court awarded summary judgment to MIF over claims against PHRL and the Corporation. The judgment against the Corporation was for \$18 million and accrued interest from the date of judgment at the rate of 7% per annum or \$3,452 per day until the obligation is satisfied.

**14. Mexico Infrastructure Finance LLC ("MIF") (continued)**

On November 18, 2016, the Supreme Court ruled that the Corporation had no power to guarantee the loan from MIF to build a hotel on the Par-la-Ville car park. The Court resolved that in providing the guarantee, the Corporation had acted ultra vires. Therefore, the previously unchallenged Consent Order that had required the Corporation to pay MIF the loan plus interest was set aside. The judge's decision was appealed by MIF in the March 2017 session of the appellate court. On May 12, 2017 the Court of Appeal dismissed the appeal and upheld the Supreme Court ruling. As the guarantee cannot be enforced against the Corporation and the Corporation is not liable for the guaranteed sum of \$18 million the Corporation derecognised the liability related to the guarantee of \$18 million together with previously accrued interest of \$752,548 and this reversal of \$18,752,548 was included in the statement of operations for the year ended December 31, 2016. In November 2020, MIF was ordered to pay the Corporations court costs of \$253,089. The funds were received by the Corporation in January 2021 and are included in accounts receivable on the statement of financial position as at December 31, 2020 and in miscellaneous income in the statement of operations for the year then ended.

In June 2017 MIF served notice of its application to appeal this decision to the Privy Council. The Privy Council hearing was held on October 16, 2018. In January 2019 the Privy Council also dismissed the appeal and ruled in favour of the Corporation.

In accordance with the terms of the Credit Agreement, PHRL was due to pay the Corporation \$900,000 upon the closing of financing from the Permanent Lender. In July 2015, the Corporation issued a statutory demand for payment. PHRL did not make this payment and on August 28, 2015 the Corporation petitioned the Supreme Court to wind up PHRL in accordance with Section 161 (e) of the Companies Act 1981. Joint Provisional Liquidators ("JPLs") were appointed over PHRL on October 9, 2015.

The JPLs of PHRL have been successful in their proceedings in the High Court of Justice in England against parties involved with the transfer of funds loaned to PHRL and subsequently transferred to Argyle Limited. As the creditor who appeared to have the major economic interest in the liquidation of PHRL at the time, the Corporation agreed, in August 2016, to place a deposit of \$275,000 with the courts for these proceedings to cover any potential costs should the Corporation lose the case. In November 2018, \$262,500 of the amount deposited was returned to the Corporation. The remaining \$12,500 was received in April 2021.

In May 2016, the Corporation provided funding of \$25,000 for the winding up of Argyle Limited and in August 2016 a further \$100,000 was provided to fund the liquidation of PHRL, the Skyline Trust and Argyle Limited. In the event of recoveries by the JPLs these funds will be returned to the Corporation. The successful outcome of the High Court proceedings has resulted in Orders for Sale of certain assets in the UK, which are in the process of being realized. The remaining funding of \$125,000 will be used to fund future legal expenses.

**15. Municipal Reform Act**

On March 13, 2019, the Members of Parliament passed the Municipal Reform Act 2019 in the House of Assembly. The Bill would abolish municipal elections, provide for the selection and appointment of Members of the Corporations, and make consequential amendments to the Municipalities Act 1923 ("the principal Act"). It would also make certain directions given by the Minister to a Corporation subject to parliamentary scrutiny. The Act would turn the Corporation into a quasi-autonomous non-government organization ("QUANGO") controlled by the Government of Bermuda. The Municipal Reform Act 2019 was defeated in the Senate on March 22, 2019.

## CORPORATION OF HAMILTON

### Notes to the Financial Statements

December 31, 2020

*(Expressed in Bermuda Dollars)*

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#### **15. Municipal Reform Act (continued)**

The Corporation filed an application with the courts on March 19, 2019 seeking declaration that the Municipalities Reform Act 2010 ('the Reform Act'), The Municipal Reform Act 2019 and the other Amendment Acts, as well as the decision by the Government to convert the Corporation to a QUANGO contravene sections 1 and 13 of the Bermuda Constitution on the basis that this legislation would deprive the Corporation of compensation for its property and the protection of law over its property. The case was heard in the Supreme Court on February 24 and 25, 2021. On March 31, 2021 a judgement was handed down from the Supreme Court of Bermuda. The judge ruled against the Corporation and dismissed the claim that the legislation infringed on the fundamental rights and freedoms of the Corporation as set in the Bermuda Constitution. On May 12, 2021 the Corporation filed a notice of appeal.

#### **16. Subsequent events**

The Corporation evaluated events and transactions occurring from January 1, 2021 through to June 29, 2021, for potential recognition or disclosure in the notes to the financial statements.

Management believes that there are no other post year-end events that need to be reflected in the financial statements or disclosed in the notes to the financial statements.

#### **17. Comparative figures**

The comparative figures for the year ended December 31, 2019 have been reclassified to conform with the presentation adopted in the current year.