



THE WEST END
BERMUDA

ANNUAL REPORT 2015

OFFICE OF THE MINISTER OF PUBLIC WORKS

MARCH 2015

2015 ANNUAL REPORT FOR WEST END DEVELOPMENT CORPORATION - (WEDCO)

As the Minister with assigned responsibility for the West End Development Corporation (WEDCO), I am pleased to report that fiscal 2014/2015 was a successful year in ways that perhaps went above and beyond the norm of merely achieving objectives.

For, in spite of the considerable damage caused by two hurricanes in one month, the hard work and commitment of WEDCO, its residential and business tenants, and Government, lay testament to how people with a common goal can overcome challenges together, quickly and efficiently, to ensure that our valued

visitors could enjoy the full range of facilities on offer at the Royal Naval Dockyard within 24 hours of the last hurricane leaving our shores.

With hindsight, it is also extremely pleasing to note that the resources that had previously been put into upgrading and building the infrastructure bore fruit as the damage sustained was much less than it would have been without that investment.

WEDCO and Government have continued to work extremely hard to build relationships both on and off the water by providing the kind of services that are expected at a top destination, which in turn encourage cruise ship lines

to include and expand upon their visits to the Royal Naval Dockyard. The destination has also become a firm favourite for our hotel visitors and Bermuda's residents alike, as the offerings continue to grow and diversify.

Lastly, we look forward with great enthusiasm to the years ahead as we chart new waters in preparing for the prestigious 35th America's Cup at the Royal Naval Dockyard, the home of Bermuda's maritime history.

I wish to take this opportunity to thank the Board, Management and Staff for their unrelenting dedication, hard work and vision that are at the core of creating this remarkable home, business and destination that is called the Royal Naval Dockyard.



**The Hon. Patricia J. Gordon-Pamplin JP, MP
Minister of Public Works**



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LETTER FROM

THE CHAIRMAN



2014/2015 has been very active for the WEDCO Board and it's role in both providing support to the Management team while holding them accountable for its direction and forward momentum. Not only does the Board need to ensure that the goals and objectives set are reached, but we also need to ensure that we are available to assist with challenges along the way. A collaborative spirit and drive for success are important for us all to get our jobs done. In fact, where our statutory number of Board meetings

would number eight per year, the Board met thirteen times in this fiscal year, which perhaps goes to show our commitment to WEDCO and the community as a whole.

With WEDCO's ongoing efforts to improve and grow all of its services as well as residential development, beautification projects, upgrading homes and businesses, there is now a purpose for people to come to the Royal Naval Dockyard. Some of the highlights from those efforts can be seen by:



Critical mass efforts seeing fruition with the second cruise ship pier and continual growth with the number of visiting cruise ships



Victoria place is now online



Occupancy is higher



Early interest is appearing with the America's Cup announcement



There are no residential vacancies

Dockyard has become the place to visit regularly for both locals and visitors. During the summer months, the new collaboration with WEDCO and businesses providing cultural, educational and varied entertainment provided our guests with free entertainment every day, which can only be described as a win-win for all involved.

We are also pleased with the direction that the morale of the staff and the Royal Naval Dockyard, as well as the West End

community, has taken, and indeed with their many accomplishments together over the past year, which is especially true before, during and after the hurricanes in October. The strengthening relationships can only keep the momentum in steering the entire West End community forward as a destination, a home, and a business.

Raymond Charlton

Ray Charlton | Chairman

GENERAL MANAGER'S

REPORT



OUR STORY:

COMMUNITY AND TOGETHERNESS

Over a decade ago we set out to make significant improvements in relations between the West End Development Corporation (WEDCO) administration and various stakeholders.

Our historic reputation, daily challenges and the constant struggle of being adversaries resulted in negativity and distrust within our community. WEDCO struggled to make a decision, set a standard, live to that standard and then hold our tenant to a certain standard.

We are a big wheel of a large landmass and group of people. Everyone has to carry the gauntlet for that period of time and we had to move forward. We recognised that there needed to be better communications, collaboration and trust between WEDCO, its tenants and its community, and one that goes beyond political boundaries or agendas.

CHANGES TAKE TIME.

As of 2014/2015 the rejuvenation and transition to members becoming positive partners in developing a thriving community has been remarkable. It has been a slow process but it has picked up momentum. With deeper understanding, shared values and respect from all sides, the energy has changed.

Our reputation has taken a decade to improve and it has been as a result of joint contribution. Past General Managers, employees and vendors, from gardeners to outside contractors, have all been part of the steady progress, as we get better at what we are doing. There has been less staff turnover and, in the past five years, we have consistency in management. We have come a long way together.

We acknowledge that there are always exceptions. We still face ongoing challenges with historical arrears of a relatively small amount of people with large balances, primarily due to the inefficiencies in the court system. We strongly feel that the landlord/

tenant relationship in Bermuda needs to be addressed, as it is highly skewed. Typically it takes the Corporation eight (8) months to obtain a court date, during which time the tenant is not paying rent, yet a tenant can secure a court date in eight (8) days. The end result is that the Corporation may be awarded a judgment of \$50 per month on a \$30,000 debt - an amount unlikely to be fully recovered. However, we are pleased to share that there has been a noticeable improvement and consistent ongoing efforts by residential and commercial members. We have learned to recognise the circumstances earlier and are being proactive in doing our part to assist residents so that they don't fall into arrears in the first place.

What is especially wonderful about the transition is that it is about the entire West End community. From those who come to Dockyard to eat every Tuesday night at their favourite restaurant, or have a beer at one of the bars; it is not just WEDCO - it is really a transformation of the entire West End of the island.



Our community truly came together during the two major hurricanes Fay and Gonzalo in October 2014. We provided hands-on communication, door-to-door support, supplies, fresh water and water for flushing. We had the generators running on critical equipment, such as sewage and water, and no one was without power. Our commitment to upgrade was also boosted by the approximately \$6.3 million dollars received from the insurance company for damages sustained. We were able to go through the entire inventory and make major renovations and upgrades. This by no means was the amount of money we would be required to spend in order to upgrade all our facilities to a standard but they did provide the impetus for a more comprehensive restoration of affected structures.

With all of the above in mind, I take this moment to say a sincere thank you to the WEDCO Board for their commitment and understanding of our challenges. They were very supportive of the needs to develop a full restoration plan using WEDCO's total cash flow, which could have been limiting, and they recognised the significant value of previously invested infrastructure.

In closing I wish to thank WEDCO's dedicated management, staff, residential and commercial tenants for their efforts in partnering with and growing our sense of community during the past year.

Andrew Dias | General Manager



YEAR IN REVIEW

OUR JOURNEY | 2014-2015

TEMPESTS, AN AULD MUG AND THE SHARED MISSION OF THE SPIRIT OF BERMUDA

2014-2015 was a year when Bermuda rallied together as two major hurricanes struck in one week, the island celebrated the announcement that they would host a world-class sailing event in Dockyard and, as custodians of the Royal Naval Dockyard, the West End Development Corporation (WEDCO) and our community would play a significant role in making progress with our focus to strive for continuity, unity and synergy. These positive developments help the West End and Dockyard, a symbol of British military power for more than 150 years, to be celebrated as one of Bermuda's most vibrant cultural destinations.

THE JOURNEY TO THE 35TH AMERICA'S CUP BEGINS

In the 1790's, work began on Ireland Island on Bermuda's West End resulting in the Royal Naval Dockyard. Even though the British Royal Navy sailed out from Bermuda in the 1950's, every inch of the Dockyard is still steeped in maritime history, and a new chapter is set to be written in May 2017.

In December 2014, the America's Cup, affectionately known as the "Auld Mug", announced that Bermuda would host its 35th challenge. The history and prestige associated with the event is a test not only of sailing skill, boat and sail design, but also of fundraising and management acumen. It attracts not only the world's top sailors and yacht designers but also the involvement of wealthy sponsors and entrepreneurs.

It is interesting to note that the America's Cup in its early years studied the design of the Bermuda Sloop because it was largely admired as one of the fastest. Schooners were popular on both sides of the Atlantic in the late nineteenth and early twentieth centuries, long dominating yacht races such as the America's Cup.

The Spirit of Bermuda, a beautiful three-masted sloop that sailed from Penobscot Bay, Maine, where she was built, arrived in 2006 to great fanfare to her permanent Dockyard home. She is a majestic replica of a Royal Navy sloop-of-war and at 112-foot, her stunning design is based on the traditional Bermudian schooners built between 1810

and 1840. With their low-slung freeboard and their sharply raked masts, these boats were used for trading, and were known for their speed, maneuverability and the skill of the Bermudian crews that sailed them. She is not only a National Icon, symbolising our maritime heritage, she also shows a direct relationship between old and new and highlights the revolutionary development of the Bermuda sloop. The voyage of the vessel reflects the idea of a constant search for success in the world of business, and the continued quest to make the Dockyard a world-class destination. The Spirit of Bermuda was built for the Bermuda Sloop Foundation, an organisation and charity that brings educational and leadership experiences through sailing to the students of Bermuda.

She, and the Bermuda Sloop Foundation, share a strikingly similar mission for our reflection and focus for the WEDCO Report and the West End community in 2014/2015 and beyond. Some of these are based on the global research around 7-Habits of Highly Effective People and Stephen R. Covey's proven principles of fairness, integrity, honesty, and human dignity.

As we share our highlights and reporting, identifying the strengths and weaknesses that affect our community and organisation's ability to accomplish its most important objectives, we hope you enjoy the narrative as our journey continues.



HIGHLIGHTS & ACCOMPLISHMENTS

What we, at the West End Development Corporation (WEDCO), are most proud of in 2014-2015 is how we all came together and developed as a community. There has been a tangible transition and feeling in our West End and Dockyard community that residents have of belonging, a feeling that they matter to one another and to the group, and a shared faith that everyone's needs will be met through their commitment to be and work together.

This was most significantly demonstrated by the tenants, businesses, individuals, WEDCO staff, and the community as a whole, as we prepared and rallied together during one week in October 2014 when Bermuda was hit by two major hurricanes, Fay and Gonzalo.

ONE SEASON, TWO HURRICANES

October 2014 saw the first recorded instance of two Bermuda hurricane landfalls in one season.

During 2013 and 2014 we created extensive 'desktops' to review the preparedness plan for hurricanes and other natural disasters. Within this plan we included enhanced communication efforts with key stakeholders and both commercial and residential WEDCO tenants. Joanna Cranfield, Business Development Manager, headed up communication and Carmen Beach, Facilities Manager, was in charge of delivery and execution of the plan. We would provide ongoing communications

before, during and after the storm to let them know what we were doing, share advice on preparation and assist those that needed help, including providing and installing sandbags and plywood. In addition to radios and other communication equipment some of the messages would be delivered by hand for those without Internet or email.

On October 12, 2014, Category 1 Hurricane Fay made landfall in Bermuda, with wind gusts over 100 mph (160 km/h) and, despite its modest strength, caused an unexpectedly large degree of damage. The Bermuda Weather Service station at Commissioner's Point at Dockyard – which stands 150 feet above sea level – unofficially recorded sustained winds of 115 mph with gusts higher than that. In retrospect, Fay helped prepare for the hurricane that was to follow. It cleared some of the trees and heightened the community's awareness. People took it a little more seriously as the island prepared for Hurricane Gonzalo that followed less than six days later.

Homes on Prince Alfred Terrace and a few at Boaz Island Village would need work and Dockyard as a whole suffered "significant damage" as the Category 3 hurricane battered Bermuda, with the total repair bill in the millions of dollars.

Thankfully, no one was hurt during this storm and WEDCO worked with Government agencies

as some families were relocated due to extensive rainfall and flooding. We did suffer quite extensive damage, a number of roofs were compromised and we were faced with some major decisions with certain buildings regarding maintenance and repair. It was primarily roof damage but once a roof comes off there is flooding and other issues that go with it.

Gonzalo caused some damage at Heritage Wharf and King's Wharf, with part of the road leading to the docks collapsed on one side. Engineers assessed the damage and closed a section of the road. WEDCO's Dockyard properties were badly damaged by the storm, including the Clocktower Mall.

COMMITMENT OF WEDCO STAFF

Within hours following each hurricane, we had a full complement of staff ascertaining what damage of property or personal injury had been sustained and addressing the needs of our residents, some of whom are elderly, single or without family. We went

door-to-door to every single residential home post-hurricane to check on them.

WEDCO chairman Ray Charlton told the Royal Gazette "We have 27 acres and 100-something buildings but we only have 31 staff, including office staff – everyone was shoulder to the wheel getting things done".

Because we have come so far with infrastructure and planning, we were able to be back in business within a 24-hour period, which was only made possible by the previous infrastructure upgrades and, equally as important, the commitment and understanding from WEDCO staff, tenants and residents and the Dockyard Community.

After completing an assessment of the site and cordoning off the areas of risk, we were actually up and running and open for business within six hours. At 6am the following day, we welcomed the cruise ship, Celebrity Infinity.

There was a real feeling of camaraderie - politics and opposition are set aside when the community is faced with potential disaster.

Joanna Cranfield, Business Development Manager

PERSONAL GROWTH, INVESTMENT AND BUSINESS DEVELOPMENT

The sense of togetherness, community and tangible reward continued to evolve in 2014/2015 with a demonstrative effort from business owners to embrace the ongoing mentoring and open-door policy to attract the businesses desired by the whole community. There are still a great number aimed mainly towards cruise ships, and by working together we will figure out a balance of offerings to locals and visitors.

We recognise that the shoulder season is still a challenge, hence the ongoing and year-round efforts to support business and increasing offerings. We have noticed our

tenants stepping up and trying to encourage year-round traffic through investing in winter and shoulder season business, while we, in turn, are more lenient on operating hours to help them achieve their goals.

Advertising in Dockyard is a different growth area, both physical and electronic. For our part, we launched the new website, supported by a media kit which was distributed to share the advertising opportunities, with a reasonably successful uptake.

We extensively engaged and advertised on cruise ships throughout the summer of 2014 through:



An in-cabin magazine



On-board maps



An in-cabin video



Shopping and entertainment guides distributed and available on board

We also continued our investment in direct marketing and advertising on behalf of the Royal Naval Dockyard through:

- Destination Bermuda: available when flights board
- Experience Bermuda Publications: in hotels island-wide
- Paying for 60,000 overruns of Experience Bermuda's Dockyard section, which are distributed in Dockyard

ENTERTAINMENT AND EVENTS

An encouraging development for community, personal investment and positive partnerships was most notably demonstrated by the launch of a WEDCO business sponsorship opportunity that replaced Destination Dockyard. The traditional free summer event had grown tired with attendance decreasing over the years. There were a number of factors that contributed to its demise: It was an enormous expense to host; the same offerings appeared every week, year after year; the Regiment no longer demonstrated Beat the Retreats, and ships were providing other sources of entertainment to keep passengers on board. In addition, October 2013 marked a major change in legislation to gambling when the Cruise Ship (Casinos) Act 2013 in Bermuda was passed. Under the new law, the cruise ships docked in Bermuda can keep their casinos open from 9pm until 5am for their cruise ship passengers only.

Dockyard has always been a popular venue for entertainment and we have welcomed others to rent from WEDCO. Successful events include Bermuda End-to-End, fishing tournaments such as the Bill Fish, go-karting and, new this year, the Royal Challenge

obstacle course and one event of the Triple Challenge.

We were also aware that, at times, restaurants seemed to be competing rather than complimenting entertainment, which made no sense.

We decided to try something new with the budget for Destination Dockyard. We invited our resident tenants through an RFP to submit proposals for seasonal events, which they would create and manage, and we would assist them with levels of entertainment through partial funding. The main criteria were that they should ensure the events were exciting and unique, incorporating as much of Bermuda's rich culture as possible, and to provide something truly Bermudian and entertaining to attract people to The Royal Naval Dockyard in as many aspects as is possible. They were free to choose whether the event would be held during the day or evening, indoors or outside. In addition, the entertainment had to be free to the public and there were to be no conflicts of similar events or timings. We also wanted to explore the possibility of having a variety of event and entertainment styles, including traditional, cultural and educational.

I cannot commend enough the commitment of the staff and indeed, the larger community. **Andrew Dias**, General Manager

As part of their proposals, vendors were asked to submit:

- A detailed, yet overall, plan of the proposed entertainment options.
- A detailed description of the area being used and facilities required.
- A detailed yet overall budget showing proposed partnership funding requested.
- Vendor management proposal (if any) showing expected revenue and expenditure.
- A marketing and advertising proposal.
- A plan showing ideas on integrating the event with other West End tenants.

This new entertainment initiative was an enormously successful undertaking amongst our tenants and we now have a template going forward. We received a variety of proposals from pottery painting to historical walkabouts, to live music and pirate fire dancing shows. There was no longer a conflict with the restaurants as we worked together, providing financial assistance resulting in consistent and better entertainment. We were proud to be able to put out an event calendar where there was free entertainment

in Dockyard every day of the week. Christmas in Dockyard is now a successful annual shopping, dining and entertainment event, which operates on a fairly consistent template of weekend extended shopping hours, additional entertainment, gift-wrapping and child-care services, and so much more. Local residents now look forward to the December weekends where they can do their shopping, dining and family entertainment in one, beautifully adorned location.

CRUISE SHIP VISITS

From April to December 2014, King's Wharf and Heritage Wharf welcomed a total of approximately 355,091 passengers, very slightly down from 355,395 in 2013. The number of cruise ship visits was higher than the previous year, and we welcomed several new one-off cruise ships in addition to our regular contract ships Explorer of the Seas and Grandeur of the Seas (Royal Caribbean International), Norwegian Breakaway and Dawn (Norwegian Cruise Lines), and Summit (Celebrity Cruises). The regular contract ships accounted for 101 of the 121 cruise ships that arrived in total.

In July, WEDCO, in partnership with the Ministry of Tourism & Transport, introduced a new Minibus beach shuttle service to and from Dockyard and Horseshoe Bay and Church Bay beaches between the hours of 8am and 6pm, at a cost of \$16 per person, round trip. The service proved to be very popular with the cruise ship passengers, and was deemed necessary due to the increased number of passengers following the start of the Norwegian Breakaway's service to Bermuda. In addition, it was seen as being an opportunity for local entrepreneurs to improve and enhance the infrastructure and services provided to visitors in Dockyard.

INFRASTRUCTURE

Much of the physical building, restructuring and development of Dockyard is not always visible or obvious over the year, with a lot of behind-the-scenes development taking place. For the last eight years, WEDCO has focused on critical infrastructure upgrades, which, whilst necessary, unfortunately is not something that can always be seen by the general public.

The focus for 2014 and 2015 were the continued maintenance and upgrades to:

- Cruise ship terminals
- Sewage treatment plant
- Reverse osmosis plant
- Electrical and plumbing upgrades
- Connection of sewage and waste as far as Watford Island (Boaz Island Village)
- Clocks and clock tower face lift research

SECURITY

Additional security personnel were placed at the North Arm, which is consistent with more restricting of access when cruise ships are docked.

We currently have three partial camera systems in place and operational. Going forward we are hoping to integrate with the police to become part of the island-wide monitoring process.

We look forward to becoming more inclusive as we are such an important tourism hub for the island.

Andrew Dias, General Manager

SOUTH BASIN LTD. DEVELOPMENT

The West End Development Corporation was originally asked by the Government to assist in finding a solution for the Albert and Victoria Row housing tenants, which were not to current standards. The project, the erection of 100 pre-fabricated homes and a marina, would be carried out by South Basin Development Limited (“South Basin”), a Bermuda Company incorporated and 100% owned by WEDCO. The pre-fabricated homes would be designed, delivered and erected in partnership with the Clark International builders group of Washington DC, USA, who would set up a local company under a 114 license (100% foreign owned). Cross Island Development was established as a local company and then acquired 40% of South Basin Development for the sole purpose of delivering the housing project.

Upon completion of the 20 housing units in Victoria Place in March 2014, South Basin Development Ltd. started to look at the development of the marina project. Unfortunately, the final outcome for the marina project was overturned due to shortfalls in the environmental impact study.

The housing portion of the initial plan was the only portion of the project that South Basin Development completed. Since the project completion the shares have now been returned to WEDCO and WEDCO again owns 100% of South Basin Development. South Basin Development has remained inactive.

AMERICA'S CUP

On December 2, 2014, the official announcement of the much anticipated decision for Bermuda to host the 35th America's Cup in 2017 was revealed via live stream from the event's official website.

“In Bermuda we have a perfect international venue to demonstrate the excitement America's Cup boats and teams can generate. The sailing conditions are near

perfect. The race course on The Great Sound is a natural amphitheatre with room for racing and spectators, amid a spectacular backdrop of islands and beaches. And the proposed America's Cup Village at the Royal Naval Dockyard will be the heart of the event for the teams and fans alike.” - Harvey Schiller, Commercial Commissioner, America's Cup.



LOOKING FORWARD

2014/2015 was certainly a year of responsibility, change, transition, community and partnership. With our ongoing development, synergy and growth we look forward to the continued shift toward opportunity, teamwork and building for a

world class sailing event and year round opportunities. Each piece, group and individual are integral for a smooth and successful journey that is helping to increase awareness, profitability and pour new energy into our West End community.

FINANCIAL REVIEW 2014-2015

The year was full of incident mainly due to the impact of Hurricanes Fay and Gonzalo, which made landfall in Bermuda resulting in significant damages to certain of the Corporation's properties. As a result, the Corporation received \$6,300,000 in insurance proceeds. These proceeds are reflected in the revenues of the consolidated statement of operations and accumulated surplus. In addition, the damaged tangible capital assets were similarly written-down to reflect the impairment as shown in the same statement.

The financial implications of the above 'extraordinary' event increased revenues over prior year but also increased our expenditure (impairment charge), with our annual deficit remaining constant. Within the consolidated statement of financial position, cash increased significantly, together with an equal reduction in tangible capital assets (impairment). Our receivables also increased as tenants

struggled with costs relating to uninsured or co-pay expenses resulting from the hurricanes and, as a result, experienced rent arrears.

Despite the above events, we managed to reduce our long-term debt as a major principal payment was made to the Waste Water Treatment Facility loan, the balance of which will be fully paid in May 2016. Additionally, the Corporation received a government grant specifically to meet the interest repayment obligations on the completed Victoria Place units.

Although the year had its challenges the Corporation remains committed to push forward. The hurricanes have created a platform whereby we have undertaken major infrastructure and redevelopment projects, which will see a revitalization of our buildings. The Corporation is well poised and positioned to meet the demands and needs of the impending America's Cup in 2017.

MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

These financial statements have been prepared by management, which is responsible for the reliability, integrity and objectivity of the information provided. The preparation of financial statements necessarily involves using management's best estimates and judgments, where appropriate.

Management is responsible for maintaining a comprehensive system of accounting records, internal controls, policies and management practices, designed to provide reasonable assurance that transactions are properly authorized and in compliance with legislation, assets are safeguarded, and reliable financial information is available on a timely basis.

The West End Development Corporation's Board of Directors is responsible for ensuring that management fulfills its responsibility for financial reporting and internal controls. The Board of Directors meets periodically with management to discuss matters relating to financial reporting, internal control and audits. The Board of Directors also reviews the financial statements before their approval. The financial statements have been approved by the Board of Directors and have been examined by the Office of the Auditor General.

The accompanying independent Auditor's Report is presented herein.

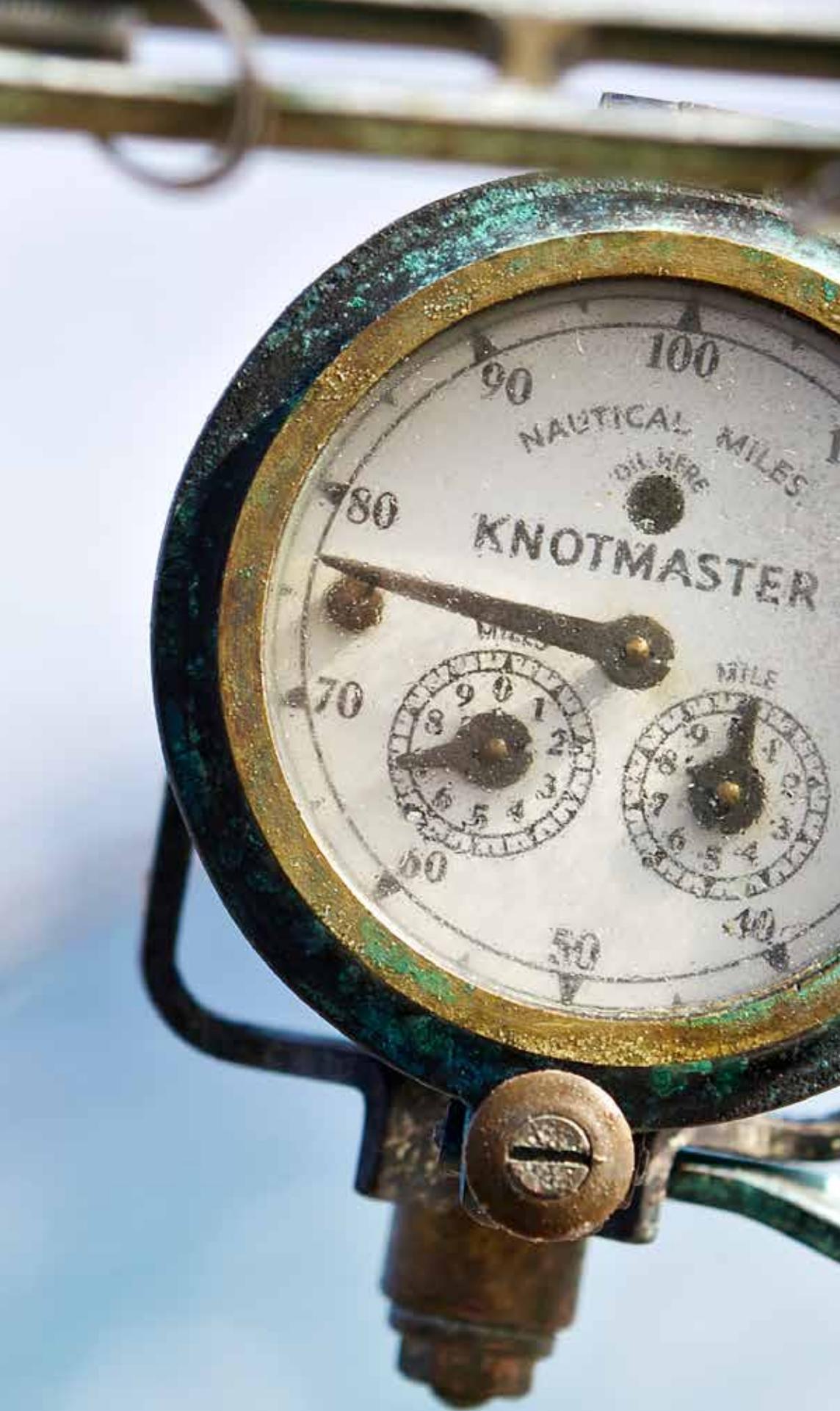


Andrew Dias | Chief Executive Officer



Kent Bascome | Chief Financial Officer

March 8, 2017



CONSOLIDATED FINANCIAL STATEMENTS

WEDCo



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INDEPENDENT AUDITOR'S REPORT

To the Minister of Public Works

I have audited the accompanying consolidated financial statements of The West End Development Corporation, which comprise the consolidated statement of financial position as at March 31, 2015, and the consolidated statements of operations and accumulated surplus, change in net debt and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with public sector accounting standards generally accepted in Bermuda and Canada, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express an opinion on these consolidated financial statements based on my audit. I conducted my audit in accordance with auditing standards generally accepted in Bermuda and Canada. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of The West End Development Corporation as at March 31, 2015, and its consolidated results of operations, changes in net debt and cash flows for the year then ended in accordance with public sector accounting standards generally accepted in Bermuda and Canada.

Hamilton, Bermuda
March 8, 2017

Heather Thomas, CPA, CFE, CGMA
Auditor General

THE WEST END DEVELOPMENT CORPORATION

Consolidated Statement of Financial Position

As at
March 31, 2015

| | 2015 \$ | 2014 \$ |
|---|--------------|--------------|
| Financial Assets | | |
| Cash and cash equivalents | 14,539,364 | 10,545,049 |
| Accounts receivable (notes 3 and 14) | 1,064,769 | 352,999 |
| Due from the Government of Bermuda (notes 12(a) and 14) | 2,968,547 | 4,440,149 |
| Tenant improvements recoverable (notes 5 and 14) | 999,823 | 1,178,138 |
| Mortgages and loans receivable (note 4) | 115,780 | 154,833 |
| Investment in a government business enterprise (note 6) | 323,021 | 419,093 |
| | 20,011,304 | 17,090,261 |
| Liabilities | | |
| Accounts payable and accrued liabilities (notes 8 and 14) | 1,403,171 | 1,777,450 |
| Employee future benefits and compensated absences (note 15) | 62,306 | 75,486 |
| Due to the Government of Bermuda (notes 11 and 14) | 353,483 | 353,483 |
| Due to the Government of Canada (note 11) | 3,646,517 | 3,896,517 |
| Deferred revenue (note 9) | 6,312 | 6,612 |
| Deferred capital contributions (note 13) | 46,274,432 | 47,617,267 |
| Long-term debt (note 12) | 27,551,418 | 28,484,082 |
| Obligations under capital lease (note 10) | 78,798 | 91,062 |
| | 79,376,437 | 82,301,959 |
| Net debt | (59,365,133) | (65,211,698) |
| Non-Financial Assets | | |
| Tangible capital assets (note 7) | 113,642,653 | 121,787,279 |
| Prepaid expenses | 48,289 | 51,732 |
| | 113,690,942 | 121,839,011 |
| Accumulated surplus | 54,325,809 | 56,627,313 |

Contractual Obligations and Contingencies (notes 11, 12 and 19)

The accompanying notes are an integral part of these consolidated financial statements

THE WEST END DEVELOPMENT CORPORATION

Consolidated Statement of Operations and Accumulated Surplus

For the year ended
March 31, 2015

| | Budget (Note 18) | Actual | Actual |
|--|------------------|-------------|-------------|
| | 2015 | 2015 | 2014 |
| | \$ | \$ | \$ |
| Revenues | | | |
| Proceeds from insurance claims (note 16(a)) | - | 6,300,000 | - |
| Rental (note 14) | 6,464,888 | 5,872,367 | 5,806,542 |
| Dock (note 14) | 1,769,860 | 2,063,674 | 1,955,579 |
| Amortization of deferred capital contributions (note 13) | 1,342,835 | 1,342,835 | 1,342,835 |
| Government contributions (notes 12 and 14) | 1,540,000 | 1,054,826 | 192,290 |
| Service and expense recoveries | 957,607 | 884,675 | 813,042 |
| Water (note 14) | 691,000 | 605,106 | 798,728 |
| Other | 114,251 | 303,785 | 193,060 |
| Investment income (notes 4 and 5) | 21,750 | 16,738 | 16,992 |
| (Loss) income from investment in a government business enterprise (note 6) | - | (96,072) | 93,504 |
| | 12,902,191 | 18,347,934 | 11,212,572 |
| Expenses | | | |
| Facilities (note 16) | 9,107,225 | 16,310,995 | 10,068,786 |
| Administration (note 16) | 4,187,292 | 3,469,780 | 2,535,870 |
| Business development (note 16) | 820,053 | 868,663 | 919,285 |
| | 14,114,570 | 20,649,438 | 13,523,941 |
| Annual deficit | (1,212,379) | (2,301,504) | (2,311,369) |
| Accumulated surplus, Beginning of year | | 56,627,313 | 58,938,682 |
| Accumulated surplus, End of year | | 54,325,809 | 56,627,313 |

The accompanying notes are an integral part of these consolidated financial statements



THE WEST END DEVELOPMENT CORPORATION

Consolidated Statement of Change in Net Debt

For the year ended
March 31, 2015

| | Budget (Note 18) | Actual | Actual |
|--|------------------|--------------|--------------|
| | 2015 | 2015 | 2014 |
| | \$ | \$ | \$ |
| Annual deficit | (1,212,379) | (2,301,504) | (2,311,369) |
| Acquisition of tangible capital assets (note 7) | (3,796,538) | (2,580,696) | (10,017,037) |
| Amortization of tangible capital assets (note 7) | 3,796,538 | 4,425,322 | 4,117,766 |
| Write-downs on tangible capital assets (note 16) | - | 6,300,000 | - |
| Write down of costs included in work in progress | - | - | 777,167 |
| | - | 8,144,626 | (5,122,104) |
| Acquisition of inventories | - | - | (1) |
| Acquisition of prepaid expenses | - | (48,289) | (51,731) |
| Use of prepaid expenses | - | 51,732 | 97,329 |
| | - | 3,443 | 45,597 |
| Change in net debt | (1,212,379) | 5,846,565 | (7,387,876) |
| Net debt, Beginning of year | | (65,211,698) | (57,823,822) |
| Net debt, End of year | | (59,365,133) | (65,211,698) |

The accompanying notes are an integral part of these consolidated financial statements

THE WEST END DEVELOPMENT CORPORATION

Consolidated Statement of Operations and Cash Flows

For the year ended
March 31, 2015

| | 2015 \$ | 2014 \$ |
|---|-------------|--------------|
| Cash flows from operating activities | | |
| Annual deficit | (2,301,504) | (2,311,369) |
| Adjustments for items not affecting cash: | | |
| Amortization of tangible capital assets | 4,425,322 | 4,117,766 |
| Write-downs on tangible capital assets | 6,300,000 | - |
| Write down of costs included in work in progress | - | 777,167 |
| Amortization of deferred capital contributions | (1,342,835) | (1,342,835) |
| Loss (income) from investment in a government business enterprise | 96,072 | (93,504) |
| Changes in non-cash working capital: | | |
| (Increase) decrease in accounts receivable | (711,770) | 86,370 |
| Decrease in accounts payable and accrued liabilities | (374,279) | (3,129,111) |
| (Decrease) Increase in deferred revenue | (300) | 2,525 |
| Decrease in employee future benefits and compensated absences | (13,180) | (8,118) |
| Decrease in prepaid expenses | 3,443 | 45,600 |
| Net cash generated through (used in) operating activities | 6,080,969 | (1,855,509) |
| Cash flows from capital activity | | |
| Acquisition of tangible capital assets | (2,580,696) | (10,017,040) |
| Net cash used in capital activity | (2,580,696) | (10,017,040) |
| Cash flows from investing activities | | |
| Net payment of mortgages and loans receivable | 39,053 | 35,387 |
| Net payment of tenant improvements recoverable | 178,315 | 206,920 |
| Net cash generated through investing activities | 217,368 | 242,307 |
| Cash flows from financing activities | | |
| Proceeds from the Government of Bermuda | 1,471,602 | 1,474,959 |
| Repayment of obligations under capital lease | (12,264) | (11,155) |
| Repayment of long-term debt | (1,428,571) | (1,428,571) |
| Additions to long-term debt | 495,907 | 10,501,007 |
| Repayment of amounts due to the Government of Canada | (250,000) | (250,000) |
| Net cash generated through financing activities | 276,674 | 10,286,240 |
| Net increase (decrease) in cash and cash equivalents | 3,994,315 | (1,344,002) |
| Cash and cash equivalents, beginning of year | 10,545,049 | 11,889,051 |
| Cash and cash equivalents, end of year | 14,539,364 | 10,545,049 |
| Supplemental cash flow information | | |
| Interest income received | 16,738 | 16,992 |
| Interest expense paid | 1,443,789 | 424,444 |

The accompanying notes are an integral part of these consolidated financial statements



THE WEST END DEVELOPMENT CORPORATION

Notes to Consolidated Financial Statements

For the year ended
March 31, 2015

1. NATURE OF OPERATIONS

The West End Development Corporation (the "Corporation") is a statutory corporation established by the West End Development Corporation Act 1982 (the "Act"), and is the responsibility of the Ministry of Public Works. The general function of the Corporation is to manage and develop all designated land in the western end of the island of Bermuda with a view to the progressive improvement of the social and economic conditions.

2. SIGNIFICANT ACCOUNTING POLICIES

These consolidated financial statements have been prepared in accordance with public sector accounting standards generally accepted in Bermuda and Canada as recommended by the Public Sector Accounting Board ("PSAB") of the Chartered Professional Accountants of Canada ("CPA Canada"). For financial reporting purposes, the Corporation is classified as an other government organization and has adopted accounting policies appropriate for this classification. The policies considered particularly significant are as follows:

(a) Revenue Recognition

Rental income received under operating leases is recognized on an accrual basis.

Dock fees received from all vessels arriving in Dockyard, are recognized on an accrual basis.

Service recoveries and expense recoveries are recognized when received or receivable.

Gains on disposal of tangible capital assets when applicable along with investment income, are recorded as revenues in the year in which they are earned.

The Government of Bermuda (the "Government") contributions are recorded as revenues on the consolidated statement of operations and accumulated surplus in the year to which it relates.

Contributed tangible capital assets are recorded into revenues at their fair value at the date of contribution. When fair value cannot be reasonably determined, the tangible capital assets are recorded at nominal value. Transfers of capital assets from related parties are recorded at the net book value (amortized cost).

Government transfers are recognized as revenues when the transfer is authorized and any eligibility criteria are met, except to the extent that 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 consolidated statement of operations and accumulated surplus as the stipulation liabilities are settled.

Contributions from other sources are deferred when restrictions are placed on their use by the contributor, and are recognized as revenue when used for the specific purpose. Restricted contributions that must be maintained in perpetuity are recorded as revenue when received or receivable, and are presented as non-financial assets in the consolidated statement of financial position.

Revenue related to fees or services received in advance of the fee being earned or the service being performed is deferred and recognized when the fee is earned or service performed.

(b) Cash and cash equivalents

Cash and cash equivalents consist of cash on hand and current and call account balances with banks that can be withdrawn without prior notice or penalty and time deposits with an original maturity of 3 months or less from the date of acquisition.

THE WEST END DEVELOPMENT CORPORATION

Notes to Consolidated Financial Statements

For the year ended
March 31, 2015

(c) Investment in a government business enterprise (GBE)

The investment in a GBE is accounted for using the modified equity method which requires the Corporation to recognize the net income and changes in equity on its investments upon commencement of operations.

(d) Mortgages and loans receivable

Mortgages and loans receivable are recorded at amortized cost less any amount for valuation allowances. Valuation allowances are made when collection is in doubt. Interest is accrued on loans to the extent that it is deemed collectible.

(e) Employee future benefits

(i) **Pension benefits** - The employees of the Corporation belong to pension plans based on their affiliation with a particular collective bargaining agreement. These plans are both defined contribution and defined benefit plans and the contributions of the Corporation to these plans are recorded as an expense for the year.

(ii) **Retirement benefit allowance** - The employees of the Corporation are entitled to payment of up to 12 weeks salary/wages based on their length of service. The Corporation's liability in this regard is accrued and has been actuarially determined.

(f) Tangible capital assets

Tangible capital assets are recorded at cost which includes amounts that are directly related to the acquisition, design, construction, development, improvement or betterment of the assets. Cost includes overhead directly attributable to construction and development, as well as interest costs that are directly attributable to the acquisition or construction of the asset.

Amortization is calculated on a straight-line basis over the estimated useful lives of the assets as follows:

| | Years |
|---------------------------------------|-------|
| Furniture, equipment and tools | 3-10 |
| Building improvements and renovations | 10-25 |
| Mechanical rehabilitation | 10-25 |
| Landscaping | 5-40 |
| Buildings | 40 |
| Infrastructure rehabilitation | 40 |

Assets under development represent the cost of direct materials and labour of capital projects not completed at year-end.

A half-year amortization is charged in the year the asset is brought into use.

(g) 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. All other borrowing costs are recognized in the consolidated statement of operations and accumulated surplus in the year in which they are incurred.

(h) Prepaid expenses

Prepaid expenses include advertising, insurance, licenses and software support and are charged to expense over the periods expected to benefit.

(i) Funds and reserves

Certain amounts, as approved by the Board of Directors (the "Board"), are set aside in accumulated surplus for future operating and capital purposes.

THE WEST END DEVELOPMENT CORPORATION

Notes to Consolidated Financial Statements

For the year ended
March 31, 2015

(j) Expenses

Expenses are reported on an accrual basis. The cost of all goods consumed and services received during the year is expensed.

(k) Use of estimates

The preparation of financial statements in conformity with public sector accounting standards generally accepted in Bermuda and Canada requires 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. Items requiring the use of significant estimates include the useful life of tangible capital assets, employee future benefits, provision for doubtful accounts, rates for amortization, etc. 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.

(l) Financial instruments

The Corporation's financial instruments consist of cash and cash equivalents, accounts receivable, due from the Government of Bermuda, mortgages and loans receivable, tenant improvements recoverable, accounts payable and accrued liabilities, due to the Government of Bermuda, due to the Government of Canada and long-term debt.

Financial assets measured at cost include cash and cash equivalents, accounts receivable and due from the Government of Bermuda. Financial assets measured at amortized cost include mortgages and loans receivable and tenant improvements recoverable.

Financial liabilities measured at cost include accounts payable and accrued liabilities, due to the Government of Bermuda and due to the Government of Canada. The Corporation's long-term debt is measured at amortized cost.

It is management's opinion that the Corporation is not exposed to significant interest rate, foreign currency or credit risks arising from these financial instruments.

3. ACCOUNTS RECEIVABLE

| | 2015 \$ | 2014 \$ |
|--|-------------|-------------|
| Tenants receivables | 2,076,429 | 1,569,626 |
| Accrued interest and other receivables | 124,258 | 71,754 |
| Less: Provision for doubtful accounts | (1,135,918) | (1,288,381) |
| | 1,064,769 | 352,999 |

4. MORTGAGES AND LOANS RECEIVABLE

Mortgages and loans receivable consist of:

| | 2015 \$ | 2014 \$ |
|---|------------|------------|
| Mortgages receivable (note a) | 58,358 | 76,220 |
| Loans receivable - Boaz Island Village Condo Corporation (note b) | 57,422 | 78,613 |
| | 115,780 | 154,833 |

THE WEST END DEVELOPMENT CORPORATION

Notes to Consolidated Financial Statements

For the year ended
March 31, 2015

(a) In April 1985, the Corporation received permission to sell, subject to the approval of the Minister of Works & Engineering and Housing, the freehold interest of its residential properties in the West End Development Corporation area under the provisions of Section 20 of the Act. The mortgages are for periods varying from 5 to 30 years at an interest rate of 9% per annum, which are secured by the properties.

(b) During fiscal 2012, the Corporation advanced funds to the Boaz Island Village Condominium Corporation to assist them to upgrade their water meters throughout the Village. The loan is for an amount up to \$100,000 at an interest rate of 6% per annum, unsecured and payable on demand. Interest has been accrued and added to the principal outstanding.

5. TENANT IMPROVEMENTS RECOVERABLE

Mortgages and loans receivable consist of:

| | 2015 \$ | 2014 \$ |
|--|------------|------------|
| Department of Public Transportation (note a) | - | 63,877 |
| Department of Corrections (note b) | 995,323 | 1,109,761 |
| Bermy Berry | 4,500 | 4,500 |
| | 999,823 | 1,178,138 |

(a) On April 23, 2010, the Corporation provided funding, in the amount of \$471,663, to the Department of Public Transportation to develop a bus depot in Dockyard to replace the existing one in Sandys Parish. This loan is to be amortized over 5 years at an interest rate of 7% per annum. The loan was repaid in full on October 1, 2014.

(b) On February 1, 2012, the Corporation entered into a Memorandum of Understanding with the Department of Corrections to develop, finance and construct offices for the department's relocation at the upper west section of the Clock Tower building. The financing amounted to \$1,335,416 and is to be amortized over a period of 10 years at an interest rate of 6% per annum.

6. INVESTMENT IN A GOVERNMENT BUSINESS ENTERPRISE

During the fiscal year ended March 31, 2010, the formation of a limited liability company known as South Basin Development Ltd. ("SBD") was finalized. SBD has the specific role of developing affordable housing, a Marina and land reclamation. SBD is owned by the Corporation and Cross Island Development Ltd (CID) on a ratio of 60% and 40%, respectively. The following is the Corporation's 60% share of components of the financial statements of SBD.

| | 2015 \$ | 2014 \$ |
|---|------------|------------|
| Total assets | 449,583 | 770,110 |
| Total liabilities | 141,436 | 365,887 |
| Net assets | 308,147 | 404,223 |
| Revenue | 257,615 | 5,141,843 |
| Expenses | 353,687 | 5,048,339 |
| (Deficiency) excess of revenue over expenses for the year | (96,072) | 93,504 |
| Net cash (used in) generated through operating activities | (22,908) | 220,165 |

THE WEST END DEVELOPMENT CORPORATION

Notes to Consolidated Financial Statements

For the year ended
March 31, 2015

For financial reporting purposes, SBD is classified as a government business enterprise, and as such applies International Financial Reporting Standards. Consequently, differences may arise between the accounting policies of the Corporation and those of SBD. Using the modified equity approach, the Corporation makes no adjustment to the amounts disclosed or recognized in its consolidated financial statements for these differences.

As at year end, \$14,874 (2014 - \$14,874) in legal and other setup costs had been incurred on the formation of SBD and are included in the investment in a government business enterprise.

7. TANGIBLE CAPITAL ASSETS

| 2015 | Land and building | Infrastructure rehabilitation | Building improvements and renovations | Mechanical rehabilitation | Landscaping | Furniture equipment and tools | Assets under development | Total |
|----------------------------------|-------------------|-------------------------------|---------------------------------------|---------------------------|-------------|-------------------------------|--------------------------|-------------|
| | \$ | \$ | \$ | \$ | \$ | \$ | \$ | \$ |
| Opening cost | 110,379,220 | 20,887,300 | 16,399,170 | 5,845,158 | 3,961,504 | 2,810,355 | 1,546,457 | 161,829,164 |
| Additions | - | - | 239,644 | - | - | 82,218 | 2,498,478 | 2,820,340 |
| Disposals | - | - | - | - | - | (28,015) | - | (28,015) |
| Write downs | (6,300,000) | - | - | - | - | - | - | (6,300,000) |
| Transfers | - | - | - | - | - | - | (239,644) | (239,644) |
| Closing cost | 104,079,220 | 20,887,300 | 16,638,814 | 5,845,158 | 3,961,504 | 2,864,558 | 3,805,291 | 158,081,845 |
| Opening accumulated amortization | 14,205,580 | 8,235,240 | 10,163,008 | 1,784,201 | 3,187,389 | 2,466,467 | - | 40,041,885 |
| Amortization | 2,853,482 | 543,341 | 562,984 | 305,736 | 90,099 | 69,680 | - | 4,425,322 |
| Disposals | - | - | - | - | - | (28,015) | - | (28,015) |
| Closing accumulated amortization | 17,059,062 | 8,778,581 | 10,725,992 | 2,089,937 | 3,277,488 | 2,508,132 | - | 44,439,192 |
| Net book value | 87,020,158 | 12,108,719 | 5,912,822 | 3,755,221 | 684,016 | 356,426 | 3,805,291 | 113,642,653 |

| 2014 | Land and building | Infrastructure rehabilitation | Building improvements and renovations | Mechanical rehabilitation | Landscaping | Furniture equipment and tools | Assets under development | Total |
|----------------------------------|-------------------|-------------------------------|---------------------------------------|---------------------------|-------------|-------------------------------|--------------------------|--------------|
| | \$ | \$ | \$ | \$ | \$ | \$ | \$ | \$ |
| Opening cost | 84,289,932 | 20,822,031 | 16,216,095 | 5,711,051 | 3,935,236 | 2,701,827 | 18,913,121 | 152,589,293 |
| Additions | 26,089,288 | 65,269 | 183,075 | 134,107 | 26,268 | 108,528 | 9,974,344 | 36,580,879 |
| Write downs | - | - | - | - | - | - | (777,167) | (777,167) |
| Transfers | - | - | - | - | - | - | (26,563,841) | (26,563,841) |
| Closing cost | 110,379,220 | 20,887,300 | 16,399,170 | 5,845,158 | 3,961,504 | 2,810,355 | 1,546,457 | 161,829,164 |
| Opening accumulated amortization | 11,646,996 | 7,693,311 | 9,622,966 | 1,483,998 | 3,086,993 | 2,389,855 | - | 35,924,119 |
| Amortization | 2,558,584 | 541,929 | 540,042 | 300,203 | 100,396 | 76,612 | - | 4,117,766 |
| Closing accumulated amortization | 14,205,580 | 8,235,240 | 10,163,008 | 1,784,201 | 3,187,389 | 2,466,467 | - | 40,041,885 |
| Net book value | 96,173,640 | 12,652,060 | 6,236,162 | 4,060,957 | 774,115 | 343,888 | 1,546,457 | 121,787,279 |

THE WEST END DEVELOPMENT CORPORATION

Notes to Consolidated Financial Statements

For the year ended
March 31, 2015

Under the Act, approximately 214 acres of land comprising Watford Island, Boaz Island and Ireland Islands North and South, including buildings thereon, were vested in the Corporation by the Government. According to Section 20 of the Act, the Corporation shall not make a sale or other disposition of any vested property or any interest in vested property unless the Senate and the House of Assembly have first approved the sale or disposition by resolution. The Corporation has received approval to sell residential properties from the Minister of Works & Engineering and Housing as disclosed in note 4.

On May 7, 2009, the Government conveyed ownership of the newly built cruise ship pier, Heritage Wharf, and the associated reclaimed land to the Corporation with an estimated value of \$58,000,000 for a nominal fee of \$1. Under the terms of the conveyance agreements, the Government has an irrevocable right to purchase the transferred assets for the same consideration. On September 8, 2010, the Government had expressed the intention to divest the Corporation of this asset and enter into a lease and repair agreement with the Corporation, however, as at March 31, 2015, this had not occurred.

In April 2005, the Board approved the disposal of the 52 units owned by the Corporation at Boaz Island Village. Management is actively pursuing potential buyers of the individual units. As at March 31, 2015, there were 32 units (2014 - 32 units) remaining.

Included in the above tangible capital assets are rental revenue producing assets at a cost of \$21,959,378 (2014 - \$21,959,378) and related accumulated amortization of \$12,866,097 (2014 - \$12,134,988).

8. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

| | 2015 \$ | 2014 \$ |
|--|------------|------------|
| Accounts payable and accrued liabilities | 1,114,897 | 1,092,726 |
| South Basin Development Ltd - Victoria Place | 74,369 | 498,682 |
| Rental deposits | 213,905 | 186,042 |
| | 1,403,171 | 1,777,450 |

9. DEFERRED REVENUE

| | 2015 \$ | 2014 \$ |
|-------------------------|------------|------------|
| Advance rental payments | 775 | 775 |
| Other | 5,537 | 5,837 |
| | 6,312 | 6,612 |

10. OBLIGATIONS UNDER CAPITAL LEASE

Effective February 1, 2010, the Corporation entered into a capital lease with Air Care to provide upgrades to existing equipment and to replace any and all equipment as necessary at a cost of \$175,084 at a fixed rate of 9.5% per annum. Based on the agreed amortization period of ten years, monthly installment amounts of principal and interest were \$1,700. The Corporation made a 25% down payment of \$43,771 under the terms of the lease.

THE WEST END DEVELOPMENT CORPORATION

Notes to Consolidated Financial Statements

For the year ended
March 31, 2015

| Year | Capital lease obligation \$ | Interest \$ | Total lease payment \$ |
|-------------|--------------------------------|----------------|---------------------------|
| 2016 | 13,483 | 6,917 | 20,400 |
| 2017 | 14,823 | 5,577 | 20,400 |
| 2018 | 16,296 | 4,104 | 20,400 |
| 2019 - 2020 | 34,196 | 3,204 | 37,400 |
| | 78,798 | 19,802 | 98,600 |

11. DUE TO THE GOVERNMENT OF CANADA

Effective December 31, 1993, the Department of National Defense, Canada, withdrew its personnel from Bermuda. A Deed of Surrender was signed on November 6, 1995, whereby the Government of Canada surrendered 54 Boaz Island Village units to the Corporation. The deed requires the Corporation to pay the sum of \$5,000,000, interest free, within a term of ten years from the date of the deed.

On May 26, 2011, the Government of Canada declined a request for forgiveness of the loan and requested for payment.

This decision and the existing deed have been superseded by an agreement dated April 30, 2012 with an effective date of October 2011. In this agreement, the Government of Canada and the Corporation agreed to a payment schedule of \$250,000 per annum over 20 years, with \$353,483 to be discharged as redundancy payment payable on behalf of the Government of Canada to the Government.

12. LONG-TERM DEBT

Long-term debt consist of:

| | 2015 \$ | 2014 \$ |
|--|------------|------------|
| Loan for the Waste Water Treatment Facility (note a) | 2,857,145 | 4,285,716 |
| Loan for the Victoria Place Project (note b) | 24,694,273 | 24,198,366 |
| | 27,551,418 | 28,484,082 |

(a) In April 2009, the Corporation secured a loan for \$10,000,000 through Clarien Bank (formerly Capital G Bank) (the "Bank") to fund the completion of the new Waste Water Treatment Facility in Dockyard. The interest rate on the loan is the Bank's Bermuda dollar base rate plus margin of 0.75%. This unsecured loan is for a term of 7 years and repayment of principal and interest has been guaranteed by the Government by way of annual grants to the Corporation. Grants receivable represent amounts recoverable from the Government by the Corporation in respect to the loan.

Scheduled principal and interest repayments which constitute the expected annual grants from the Government are as follows:

THE WEST END DEVELOPMENT CORPORATION

Notes to Consolidated Financial Statements

For the year ended
March 31, 2015

| | Principal \$ | Interest \$ | Total \$ |
|--------------|-----------------|----------------|-------------|
| Due Date | | | |
| May 30, 2015 | 1,428,571 | 116,405 | 1,544,976 |
| May 30, 2016 | 1,428,574 | 53,262 | 1,481,836 |
| | 2,857,145 | 169,667 | 3,026,812 |

The interest payments do not reflect the change in interest rate during the year.

Government contributions include interest expense on the loan which is recoverable from the Government. As at March 31, 2015, government contribution receivable in the amount of \$2,857,145 (2014 - \$4,285,716) is included in Due from the Government of Bermuda in the consolidated statement of financial position.

(b) In April 2012, the Corporation secured a loan drawdown facility for \$36,000,000 through Butterfield Bank (the "Bank"), guaranteed by the Government of Bermuda, to fund the development of the new Victoria Place housing units at the Victoria Place in Dockyard. In January 2013, the project scope was reduced significantly resulting in a revised loan drawdown facility of \$24,694,273.

The term of the loan commences on May 1, 2014 and ends on October 31, 2023 (the "term"). During the first 18 months of the term, interest will be charged at a rate of 1.50% per annum above the Bank's United States Dollar Base Rate as varied by the Bank from time to time and commencing October 31, 2015, a rate of 1.25% per annum above the Bank's United States Dollar Base Rate as varied by the Bank from time to time. Throughout the Term Loan period, interest is payable monthly in arrears on the last day of each month.

Commencing October 2015, the Corporation shall make annual principal payments of not less than US\$1,100,000, payable no later than the last day of each relevant 12 month period. The loan together with all accrued interest and other sums payable by the Corporation to the Bank, shall be repaid at the end of the term.

As at March 31, 2015, total loan facility drawdowns were \$24,694,273 as follows:

| | Amount \$ | Balance \$ |
|--------------------------|--------------|---------------|
| Period | | |
| Balance at April 1, 2013 | | 13,697,359 |
| April 2013 | 2,802 | 13,700,161 |
| May 2013 | 4,865,176 | 18,565,337 |
| June 2013 | 1,003,952 | 19,569,289 |
| August 2013 | 702,772 | 20,272,061 |
| August 2013 | 803,476 | 21,075,537 |
| September 2013 | 536,125 | 21,611,662 |
| October 2013 | 373,123 | 21,984,785 |
| November 2013 | 714,340 | 22,699,125 |
| January 2014 | 695,691 | 23,394,816 |
| February 2014 | 368,696 | 23,763,512 |
| March 2014 | 434,854 | 24,198,366 |
| May 2014 | 495,907 | 24,694,273 |

THE WEST END DEVELOPMENT CORPORATION

Notes to Consolidated Financial Statements

For the year ended
March 31, 2015

13. DEFERRED CAPITAL CONTRIBUTIONS

Deferred capital contributions represent the unamortized amount of capital assets received and grants received for the purchase of capital assets. The amortization of deferred capital contributions is recorded as revenue in the consolidated statement of operations and accumulated surplus.

| | 2015 \$ | 2014 \$ |
|--------------------------------------|-------------|-------------|
| Balance, beginning of year | 47,617,267 | 48,960,102 |
| Less: amount amortized to operations | (1,342,835) | (1,342,835) |
| Balance, end of year | 46,274,432 | 47,617,267 |

14. RELATED PARTY TRANSACTIONS

The Corporation is related to all Government departments, ministries, funds and quasi-autonomous non-governmental organizations under the common control of the Government. Also, the Corporation is related to organizations that the Government jointly controls or significantly influences. The Corporation enters into transactions with these entities in the normal course of business which are measured at the exchange amount, which is established and agreed to by the related parties. Related party transactions entered into by the Corporation during the year are as follows:

| Governmental Transactions | 2015 \$ | 2014 \$ |
|---|------------|------------|
| Transactions during the year | | |
| Rental revenue | 1,318,544 | 1,213,427 |
| Government contributions (note 12) | 1,054,826 | 192,290 |
| Dock revenue | 255,214 | 254,131 |
| Water revenue | 56,000 | 56,000 |
| Water and insurance expense | 484,558 | 662,856 |
| Employee future benefits expense | 251,335 | 248,313 |
| Tenant improvements recoverable | 243,287 | 289,984 |
| Balances at the end of the year | | |
| Accounts receivable (note 3) | 13,041 | 38,279 |
| Due from the Government of Bermuda (note 12) | 2,968,547 | 4,440,149 |
| Tenant improvements recoverable (note 5) | 995,323 | 1,173,638 |
| Accounts payable and accrued liabilities (note 8) | 75,463 | 191,714 |
| Due to the Government of Bermuda (note 11) | 353,483 | 353,483 |
| Non-governmental transactions | | |
| Transactions during the year: | | |
| Contract fees paid to SBD | - | 8,413,551 |
| Management fees paid to SBD | - | 156,185 |
| Balances at the end of the year: | | |
| Due to SBD (note 8) | 74,369 | 498,682 |

15. EMPLOYEE FUTURE BENEFITS AND COMPENSATED ABSENCES**(a) Pension plans**

(i) **Pension plans for Bermuda Industrial Union employees** - Employees of the Corporation who are included in the Government collective bargaining agreement with the Bermuda Industrial Union are covered by the Public Service Superannuation Fund (the "Fund"), which is a defined benefit plan administered by the Government. Employee contributions to the Fund are 8% of gross wages and they are matched by the Corporation.

The Corporation is not required, under present legislation, to make contributions to the Fund with respect to quantified actuarial deficiencies. As a result, the current year contributions to the Fund represent the total liability of the Corporation. The Corporation's contributions to the Fund during the year totaled \$82,658 (2014 - \$74,512).

(ii) **Pension plan for administrative employees** - Administrative employees of the Corporation are covered under a private defined contribution plan (the "Plan") through BF&M Life Insurance Co. Ltd. Employee contributions to the Plan are 5% of gross salary and they are matched by the Corporation. These contributions represent the total liability of the Corporation and are recognized in the accounts on a current basis. The Corporation's contributions to the Plan during the year amounted to \$60,803 (2014 - \$63,409).

(b) Other benefits and compensated absences

Other employee benefits and compensated absences include maternity leave, paternity leave, sick leave, vacation days and retirement leave. All of these benefits are unfunded.

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

Vacation days accumulate and vest and therefore a liability is accrued each year. The accrued vacation liability as of March 31, 2015 is \$132,921 (2014 - \$88,644) and is included in accounts payable and accrued liabilities.

Employees are entitled to retirement leave benefit based upon their years of service at the time of retirement. The retirement leave accumulates and vests and a liability is accrued each year. During the year, retirement leave benefits in the amount of \$13,181 (2014 - \$25,037) were paid. The liability as at March 31, 2015 is \$62,306 (2014 - \$75,486) and is included in employee future benefits and compensated absences on the consolidated statement of financial position.

THE WEST END DEVELOPMENT CORPORATION

Notes to Consolidated Financial Statements

For the year ended
March 31, 2015

16. EXPENSE DETAILS

| | Budget 2015 \$ | Actual 2015 \$ | Actual 2014 \$ |
|--|-------------------|-------------------|-------------------|
| Facilities | | | |
| Write-downs on tangible capital assets (note a) | - | 6,300,000 | - |
| Amortization of tangible capital assets | 3,796,538 | 4,425,322 | 4,117,766 |
| Repairs and maintenance | 1,386,750 | 2,220,222 | 1,572,899 |
| Wages | 1,010,000 | 1,118,752 | 1,146,914 |
| Water | 1,200,000 | 594,069 | 867,626 |
| Write down of costs included in work in progress | - | - | 777,167 |
| Electricity | 469,700 | 468,437 | 462,723 |
| Security services | 432,350 | 368,636 | 312,868 |
| Salaries | 335,092 | 346,179 | 366,119 |
| Dock operations and maintenance | 255,000 | 262,392 | 258,290 |
| Landscaping operations | 77,600 | 103,663 | 71,629 |
| Vehicle | 78,195 | 54,872 | 56,831 |
| Custodial services | 66,000 | 48,451 | 57,954 |
| | 9,107,225 | 16,310,995 | 10,068,786 |
| Administration | | | |
| Financing costs | 1,543,000 | 1,471,752 | 440,199 |
| Salaries | 834,994 | 697,583 | 841,612 |
| Insurance | 690,800 | 504,169 | 678,004 |
| Employee future benefits | 517,607 | 445,498 | 470,501 |
| Office supplies | 341,891 | 332,319 | 374,752 |
| Travel and entertainment | 9,000 | 9,381 | 17,698 |
| Bad debt (recovery) | 250,000 | 9,078 | (286,896) |
| | 4,187,292 | 3,469,780 | 2,535,870 |
| Business Development | | | |
| Advertising, promotions and maintenance | 382,000 | 377,918 | 469,123 |
| Salaries | 267,293 | 270,806 | 296,628 |
| Legal and professional fees | 160,200 | 200,561 | 127,694 |
| Water | 10,560 | 19,378 | 25,840 |
| | 820,053 | 868,663 | 919,285 |

(a) Hurricane Fay and Hurricane Gonzalo

In October 2014, Hurricane Fay and Hurricane Gonzalo made landfall in Bermuda (the "storms") and damaged certain properties of the Corporation. As a result, the Corporation recognized a write-down on tangible capital assets of \$6.3 million for the year ended March 31, 2015.

On March 11, 2015, the Corporation's insurer granted a claim settlement of \$6.3 million in favor of the Corporation for the restoration of the damaged properties. The proceeds from insurance claims is recognized as part of revenues in the consolidated statement of operations and accumulated surplus.

17. FINANCIAL RISK MANAGEMENT

The Corporation has exposure to counterparty credit risk, liquidity risk and market risk associated with its financial assets and liabilities. The Board has overall responsibility for the establishment and oversight of the Corporation's risk management framework. The Board has established the Finance and Audit Committee which is responsible for developing and monitoring the Corporation's compliance with risk management policies and procedures. The Finance and Audit Committee regularly reports to the Board on its activities. The Corporation's risk management program seeks to minimize potential adverse effects on the Corporation's financial performance. The Corporation manages its risks and risk exposures through a combination of insurance and sound business practices.

(a) Credit risk

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

(i) Cash and cash equivalents - Cash and cash equivalents consist of cash on hand, current account balances and short-term deposits 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 trade accounts receivable from billings of services provided. The Corporation's credit risk arises from the possibility that a counterparty which owes the Corporation money is unable or unwilling to meet its obligations in accordance with the terms and conditions in the contracts with the Corporation, which would result in a financial loss for the Corporation. This risk is mitigated through established credit management techniques, including monitoring counterparty's creditworthiness, obtaining references and taking security deposits. In the year ended March 31, 2015, the maximum credit risk to which the Corporation is exposed represents the fair value of its accounts receivable.

(b) Liquidity risk

Liquidity risk is the risk the Corporation will not be able to meet its financial obligations as they fall due. The Corporation'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 Corporation's reputation. The Corporation 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.

(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 Corporation's results of operations. The Corporation has minimal exposure to market risk.

(i) Foreign exchange risk - The Corporation'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 Corporation is exposed to changes in interest rates, which may impact interest revenue on short-term deposits and interest expense on long-term debt.

THE WEST END DEVELOPMENT CORPORATION

Notes to Consolidated Financial Statements

For the year ended
March 31, 2015

18. BUDGET

These amounts represent the operating budget approved by the Board on January 29, 2014.

19. SUBSEQUENT EVENTS

(a) Victualling Yard

In September 2013, the Board of Directors of the Corporation approved the release of Expressions of Interest proposals to develop the area of land commonly known as the Victualling Yard. On May 28, 2014, a successful candidate was chosen and thereafter, the Corporation issued a memorandum of understanding (MOU) for an initial period of six (6) months that was eventually extended to expire on October 31, 2015.

As of October 2015, the potential developer had not made any progress on the project and the MOU expired. The Corporation's management and Board then decided to gauge interest from the next successful candidate from the initial Expressions of Interest proposals. In February 2016, the Corporation issued a memorandum of understanding (MOU) to a new potential developer for an initial period of three (3) months that was subsequently extended to six (6) months. On October 17, 2016, the Corporation further extended the memorandum of understanding (MOU) for an additional six (6) months with an expiration date of February 15, 2017.

(b) Land Reclamation and Marina

In July 2014, the Corporation obtained Cabinet's approval to proceed with conceptual plans for the development of a marina and land reclamation in the area known as the South Basin.

The Project seeks to reclaim approximately 10 acres of land. The land reclamation was poised to be the future home of a first class Marine Service business, a Marina and a purpose-built Marine & Ports ("M&P") facility inclusive of service areas and docking for M&P ferries and tugs.

Part of the initial plans for the Project was to enter into a 120 year lease with SBD for the finance, design, construction and ultimately operation of the new marina and reclaimed land. However, this changed when Bermuda was awarded with the America's Cup Sailing Competition for 2017. See succeeding note below.

(c) America's Cup 2017

On December 2, 2014, Bermuda was awarded the America's Cup Sailing Competition for 2017. The Corporation will provide the site for this event.

On July 22, 2015, the Corporation entered into a lease agreement with ACBDA Limited for the lease of certain portions of the Royal Naval Dockyard and the Ireland Island North in Sandys Parish to facilitate the hosting of the America's Cup Sailing Competition in 2017. The lease period is from April 1, 2015 to August 31, 2017 with annual rental value of one peppercorn.

In July 2015, the Corporation entered into a construction management agreement with ACBDA Limited (ACBDA) (the "agreement") for the reclamation of approximately 10 acres of land in South Basin (the "Site"). ACBDA will act as the project manager for the land reclamation project at the Site to make the same suitable for use as the 35th America's Cup Event Village (the "SBR"). In relation to this, ACBDA have engaged a third party construction management company whose primary obligation, among others, is to act as the construction manager for ACBDA and manage the design and construction of the SBR.

THE WEST END DEVELOPMENT CORPORATION

Notes to Consolidated Financial Statements

For the year ended
March 31, 2015

As part of the agreement, the Corporation will secure financing for the SBR project and will serve as the project's accounting officer. The Corporation estimates funding to be approximately \$39 million. Whilst not a party to the agreement, the Ministry of Public Works will be cooperating with all parties to the agreement to provide, among others, oversight of the SBR project and approve any government funding over and above commercial funding provided through the Corporation.

In June 2015, the Corporation has secured financing of the SBR project through its local bank, The Bank of N.T. Butterfield & Son Limited (the "Bank"). On June 18, 2015, the Corporation obtained a credit facility from the Bank for a maximum principal amount of US\$39 million, inclusive of project costs to a maximum amount of US\$36.7 million and capitalized interest to a maximum amount of US\$2.3 million (collectively the "Project Loan"). The Project Loan must be fully drawn by March 31, 2017 and the loan term is for a period of six years from the date of initial drawdown. Interest rate is set at 1.5% per annum above the Bank's United States dollar base rate as varied by the Bank from time to time. As security for the Project Loan, the Government of Bermuda, acting through and represented by The Minister of Finance (the Guarantor) provided an unconditional guarantee and indemnity in the amount of US\$39 million. Based on the Guarantee and Indemnity letter dated June 18, 2015 that was entered into between the Guarantor and the Bank, the Guarantor warrants that the execution of the Guarantee is in compliance, among others, with the West End Development Corporation Act 1982 and section 2AA of the Government Loans Act 1978.

On October 22, 2015, the Ministry of Public Works confirmed that they will not allow the West End Development Corporation to default on the repayment of principal and interest (payment default) in relation to the above mentioned Credit Facility, provided that WEDCO deliver written notice to the Ministry of any foreseeable payment default, and also provide the Ministry with its current financial position in a form acceptable by the Ministry.

In order to avoid any payment default in relation to the above mentioned credit facility, the Ministry of Finance through the Ministry of Public Works will provide grant funding to cover any shortfall in debt service payments.

As of February 2, 2017 a total of \$36,204,174 was drawn down on the Project Loan.

(d) South Basin Development Ltd.

On May 18, 2015, SBD and CID entered into a settlement agreement that terminated all relations and ended all contractual obligations between both parties. As part of the agreement, the following were agreed:

- SBD paid CID a total sum of \$875,000, of which \$675,000 was paid on May 26, 2015 and the remaining amount of \$200,000 was held as retainage subject to receipt from CID of the subcontractor final releases and proof of payment. The total payment of \$875,000 was financed by the Corporation;
- CID surrendered its lease agreement with the Corporation and vacated the premises on May 31, 2015 and paid no further monies related to its occupancy or usage, and as a result, total rent receivable of \$42,900 was forgiven by the Corporation;
- CID was responsible for the payment of \$22,600 and of any and all funds owing to Anaconda Holdings; and
- CID transferred all of its shareholdings in SBD to the Corporation for a consideration of US\$1 each effective May 26, 2015. In relation to the share transfer, SBD declared and paid a dividend to CID amounting to \$503,579.

THE WEST END DEVELOPMENT CORPORATION

Notes to Consolidated Financial Statements

For the year ended
March 31, 2015

(e) Morseby House

On August 30, 2016, Cabinet considered and subsequently approved a grant of three million dollars (\$3,000,000) being provided to the Corporation by the Ministry of Public Works for the redevelopment of Moresby House, 26 Pender Road, Sandys. As of February 2, 2017 the Corporation has received \$1,750,000.

(f) Hurricane Nicole

In October 2016, Hurricane Nicole made landfall in Bermuda and damaged certain properties of the Corporation. The Corporation is in discussions with its insurer for a claim of about \$1 million for the restoration of the damaged properties.

20. COMPARATIVE FIGURES

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

BOARD OF DIRECTORS

Chairperson:

Mr. Ray Charlton

Deputy Chairperson:

Mr. Philip Akeroyd, FCA

Directors:

Mr. Ricardo Griffith

Dr. Edward Harris MBE, JP, FSA

Mr. Kevin Lambert

Mr. Mark Melvin, FCA, CFA

Ms. Pat Philip-Fairn

EX-OFFICIO

Permanent Secretary, Works & Engineering

Director of Planning

Financial Secretary

FINANCE AND AUDIT COMMITTEE

Mr. Philip Akeroyd - Chairperson

Mr. Ray Charlton

Mr. Mark Melvin, FCA, CFA

Mr. Andrew Dias

Mr. Kent Bascome, CPA, CTA

WEDCo EXECUTIVE

General Manager: Andrew Dias

Financial Controller: Kent Bascome

Facilities Manager: Carmen Beach

Business Development Manager: Joanna Cranfield

BANKERS

Bank of N. T. Butterfield & Son, Ltd.

Capital G Bank

WRITING

Sharon Azab-Jones

DESIGN

COSMIC LTD.







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