

Bermuda Community Foundation

Financial Statements
June 30, 2014



January 13, 2016

Independent Auditor's Report

To the Members of Bermuda Community Foundation

We have audited the accompanying financial statements of Bermuda Community Foundation, which comprise the statement of financial position as at June 30, 2014 and the statements of operations and changes in fund balances and cash flows for the year then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Accounting Standards for Not-For-Profit Organizations in Bermuda and Canada and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

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

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



We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Bermuda Community Foundation as at June 30, 2014 and the results of its operations and its cash flows for the year then ended in accordance with Accounting Standards for Not-For-Profit Organizations in Bermuda and Canada.

PricewaterhouseCoopers Ltd.

Chartered Professional Accountants

Reference: Independent Auditor's Report on the Financial Statements of Bermuda Community Foundation for the year ended June 30, 2014.

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Bermuda Community Foundation

Statement of Financial Position

As at June 30, 2014

	Endowment Funds			Operating and Programme Funds		2014 Total \$	2013 Total \$
	Central \$	Donor- Advised \$	Agency \$	Central \$	Donor- Advised \$		
Current assets							
Cash and cash equivalents	-	228,879	-	1,164,999	1,490,898	2,884,776	908,709
Cash and cash equivalents - restricted	1,046,066	-	-	-	-	1,046,066	-
Prepaid expenses	-	-	-	31,048	-	31,048	-
	1,046,066	228,879	-	1,196,047	1,490,898	3,961,890	908,709
Investments							
Equity investments (note 4)	453,934	-	-	-	-	453,934	-
Investment funds held for trading (note 3)	-	-	-	-	-	-	-
Capital assets (note 5)	-	-	-	116,290	-	116,290	-
Total assets	1,500,000	228,879	-	1,312,337	1,490,898	4,532,114	908,709
Current liabilities							
Accounts payable and accrued liabilities	-	-	-	23,991	-	23,991	7,230
Non-current liabilities							
Deferred contributions (note 9)	-	-	-	1,285,846	1,490,898	2,776,744	901,479
Total liabilities	-	-	-	1,309,837	1,490,898	2,800,735	908,709
Fund balances							
Restricted (note 8)	1,500,000	228,879	-	2,500	-	1,731,379	-
Unrestricted	-	-	-	-	-	-	-
	-	-	-	-	-	-	-
Total liabilities and equity	1,500,000	228,879	-	1,312,337	1,490,898	4,532,114	908,709

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

Bermuda Community Foundation
Statement of Operations and Changes in Fund Balances
For the year ended June 30, 2014

	Endowment Funds			Operating and Programme Funds		2014 Total \$	2013 Total \$
	Central \$	Donor- Advised \$	Agency \$	Central \$	Donor- Advised \$		
Income							
Gifts and contributions income	-	-	-	363,524	534,537	898,061	25,562
Administration fee income	-	-	-	2,500	-	2,500	-
Net investment and interest income	-	-	-	-	-	-	-
Total income	-	-	-	366,024	534,537	900,561	25,562
Expenditure							
Operating expenses	-	-	-	363,524	-	363,524	25,562
				363,524	-	363,524	25,562
Excess of revenue over expenses before grants and contributions	-	-	-	2,500	534,537	537,037	-
Grants and distributions	-	-	-	-	534,537	534,537	-
Excess of revenue over expenses	-	-	-	2,500	-	2,500	-
Fund balance – Beginning of year	-	-	-	-	-	-	-
Inter-fund transfers	-	-	-	-	-	-	-
Fund balance – End of year	-	-	-	2,500	-	2,500	-

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

Bermuda Community Foundation

Statement of Cash Flows

For the year ended June 30, 2014

	2014 \$	2013 \$
Cash provided by (used in):		
Operations		
Excess of revenue over expenses	2,500	-
Changes in non-cash operating working capital		
Prepaid expenses	(31,048)	-
Equity investments	(453,934)	-
Accounts payable and accrued liabilities	16,761	7,230
Deferred contributions	1,875,265	901,479
Amortization on capital assets (non-cash)	2,550	-
Net cash from operations	<u>1,412,094</u>	<u>908,709</u>
Investing activity		
Capital asset additions	(118,840)	-
Net cash from investing	<u>(118,840)</u>	<u>-</u>
Financing activity		
Endowment contributions	1,728,879	-
Net cash from financing	<u>1,728,879</u>	<u>-</u>
Increase in cash and cash equivalents	3,022,133	908,709
Cash and cash equivalents, beginning of year	<u>908,709</u>	<u>-</u>
Cash and cash equivalents, end of year	<u><u>3,930,842</u></u>	<u><u>908,709</u></u>

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

Bermuda Community Foundation

Notes to Financial Statements

June 30, 2014

1. *Purpose of the organization*

Established in early 2013 as a company limited by guarantee with charitable and philanthropic objects, the Bermuda Community Foundation (BCF or “the Foundation”) is a registered Bermuda charity (948). Its purpose is to act as a grant-making organisation made up of funds that have been established by individuals, families and businesses to:

- Facilitate grants from donors with a connection to Bermuda, to non-profits, causes and public institutions, from arts and education to health and community services that serve the Island’s residents
- Pool, steward and deploy donations from a variety of donors
- Establish a permanent asset base for public benefit, in the form of an endowment

The community foundation creates a vehicle for a permanent, pooled charitable endowment that generates and supports charitable giving in the long term. It provides donors with a simple, convenient and flexible way to make an impact for social good: to improve the lives of locals in need and to support groups serving Bermuda’s community interests — now and forever.

The Foundation serves three major constituencies: its donors, and by extension, an emerging philanthropic community, the charitable sector and the community-at-large.

Donors are the community foundation’s primary clients – the foundation manages charitable and philanthropic gifts and giving programmes for donors and donor-entities. BCF enables corporations, private individuals and families to establish customized charitable funds without the burden of tax liabilities or administrative tasks such as setting up private foundations, or trusts or distributing grants. It works directly with donors to understand their philanthropic vision and create funds to support causes that are most important to them. For these donors, the Bermuda Community Foundation, like other community foundations, offers a one-stop shop for contributing to a community they care about.

Corporate giving committees and their employees may also give through the foundation to: 1) facilitate a grant making process and manage grant programmes; 2) establish corporate funds for specific fields of interest; 3) contribute to the foundation via employee-matched gift schemes.

Funds from the different donors are aggregated, invested and managed to achieve greater returns for Bermuda’s civic sector. In the longer term, income is derived fees assessed on the funds for their management and from investment returns on the BCF-specific portion of the central endowment. A portion of that income is distributed to bona fide charities and community organisations according to donors’ suggestions, areas of interest or through competitive grants made by the foundation itself. Donors are also invited to make contributions to the BCF central operating and endowment funds that allow BCF to administer donor funds, build the organisation and encourage other potential donors to set up a fund.

Non-profit organisations are the foundation’s primary beneficiaries. For communities, the foundation ensures informed, strategic, and sustained support for the third sector. For smaller non-profits, new or emerging charities and community groups, it offers potential extra funding support from one place and for larger non-profits, an opportunity to develop a passive income source by establishing their own endowment that is professionally managed.

To fulfill its mission to create an enduring funding source forever dedicated to the good of the Island, BCF directs its efforts and dollars into long-term solutions focused on priority issues for the community.

Bermuda Community Foundation

Notes to Financial Statements

June 30, 2014

2. *Significant accounting policies*

The financial statements of the Foundation have been prepared in accordance with not-for-profit standards using the restricted fund method of recording contributions. The following summary of significant accounting policies is set forth to facilitate the understanding of these financial statements:

(a) **Fund accounting**

In order to ensure observance of the limitations and restrictions placed on the use of resources available to the Foundation, the accounts of the Foundation are maintained in accordance with the principles of fund accounting. Accordingly, resources are classified for accounting and reporting purposes into funds. At present, the Foundation does not hold any Unrestricted Contributions. All contributions to the Foundation are maintained in accordance with either the objectives specified by the donors or with directives issued by the Board of Directors (the "Board"). Certain inter-fund transfers may be necessary to ensure the appropriate allocation of assets and liabilities to the respective funds. Transfers between the funds are recorded in the statement of changes of fund balances.

For financial reporting purposes, the contributions have been classified into the following funds:

i) **Endowment funds**

According to the terms of deed of gift, normal endowment funds are resources contributed to the Foundation, which must be maintained permanently by the Foundation. These funds are reported in the Statement of Financial Position as a direct increase in Net Assets. The Foundation distinguishes between endowment funds specifically directed towards the operating expenses of the Foundation and or directives decided by the Foundation, "Central" and all other directives "Donor-Advised". The Foundation also distinguishes between a special type of endowment fund, which is termed "Agency" endowment funds. Agency endowment funds are permanent or long-term investments made by a charity, which the Foundation invests in the market and manage on behalf of the charity. This special type of endowment funds are reported separately from the other endowment funds in the Statement of Financial Position, under non-current liabilities. Distributions of funds are made from the earnings, without touching the original contribution or principal. The charity has essentially invested its own funds in setting up a charitable endowment. Earnings from the Agency fund are distributed as grants to the charity annually; supporting its programs and services in the long term.

Income earned by normal endowment contributions may be used by the Foundation either for a purpose specified by the donor or by the Board.

The Board exercises discretionary control over the investment of these assets through external investment fund managers. Income earned on the endowment resources, as well as any investment gains or losses, is reported in the Statement of Operations. Any income earned is either retained in the endowment fund or granted in the year.

ii) **Operating and Programme Funds**

These are contributions which are received by the Foundation with a specific condition or restriction imposed by the donor.

The Foundation distinguishes between restricted funds specifically directed towards the operating expenses of the Foundation and or directives decided by the Foundation as "Central" and all other donor-advised directives as "Donor Advised".

Bermuda Community Foundation

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(b) **Revenue recognition**

The Foundation follows the deferral method of accounting for contributions. Under the deferral method, revenue is recognized when expenses directly related to the revenue are incurred.

Restricted contributions, under the deferral method, are recognized as revenue in the period in which the related expenses are incurred. Contributions for expenses not yet incurred are, therefore, deferred to a later date and recorded in the Statement of Financial Position in the line item "Deferred contributions". Contributions for capital are recognized over the same period that the assets are charged to expenses. Donations of land and other assets that will not be amortized at any time are never recorded as revenue. They are instead recorded as a direct increase in net assets, similar to an endowment contribution.

Investment income earned on restricted funds is recognized as revenue of the applicable restricted fund in accordance with the terms of the restricted contribution.

(c) **Financial instruments**

The Foundation's financial instruments consist of cash and cash equivalents, short-term and long-term investments, and accounts payable and accrued liabilities.

i) **Cash and cash equivalents**

The Foundation held cash and cash equivalents of \$2,884,776 at June 30, 2014. The cash and cash equivalents are held with banks with are rated A to BBB based on Standard & Poor's credit ratings.

ii) **Investments**

Investments include equity investments and shares invested in other investment vehicles. Investments are held in segregated accounts and in pooled funds. These investments are recorded at their fair value at each measurement/valuation date.

Financial assets purchased and sold, where the contract requires the asset to be delivered within an established time frame, are recognized on a trade date basis. Transaction costs are expensed as incurred.

The financial assets and financial liabilities of the Foundation are classified and measured as follows:

Assets/liabilities	Measurement
Cash and cash equivalents	Fair value
Investments	Fair value
Prepaid assets	Amortized cost
Accounts payable and accrued liabilities	Amortized cost

Financial assets, carried at amortised cost, are assessed for impairment on an annual basis at the end of the fiscal year if there are indicators of impairment. If there is an indicator of impairment, the Foundation determines if there is a significant adverse change in the expected amount or timing of future cash flows from the financial asset. If there is a significant adverse change in the expected cash flows, the carrying value of the financial asset is reduced to the highest of the present value of the expected cash flows, the amount that could be realized from selling the financial asset or the amount the Foundation expects to realize by exercising its right to any collateral. If events and circumstances reverse in a future period, an impairment loss will be reversed to the extent of the improvement, not exceeding the initial carrying value.

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The Foundation does not enter into any derivative financial instrument arrangements for hedging or speculative purposes.

(d) **Capital assets**

The Foundation expenses all capital assets expenditure below a threshold of \$3,000 each, as they are considered to be fully amortized within the year of purchase. All other capital assets are capitalized in the year acquired and are amortized on a straight line basis over the assets' estimated useful life as follows:

Assets	Rate
Computer equipment and software	5 years straight-line

Capital assets are capitalized in the year acquired and are amortized from the month of acquisition on a straight-line basis. Computer software is amortized only when it is complete and available for use. For any contributed capital assets, cost is considered to be fair value at the date of contribution. When a capital asset no longer contributes to the Foundation's ability to provide services, its carrying amount is written down to its residual value.

(e) **Grants and commitments**

Grants are recorded when authorized for payment by the Board. At June 30, 2014, there were a number of grants which had been approved by the Board but not yet paid.

(f) **Contributed services**

Volunteers with technical or professional expertise contribute a substantial number of hours each year to assist the Foundation in carrying out its activities. Due to the difficulty in determining the fair value of volunteers at the Foundation, their contributions are not recognized in the financial statements. However business and corporations that contribute in-kind gifts and/or services which have a determinable fair value are recognized in the financial statements.

(g) **Use of estimates**

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the dates of the financial statements and the reported amounts of revenue and expenses during the years. Actual results could differ from those estimates. Significant estimates and assumptions include carrying amounts of accounts receivable, estimated useful lives of capital assets and accrued liabilities.

3. **Investments**

The Foundation's investments are exposed to changing market conditions. The Foundation manages the market risk associated with these changing conditions by establishing and monitoring asset allocation strategies and by diversifying investments within the various asset classes. Investment managers operate within a mandate that establishes the investment approach, investment restrictions and the performance measurement applicable to that mandate.

Details of significant terms and conditions and exposures to interest rate and credit risks on investments are disclosed in note 13.

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4. *Equity investment*

During April 2014, as a part of the BCF Endowment received from The Atlantic Philanthropies, 1,343 shares in the Sterling House building were transferred to the Foundation. These shares were independently valued at \$338 per share representing a total market value of \$453,934. This represented 6.7% of ownership as at June 30, 2014.

The Foundation expects to receive the following shares in Sterling House building in the future:

Year	Number of shares
2015	3,240
2017	1,627
2018	1,627

5. *Capital assets*

Description	Cost \$	Accumulated amortization \$	Net book value \$
Computer equipment and software	118,840	(2,550)	116,290

6. *Grants payable*

Grants with conditions that have not yet been met are not included in grants payable until all conditions have been satisfied.

Grants payable are recorded at their carrying value as the fair value is non-determinable due to the nature and timing of grant payments and the lack of comparable benchmark.

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7. *Operating expenses*

These costs represent the programme and development support costs of running the Foundation. These operational expenses include the costs of administering grant programmes. All services provided to the Foundation in the form of gifts are recorded at fair value as both an "operating expense" and "contribution and gift income".

	2014	2013
Compensation	115,557	-
Programme Activities	45,954	7,200
Training & Professional Development	2,700	-
General and Administration	35,955	14
Consultants', Professionals' & Outside Contractors' Fees	48,110	18,420
Information Management & Technology	84,307	30
Visibility & Communications	22,919	-
Facilities	7,200	-
Contingencies	822	-
	363,524	25,664

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8. *Restricted fund balances*

Endowment funds are recognized directly in equity. This relates to capital funds which are not expendable. A summary is provided as follows:

	2014 \$	2013 \$
Endowment Funds - Central		
The Atlantic Philanthropies	1,000,000	-
RenaissanceRe	500,000	-
Total	<u>1,500,000</u>	<u>-</u>
Endowment Funds – Donor - Advised		
Donor-Directed (includes Cedarberry)	185,165	-
Designated	4,950	-
Field of interest	35,814	-
Agency	2,500	-
Total	<u>228,879</u>	<u>-</u>
Total Endowment Funds	<u>1,728,879</u>	<u>-</u>

Endowment Funds - Central

Grants to the Central Endowment are restricted to the following purposes and activities: infrastructure set-up, investor and donor cultivation, board and staff orientation and training, staffing, software purchases, website development, professional consultancy fees, development and completion of strategic planning documents and policies needed to support and execute the plan, including meetings with steering committees, development of collateral materials to support the public roll-out and early donor development stage for BCF; development of supporting documents to guide the Board's governance and stewardship of BCF; work resulting in the development of technology platforms to facilitate philanthropy, use online donation and grant making capabilities, and increase the availability of social issue information.

Donor-Advised

Donors consult with the Foundation and advise periodically regarding the distributions from these funds.

Agency

Agency funds are established when a charity or non-profit creates a fund to support its own operations and programs. The foundation invests the contributions but agrees to transfer back to the agency parts or all of these assets and investment.

9. *Deferred contributions*

All Operating and Programme Funds are in the form of restricted contributions. All future expenses under restricted contributions are deferred and recognized as revenue in the same period the expenses are recognized. Funding received in the form of expendable capital, to finance the operations of the Foundation, is classified under "Central" and all other contributions are classified under "Donor advised".

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Operating and Program Funds – Central

As at June 30, 2014, Operating and Programme Funds – Central had a balance of \$1,285,846. The donors to the BCF Operating and Programme Funds – Central are listed below:

The Atlantic Philanthropies
The Atlantic Philanthropies – Challenge Match
RenaissanceRe
Bloomberg Philanthropies
XL Foundation
CF Feasibility Assessment Contribution
Bridge Charitable Trust
Conyers Dill & Pearman (Gift-in-kind)
Core Operating Regrant c/o Fiscal Agent

Operating and Program Funds – Donor-Advised

The donors to the BCF Operating and Programme Funds – Donor-Advised are summarized below:

BCF Key Capacity Building Fund (Regrant)**
BCF Bermuda Youth Development & Football Consortium (BYDFC Capacity Building Regrant)**
The Atlantic Philanthropies Fund at BCF
RenaissanceRe Charitable Fund
Buechner Society of Bermuda Fund for Family Literacy & Literature
Financial Sustainability & Streetwise MBA Regrant
Early Childhood Development Project & Research Funders
Hemera

** The BCF Board has discretion over this fund

10. Commitments

The Foundation has entered into various leases for office premises and equipment and has committed to the following minimum annual lease payments.

Year	\$
2014	14,400
2015	14,400
2016	-
2017	-
2018	-
Thereafter	-
	<hr/>
	28,800

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11. Guarantees

In the normal course of business, the Foundation enters into agreements that meet the definition of a guarantee.

Indemnity has been provided to all directors and officers of the Foundation for various items including, but not limited to, all costs to settle suits or actions due to association with the Foundation, subject to certain restrictions. The Foundation has purchased directors' and officers' liability insurance to mitigate the cost of any potential future suits or actions. Further, in the normal course of business, the Foundation has entered into agreements that include indemnities in favour of third parties, such as purchase and sale agreements, confidentiality agreements, engagement letters with advisors and consultants, outsourcing agreements, leasing contracts, information technology agreements and service agreements. Historically, the Foundation has not incurred any costs as a result of any such suits, actions or agreements. The maximum amount of any potential future payment cannot be reasonably estimated and no amount has been recorded in the financial statements.

12. Related parties

The following board members of BCF established or have an interest in the following donor funds at BCF. The total funds donated from related parties during 2014 was \$110,020 (2013: nil) and all donations are at arm's length transactions.

Board member	Fund
Peter Durhager	The Durhager Family Fund
Brian O'Hara	The O'Hara Family Fund
Myra Virgil	The Quig Family Fund
Amanda Outerbridge	The Joan Darling Memorial Fund
Nikkita Scott	The Williams Legacy Fund

13. Financial instruments and risk management

The financial instruments held by the Foundation are exposed to a variety of financial risks. The Foundation seeks to minimize the potential adverse effects of these risks by regularly monitoring the position of investments, market events and the diversifying of the investment portfolio within the constraints of the Foundation's investment policies. There has been no change to the risk exposure from the prior year.

Significant risks that are relevant to the Foundation are as follows:

(a) **Credit risk**

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Foundation's investments in fixed income securities are in pooled funds. Cash is held in creditworthy financial institutions.

(b) **Liquidity risk**

Liquidity risk is the risk that the Foundation will be unable to fulfill its obligations on a timely basis or at a reasonable cost. The Foundation manages its liquidity risk by maintaining short-term investments which have short-term maturities and are readily convertible to known amounts of cash. The Foundation also prepares budget and cash forecasts to ensure it has sufficient funds to fulfill its obligations.

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(c) **Market risk**

Market risk is the risk that changes in market prices, as a result of changes in foreign exchange rates, interest rates and equity prices, will affect the Foundation's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while maximizing the return.

Currency risk – The Foundation may make investments in foreign securities which are exposed to currency risk due to fluctuations in foreign exchange rates. The objective of the Foundation's investment policy is to control currency risk by maintaining a geographically diversified portfolio.

Interest rate risk – Interest rate risk relates to the risk that changes in interest rates will affect the fair value or future cash flows of financial instruments held by the Foundation. The value of fixed income securities will generally rise if interest rates fall and fall if interest rates rise. The short-term interest-bearing investments held by the Foundation have a limited exposure to interest rate risk due to their short-term maturity. The Foundation has formal policies and procedures that establish target asset mix, minimum credit ratings and varying terms of the securities held.

Other price risk – The Foundation invests its various funds according to an Investment Policy Statement approved by the Board of Directors. The Investment Policy Statement applies to all investments held in the Endowment Fund and Operating and Programme Fund and it includes restrictions regarding the minimum and maximum amount of equities, fixed income, and alternative investments. The diversification across various asset classes is designed to decrease the volatility of portfolio returns.

14. Capital management

As a not-for-profit entity, the Foundation's operations are reliant on revenues generated annually. A portion of the accumulated fund balances is retained as working capital which may be required from time to time due to timing delays in receiving to primary funding. The remaining surplus is available for the use of the Foundation at the discretion of the Board.

The Foundation can make distributions up to 4% of the original contributed capital for the trust fund as determined subject to the Board's approval. During the year ended 2014, under this facility, the Board approved distributions of capital of \$Nil (2013 - \$Nil).