

Bermuda Community Foundation

Financial Statements
June 30, 2019



Independent auditor's report

To the Members of Bermuda Community Foundation

Our opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Bermuda Community Foundation (the Foundation) as at June 30, 2019, and its financial performance and its cash flows for the year then ended in accordance with Accounting Standards for Not-For-Profit Organizations in Bermuda and Canada.

What we have audited

The Foundation's financial statements comprise:

- the statement of financial position as at 30 June 2019;
 - the statement of operations and changes in fund balances for the year then ended;
 - the statement of cash flows for the year then ended; and
 - the notes to the financial statements, which include a summary of significant accounting policies.
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Basis for opinion

We conducted our audit in accordance with auditing standards generally accepted in Bermuda and Canada. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report.

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

Independence

We are independent of the Foundation in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and the ethical requirements of the Chartered Professional Accountants of Bermuda Rules of Professional Conduct (CPA Bermuda Rules) that are relevant to our audit of the financial statements in Bermuda. We have fulfilled our other ethical responsibilities in accordance with the IESBA Code and the ethical requirements of the CPA Bermuda Rules.

Responsibilities of management for the financial statements

Management is responsible for the preparation and fair presentation of the 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.

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



Auditor's responsibilities for the audit of the financial statements

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

As part of an audit in accordance with auditing standards generally accepted in Bermuda and Canada, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

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

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

PricewaterhouseCoopers Ltd.

Chartered Professional Accountants

Hamilton, Bermuda

December 2, 2019

Bermuda Community Foundation
Statement of Financial Position
As at June 30, 2019

| | Endowment Funds | | | Operating and Programme Funds | | | 2019 Total \$ | 2018 Total \$ |
|--|-----------------|-------------------------|-------------------------------------|-------------------------------|-------------------------|-------------------------------------|---------------------|---------------------|
| | Central \$ | Donor- Advised \$ | Field of Interest / Agency \$ | Central \$ | Donor- Advised \$ | Field of Interest / Agency \$ | | |
| Current assets | | | | | | | | |
| Cash and cash equivalents | (8,500) | 79,030 | 171 | 1,100,692 | 287,422 | 36,280 | 1,495,095 | 2,223,901 |
| Prepaid expenses | - | - | - | 29,633 | - | - | 29,633 | 8,725 |
| Receivables | 10,000 | 101,054 | - | 107,300 | - | - | 218,354 | 11,268 |
| | 1,500 | 180,084 | 171 | 1,237,625 | 287,422 | 36,280 | 1,743,082 | 2,243,894 |
| Investments | | | | | | | | |
| Equity investments (note 5) | 2,266,873 | - | - | - | - | - | 2,266,873 | 2,266,873 |
| Investment funds held for trading (note 4) | 1,962,572 | 1,299,032 | 236,338 | 336,706 | 473 | - | 3,835,121 | 4,476,417 |
| Capital assets (note 6) | - | - | - | 1,481 | - | - | 1,481 | 22,549 |
| Total assets | 4,230,945 | 1,479,116 | 236,509 | 1,575,812 | 287,895 | 36,280 | 7,846,557 | 9,009,733 |
| Current liabilities | | | | | | | | |
| Accounts payable and accrued liabilities | - | - | - | 22,870 | 9,684 | 371 | 32,925 | 14,646 |
| Grants payable | 10,500 | 3,000 | 500 | 5,157 | 9,015 | 14,338 | 42,510 | 7,390 |
| | 10,500 | 3,000 | 500 | 28,027 | 18,699 | 14,709 | 75,435 | 22,009 |
| Non-current liabilities | | | | | | | | |
| Deferred contributions (note 10) | - | - | - | 1,072,664 | 268,723 | 21,571 | 1,362,958 | 2,199,090 |
| Total liabilities | 10,500 | 3,000 | 500 | 1,100,691 | 287,422 | 36,280 | 1,438,393 | 2,221,099 |
| Fund balances | | | | | | | | |
| Restricted (note 9) | 4,220,445 | 1,476,116 | 236,009 | 475,121 | 473 | - | 6,408,164 | 6,788,634 |
| Unrestricted | - | - | - | - | - | - | - | - |
| | 4,220,445 | 1,476,116 | 236,009 | 475,121 | 473 | - | 6,408,164 | 6,788,634 |
| Total liabilities and equity | 4,230,945 | 1,479,116 | 236,509 | 1,575,812 | 287,895 | 36,280 | 7,846,557 | 9,009,733 |

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, 2019

| | Endowment Funds | | | Operating and Programme Funds | | | 2019 Total | 2018 Total |
|--|------------------|------------------|----------------------------|-------------------------------|------------------|----------------------------|--------------------|------------------|
| | Central | Donor-Advised | Field of Interest / Agency | Central | Donor-Advised | Field of Interest / Agency | | |
| | \$ | \$ | \$ | \$ | \$ | \$ | \$ | \$ |
| Income | | | | | | | | |
| Gifts and contributions income | 225 | 167,743 | 14,222 | 134,393 | 529,952 | 14,950 | 861,485 | 2,763,774 |
| Administration fee income | - | - | - | 71,694 | 1,340 | - | 73,034 | 32,932 |
| Net investment (loss) / gain and interest income | (236,664) | (145,482) | (25,410) | 68,395 | 473 | (4,414) | (343,102) | 149,096 |
| Total income/(expense) | (236,439) | 22,261 | (11,188) | 274,482 | 531,765 | 10,536 | 591,417 | 2,945,802 |
| Expenditure | | | | | | | | |
| Operating expenses (note 8) | - | (23,143) | (3,587) | (584,911) | (142,736) | (22,734) | (777,111) | (721,642) |
| Impairment expense (note 5) | - | - | - | - | - | - | - | (438,167) |
| | - | (23,143) | (3,587) | (584,911) | (142,736) | (22,734) | (777,111) | (1,159,809) |
| Shortfall/(excess) of revenue over expenses before grants and contributions | (236,439) | (882) | (14,775) | (310,429) | 389,029 | (12,198) | (185,694) | 1,785,993 |
| Grants and distributions | (202,364) | (96,000) | (8,120) | (8,446) | (513,619) | (150,140) | (978,689) | (596,143) |
| Excess/(shortfall) of revenue over expenses after grants and distributions | (438,803) | (96,882) | (22,895) | (318,875) | (124,590) | (162,338) | (1,164,383) | 1,189,850 |
| Fund balance – Beginning of year (Note 2a) | 4,671,248 | 1,488,416 | 302,553 | 315,693 | - | 10,724 | 6,788,634 | 5,097,284 |
| Interfund transfers | 12,000 | - | - | 1,250 | 6,500 | (19,750) | - | - |
| Contributed principal | (24,000) | 84,582 | (43,649) | 477,053 | 118,563 | 171,364 | 783,913 | 501,500 |
| Fund balance – End of year | 4,220,445 | 1,476,116 | 236,009 | 475,121 | 473 | - | 6,408,164 | 6,788,634 |

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

Bermuda Community Foundation

Statement of Cash Flows

For the year ended June 30, 2019

| | 2019 \$ | 2018 \$ |
|--|--------------------|--------------------|
| Cash (used in) provided by operating activities | | |
| Operations | | |
| Excess/(shortfall) of revenue over expenses | (1,164,383) | 1,189,850 |
| Items not affecting cash | | |
| Amortization | 21,067 | 23,808 |
| Equity investments – Contribution of shares | - | (736,271) |
| Impairment expense | - | 438,167 |
| Change in unrealized losses / gains | 441,374 | (148,671) |
| Changes in non-cash operating working capital | | |
| Prepaid expenses | (20,908) | (3,380) |
| Receivables | (207,086) | 1,109 |
| Accounts payable and accrued liabilities | 18,279 | (18,429) |
| Deferred contributions | (836,132) | (348,439) |
| Grants payable | 35,120 | (386,710) |
| Net cash provided by (used in) operating activities | <u>(1,712,669)</u> | <u>11,034</u> |
| Investing activities | | |
| Equity purchases | (72,853) | (1,321,348) |
| Equity sales | 272,803 | 55,063 |
| Net cash used in investing activities | <u>199,950</u> | <u>(1,266,285)</u> |
| Financing activity | | |
| Endowment and Operating and Programme contributions | 783,913 | 501,501 |
| Net cash provided by financing activities | 783,913 | 501,501 |
| Decrease in cash and cash equivalents | (728,806) | (753,750) |
| Cash and cash equivalents, beginning of year | <u>2,223,901</u> | <u>2,977,651</u> |
| Cash and cash equivalents, end of year | <u>1,495,095</u> | <u>2,223,901</u> |

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

Bermuda Community Foundation

Notes to Financial Statements

June 30, 2019

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 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 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 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 from 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 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, 2019

2. *Significant accounting policies*

The financial statements of the Foundation have been prepared in accordance with Accounting Standards for Not-For-Profit Organizations in Bermuda and Canada 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 Operations and Changes in Fund Balances.

Certain Endowment and Operating and Program funds have been reclassified to more accurately reflect the nature and intention of these funds. These changes have been reflected in the beginning of year 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 manages on behalf of the charity. These special type of endowment funds are reported separately from the other endowment funds in the Statement of Financial Position. Distributions of income 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 and Changes in Fund Balances. 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.

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June 30, 2019

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”.

(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**

At June 30, 2019, the Foundation held cash and cash equivalents of \$1,495,095 (2018: \$2,223,901). The cash and cash equivalents are held with banks with are rated A to BBB based on Standard & Poor's credit ratings.

BCF does not maintain an overdraft facility. Negative cash balances on the Statement of Financial Position are allocations pending withdrawals from Investment Funds held for trading

ii) **Investment funds held for trading**

Investment funds held for trading are comprised of private investment funds. Investments are held in segregated accounts and in pooled funds. These investments are recorded at their fair value at each measurement/valuation date.

iii) **Equity investments**

Equity investments include interests held in private companies. These investments are recorded at cost and tested for impairment periodically.

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 |
| Investment funds held for trading | Fair value |
| Equity investments – Sterling House | Cost |
| Prepaid assets | Amortized cost |
| Accounts payable and accrued liabilities | Amortized cost |

Bermuda Community Foundation

Notes to Financial Statements

June 30, 2019

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.

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

(d) **Fair Value – definition and hierarchy**

The Foundation determines fair value based on assumptions that market participants would use in pricing an asset or liability in the principal or most advantageous market. When considering market participant assumptions in fair value measurements, the following fair value hierarchy distinguishes between observable and unobservable inputs, which are categorized in one of the following levels:

- Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities that the Foundation is able to access.
- Level 2 – Inputs, other than quoted prices included in Level 1 that are observable either directly or indirectly. These inputs may include: (a) quoted prices for similar assets in active markets; (b) quoted prices for identical or similar assets in markets that are not active; (c) inputs other than quoted prices that are observable for the asset; or (d) inputs derived principally from or corroborated by observable market data by correlation or other means.
- Level 3 – Inputs that are unobservable and significant to the entire fair value measurement.

Private investment companies measured using net asset value as a practical expedient are not categorized within the fair value hierarchy.

The availability of valuation techniques and observable inputs can vary from investment to investment and are affected by a wide variety of factors, including the type of investment, whether the investment is new and not yet established in the marketplace, the liquidity of markets, and other characteristics particular to the transaction. To the extent that valuation is based on models or inputs that are less observable or unobservable in the market, determining fair value requires more judgment. Because of the inherent uncertainty of valuation, those estimated values may be materially higher or lower than the values that would have been used had a ready market for the investments existed. Accordingly, the degree of judgment exercised by the Foundation in determining fair value is greatest for investments categorized in Level 3.

In some circumstances, the inputs used to measure fair value might be categorized within different levels of the fair value hierarchy. In those instances, the fair value measurement is categorized in its entirety in the fair value hierarchy based on the lowest level input that is significant to the fair value measurement.

(e) **Fair value – valuation techniques and inputs**

The Foundation values private investment companies using the net asset values provided by the underlying private investment companies as a practical expedient. The Foundation applies the practical expedient to its private investment companies on an investment-by-investment basis, and consistently with the Foundations' entire position in a particular investment, unless it is probable that the Foundation will sell a portion of an investment at an amount different from the net asset value of the investment.

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June 30, 2019

Private investment companies are classified in Level 2 or 3 of the fair value hierarchy. In determining the level, the Foundation considers the length of time until the investment is redeemable, including notice and lock-up periods or any other restriction on the disposition of the investment. The Foundation also considers the nature of the portfolios of the underlying private investment companies and their ability to liquidate their underlying investments. If the Foundation can redeem its investment at the reported net asset valuation as of the measurement date, or in the near term, the investment is generally included in Level 2 of the fair value hierarchy.

If the Foundation does not know when it can redeem the investment or it cannot redeem its investment in the near term, the investment is included in Level 3 of the fair value hierarchy. In addition, investments that are not valued using the practical expedient are included in Level 3 in the fair value hierarchy.

(f) **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.

(g) **Grants and commitments**

Grants are recorded when authorized for payment by the Board. At June 30, 2019, there were a number of grants which had been approved by the Board but not yet paid.

(h) **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.

(i) **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 year. 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.

Bermuda Community Foundation

Notes to Financial Statements

June 30, 2019

3. *Fair value measurements*

The Foundation's assets and liabilities recorded at fair value have been categorized based on a fair value hierarchy as described in the Foundation's significant accounting policies in note 2.

The following table presents information about the Foundation's assets measured at fair value as of June 30, 2019:

| | Level 1 | Level 2 | Level 3 | Total |
|-----------------------------------|---------|-----------|---------|-----------|
| Investment funds held for trading | - | 3,835,121 | - | 3,835,121 |

The following table presents information about the Foundation's assets measured at fair value as of June 30, 2018:

| | Level 1 | Level 2 | Level 3 | Total |
|-----------------------------------|---------|-----------|---------|-----------|
| Investment funds held for trading | - | 4,476,417 | - | 4,476,417 |

Valuation Process

The valuations of private investment companies are supported by information received from the investee funds such as monthly net asset values, investor reports, and audited financial statements, when available. If it is probable that the Foundation will sell an investment at an amount different from the net asset valuation or in other situations where the practical expedient is not available, or when the Foundation believes alternative valuation techniques are more appropriate, the Foundation may consider other factors, including subscription and redemption rights, expected discounted cash flows, transactions in the secondary market, bids received from potential buyers, and overall market conditions in determining fair value.

4. *Investment funds held for trading*

As of June 30, 2019, the Foundation was invested in private investment funds. Each of these investments has certain restrictions with respect to rights of withdrawal by the Foundation as specified in the respective agreements. Generally, the Foundation is required to provide notice of its intent to withdraw after the investment has been maintained for a certain period of time. The management agreements of the private investment funds provide for compensation to the managers in the form of fees ranging from 0.55% to 1.5%, an average, equivalent value of 1% of which is recorded in the financial statements as a gift-in-kind.

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.

Bermuda Community Foundation

Notes to Financial Statements

June 30, 2019

5. *Equity investment*

In 2014, 2015, 2016, 2017 and 2018 the BCF Endowment received 8,000 shares in the Sterling House from The Atlantic Philanthropies. These shares were independently valued in March 2014 at \$338.13 per share, representing a total market value of \$2,705,040. The accounting treatment for the equity investment in Sterling House building was corrected in 2018 to reflect an investment held at cost and assessed periodically for impairment.

As at June 30, 2019, the Foundation had 41% ownership of the Sterling House building (2018: 41%). As at June 30, 2019, the Foundation had received the maximum allocation of shares available from The Atlantic Philanthropies and no further shares will be transferred.

The Foundation has assessed Sterling House for impairment in 2019 and no impairment has been recognized (2018: \$438,167).

6. *Capital assets*

As at June 30, 2019

| Description | Cost \$ | Accumulated amortization \$ | 2019 Net book value \$ |
|---------------------------------|------------|-----------------------------------|------------------------------|
| Computer equipment and software | 118,850 | (117,369) | 1,481 |

As at June 30, 2018

| Description | Cost \$ | Accumulated amortization \$ | 2019 Net book value \$ |
|---------------------------------|------------|-----------------------------------|------------------------------|
| Computer equipment and software | 118,850 | (96,301) | 22,549 |

7. *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.

Bermuda Community Foundation

Notes to Financial Statements

June 30, 2019

8. *Operating expenses*

These costs represent the programme and development support costs of running the Foundation and the program costs of the funds. 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".

Included in operating expenses are the Vital Signs project expenses of \$76,678 (2018: \$50,206).

| | 2019 | 2018 |
|--|---------|---------|
| Compensation | 306,589 | 318,767 |
| Programme Activities | 240,252 | 206,950 |
| Training & Professional Development | 21,844 | 11,574 |
| General and Administration | 92,800 | 47,925 |
| Consultants', Professionals' & Outside Contractors' Fees | 75,282 | 45,156 |
| Information Management & Technology | 24,315 | 64,435 |
| Visibility & Communications | 1,480 | 5,010 |
| Facilities | 14,550 | 21,825 |
| | 777,111 | 721,642 |

9. *Restricted fund balances*

Endowment funds are recognized directly in equity. This relates to capital funds which are not expendable.

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.

Endowment Funds - Donor-Advised

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

Endowment Funds - Field of Interest / Agency

Field of Interest / Agency funds are established when a charity or non-profit creates a fund to support its own operations and programs or when a donor establishes a fund to support work in a specific field of interest. Grants from Field of Interest Funds are made on the basis of the Foundation's spending policy to organisations that are doing the best work in the interest area identified by the original donor. In the case of Agency Funds, the foundation invests the contributions but agrees to transfer back to the agency parts or all of these assets and investment.

10. *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

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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".

Operating and Programme Funds – Central

As at June 30, 2019, Operating and Programme Funds – Central had a deferred contribution balance of \$1,072,664 (2018: \$1,605,087). The donors to the BCF Operating and Programme Funds – Central are listed below:

- Bermuda Civil Society IT Platforms / Projects**
- BCF Operating and Administration Fund**
- BCF Donor Communication Programmes**
- BCF Social Impact Measurement Fund**
- BCF Social Policy Projects Fund**
- BCF Vital Signs Fund**
- Michael and Vanessa Schrum (Schrum Family)**

Operating and Programme Funds – Donor-Advised

As at June 30, 2019, Operating and Programme Funds – Donor Advised had a deferred contribution balance of \$268,723 (2018: \$441,719). The donors to the BCF Operating and Programme Funds – Donor-Advised are summarized below:

- Atlantic Philanthropies Fund (The)
- BCF Fiscal Sponsorship / Friends of BCF Fiscal Sponsorship
- BCF Technology Leader Projects
- Bermuda Principles Foundation Fund
- Bridge Charitable Trust Charitable Fund
- Buechner Society of Bermuda Fund for Family Literacy and Literature
- Cari Foundation Program Fund (new in 2019)
- Coalition for Community Activism Project Fund
- CVZ Designated Gifts Fund
- Hemera Foundation Fund
- La Leche League Bermuda Agency Fund
- National Dance Foundation Programme Fund (transferred to National Dance Foundation Consolidated Fund in 2019)
- Red Bull Youth America's Cup Bermuda
- RenaissanceRe Charitable Fund
- TalkWell.Org
- TedX Bermuda
- The Flora Fund

Operating and Programme Funds – Field of Interest / Agency**

As at June 30, 2019, Operating and Programme Funds – Field of Interest had a deferred contribution balance of \$21,571 (2018: \$152,284). The donors to the BCF Operating and Programme Funds – Field of Interest or Agency are summarized below:

- Aspen Bermuda Fund**
- BCF Key Capacity Building Fund (made possible by Atlantic Philanthropies via regrant)**
- BCF Technology Leader Study Fund**

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- Beacon Awards Scheme for BNSC Organisations (jointly funded by The Atlantic Philanthropies Fund and BCF)**
- CEO Designated Fund**
- Early Childhood Development Project and Research Fund**
- National Dance Foundation Bermuda Archive Fund (transferred to National Dance Foundation Consolidated Fund in 2019)

** The BCF Board has discretion over these funds

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 2019 was \$43,233 (2018: \$34,333) and all donations are arm's length transactions.

| Board member | Fund |
|---------------------|---|
| Peter Durhager | The Durhager Family Fund |
| Brian O'Hara | The O'Hara Family Fund |
| Brian O'Hara | National Dance Foundation Funds |
| Amanda Outerbridge | The Joan Darling Memorial Fund |
| Michael Schrum | BCF Central Operating Fund |
| Myra Virgil | The Quig Family Fund |
| Nikkita Scott | The Williams Legacy Fund |
| Michael Brace | Bermuda Community Central Endowment Fund (legacy pledge) |

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.

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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.

(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.

(d) **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.

(e) **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.

(f) **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 2019, under this facility, the Board did not approve distributions of capital from the endowment (2018: \$Nil).

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15. *Registered Charity*

During the period of its operations, the Bermuda Community Foundation properly maintained its charitable status and was not in default of its obligations set out by the Charities Act 2014, the Charities Regulations 2014 or the Charities (Anti-Money Laundering, Anti-Terrorist Financing and Reporting) Regulation 2014. During the 2017 financial year, the Bermuda Community Foundation's renewal application for charitable status was pending. The Foundation received confirmation of its charitable status renewal in the 2018 financial year.