

THE BERMUDA NATIONAL TRUST

Consolidated Financial Statements
(With Independent Auditors' Report Thereon)

Year Ended December 31, 2010

TO THE MEMBERS OF THE BERMUDA NATIONAL TRUST

The consolidated financial statements of The Bermuda National Trust (the “Trust”) are the responsibility of the Council.

The consolidated financial statements have been prepared by management in accordance with accounting principles generally accepted in Bermuda and Canada, and necessarily include some amounts that are based on management’s best estimates and judgements.


Management has developed and maintains systems of internal accounting controls, policies and procedures in order to provide reasonable assurance as to the reliability of the financial records of the Trust.

The Trust Council has established a Finance Committee. Its members are volunteers drawn from the community. This Committee reviews the consolidated financial statements with management prior to submission to the Trust Council for approval.

KPMG, Chartered Accountants, are responsible for performing an independent audit of the consolidated financial statements in accordance with auditing standards generally accepted in Bermuda and Canada and for expressing an opinion on the consolidated financial statements.



Lt. Col. (Retd) William K. White, President



Mariette Savoie, Treasurer



Jennifer Gray, Executive Director

**KPMG**

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INDEPENDENT AUDITORS' REPORT

To the Members of the Bermuda National Trust

We have audited the accompanying consolidated financial statements of The Bermuda National Trust ("the Trust"), which comprise the consolidated balance sheet as at December 31, 2010 and the consolidated statements of operations, changes in fund balances and cash flows for the year then ended, and 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 principles generally accepted 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.

Auditors' 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 an 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 our 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, we consider internal control relevant to the Trust'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 Trust'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 qualified audit opinion.

Basis for Qualified Opinion

In common with many charitable organisations, the Trust derives revenue from donations, which are included as non-government gifts and grants, revenues on admissions, membership fees, sales, and special events in the consolidated statement of operations, the completeness of which is not susceptible to satisfactory audit procedures. Accordingly, our audit of these revenues was limited to the amounts recorded in the records of the Trust and we were not able to determine whether any adjustments might be necessary to non-government gifts and grants, revenues on admissions, membership fees, sales, and special events, (deficiency) excess of revenues over expenses, total assets and fund balances.



Qualified Opinion

In our opinion, except for the effects of the matter described in the Basis for Qualified Opinion paragraph, the financial statements present fairly, in all material respects, the financial position of the Trust as at December 31, 2010, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in Bermuda and Canada.

A handwritten signature in black ink that reads 'KPMG' in a stylized, cursive font.

Chartered Accountants
Hamilton, Bermuda
November 14, 2011

THE BERMUDA NATIONAL TRUST

Consolidated Balance Sheet

December 31, 2010

(Expressed in Bermuda Dollars)

	2010					2009				
	General	Capital	Property	Endow- ment	Total	General	Capital	Property	Endow- ment	Total
Assets										
Current assets										
Cash and cash equivalents (Notes 3, 6 and 13)	\$ 710,476	\$ 1,346,135	\$ –	\$ 513,011	\$ 2,569,622	\$ 661,855	\$ 1,315,079	\$ –	\$ 598,165	\$ 2,575,099
Accounts receivable	162,399	4,686	–	–	167,085	65,955	4,686	–	–	70,641
Prepaid expenses	–	–	–	–	–	14,072	–	–	–	14,072
Pledges receivable	–	–	–	–	–	–	144,000	–	–	144,000
Accrued interest and dividends	–	–	–	1,245	1,245	–	–	–	1,850	1,850
Inventory (Note 5)	46,318	43,568	–	–	89,886	55,424	28,177	–	–	83,601
Deposit (Note 13)	–	–	462,500	–	462,500	–	–	462,500	–	462,500
Due from (to) other funds	<u>124,028</u>	<u>(83,686)</u>	<u>484</u>	<u>(40,826)</u>	<u>–</u>	<u>137,661</u>	<u>(121,446)</u>	<u>484</u>	<u>(16,699)</u>	<u>–</u>
Total current assets	1,043,221	1,310,703	462,984	473,430	3,290,338	934,967	1,370,496	462,984	583,316	3,351,763
Non-current assets										
Investments in marketable securities (Notes 4 and 6)	–	824,260	–	1,784,396	2,608,656	–	897,014	–	1,626,668	2,523,682
Investment in FIDNAT (Note 7)	–	–	7,098	–	7,098	–	–	7,098	–	7,098
Capital assets (Note 8)	–	–	196,749	–	196,749	–	–	193,179	–	193,179
Properties and collections (Notes 9 and 13)	<u>–</u>	<u>–</u>	<u>9,701,652</u>	<u>–</u>	<u>9,701,652</u>	<u>–</u>	<u>–</u>	<u>9,436,286</u>	<u>–</u>	<u>9,436,286</u>
Total assets	<u>\$ 1,043,221</u>	<u>\$ 2,134,963</u>	<u>\$ 10,368,483</u>	<u>\$ 2,257,826</u>	<u>\$ 15,804,493</u>	<u>\$ 934,967</u>	<u>\$ 2,267,510</u>	<u>\$ 10,099,547</u>	<u>\$ 2,209,984</u>	<u>\$ 15,512,008</u>

See accompanying notes to consolidated financial statements

THE BERMUDA NATIONAL TRUST

Consolidated Balance Sheet (continued)

December 31, 2010
(Expressed in Bermuda Dollars)

	2010					2009				
	General	Capital	Property	Endow- ment	Total	General	Capital	Property	Endow- ment	Total
Liabilities and fund balances										
Current liabilities										
Accounts payable	\$ 146,345	\$ 17,249	\$ –	\$ –	\$ 163,594	\$ 66,461	\$ 22,459	\$ –	\$ –	\$ 88,920
Deferred rental income	27,506	–	–	–	27,506	21,199	–	–	–	21,199
Deferred gifts and grants (Note 6)	17,434	–	–	–	17,434	25,893	–	–	–	25,893
Deferred membership (Note 6)	8,258	–	–	–	8,258	11,180	–	–	–	11,180
Deposits	<u>56,150</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>56,150</u>	<u>39,832</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>39,832</u>
Total current liabilities	255,693	17,249	–	–	272,942	164,565	22,459	–	–	187,024
Non-current liabilities										
Deferred membership (Note 6)	2,858	–	–	–	2,858	9,165	–	–	–	9,165
Deferred rental income	<u>99,852</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>99,852</u>	<u>2,968</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>2,968</u>
Total liabilities	358,403	17,249	–	–	375,652	176,698	22,459	–	–	199,157
Fund balances										
Invested in capital assets, properties and collections	–	–	10,368,483	–	10,368,483	–	–	10,099,547	–	10,099,547
Externally restricted (Notes 1 and 11)	–	1,433,127	–	816,309	2,249,436	–	1,658,467	–	816,309	2,474,776
Internally restricted (Note 11)	–	684,587	–	1,441,517	2,126,104	–	586,584	–	1,393,675	1,980,259
Unrestricted	<u>684,818</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>684,818</u>	<u>758,269</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>758,269</u>
Total fund balances	684,818	2,117,714	10,368,483	2,257,826	15,428,841	758,269	2,245,051	10,099,547	2,209,984	15,312,851
Total liabilities and fund balances	<u>\$ 1,043,221</u>	<u>\$ 2,134,963</u>	<u>\$ 10,368,483</u>	<u>\$ 2,257,826</u>	<u>\$ 15,804,493</u>	<u>\$ 934,967</u>	<u>\$ 2,267,510</u>	<u>\$ 10,099,547</u>	<u>\$ 2,209,984</u>	<u>\$ 15,512,008</u>

See accompanying notes to consolidated financial statements

Approved by Trust Council

Jennifer Gray, Executive Director

Mariette Savoie, Treasurer

THE BERMUDA NATIONAL TRUST

Consolidated Statement of Operations

Year Ended December 31, 2010

(Expressed in Bermuda Dollars)

	2010					2009				
	General	Capital	Property	Endow- ment	Total	General	Capital	Property	Endow- ment	Total
Revenues										
Admissions	\$ 24,387	\$ –	\$ –	\$ –	\$ 24,387	\$ 27,731	\$ –	\$ –	\$ –	\$ 27,731
Gifts and grants										
Bermuda government	194,381	–	–	–	194,381	365,036	–	–	–	365,036
Non-government (Note 13)	487,780	310,782	–	–	798,562	567,357	365,256	–	–	932,613
Bequests	–	–	–	–	–	7,218	100,000	–	–	107,218
Interest and dividend income (Note 13)	112	34,288	–	45,974	80,374	411	46,746	–	59,892	107,049
Membership fees	47,843	–	–	–	47,843	57,726	–	–	–	57,726
Rental income	749,104	–	–	–	749,104	641,383	–	–	–	641,383
Sales – Trustworthy and publications	161,467	43,124	–	–	204,591	131,986	8,878	–	–	140,864
Special events	185,635	325,963	–	–	511,598	216,451	–	–	–	216,451
Tour income	71,278	–	–	–	71,278	99,012	–	–	–	99,012
Other income	51,016	–	–	–	51,016	69,957	22,232	–	–	92,189
Total revenues	1,973,003	714,157	–	45,974	2,733,134	2,184,268	543,112	–	59,892	2,787,272
Expenses										
Administrative (Note 13)	653,365	13,679	–	–	667,044	621,419	43,481	–	–	664,900
Amortisation	–	–	29,777	–	29,777	–	–	44,480	–	44,480
Development	215,562	98,713	–	–	314,275	239,351	–	–	–	239,351
Education & museums	411,515	–	–	–	411,515	464,306	–	–	–	464,306
Impairment charge and net realized losses on sale of investments (Note 4)	–	184,664	–	8,704	193,368	–	3,145	–	54,486	57,631
Preservation (Note 13)	820,730	141,082	–	–	961,812	701,214	3,440	–	–	704,654
Tour expenses	28,557	–	–	–	28,557	35,442	–	–	–	35,442
Trustworthy/publications	122,578	13,595	–	–	136,173	111,296	6,659	–	–	117,955
Total expenses	2,252,307	451,733	29,777	8,704	2,742,521	2,173,028	56,725	44,480	54,486	2,328,719
(Deficiency) excess of revenues over expenses	\$ (279,304)	\$ 262,424	\$ (29,777)	\$ 37,270	\$ (9,387)	\$ 11,240	\$ 486,387	\$ (44,480)	\$ 5,406	\$ 458,553

See accompanying notes to consolidated financial statements

THE BERMUDA NATIONAL TRUST

Consolidated Statement of Changes in Fund Balances

Year Ended December 31, 2010

(Expressed in Bermuda Dollars)

	2010					2009				
	<u>General</u>	<u>Capital</u>	<u>Property</u>	<u>Endow- ment</u>	<u>Total</u>	<u>General</u>	<u>Capital</u>	<u>Property</u>	<u>Endow- ment</u>	<u>Total</u>
Fund balances, beginning of year	\$ 758,269	\$ 2,245,051	\$ 10,099,547	\$ 2,209,984	\$ 15,312,851	\$ 598,752	\$ 3,724,040	\$ 8,421,348	\$ 2,096,501	\$ 14,840,641
(Deficiency) excess of revenues over expenses	(279,304)	262,424	(29,777)	37,270	(9,387)	11,240	486,387	(44,480)	5,406	458,553
Net unrealised gains (losses) on available-for-sale securities during the year	–	49,605	–	75,772	125,377	–	(102,049)	–	115,706	13,657
Interfund transfers (Note 10)	205,853	(439,366)	298,713	(65,200)	–	148,277	(1,863,327)	1,722,679	(7,629)	–
Fund balances, end of year	<u>\$ 684,818</u>	<u>\$ 2,117,714</u>	<u>\$ 10,368,483</u>	<u>\$ 2,257,826</u>	<u>\$ 15,428,841</u>	<u>\$ 758,269</u>	<u>\$ 2,245,051</u>	<u>\$ 10,099,547</u>	<u>\$ 2,209,984</u>	<u>\$ 15,312,851</u>

See accompanying notes to consolidated financial statements

THE BERMUDA NATIONAL TRUST

Consolidated Statement of Cash Flows

Year Ended December 31, 2010
(Expressed in Bermuda Dollars)

	Operating activities		Financing and investing activities					Total		
	2010	2009	2010					2009	2010	2009
	General	General	Capital	Property	Endowment	Total	Total			
Sources of cash										
Admissions and membership fees	\$ 63,001	\$ 82,232	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 63,001	\$ 82,232	
Gifts and grants	635,177	918,450	229,782	-	-	229,782	465,256	864,959	1,383,706	
Interest and dividends	112	411	34,288	-	46,579	80,867	107,516	80,979	107,927	
Sale of marketable securities and interfund settlement	-	-	452,608	-	678,913	1,131,521	1,109,566	1,131,521	1,109,566	
Rent	870,396	629,995	-	-	-	-	-	870,396	629,995	
Sales - Trustworthy and publications	161,467	131,986	43,124	-	-	43,124	8,878	204,591	140,864	
Special events, tours and other	267,929	385,420	325,963	-	-	325,963	22,232	593,892	407,652	
Uses of cash										
Acquisition of capital assets	-	-	-	(33,347)	-	(33,347)	(4,352)	(33,347)	(4,352)	
Acquisition of and improvements to property and collections	-	-	-	(40,366)	-	(40,366)	(1,130,826)	(40,366)	(1,130,826)	
Administrative	(579,111)	(639,273)	(13,679)	-	-	(13,679)	(44,261)	(592,790)	(683,534)	
Deposit paid	-	-	-	-	-	-	(337,500)	-	(337,500)	
Development	(215,562)	(239,351)	(98,713)	-	-	(98,713)	-	(314,275)	(239,351)	
Education and museums	(411,515)	(464,306)	-	-	-	-	-	(411,515)	(464,306)	
Purchase of marketable securities and interfund settlement	-	-	(514,913)	-	(769,573)	(1,284,486)	(1,176,646)	(1,284,486)	(1,176,646)	
Preservation	(820,730)	(715,286)	(146,292)	-	-	(146,292)	9,864	(967,022)	(705,422)	
Tours	(28,557)	(35,442)	-	-	-	-	-	(28,557)	(35,442)	
Trustworthy and publications	(113,472)	(112,986)	(28,986)	-	-	(28,986)	(8,890)	(142,458)	(121,876)	
Net increase (decrease) in cash and cash equivalents	(170,865)	(58,150)	283,182	(73,713)	(44,081)	165,388	(979,163)	(5,477)	(1,037,313)	
Cash and cash equivalents, beginning of year	661,855	328,599	1,315,079	-	598,165	1,913,244	3,283,813	2,575,099	3,612,412	
Interfund cash transfers	219,486	391,406	(252,126)	73,713	(41,073)	(219,486)	(391,406)	-	-	
Cash and cash equivalents, end of year	\$ 710,476	\$ 661,855	\$ 1,346,135	\$ -	\$ 513,011	\$ 1,859,146	\$ 1,913,244	\$ 2,569,622	\$ 2,575,099	

See accompanying notes to consolidated financial statements

THE BERMUDA NATIONAL TRUST

Notes to Consolidated Financial Statements

December 31, 2010

1. **Incorporation and organisation**

The Bermuda National Trust (the "Trust") was established by the Bermuda National Trust Act, 1969 (as amended by the Bermuda National Trust Amendment Acts, 1970, 1982, 1984 and 1989).

The principal objectives of the Trust are to promote for the benefit of Bermuda the permanent preservation of buildings of beauty, historical interest or public interest and their surroundings, as well as lands with regard to their natural features and animal and plant life, furniture, pictures, documents and chattels of any description having national, historical or artistic interest, to maintain and manage lands acquired by the Trust as open spaces and buildings acquired for public use, and to promote the enjoyment of these properties by the public.

2. **Summary of significant accounting policies**

These consolidated financial statements have been prepared in accordance with accounting principles generally accepted in Bermuda and Canada which require management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant areas requiring the use of management estimates relate to useful lives of capital assets for purposes of amortisation, fair values of donated properties, valuation of accounts receivable and the provision for inventory obsolescence. Actual results could differ from those estimates. The significant accounting policies adopted by the Trust are as follows:

(a) Basis of consolidation

The consolidated financial statements include the accounts of the Trust and its wholly-owned subsidiaries, the Bermuda National Trust Unfinished Church Refurbishment Company Limited and the Bermuda National Trust Endowment Company Limited (the "Endowment Company"). All significant intercompany accounts and transactions have been eliminated on consolidation.

Interests in jointly controlled assets and related fund-raising projects are accounted for using the proportionate consolidation method. This results in the Trust recognising in its balance sheet its share of jointly controlled assets as well as its share of liabilities incurred jointly with other venturers, and in its statement of operations its proportionate share of any related revenues earned and expenses incurred (see Note 13).

(b) Fund accounting

The Trust maintains its financial statements in accordance with the restricted fund method of accounting. Resources are classified for accounting and reporting purposes into funds according to the activity or objective specified.

The General Fund accounts for the Trust's operating activities. This fund reports unrestricted resources and deferred operating gifts and grants.

The Capital Fund accounts for the Trust's capital related fund-raising activities.

The Property Fund accounts for the Trust's collections and capital assets.

The Endowment Fund accounts for gifts which are permanently restricted as to principal. Income on endowments may be used for maintenance of specified properties, nature reserves, or in support of general operations.

THE BERMUDA NATIONAL TRUST

Notes to Consolidated Financial Statements

December 31, 2010

2. Summary of significant accounting policies (continued)

(c) Revenue recognition

Restricted contributions related to general operations are recognised as revenue of the General Fund in the period received or receivable, or if made for future periods' operating expenses, are deferred and included in revenue in the periods when applicable expenses are incurred. All other restricted contributions are recognised as revenue of the appropriate restricted fund in the year received or receivable, if the amount to be received can be reasonably estimated and collection is reasonably assured.

Unrestricted contributions are recognised as revenue of the General Fund in the year received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured.

Contributions for endowment are recognised as revenue in the Endowment Fund.

Investment income is recognised as revenue of the appropriate fund when earned.

Realised gains and losses on the sale of investments are recorded in the statement of operations. Net unrealised gains and losses on investments classified as available-for-sale are recorded in the appropriate fund in the statement of changes in fund balances.

Rental income is recognised as revenue of the General Fund on a straight-line basis over the period of the lease.

(d) Inventory

Inventory is carried at the lower of cost and net realisable value. Cost is determined on an average cost basis.

(e) Investment in FIDNAT

The investment in the FIDNAT partnership is stated at cost.

(f) Capital assets

Purchased capital assets are recorded at cost. Contributed capital assets are recorded at fair value at the date of contribution. Amortisation is provided on a straight-line basis over the assets' estimated useful lives as follows:

Computer equipment and software	3 years
Office equipment	5 years
Vehicles and other equipment	7 years
Park improvements	20 years

Capital assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. When a capital asset no longer has any long-term service potential to the Trust, the excess of its net carrying value over any residual value is recognised as an expense in the statement of operations.

THE BERMUDA NATIONAL TRUST

Notes to Consolidated Financial Statements

December 31, 2010

2. Summary of significant accounting policies (continued)

(g) *Properties and collections*

The Trust's properties and collections represent purchased historic buildings and surrounding land, nature reserves, museum artifacts, and works of art and are recorded at cost. Donated properties and collections are recognised when legal title passes to the Trust and are recorded at management's estimate of fair market value using independent appraisals where available. Proceeds from the sale of properties and collections are restricted to the purchase, restoration and maintenance of properties and collections, respectively. Properties and collections are not amortised.

(h) *Cash and cash equivalents*

For purposes of the statement of cash flows, the Trust considers all money market instruments and short term deposits with an original maturity of ninety days or less as equivalent to cash.

(i) *Donated services*

Donated services, other than volunteer services, are included in the financial statements at fair value. Professional fees donated with a fair value of \$88,283 (2009 - \$73,938) have been recorded in non-government gifts and grants in the statement of operations. The Trust is dependent on the efforts of its volunteers for the continuing operations of the Trust. Because of the difficulty in establishing the fair value of volunteer services, they are not recorded in the financial statements.

(j) *Financial instruments*

Financial instruments are classified either as available-for-sale, held-for-trading, held-to-maturity, loans and receivables, or other financial liabilities.

Cash and cash equivalents are classified as held-for-trading and are measured at fair value with changes therein recognised in the statement of operations.

The Trust has classified its investments in marketable securities as available-for-sale. Available-for-sale investments are valued at fair value based on the quoted closing bid price at the reporting date. Changes in fair value are included in fund balances until they are realised.

Other financial assets, being accounts receivable, pledges receivable, deposits and accrued interest and dividends are classified as loans and receivables. Loans and receivables are recorded at amortised cost using the effective interest method, adjusted for any impairment.

All financial liabilities are classified as other financial liabilities and are recorded at amortised cost using the effective interest method.

(k) *Future accounting pronouncements*

In December 2010, the Canadian Accounting Standards Board ("AcSB") issued Part III of the CICA Handbook-Accounting dealing with the future of financial reporting by not-for-profit organisations. These new accounting standards will become effective for the Trust's fiscal year ending December 31, 2012.

The Trust is in the process of reviewing the impact of these proposed new standards on its future reporting framework and financial statements.

THE BERMUDA NATIONAL TRUST

Notes to Consolidated Financial Statements

December 31, 2010

3. **Cash and cash equivalents**

Cash and cash equivalents in the General Fund include money market funds in the amount of \$138,967 (2009 - \$138,951). Interest earned on cash and cash equivalents during the year was at an average effective interest rate of 0.71% (2009 - 0.61%).

THE BERMUDA NATIONAL TRUST

Notes to Consolidated Financial Statements

December 31, 2010

4. Investments in marketable securities

Investments in marketable securities and time deposits are as follows:

	2010								
	Capital			Endowment			Total		
	Fair value	Net unrealised gain/(loss)	Cost	Fair value	Net unrealised gain/(loss)	Cost	Fair value	Net unrealised gain/(loss)	Cost
Bermuda equities	\$ 52,991	\$ 6,950	\$ 46,041	\$ –	\$ –	\$ –	\$ 52,991	\$ 6,950	\$ 46,041
U.S. equities	–	–	–	232,902	39,593	193,309	232,902	39,593	193,309
Time deposits	68,386	–	68,386	162,464	–	162,464	230,850	–	230,850
Debt securities	702,883	20,479	682,404	1,206,760	(6,128)	1,212,888	1,909,643	14,351	1,895,292
Mutual funds	–	–	–	182,270	46,589	135,681	182,270	46,589	135,681
Total	\$ 824,260	\$ 27,429	\$ 796,831	\$ 1,784,396	\$ 80,054	\$ 1,704,342	\$ 2,608,656	\$ 107,483	\$ 2,501,173

	2009								
	Capital			Endowment			Total		
	Fair value	Net unrealised gain/(loss)	Cost	Fair value	Net unrealised gain/(loss)	Cost	Fair value	Net unrealised gain/(loss)	Cost
Bermuda equities	\$ 147,668	\$ (78,632)	\$ 226,300	\$ –	\$ –	\$ –	\$ 147,668	\$ (78,632)	\$ 226,300
U.S. equities	–	–	–	233,218	16,835	216,383	233,218	16,835	216,383
Time deposits	68,268	–	68,268	160,498	–	160,498	228,766	–	228,766
Debt securities	585,320	6,015	579,305	1,167,135	11,993	1,155,142	1,752,455	18,008	1,734,447
Mutual funds	95,758	50,441	45,317	65,817	(24,546)	90,363	161,575	25,895	135,680
Total	\$ 897,014	\$ (22,176)	\$ 919,190	\$ 1,626,668	\$ 4,282	\$ 1,622,386	\$ 2,523,682	\$ (17,894)	\$ 2,541,576

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4. **Investments in marketable securities** (continued)

Time deposits mature in May, June and September 2011, and their carrying value approximates fair value. The fair value of other investments is based on year-end quoted market values. Interest earned on time deposits during the year was at an average effective interest rate of 1.29% (2009 - 2.11%).

During the year ended December 31, 2010, the Trust recorded an impairment charge of \$180,259 (2009 – \$nil) due to the decline in the value of Bermuda equities that is considered by the Trust's management to be other than temporary.

5. **Inventory**

Inventory of \$89,886 (2009 - \$83,601) is stated net of a provision for obsolescence of \$25,000 (2009 - \$25,000). Inventory recognised as an expense amounted to \$107,083 (2009 - \$85,596) and is included in Expenses – Trustworthy and Publications in the statement of operations.

6. **Restricted amounts**

General Fund cash and cash equivalents of \$17,434 (2009 - \$25,893) relate to gifts and grants received to fund certain of the Trust's activities in future years such as archaeological and environmental projects, maintenance of government cemeteries, and restoration of government furnishings. The Trust has recorded a liability for deferred gifts and grants of an equivalent amount.

Capital Fund cash and cash equivalents of \$1,346,135 (2009 - \$1,315,079) and investments in marketable securities of \$824,260 (2009 - \$897,014) are restricted for restoration of specific properties, the funding of an education program, the acquisition and restoration of museum collections, and the acquisition of open space (Note 11).

Endowment Fund cash and cash equivalents of \$513,011 (2009 - \$598,165) and investments in marketable securities of \$1,784,396 (2009 - \$1,626,668) are restricted for the purposes set out in Note 11.

The deferred membership income of \$11,116 (2009 - \$20,345) represents that portion of income received for future years.

7. **Investment in FIDNAT**

The Endowment Company is a corporate general partner in the Fidelity National Trust Partnership ("FIDNAT") with a capital contribution equal to 0.5% of initial partnership capital. Per the partnership agreement, the Trust's maximum capital contributions cannot exceed \$7,578. FIDNAT owns a property which is leased to the Bermuda Underwater Exploration Institute, for a nominal amount until the year 2051, at which time the assets will revert back to FIDNAT.

Profits and losses are allocated to the Endowment Company in proportion to its capital contribution until FIDNAT has received a return of capital and a reasonable return thereon, at which time the Endowment Company will be allocated 59.9% of profits and losses. During 2010 the Endowment Company's share of FIDNAT'S income was \$nil (2009 - \$nil).

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8. **Capital assets**

	Cost		Accumulated amortisation		Net book value	
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
Park improvements	\$ 354,665	\$ 354,665	\$ 199,477	\$ 181,744	\$ 155,188	\$ 172,921
Computer equipment and software	210,667	207,320	205,241	203,060	5,426	4,260
Office equipment	86,002	86,002	77,726	75,876	8,276	10,126
Vehicles and other equipment	<u>141,697</u>	<u>111,697</u>	<u>113,838</u>	<u>105,825</u>	<u>27,859</u>	<u>5,872</u>
	<u>\$ 793,031</u>	<u>\$ 759,684</u>	<u>\$ 596,282</u>	<u>\$ 566,505</u>	<u>\$ 196,749</u>	<u>\$ 193,179</u>

9. **Property and collections**

	<u>2010</u>	<u>2009</u>
Museum collections	\$ 90,528	\$ 90,528
Buildings and land	3,257,326	3,216,960
Nature reserves	<u>6,353,798</u>	<u>6,128,798</u>
	<u>\$ 9,701,652</u>	<u>\$ 9,436,286</u>

During 2010, the Trust recorded the donation of Woodstock Hill, a 0.9 acre agricultural lot in Paget, at its appraised fair value of \$225,000. The Trust also invested a further \$40,366 during the year for the renovation of Palmetto House (2009 - \$861,951).

During 2009, the Trust acquired the Lighthouse Hill Nature Reserve (“The Hamptons”) for \$263,876 and recorded the donation of a 0.7 acre parcel of land at the southern end of Trimingham Hill, “Shorty’s Patch”, at its appraised fair value of \$250,000. Buck Island, a 4 acre nature reserve in Southampton donated during 2009, has been leased back to the donors for 999 years with covenants preventing any development and, accordingly, has been recorded at its nominal value to the Trust of \$1.

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10. Interfund transfers

Interfund transfers to (from) the following funds occurred for the year:

	2010			
	<u>General</u>	<u>Capital</u>	<u>Property</u>	<u>Endowment</u>
Appropriation for improvements to historic property (Note 9)	\$ -	\$ (40,366)	\$ 40,366	\$ -
Appropriation for donated nature reserve "Woodstock Hill" (Note 9)	-	(225,000)	225,000	-
Appropriation for capital assets	(3,347)	(30,000)	33,347	-
Appropriation from Dennis Sherwin Environment Fund for expenses	19,245	-	-	(19,245)
Appropriation from Endowment Fund for operations	45,955	-	-	(45,955)
Appropriation for the Trust's Axis Education Program	<u>144,000</u>	<u>(144,000)</u>	<u>-</u>	<u>-</u>
	<u>\$ 205,853</u>	<u>\$ (439,366)</u>	<u>\$ 298,713</u>	<u>\$ (65,200)</u>
	2009			
	<u>General</u>	<u>Capital</u>	<u>Property</u>	<u>Endowment</u>
Appropriation for purchase of "The Hamptons" (Note 9)	\$ -	\$ (263,876)	\$ 263,876	\$ -
Appropriation for improvements to historic properties and nature reserves (Note 9)	-	(861,951)	861,951	-
Appropriation from Dennis Sherwin Environment Fund for expenses	7,629	-	-	(7,629)
Appropriation for donated nature reserve "Shorty's Patch" (Note 9)	-	(250,000)	250,000	-
Appropriation for 50% of installments paid on Buy Back Bermuda land (Note 13)	-	(337,500)	337,500	-
Appropriation for capital assets	(9,352)	-	9,352	-
Appropriation for the Trust's Axis Education Program	<u>150,000</u>	<u>(150,000)</u>	<u>-</u>	<u>-</u>
	<u>\$ 148,277</u>	<u>\$ (1,863,327)</u>	<u>\$ 1,722,679</u>	<u>\$ (7,629)</u>

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11. Restricted fund balances

(a) Externally imposed restrictions on fund balances consist of the following:

	2010		2009	
	Capital	Endowment	Capital	Endowment
Open spaces	\$	\$	\$	\$
Buy Back Bermuda Fund	956,810	–	957,337	–
Dennis Sherwin Environmental Fund	–	161,560	–	161,560
Nature Reserves Fund	237,828	–	239,143	–
Collections	94,250	–	103,486	–
Education	–	–	144,000	–
Built Heritage	144,239	134,884	214,501	134,884
Unspecified	–	519,865	–	519,865
	<u>\$ 1,433,127</u>	<u>\$ 816,309</u>	<u>\$ 1,658,467</u>	<u>\$ 816,309</u>

(b) Internal restrictions on fund balances imposed by the Trust consist of the following:

	2010		2009	
	Capital	Endowment	Capital	Endowment
Open spaces				
DennisSherwin Environmental Fund	–	–	–	12,045
Publications	98,756	–	52,846	–
Built Heritage	171,314	108,277	180,836	108,277
Mary G. Williams Endowment Fund	–	1,149,091	–	1,149,091
Unspecified	414,517	184,149	352,902	124,262
	<u>\$ 684,587</u>	<u>\$ 1,441,517</u>	<u>\$ 586,584</u>	<u>\$ 1,393,675</u>

12. Pension plan

The Trust operates a defined contribution pension plan whereby the Trust contributes 5% of each employee's gross salary. The pension charge for the year ended December 31, 2010 was \$53,012 (2009 - \$50,451), and is included in administrative expenses in the statement of operations. Contributions payable to the pension plan at December 31, 2010 were \$ nil (2009 - \$17,242).

13. Buy Back Bermuda Campaign

In 2004, the Trust and Bermuda Audubon Society entered into a joint venture initiative, the Buy Back Bermuda Campaign, to acquire and preserve public open space for the benefit of future generations. The Trust has recorded 50% of all balance and transactions relating to this campaign in its financial statements. As at December 31, 2010, included within the financial statements are the following amounts:

	2010	2009
Cash and cash equivalents	\$ 956,810	\$ 957,337
Deposit	462,500	462,500
Property and collections	1,586,135	1,586,135
Gifts and grants (non-government)	20,674	84,188
Interest income	2,873	9,757
Preservation expenses	11,516	–
Administrative expenses	13,135	21,475

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14. Capital commitments

At year-end, the Trust had a commitment, jointly with the Bermuda Audubon Society, of \$1,600,000 to purchase a property in Hamilton Parish in connection with the Buy Back Bermuda Campaign. A deposit of \$925,000 (2009 - \$925,000) was paid on the property. The Trust has recorded 50% of this deposit in its financial statements (Note 13).

15. Financial instruments

The Trust has designated its financial instruments as follows:

	2010		2009	
	Carrying value	Estimated fair value	Carrying value	Estimated fair value
Held-for-trading:				
Cash and cash equivalents	\$ 2,569,622	\$ 2,569,622	\$ 2,575,099	\$ 2,575,099
Loans and receivables:				
Accounts receivable	167,085	167,085	70,641	70,641
Pledges receivable	–	–	144,000	144,000
Accrued interest and dividends	1,245	1,245	1,850	1,850
Deposit	462,500	462,500	462,500	462,500
Available-for-sale:				
Investments in marketable securities	<u>2,608,656</u>	<u>2,608,656</u>	<u>2,523,682</u>	<u>2,523,682</u>
	\$ 5,809,108	\$ 5,809,108	\$ 5,777,772	\$ 5,777,772
Other liabilities:				
Accounts payable	\$ <u>163,594</u>	\$ <u>163,594</u>	\$ <u>88,920</u>	\$ <u>88,920</u>
	\$ 163,594	\$ 163,594	\$ 88,920	\$ 88,920

The Trust is exposed to the following financial risks arising from its financial assets and liabilities:

Market price risk

Market risk is the risk that future changes in market prices may render financial instruments less valuable or increase the liability associated with such instruments. Exposure to market risk is determined by a number of factors, including the size, duration, composition and diversification of positions held, the absolute and relative levels of interest rates and foreign exchange rates, as well as market volatility and liquidity.

Exposure to market risk associated with investments is equal to the carrying value of the instruments as recorded in the balance sheet.

The Trust is exposed to the investment activities of the underlying investment portfolios which may not be transparent to investors and could be affected by the actions of other investors. The Trust's exposure to market risk in respect of investments is limited to the on-balance sheet carrying value of the investments. Management engages in initial and on-going assessments of all sources of risk presented to the portfolio.

All of the Trust's investments are classified as available-for-sale. A 10% increase in the market price of these investments would have increased fund balances by \$237,781 (2009 - \$229,494). An equal change in the opposite direction would have decreased fund balances by \$237,781. There would be no effect on reported excess (deficiency) of revenues over expenses. The analysis assumes that all other variables remain constant and is performed on the same basis as for 2009.

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15. **Financial instruments** (continued)

Currency risk

Currency risk arises from changes in the prevailing foreign currency rates. Assets and liabilities are predominantly held in the functional currency of the Trust, which is the Bermuda dollar. The Trust is not exposed to significant foreign currency risks.

Credit risk

Credit risk is the risk that a customer or counterparty to a financial instrument fails to meet its contractual obligations to the Trust, and arises principally from cash and cash equivalents, accounts receivables, pledges receivable and accrued interest and dividends.

Cash and cash equivalents

The Trust maintains all of its cash and cash equivalents with major financial institutions of high quality credit standing. The risk of default is considered minimal.

Accounts receivable

The Trust's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The Trust's receivables are with multiple Bermuda based customers, and are subject to normal industry credit risks.

The maximum exposure to credit risk for receivables at the reporting date is represented by the carrying value on the balance sheet.

At December 31, 2010, 42% of receivables were current, 24% of the receivables were past due 31 to 90 days and 34% past due more than 90 days. The receivables past due for more than 90 days are comprised primarily of one account where a contractual arrangement for services rendered exists. This account is not impaired and as such no provision has been established.

Interest rate risk

Interest rate risk arises from changes in the prevailing levels of market interest rates. The Trust is exposed to interest rate risk on its cash and cash equivalents which earn interest at variable market rates.

An increase of 100 basis points in interest rates for cash and cash equivalents as at December 31, 2010 would have increased excess of revenues over expenses and fund balances by \$25,995 (2009 - \$25,751). A decrease in interest rates of 100 basis points would have had an equal but opposite effect on excess of revenues over expenses and fund balances. The analysis assumes that all other variables remain constant, and is performed on the same basis as for 2009.

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15. Financial instruments (continued)

Liquidity risk

Liquidity risk is the risk the Trust will encounter difficulties meeting its financial liability obligations. Management does not believe that the Trust is exposed to significant liquidity risk.

The table below categorizes the Trust's financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts in the table are contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances, as the impact of discounting is not significant.

	<u>0-3 months</u>	<u>4-12 months</u>	<u>Greater than 1 year</u>	<u>Total</u>
December 31, 2010				
Accounts payable	\$ <u>126,984</u>	\$ <u>36,610</u>	\$ <u>—</u>	\$ <u>163,594</u>
Total financial liabilities	\$ <u>126,984</u>	\$ <u>36,610</u>	\$ <u>—</u>	\$ <u>163,594</u>
	<u>0-3 months</u>	<u>4-12 months</u>	<u>Greater than 1 year</u>	<u>Total</u>
December 31, 2009				
Accounts payable	\$ <u>68,920</u>	\$ <u>20,000</u>	\$ <u>—</u>	\$ <u>88,920</u>
Total financial liabilities	\$ <u>68,920</u>	\$ <u>20,000</u>	\$ <u>—</u>	\$ <u>88,920</u>

16. Capital management

The Trust defines capital, for its own purpose, as cumulative fund balances. During the fiscal year 2010, the Trust's objective when managing capital, which was unchanged from the prior year, was to hold sufficient funds to enable it to withstand negative unexpected financial events and continue as a going concern. The Trust seeks to achieve this objective by minimising its exposure to financial leverage and variable financial obligations and by holding cash and term deposits to maintain liquidity to enable it to meet its obligations as they become due. As at December 31, 2010, the Trust's accumulated fund balance amounted to \$15,428,841 (2009 - \$15,312,851). A significant portion of the fund balance is subject to both internally and externally imposed restrictions.

17. Subsequent event

Subsequent to the year-end, the Trust Executive agreed to forfeit a 50 year lease for the property known as the "Unfinished Church" located in St. Georges, Bermuda and held by its subsidiary, The Bermuda National Trust Unfinished Church Refurbishment Company Limited.