

THE BERMUDA NATIONAL TRUST

Consolidated Financial Statements
(With Independent Auditor's Report Thereon)

Year Ended December 31, 2016

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 standards for not-for-profit organizations generally accepted in Bermuda and Canada, and necessarily include some amounts that are based on management's best estimates and judgments.

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 Audit Limited, Chartered Professional Accountants, are responsible for performing an independent audit of the consolidated financial statements in accordance with International Standards on Auditing and for expressing an opinion on the consolidated financial statements.



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



Stephen Kuzyk, Treasurer



William Zuill, Executive Director



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INDEPENDENT AUDITOR'S REPORT

To the Members of The Bermuda National Trust

Qualified Opinion

We have audited the consolidated financial statements of The Bermuda National Trust (the "Trust"), which comprise the consolidated balance sheet as at December 31, 2016, the consolidated statement of operations, consolidated statement of changes in fund balances and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, except for the possible effects of the matter described in Basis for Qualified Opinion section of our report, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Trust as at December 31, 2016, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with accounting standards for not-for-profit organizations generally accepted in Bermuda and Canada ("ASNFP").

Basis for Qualified Opinion

In common with many charitable organizations, 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 verification. Accordingly, our audit of these revenues were 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, special events and excess (deficiency) of revenues over expenses included in the consolidated statement of operations, changes in fund balances and cash flows for the year ended December 31, 2016, and total assets and fund balances included in the consolidated balance sheet as at December 31, 2016.

We conducted our audit in accordance with International Standards on Auditing ("ISA"). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Trust in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Bermuda and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

Responsibilities of Management for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with ASNFP and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Trust'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 Trust or to cease operations, or has no realistic alternative but to do so.

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



Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

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

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

- Identify and assess the risks of material misstatement of the consolidated 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 Trust'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 Trust's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated 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 Trust to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

KPMG Audit Limited

KPMG Audit Limited
Chartered Professional Accountants
Hamilton, Bermuda
May 19, 2017

THE BERMUDA NATIONAL TRUST

Consolidated Balance Sheet

December 31, 2016

(Expressed in Bermuda Dollars)

	2016					2015				
	<u>General</u>	<u>Capital</u>	<u>Property</u>	<u>Endowment</u>	<u>Total</u>	<u>General</u>	<u>Capital</u>	<u>Property</u>	<u>Endowment</u>	<u>Total</u>
Assets										
Current assets										
Cash and cash equivalents (Notes 3, 5 and 12)	\$ 891,252	\$ 668,373	\$ –	\$ 617,243	\$ 2,176,868	\$ 1,100,104	\$ 628,739	\$ –	\$ 600,834	\$ 2,329,677
Accounts receivable	28,651	–	–	–	28,651	18,181	–	–	–	18,181
Accrued interest and dividends	–	–	–	706	706	–	–	–	700	700
Inventory	5,491	58,790	–	–	64,281	1,801	54,189	–	–	55,990
Due from (to) other funds	<u>154,543</u>	<u>117,919</u>	<u>484</u>	<u>(272,946)</u>	<u>–</u>	<u>35,625</u>	<u>166,619</u>	<u>484</u>	<u>(202,728)</u>	<u>–</u>
Total current assets	1,079,937	845,082	484	345,003	2,270,506	1,155,711	849,547	484	398,806	2,404,548
Non-current assets										
Investments in marketable securities (Notes 4 and 5)	–	907,752	–	2,118,087	3,025,839	–	880,972	–	2,055,601	2,936,573
Investment in FIDNAT (Note 6)	–	–	7,098	–	7,098	–	–	7,098	–	7,098
Capital assets (Note 7)	–	–	161,985	–	161,985	–	–	179,962	–	179,962
Properties and collections (Notes 8 and 12)	<u>–</u>	<u>–</u>	<u>13,139,619</u>	<u>–</u>	<u>13,139,619</u>	<u>–</u>	<u>–</u>	<u>12,946,146</u>	<u>–</u>	<u>12,946,146</u>
Total assets	<u>\$ 1,079,937</u>	<u>\$ 1,752,834</u>	<u>\$ 13,309,186</u>	<u>\$ 2,463,090</u>	<u>\$18,605,047</u>	<u>\$ 1,155,711</u>	<u>\$ 1,730,519</u>	<u>\$13,133,690</u>	<u>\$ 2,454,407</u>	<u>\$18,474,327</u>

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

THE BERMUDA NATIONAL TRUST

Consolidated Balance Sheet (continued)

December 31, 2016

(Expressed in Bermuda Dollars)

	2016					2015				
	General	Capital	Property	Endowment	Total	General	Capital	Property	Endowment	Total
Liabilities and fund balances										
Current liabilities										
Accounts payable (Note 15)	\$ 115,276	\$ 10,966	\$ –	\$ –	\$ 126,242	\$ 72,812	\$ 12,216	\$ –	\$ –	\$ 85,028
Deferred rental income	11,400	–	–	–	11,400	11,400	–	–	–	11,400
Deferred gifts and grants (Note 5)	128,321	–	–	–	128,321	151,698	–	–	–	151,698
Deferred membership (Note 5)	2,360	–	–	–	2,360	6,103	–	–	–	6,103
Deposits	<u>95,278</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>95,278</u>	<u>94,778</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>94,778</u>
Total current liabilities	352,635	10,966	–	–	363,601	336,791	12,216	–	–	349,007
Non-current liabilities										
Deferred membership (Note 5)	1,693	–	–	–	1,693	2,628	–	–	–	2,628
Deferred rental income	<u>28,500</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>28,500</u>	<u>39,900</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>39,900</u>
Total liabilities	382,828	10,966	–	–	393,794	379,319	12,216	–	–	391,535
Fund balances										
Invested in capital assets, properties and collections	–	–	13,309,186	–	13,309,186	–	–	13,133,690	–	13,133,690
Externally restricted (Note 10)	–	1,193,036	–	816,309	2,009,345	–	1,211,406	–	816,309	2,027,715
Internally restricted (Note 10)	–	548,832	–	1,646,781	2,195,613	–	506,897	–	1,638,098	2,144,995
Unrestricted	<u>697,109</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>697,109</u>	<u>776,392</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>776,392</u>
Total fund balances	697,109	1,741,868	13,309,186	2,463,090	18,211,253	776,392	1,718,303	13,133,690	2,454,407	18,082,792
Total liabilities and fund balances	<u>\$ 1,079,937</u>	<u>\$ 1,752,834</u>	<u>\$ 13,309,186</u>	<u>\$ 2,463,090</u>	<u>\$18,605,047</u>	<u>\$ 1,155,711</u>	<u>\$ 1,730,519</u>	<u>\$13,133,690</u>	<u>\$ 2,454,407</u>	<u>\$18,474,327</u>

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

Approved by Trust Council



William Zuill, Executive Director



Stephen Kuzyk, Treasurer

THE BERMUDA NATIONAL TRUST

Consolidated Statement of Operations

Year Ended December 31, 2016
(Expressed in Bermuda Dollars)

	2016					2015				
	General	Capital	Property	Endowment	Total	General	Capital	Property	Endowment	Total
Revenues										
Rental income	\$ 858,029	\$ -	\$ -	\$ -	\$ 858,029	\$ 804,943	\$ -	\$ -	\$ -	\$ 804,943
Gifts and grants										
Non-government (Note 12)	362,680	447,733	-	-	810,413	417,182	638,492	-	-	1,055,674
Bermuda government	50,846	-	-	-	50,846	49,990	-	-	-	49,990
Special events	359,869	-	-	-	359,869	357,883	-	-	-	357,883
Other income	136,498	-	-	-	136,498	104,993	-	-	-	104,993
Membership fees	72,534	-	-	-	72,534	65,177	-	-	-	65,177
Interest and dividend income (Note 12)	485	21,251	-	48,181	69,917	24	16,074	-	35,141	51,239
Sales – Trustworthy and publications	18,518	32,780	-	-	51,298	56,969	9,592	-	-	66,561
Admissions	11,335	-	-	-	11,335	16,850	-	-	-	16,850
Net realized gains on sale of marketable securities	-	3,157	-	7,365	10,522	-	14,855	-	34,661	49,516
Change in fair value of marketable securities	-	38,908	-	(6,970)	31,938	-	(24,356)	-	(47,982)	(72,338)
Tour income	-	-	-	-	-	2,925	-	-	-	2,925
Total revenues	1,870,794	543,829	-	48,576	2,463,199	1,876,936	654,657	-	21,820	2,553,413
Expenses										
Preservation (Note 12)	935,815	64,570	-	-	1,000,385	756,246	139,189	-	-	895,435
Administrative (Notes 11 and 12)	555,224	14,612	-	-	569,836	545,712	15,724	-	-	561,436
Development	385,013	-	-	-	385,013	291,339	-	-	-	291,339
Education and museums	295,450	-	-	-	295,450	328,479	-	-	-	328,479
Depreciation	-	-	53,827	-	53,827	-	-	43,948	-	43,948
Trustworthy and publications	14,218	16,009	-	-	30,227	65,417	12,444	-	-	77,861
Tour expenses	-	-	-	-	-	10,936	-	-	-	10,936
Total expenses	2,185,720	95,191	53,827	-	2,334,738	1,998,129	167,357	43,948	-	2,209,434
Excess (deficiency) of revenues over expenses	\$ (314,926)	\$ 448,638	\$ (53,827)	\$ 48,576	\$ 128,461	\$ (121,193)	\$ 487,300	\$ (43,948)	\$ 21,820	\$ 343,979

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

THE BERMUDA NATIONAL TRUST

Consolidated Statement of Changes in Fund Balances

Year Ended December 31, 2016
 (Expressed in Bermuda Dollars)

	2016					2015				
	<u>General</u>	<u>Capital</u>	<u>Property</u>	<u>Endowment</u>	<u>Total</u>	<u>General</u>	<u>Capital</u>	<u>Property</u>	<u>Endowment</u>	<u>Total</u>
Fund balances, beginning of year	\$ 776,392	\$ 1,718,303	\$ 13,133,690	\$ 2,454,407	\$18,082,792	\$ 643,089	\$ 1,850,189	\$12,782,148	\$ 2,463,387	\$17,738,813
Excess (deficiency) of revenues over expenses	(314,926)	448,638	(53,827)	48,576	128,461	(121,193)	487,300	(43,948)	21,820	343,979
Interfund transfers (Note 9)	<u>235,643</u>	<u>(425,073)</u>	<u>229,323</u>	<u>(39,893)</u>	<u>—</u>	<u>254,496</u>	<u>(619,186)</u>	<u>395,490</u>	<u>(30,800)</u>	<u>—</u>
Fund balances, end of year	\$ <u>697,109</u>	\$ <u>1,741,868</u>	\$ <u>13,309,186</u>	\$ <u>2,463,090</u>	\$18,211,253	\$ <u>776,392</u>	\$ <u>1,718,303</u>	\$13,133,690	\$ <u>2,454,407</u>	\$18,082,792

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

THE BERMUDA NATIONAL TRUST

Consolidated Statement of Cash Flows

Year Ended December 31, 2016

(Expressed in Bermuda Dollars)

	Operating activities		Financing and investing activities					Total	
	2016	2015	2016				2015	2016	2015
	General	General	Capital	Property	Endowment	Total	Total		
Sources of cash									
Admissions and membership fees	\$ 79,191	\$ 80,480	\$ –	\$ –	\$ –	\$ –	\$ –	\$ 79,191	\$ 80,480
Gifts and grants	390,149	559,489	447,737	–	–	447,737	598,492	837,886	1,157,981
Interest and dividends	485	24	21,251	–	48,176	69,427	51,082	69,912	51,106
Sale of marketable securities and interfund settlement	–	–	322,526	–	655,610	978,136	986,884	978,136	986,884
Rent	836,688	817,895	–	–	–	–	–	836,688	817,895
Sales - Trustworthy and publications	18,518	56,969	32,780	–	–	32,780	9,592	51,298	66,561
Special events, tours and other	496,338	465,801	–	–	–	–	–	496,338	465,801
Uses of cash									
Acquisition of capital assets	–	–	–	(35,850)	–	(35,850)	(74,260)	(35,850)	(74,260)
Acquisition of and improvements to property and collections	–	–	–	(193,473)	–	(193,473)	(281,230)	(193,473)	(281,230)
Administrative	(512,757)	(559,876)	(14,612)	–	–	(14,612)	(15,722)	(527,369)	(575,598)
Development	(385,013)	(291,339)	–	–	–	–	–	(385,013)	(291,339)
Education and museums	(295,450)	(328,479)	–	–	–	–	–	(295,450)	(328,479)
Purchase of marketable securities and interfund settlement	–	–	(307,217)	–	(717,702)	(1,024,919)	(1,004,139)	(1,024,919)	(1,004,139)
Preservation	(935,815)	(756,246)	(65,820)	–	–	(65,820)	(140,568)	(1,001,635)	(896,814)
Tours	–	(10,936)	–	–	–	–	–	–	(10,936)
Trustworthy and publications	(17,910)	(48,739)	(20,639)	–	–	(20,639)	(13,975)	(38,549)	(62,714)
Net (decrease) increase in cash and cash equivalents	(325,576)	(14,957)	416,006	(229,323)	(13,916)	172,767	116,156	(152,809)	101,199
Cash and cash equivalents, beginning of year	1,100,104	1,066,744	628,739	–	600,834	1,229,573	1,161,734	2,329,677	2,228,478
Interfund cash transfers	116,724	48,317	(376,372)	229,323	30,325	(116,724)	(48,317)	–	–
Cash and cash equivalents, end of year	\$ 891,252	\$ 1,100,104	\$ 668,373	\$ –	\$ 617,243	\$ 1,285,616	\$ 1,229,573	\$ 2,176,868	\$ 2,329,677

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

THE BERMUDA NATIONAL TRUST

Notes to Consolidated Financial Statements

December 31, 2016

1. **Incorporation and organization**

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 Standards for Not-for-Profit Organizations (“ASNFP”) contained in Part III of the Chartered Professional Accountants of Canada Handbook - Accounting and include the following significant accounting policies:

(a) Basis of consolidation

The consolidated financial statements include the accounts of the Trust and its wholly-owned subsidiary, the Bermuda National Trust Endowment Company Limited (the “Endowment Company”). All significant intercompany accounts and transactions have been eliminated upon consolidation.

Interests in jointly controlled assets and related fund-raising projects are accounted for using the proportionate consolidation method. This results in the Trust recognizing in its consolidated balance sheet its share of jointly controlled assets as well as its share of liabilities incurred jointly with other venturers, and in its consolidated statement of operations its proportionate share of any related revenues earned and expenses incurred (Note 12).

(b) Fund accounting

The Trust maintains its consolidated 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, 2016

2. Summary of significant accounting policies (continued)

(c) Revenue recognition

Restricted contributions related to general operations are recognized 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 recognized 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 recognized 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 recognized as revenue in the Endowment Fund.

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

Net realized gains and losses on the sale of investments and changes in fair value of investments are recorded in the consolidated statement of operations.

Rental income is recognized 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 realizable value. Cost is determined on an average cost basis. Provision is made where necessary for slow-moving or obsolete inventory.

(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. Depreciation 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 recognized as an impairment expense in the consolidated statement of operations.

THE BERMUDA NATIONAL TRUST

Notes to Consolidated Financial Statements

December 31, 2016

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 recognized 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 amortized.

(h) *Cash and cash equivalents*

For purposes of the consolidated 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 consolidated financial statements at fair value. Professional fees donated with a fair value of \$31,288 (2015 - \$75,788) have been recorded in non-government gifts and grants in the consolidated 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 consolidated financial statements.

(j) *Financial instruments*

Financial instruments consist of cash and cash equivalents, accrued interest and dividends, investment in marketable securities, accounts receivable and accounts payable.

Marketable securities quoted in an active market are carried at fair value, with the related net change in fair value included in the consolidated statement of operations. The fair value of the marketable securities is based on quoted market values. Transaction costs are recognized in the consolidated statement of operations in the period incurred.

Purchases and sales of marketable securities are accounted for at the transaction date.

Accounts receivable and accrued interest and dividends are measured at amortised cost using the effective interest method, less any adjustment for impairment.

Accounts payable are measured at amortized cost using the effective interest method.

Financial assets are tested for impairment when there are indicators of impairment. The amount of the write-down is recognized in the consolidated statement of operations. Any previously recognized impairment loss may be reversed to the extent of the improvement, directly or by adjusting the allowance account, provided it is no greater than the amount that would have been reported at the date of the reversal had the impairment not been recognized previously. The amount of the reversal is recognized in the consolidated statement of operations.

3. **Cash and cash equivalents**

Cash and cash equivalents in the General Fund include money market funds in the amount of \$139,520 (2015 - \$139,040). Interest earned on cash and cash equivalents during the year was at an average effective interest rate of 0.20% (2015 - 0.19%).

THE BERMUDA NATIONAL TRUST

Notes to Consolidated Financial Statements

December 31, 2016

4. Investments in marketable securities

Investments in marketable securities and time deposits are as follows:

	2016								
	Capital			Endowment			Total		
	Cost	Net unrealised gain (loss)	Fair value	Cost	Net unrealised gain (loss)	Fair value	Cost	Net unrealised gain (loss)	Fair value
Bermuda equities	\$ 46,041	\$ 66,243	\$ 112,284	\$ –	\$ –	\$ –	\$ 46,041	\$ 66,243	\$ 112,284
Time deposits	68,507	–	68,507	168,791	–	168,791	237,298	–	237,298
Debt securities	772,422	(45,461)	726,961	1,019,547	22,235	1,041,782	1,791,969	(23,226)	1,768,743
Mutual funds	–	–	–	881,258	26,256	907,514	881,258	26,256	907,514
	<u>\$ 886,970</u>	<u>\$ 20,782</u>	<u>\$ 907,752</u>	<u>\$ 2,069,596</u>	<u>\$ 48,491</u>	<u>\$ 2,118,087</u>	<u>\$ 2,956,566</u>	<u>\$ 69,273</u>	<u>\$ 3,025,839</u>

	2015								
	Capital			Endowment			Total		
	Cost	Net unrealised gain (loss)	Fair value	Cost	Net unrealised gain (loss)	Fair value	Cost	Net unrealised gain (loss)	Fair value
Bermuda equities	\$ 46,041	\$ 24,311	\$ 70,352	\$ –	\$ –	\$ –	\$ 46,041	\$ 24,311	\$ 70,352
Time deposits	68,507	–	68,507	167,904	–	167,904	236,411	–	236,411
Debt securities	755,224	(13,111)	742,113	1,044,627	5,120	1,049,747	1,799,851	(7,991)	1,791,860
Mutual funds	–	–	–	816,935	21,015	837,950	816,935	21,015	837,950
	<u>\$ 869,772</u>	<u>\$ 11,200</u>	<u>\$ 880,972</u>	<u>\$ 2,029,466</u>	<u>\$ 26,135</u>	<u>\$ 2,055,601</u>	<u>\$ 2,899,238</u>	<u>\$ 37,335</u>	<u>\$ 2,936,573</u>

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

Time deposits mature in May, June and September 2017, 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 0.37% (2015 - 0.29%).

5. **Restricted amounts**

General Fund cash and cash equivalents of \$128,321 (2015 - \$151,698) 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 \$668,373 (2015 - \$628,739) and investments in marketable securities of \$907,752 (2015 - \$880,972) 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 10).

Endowment Fund cash and cash equivalents of \$617,243 (2015 - \$600,834) and investments in marketable securities of \$2,118,087 (2015 - \$2,055,601) are restricted for the purposes set out in Note 10.

The deferred membership income of \$4,053 (2015 - \$8,731) represents that portion of income received for future years.

6. **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 59.5% of profits and losses. During 2016 the Endowment Company's share of FIDNAT'S income was \$nil (2015 - \$nil) and the cost of its investment in FIDNAT as at December 31, 2016 was \$7,098 (2015 - \$7,098).

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7. Capital assets

	2016			2015
	Cost	Accumulated depreciation	Net book value	Net book value
Park improvements	\$ 354,665	\$ 305,875	\$ 48,790	\$ 66,523
Computer equipment and software	259,432	235,123	24,309	39,736
Office equipment	126,002	106,002	20,000	28,000
Vehicles and other equipment	<u>221,278</u>	<u>152,392</u>	<u>68,886</u>	<u>45,703</u>
	<u>\$ 961,377</u>	<u>\$ 799,392</u>	<u>\$ 161,985</u>	<u>\$ 179,962</u>

The cost and accumulated depreciation of capital assets at December 31, 2015 were \$925,527 and \$745,565 respectively.

8. Property and collections

	2016	2015
Museum collections	\$ 90,528	\$ 90,528
Buildings and land	6,225,125	6,031,652
Nature reserves	<u>6,823,966</u>	<u>6,823,966</u>
	<u>\$ 13,139,619</u>	<u>\$ 12,946,146</u>

During the year the Trust invested a further \$193,473 (2015 - \$87,970) on renovations to its Springfield property in Sandys. A one-bedroom apartment was rented in December 2016 while the other was rented in early 2017. The remaining units on the property include a two-bedroom apartment and a commercial space which will be completed and rented during 2017. During 2015 the Trust invested an additional \$193,260 to complete the renovation of its Devonshire property (2016 - \$nil).

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Notes to Consolidated Financial Statements

December 31, 2016

9. **Interfund transfers**

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

	2016			
	<u>General</u>	<u>Capital</u>	<u>Property</u>	<u>Endowment</u>
Appropriation for improvements to historic properties (Note 8)	\$ -	\$ (193,473)	\$ 193,473	\$ -
Appropriation for capital assets	-	(35,850)	35,850	-
Appropriation from Dennis Sherwin Environment Fund for expenses	7,200	-	-	(7,200)
Appropriation from Endowment Fund for operations	32,693	-	-	(32,693)
Appropriation for the Trust's Education Program	<u>195,750</u>	<u>(195,750)</u>	<u>-</u>	<u>-</u>
	<u>\$ 235,643</u>	<u>\$ (425,073)</u>	<u>\$ 229,323</u>	<u>\$ (39,893)</u>

	2015			
	<u>General</u>	<u>Capital</u>	<u>Property</u>	<u>Endowment</u>
Appropriation for improvements to historic properties (Note 8)	\$ -	\$ (281,230)	\$ 281,230	\$ -
Appropriation for capital assets	-	(114,260)	114,260	-
Appropriation from Dennis Sherwin Environment Fund for expenses	7,200	-	-	(7,200)
Appropriation from Endowment Fund for operations	23,600	-	-	(23,600)
Appropriation for the Trust's Education Program	<u>223,696</u>	<u>(223,696)</u>	<u>-</u>	<u>-</u>
	<u>\$ 254,496</u>	<u>\$ (619,186)</u>	<u>\$ 395,490</u>	<u>\$ (30,800)</u>

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Notes to Consolidated Financial Statements

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10. Restricted fund balances

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

	2016		2015	
	Capital	Endowment	Capital	Endowment
Open spaces				
Buy Back Bermuda Fund	\$ 399,496	\$ –	\$ 421,847	\$ –
Dennis Sherwin Environmental Fund	–	161,560	–	161,560
Nature Reserves Fund	–	510,158	–	510,158
–	–	–	–	–
Collections	88,109	–	91,499	–
Education	28,357	–	39,106	–
Built Heritage	166,916	134,884	148,796	134,884
Unspecified	–	519,865	–	519,865
	<u>\$ 1,193,036</u>	<u>\$ 816,309</u>	<u>\$ 1,211,406</u>	<u>\$ 816,309</u>

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

	2016		2015	
	Capital	Endowment	Capital	Endowment
Publications	\$ 187,448	\$ –	\$ 161,337	\$ –
Built Heritage	45,671	108,277	29,817	108,277
Mary G. Williams Endowment Fund	–	1,149,091	–	1,149,091
Unspecified	315,713	389,413	315,743	380,730
	<u>\$ 548,832</u>	<u>\$ 1,646,781</u>	<u>\$ 506,897</u>	<u>\$ 1,638,098</u>

11. Pension plan

The Trust operates a defined contribution pension plan whereby the Trust contributes 5% of each employee's gross salary. The pension expense for the year ended December 31, 2016 was \$47,668 (2015 - \$53,869), and is included in administrative expenses in the consolidated statement of operations. Contributions payable to the pension plan at December 31, 2016 were \$ nil (2015 - \$ nil).

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Notes to Consolidated Financial Statements

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12. Buy Back Bermuda Campaign

In 2004, the Trust and Bermuda Audubon Society entered 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 balances and transactions relating to this campaign in its consolidated financial statements. As at December 31, 2016, included within the consolidated financial statements are the following amounts:

	<u>2016</u>	<u>2015</u>
Cash and cash equivalents	\$ 400,246	\$ 422,347
Property and collections	2,386,136	2,386,136
Gifts and grants (non-government)	146	2,067
Interest income	40	42
Preservation expenses	9,983	11,916
Administrative expenses	12,554	12,505

13. Financial instruments

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

Market price risk

Market price 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 price 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 price risk associated with investments in marketable securities is equal to the carrying value of the instruments as recorded in the consolidated 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 price 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.

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 risk.

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 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.

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Notes to Consolidated Financial Statements

December 31, 2016

13. **Financial instruments** (continued)

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, 2016, 53% of receivables were current, 34% of the receivables were 31 to 90 days past due and 13% were more than 90 days past due. The receivables past due for more than 90 days are considered collectible for services rendered and as such no provision for impairment 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.

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.

14. **Capital management**

The Trust defines capital, for its own purpose, as cumulative fund balances. During the fiscal year 2016, 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 minimizing 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, 2016, the Trust's consolidated total fund balances amounted to \$18,211,253 (2015 - \$18,082,792). A significant portion of the fund balance is subject to both internally and externally imposed restrictions (Note 10).

15. **Government remittances payable**

Included in accounts payable are government remittances payable of \$34,236 (2015 - \$20,642).

16. **Subsequent events**

Effective December 31, 2016 a significant donor completed their third tri-annum sponsorship of the Trust's Education programme and decided not to renew. The Trust is actively seeking new sponsors and several companies have since stepped in to provide funds for various segments of the Trust's Education programme. The Trust will continue to solicit funds for Education to continue to support the national school curriculum and develop future stewards of Bermuda's natural and cultural heritage.