THE BERMUDA FOUNDATION FOR INSURANCE STUDIES

Financial Statements
(With Independent Auditor's Report Thereon)

June 30, 2016

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INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees of The Bermuda Foundation for Insurance Studies

We have audited the accompanying financial statements of The Bermuda Foundation for Insurance Studies (the "Foundation"), which comprise the statement of financial position as at June 30, 2016, the statements of revenues, expenditures and net assets and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting standards for not-for-profit organizations 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in Bermuda and Canada. Those standards require that we comply with ethical requirements and plan and perform 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 Foundation'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 Foundation's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Foundation as at June 30, 2016, and its results of operations and its cash flows for the year then ended in accordance with accounting standards for not-for-profit organizations generally accepted in Bermuda and Canada.

KPMG Audit Limited

Chartered Professional Accountants
Hamilton, Bermuda
November 22, 2016

THE BERMUDA FOUNDATION FOR INSURANCE STUDIES

Statement of Financial Position

June 30, 2016
(Expressed in Bermuda Dollars)

	2016	2015
Assets		
Current assets		
Cash and cash equivalents (Note 4)	$ 977,787	$ 633,477
Current pledges receivable	56,500	155,000
Interest receivable	4,223	1,190
Investments (Note 5)	3,700,092	4,668,460
Total current assets	4,738,602	5,458,127
Non-current pledges receivable	–	36,500
Student loans receivable	4,400	6,500
Capital assets (Note 6 and 15)	54,755	6,775
Total assets	$ 4,797,757	$ 5,507,902
Liabilities and net assets		
Current liabilities		
Accounts payable and accrued liabilities (Note 14)	$ 15,764	$ 28,639
Deferred contributions (Note 7)	110,000	198,495
Deferred income (Note 8)	56,500	145,000
Capital lease obligation (Note 15)	4,056	–
Total current liabilities	186,320	372,134
Non-current deferred income (Note 8)	–	36,500
Non-current capital lease obligation (Note 15)	6,084	–
Net assets – unrestricted	4,605,353	5,099,268
Total liabilities and net assets	$ 4,797,757	$ 5,507,902

The accompanying notes are an integral part of these financial statements

Signed on behalf of the Board

______________________________ Trustee

______________________________ Trustee

THE BERMUDA FOUNDATION FOR INSURANCE STUDIES

Statement of Revenues, Expenditures and Net Assets

June 30, 2016
(Expressed in Bermuda Dollars)

	2016	2015
Revenues		
Contribution income - unrestricted	$ 223,456	$ 236,000
Contribution income - restricted (Note 7)	220,686	131,000
Investment income (Note 5)	80,301	290,546
Donated services (Note 3(e))	21,500	27,925
Other income	–	100
Total revenues	545,943	685,571
Expenditures		
Scholarships	425,000	424,300
Office and administrative (Note 9)	254,417	238,249
Premises (Note 11)	47,387	43,309
Intern programme (Note 10)	29,911	28,370
Corporate and professional fees (Note 3(e))	24,896	24,748
Career guidance and mentoring expenses	12,596	4,141
Communications	9,820	5,117
Scholarship programme	6,755	10,968
Foreign exchange loss	3,587	3,722
Amortization of capital assets	2,800	2,555
Bank charges and miscellaneous expenses	1,707	3,670
Promotion and fund raising	–	1,086
Total expenditures	818,876	790,235
Change in fair value of investments (Note 5)	(220,982)	(353,060)
Deficiency of revenues over expenditures	(493,915)	(457,724)
Net assets, beginning of year	5,099,268	5,556,992
Net assets, end of year	$ 4,605,353	$ 5,099,268

The accompanying notes are an integral part of these financial statements

THE BERMUDA FOUNDATION FOR INSURANCE STUDIES

Statement of Cash Flows

June 30, 2016
(Expressed in Bermuda Dollars)

	2016	2015
Operating activities		
Deficiency of revenues over expenditures	$ (493,915)	$ (457,724)
Adjustments for:		
Amortization of capital assets	2,800	2,555
Gain on sale of investments	(53,677)	(280,990)
Change in fair value of investments	220,982	353,060
Net changes in non-cash balances relating to operations:		
Pledges receivable	135,000	21,500
Interest receivable	(3,033)	(775)
Student loans receivable	2,100	–
Accounts payable and accrued liabilities	(12,875)	1,781
Deferred contributions	(88,495)	19,000
Deferred income	(125,000)	8,500
Net cash used in operating activities	(416,113)	(336,655)
Investing activities		
Purchase of investments	(651,031)	(1,582,348)
Proceeds from sale of investments	1,452,094	1,130,817
Purchase of capital assets	(50,780)	(3,730)
Net cash provided by (used in) investing activities	750,283	(455,261)
Financing activities		
Proceeds from lease, net of repayments	10,140	–
Net cash provided by financing activities	10,140	–
Net increase (decrease) in cash and cash equivalents	344,310	(791,916)
Cash and cash equivalents, beginning of year	633,477	1,425,393
Cash and cash equivalents, end of year	$ 977,787	$ 633,477

The accompanying notes are an integral part of these financial statements

1. General

The Bermuda Foundation for Insurance Studies (the "Foundation") was incorporated under the laws of Bermuda on July 17, 1996 and is registered as a charitable organization under The Charities Act 2014.

The Foundation is committed to providing scholarships to Bermudian students for post-secondary education in the fields of insurance and risk management, accounting, actuarial science, information technology, legal studies, finance, economics and mathematics. The Foundation also provides internships, mentoring and career guidance to students and young professionals in the aforementioned areas.

2. Basis of preparation

The Foundation presents financial statements in conformity with Part III of the Chartered Professional Accountants of Canada ("CPA Canada") Handbook – Accounting Standards for Not-For-Profit Organizations ("ASNFPO").

3. Significant accounting policies

These financial statements have been prepared in accordance with ASNFPO and include the following significant accounting policies:

(a) Use of estimates

The preparation of financial statements in accordance with ASNFPO requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the period. Actual results could differ from those estimates.

(b) Revenue recognition

The Foundation follows the deferral method of accounting for contributions. Restricted contributions that relate to expenditures of future periods are recorded in the statement of financial position as deferred contributions or deferred income and recognized as revenue in the period in which the related expenditures are incurred. Unrestricted contributions are recognized as revenue when received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured.

Interest and dividend income are recorded on the accrual basis.

(c) Cash and cash equivalents

Cash and cash equivalents include all balances held in the Foundation's operating and demand deposit bank accounts, and cash and deposits held on a short-term basis in investment trust accounts and investment portfolios with an original maturity of ninety days or less.

3. **Significant accounting policies** (continued)

(d) Financial instruments

Financial instruments consist of cash and cash equivalents, investments, pledges receivable, interest receivable, student loans receivable, accounts payable and capital lease obligations.

Investments quoted in an active market are carried at fair value, with the related net change in fair value included in the statement of revenues, expenditures and net assets. The fair value of the investments is based on quoted market prices. Transaction costs are recognized in the statement of revenues, expenditures and net assets in the period incurred. Purchases and sales of investments are accounted for at the transaction date.

Pledges receivable, interest receivable and student loans receivable are measured at amortized cost using the effective interest method, less any adjustment for impairment.

Accounts payable and capital lease obligations are measured at amortized cost using the effective interest method.

Financial assets measured at amortized cost are tested for impairment when there are indicators of impairment. The amount of the write-down is recognized in the statement of revenues, expenditures and net assets. 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 statement of revenues, expenditures and net assets.

(e) Donated services

The Foundation receives substantial donated services from Trustees, volunteers and service organizations in the normal course of its operations. The Foundation is dependent on these services for its continuing operation. Due to the difficulty in valuing the services donated by the Trustees and volunteers, all of these donated services are not recorded in the Foundation's financial statements. Services donated by service organizations are recorded in the financial statements at fair value to the extent determinable. Corporate and professional fees include $21,500 (2015 - $27,925) of donated services.

(f) Capital assets

Purchased capital assets are recorded at cost. The Foundation records contributed capital assets at their fair value at the date of contribution. Amortization is determined on a straight-line basis over the estimated useful life of the asset (Note 6). The Foundation records a corresponding deferred contribution, which is recognized in income as contributed capital assets are amortized.

(g) Foreign currency transactions

Transactions denominated in foreign currencies are translated into Bermuda dollars at exchange rates in effect at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortized cost in Bermuda dollars at the beginning of the period, adjusted for effective interest and payments during the period, and the amortized cost in foreign currency translated at the exchange rate at the end of the reporting period. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated at the exchange rate at the date that the fair value was determined. Foreign currency differences arising on retranslation are recognized in the statement of revenues, expenditures and net assets. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

4. Cash and cash equivalents

Cash and cash equivalents, comprise the following:

	2016	2015
Cash	$ 138,912	$ 215,667
Short-term deposits	838,875	417,810
Total cash and cash equivalents	$ 977,787	$ 633,477

Cash balances are held with one Bermuda bank.

Short-term deposits represent cash holdings and money market funds held by a Bermuda bank and a United States ("U.S.") bank. The effective interest rate earned on cash and cash equivalents for the year ended June 30, 2016 is 0.01% (2015 - 0.01%).

5. Investments

Investments comprise the following financial assets:

	2016		2015	
	Fair value	Cost	Fair value	Cost
Mutual funds and overseas equities	$ 1,345,732	$ 1,011,325	$ 2,026,355	$ 1,534,886
Fixed income investments	1,725,627	1,661,545	2,066,140	1,984,537
Other assets	493,956	512,879	273,006	262,067
Alternative investments	134,777	139,366	302,959	289,810
Total investments	$ 3,700,092	$ 3,325,115	$ 4,668,460	$ 4,071,300

Mutual funds represent investments in various independently managed investment funds consisting of portfolios of debt and equity securities. The managed investments are diversified to give minimal concentration by industry type and geographic region. There are no restrictions on the Foundation's ability to make further investments in or withdrawals from these funds at any time.

Included within fixed income investments as at June 30, 2016 are two (2015 – three) U.S. Treasury bonds of fair value $842,993 (2015 - $1,342,570) bearing interest at 0.125% - 0.875% per annum.

Investment income comprises the following:

	2016	2015
Realized gains on sale of investments	$ 53,677	$ 280,990
Dividend income	21,305	22,113
Interest income	20,319	2,443
Investment management fees	(15,000)	(15,000)
Net investment income	80,301	290,546
Change in fair value of investments	(220,982)	(353,060)
Total investment return	$ (140,681)	$ (62,514)

6. Capital assets

Capital assets comprise the following:

		2016			2015
		Cost	Accumulated amortization	Net book value	Net book value
Leasehold improvements	3 years	$ 37,226	$ –	$ 37,226	$ –
Office equipment	4 years	33,217	15,688	17,529	6,775
Total capital assets		$ 70,443	$ 15,688	$ 54,755	$ 6,775

Leasehold improvements are amortized over the current lease term of three years. Office equipment is amortized over its estimated useful life of four years.

The cost and accumulated amortization of capital assets as at June 30, 2015 were $24,663 and $17,888 respectively.

During the year, the Foundation received contributed capital assets, (e.g. cabinets, desks and carpets) for the new office space. These items were not capitalized as the fair value of these assets was deemed not material to the financial statements.

7. Deferred contributions

Deferred contributions represent unspent resources externally restricted for the purpose of providing scholarships, internship and mentoring that are related to subsequent periods. Changes in the deferred contributions balance are as follows:

	2016	2015
Balance, beginning of year	$ 198,495	$ 179,495
Restricted contributions received	132,191	150,000
Amount recognized as revenue in the year	(220,686)	(131,000)
Balance, end of year	$ 110,000	$ 198,495

8. Deferred income

Deferred income represents contributions and pledges expected to be collected and recognized in future years as follows:

	2016	2015
In less than one year	$ 56,500	$ 145,000
In one to five years	–	36,500
	$ 56,500	$ 181,500

9. **Employee benefits**

The Foundation operates a defined contribution pension plan which requires the employer to contribute 7% and 7% (2015 - 7% and 5%) for the Executive Director and Administrator respectively and the employee to contribute 3% and 3% (2015 - 3% and 5%) respectively, of the employee's pensionable earnings. The plan has a vesting period of 2 years. The total pension expense for the year ended June 30, 2016 is $23,637 (2015 - $21,263) and is included in office and administrative expenses.

10. **Intern programme**

The intern programme was set up to give students the opportunity to gain an in-depth understanding of the insurance markets. Expenditures include accommodation and intern stipend expenses incurred.

11. **Operating lease commitments**

The Foundation moved to new office space during the year and entered into a new operating lease for the rent on its premises. The lease began on February 1, 2016 for 3 years with a minimum annual lease payments of $27,835, and a total commitment as follows:

Year ended June 30:		
2017	$	27,835
2018		27,835
2019		16,254
	$	71,924

12. **Financial instruments**

Fair value

The fair value of the Foundation's investments is disclosed in Note 5. The fair values of cash and cash equivalents, interest receivable, student loans receivable, pledges receivable, capital lease obligation and accounts payable approximate their carrying values due to the short-term maturity of these instruments or the fact that they attract interest at market rates.

The estimates of fair values presented herein are subjective in nature and are not necessarily indicative of the amounts that the Foundation would realize in a current market exchange. Certain items such as deferred contributions, deferred income and capital assets are excluded from the fair value disclosure. Thus the total fair value amounts cannot be aggregated to establish the underlying fair value of the Foundation.

Liquidity risk

The Foundation manages liquidity risk by holding investments in highly liquid mutual funds which are readily convertible to cash and by continually monitoring actual and projected cash flows.

Interest rate and currency risk

The Foundation is not exposed to significant interest rate or foreign currency risk. Interest rate risk is mitigated as the Foundation invests in fixed income investments (Note 5) and its capital lease payments are for a fixed amount (Note 5).

12. **Financial instruments** (continued)

Credit risk

The Foundation only deposits cash surpluses with Bermuda banks which meet the regulatory requirements of the Bermuda Monetary Authority. The Trustees believe that the Foundation is not exposed to any significant concentration of credit risk. The Foundation monitors its receivable balances and believes that its provision for impairment of $nil (2015 - $20,600) against student loans receivable is sufficient to reflect the related credit risk. The Foundation’s current and non-current pledges receivable are considered to be fully collectible.

Price risk

Price risk is the risk that the future changes in market prices may render financial instruments less valuable or increase the liability associated with such instruments. The Foundation’s exposure to price risk relates predominately to its investments and is determined by a number of factors, including the size, duration, composition and diversification of positions held, as well as market volatility and liquidity. The Foundation seeks to diversify its investment portfolio so as to manage its exposure to price risk.

A 10% increase in market prices at the reporting date, assuming all other variables remain constant, would have increased the net assets and decreased the deficiency of revenues over expenditures of the Foundation by $479,775 (2015 - $467,000). An equal change in the opposite direction would have decreased net assets and increased the deficiency of revenues over expenditures by the same amount. The analysis is performed on the same basis for 2015.

13. **Capital management**

The Foundation defines capital, for its own purposes, as restricted and unrestricted cumulative net assets. During 2015 the Foundation’s objective when managing capital, which was unchanged from 2014, was to hold sufficient unrestricted funds to enable it to withstand negative unexpected financial events and continue as a going concern. The Foundation seeks to achieve this objective by minimizing its exposure to financial leverage and variable financial obligations and by holding cash and short-term deposits to maintain liquidity to enable it to meet its obligations as they become due. As at June 30, 2016 the Foundation’s accumulated net assets amounted to $4,605,353 (2015 - $5,099,268). The Foundation is not subject to any externally imposed requirements on capital.

14. **Government remittances payable**

Included in accounts payable and accrued liabilities are government remittances payable of $3,337 (2015 - $2,960).

15. **Capital lease obligation**

The Foundation entered into a rent-to-buy agreement for a photocopier. The asset has been capitalised at cost of $12,168 (2015 - $nil) representing total repayments under the lease, which is included in capital assets with related accumulated amortization of $1,521 (2015 - $nil). The capital lease obligation reflects total future repayments as follows:

Year ending June 30:		2016		2015
2017	$	4,056	$	–
2018		4,056		–
2019		2,028		–
	$	10,140	$	–

Interest of $nil (2015 - $nil) relating to the capital lease has been included in the financial statement.