THE BERMUDA FOUNDATION FOR INSURANCE STUDIES

Financial Statements
(With Independent Auditor's Report Thereon)

June 30, 2018

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INDEPENDENT AUDITOR'S REPORT

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

Opinion

We have audited the financial statements of The Bermuda Foundation for Insurance Studies (the "Foundation"), which comprise the statement of financial position as at June 30, 2018, the statements of revenues, expenditures and net assets, and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Foundation as at June 30, 2018, and its financial performance 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 ("ASNFPO").

Basis for Opinion

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 Financial Statements* section of our report. We are independent of the Foundation in accordance with the ethical requirements that are relevant to our audit of the financial statements in Bermuda, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with 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 financial statements.

KPMG

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 financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Foundation's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Foundation'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 financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Foundation to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

KPMG Audit Limited

Chartered Professional Accountants
Hamilton, Bermuda
November 2, 2018

THE BERMUDA FOUNDATION FOR INSURANCE STUDIES

Statement of Financial Position

June 30, 2018
(Expressed in Bermuda Dollars)

	2018	2017
Assets		
Current assets		
Cash and cash equivalents (Note 3)	$ 627,162	$ 682,266
Current pledges receivable	25,000	142,500
Interest receivable	5,235	1,975
Investments (Note 4)	4,014,351	4,051,003
Total current assets	4,671,748	4,877,744
Non-current pledges receivable	50,000	100,000
Capital assets (Notes 5 and 14)	22,421	37,127
Total assets	$ 4,744,169	$ 5,014,871
Liabilities and net assets		
Current liabilities		
Accounts payable and accrued liabilities (Note 13)	$ 13,814	$ 10,674
Deferred contributions (Note 6)	207,075	168,500
Deferred income (Note 7)	25,000	142,500
Capital lease obligation (Note 14)	2,028	4,056
Total current liabilities	247,917	325,730
Non-current deferred income (Note 7)	50,000	100,000
Non-current capital lease obligation (Note 14)	–	2,028
Net assets – unrestricted	4,446,252	4,587,113
Total liabilities and net assets	$ 4,744,169	$ 5,014,871

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, 2018
(Expressed in Bermuda Dollars)

	2018	2017
Revenues		
Contribution income - restricted (Note 6)	$ 281,062	$ 192,292
Contribution income - unrestricted	122,520	167,225
Investment income (Note 4)	157,816	124,698
Donated services (Note 2(e))	22,100	22,100
Other income	4,293	7,094
Total revenues	587,791	513,409
Expenditures		
Scholarships	356,000	384,500
Office and administration (Note 8)	261,739	260,712
Premises (Note 10)	48,539	41,437
Corporate and professional fees (Note 2(e))	32,129	25,240
Intern programme (Note 9)	25,822	34,656
Amortization of capital assets (Note 5)	14,881	17,910
Scholarship programme	14,249	11,352
Career guidance and mentoring expenses	11,459	4,406
Communications	6,675	5,393
Bank charges and miscellaneous expenses	970	2,110
Promotion and fund raising	350	1,922
Foreign exchange (gain) loss	(543)	131
Total expenditures	772,270	789,769
Change in fair value of investments (Note 4)	43,618	258,120
Deficiency of revenues over expenditures	(140,861)	(18,240)
Net assets, beginning of year	4,587,113	4,605,353
Net assets, end of year	$ 4,446,252	$ 4,587,113

The accompanying notes are an integral part of these financial statements

THE BERMUDA FOUNDATION FOR INSURANCE STUDIES

Statement of Cash Flows

June 30, 2018
(Expressed in Bermuda Dollars)

	2018	2017
Operating activities		
Deficiency of revenues over expenditures	$ (140,861)	$ (18,240)
Adjustments for:		
Amortization of capital assets	14,881	17,910
Gain on sale of investments	(123,708)	(112,823)
Change in fair value of investments	(43,618)	(258,120)
Net changes in non-cash balances relating to operations:		
Pledges receivable	167,500	(186,000)
Interest receivable	(3,260)	2,248
Student loans receivable	–	4,400
Accounts payable and accrued liabilities	3,140	(5,090)
Deferred contributions	38,575	58,500
Deferred income	(167,500)	186,000
Net cash used in operating activities	(254,851)	(311,215)
Investing activities		
Purchase of investments	(454,871)	(1,600,835)
Proceeds from sale of investments	658,849	1,620,867
Purchase of capital assets	(175)	(282)
Net cash provided by investing activities	203,803	19,750
Financing activities		
Net payment of capital lease	(4,056)	(4,056)
Net cash used in financing activities	(4,056)	(4,056)
Net decrease in cash and cash equivalents	(55,104)	(295,521)
Cash and cash equivalents, beginning of year	682,266	977,787
Cash and cash equivalents, end of year	$ 627,162	$ 682,266

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. **Significant accounting policies**

These financial statements are prepared in accordance with accounting standards for not-for-profit organizations generally accepted in Bermuda and Canada (“ASNFPO”) contained in Part III of the Chartered Professional Accountants of Canada (“CPA Canada”) Handbook – Accounting, 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 income and expenses during the period. Actual results could differ from those estimates. Management reviews all significant estimates affecting its financial statements on a recurring basis and records the effect of any necessary adjustments in revenue or expenses as appropriate in the year they became known.

(b) Revenue recognition

The Foundation follows the deferral method of accounting for scholarship contributions. Restricted scholarship 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 is recorded on the accruals 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.

(d) Financial instruments

Financial assets consist of cash and cash equivalents, investments, pledges receivable and interest receivable. Financial liabilities consist of 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 values of the investments are 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.

All other financial assets and financial liabilities are initially measured at cost being fair value of the consideration paid or received. Subsequently, all other financial assets and financial liabilities are measured at amortized cost.

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

(d) Financial instruments (continued)

Financial assets measured at amortised 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 in the period in which it is determined.

(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 $22,100 (2017 - $22,100) of donated services.

(f) Capital assets

Purchased capital assets are recorded at cost less accumulated amortization and impairment, if any. 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 lives of the assets (Note 5). The Foundation records a corresponding deferred contribution liability, which is recognized in income as contributed capital assets are amortized.

Capital assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized by the amount by which the carrying amount of the asset exceeds the fair value of the asset.

(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.

3. Cash and cash equivalents

Cash and cash equivalents, comprise the following:

	2018	2017
Cash	$ 307,836	$ 208,437
Short-term deposits	319,326	473,829
	$ 627,162	$ 682,266

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, 2018 is 0.01% (2017 - 0.01%).

4. Investments

Investments comprise the following financial assets:

	2018		2017	
	Fair value	Cost	Fair value	Cost
Mutual funds	$ 457,107	$ 261,107	$ 449,748	$ 288,225
Fixed income investments	2,037,474	1,986,989	1,932,733	1,865,323
Equities	1,366,045	950,174	1,532,314	1,124,992
Alternative investments	153,725	139,366	136,208	139,366
	$ 4,014,351	$ 3,337,636	$ 4,051,003	$ 3,417,906

Mutual funds represent investments in various independently managed investment funds consisting of portfolios of debt and equity securities. The managed investments are diversified to manage any 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, 2018 are two (2017 - four) U.S. Treasury bills and bonds of fair value $532,443 (2017 - $833,507) bearing interest at 0.125% - 1.375% per annum.

Investment income comprises the following:

	2018	2017
Realized gains on sale of investments	$ 123,708	$ 112,823
Dividend income	16,417	15,224
Interest income	32,691	11,651
Investment management fees	(15,000)	(15,000)
Net investment income	157,816	124,698
Change in fair value of investments	43,618	258,120
	$ 201,434	$ 382,818

5. Capital assets

Capital assets comprise the following:

	Cost	Accumulated amortization	Net book value 2018	Net book value 2017
Leasehold improvements	$ 37,226	$ 21,714	$ 15,512	$ 24,819
Office equipment	33,674	26,765	6,909	12,308
	$ 70,900	$ 48,479	$ 22,421	$ 37,127

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, 2017 were $70,725 and $33,598 respectively.

6. Deferred contributions

Deferred contributions represent unspent resources externally restricted that are related to subsequent periods. Changes in the deferred contributions balance are as follows:

	2018	2017
Balance, beginning of year	$ 168,500	$ 110,000
Restricted contributions received – scholarships	225,000	141,000
Restricted contributions received - other	94,637	109,792
Amount recognized as revenue in the year	(281,062)	(192,292)
Balance, end of year	$ 207,075	$ 168,500

7. Deferred income

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

	2018	2017
In less than one year	$ 25,000	$ 142,500
In one to five years	50,000	100,000
	$ 75,000	$ 242,500

8. Employee benefits

The Foundation operates a defined contribution pension plan which requires the employer to contribute 7% and 7% (2017 - 7% and 7%) for the Executive Director and Administrator respectively and the employee to contribute 3% and 3% (2017 - 3% and 3%) 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, 2018 was $14,376 (2017 - $14,375) and is included in office and administrative expenses.

9. **Intern programme**

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

10. **Operating lease commitments**

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

Year ended June 30:

2019	$	16,254

11. **Financial instruments**

Fair value

The fair values of the Foundation's investments are disclosed in Note 4. The fair values of cash and cash equivalents, interest 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, accrued liabilities and capital assets are excluded from the fair value disclosure.

Liquidity risk

Liquidity risk is the risk that the Foundation will encounter difficulty in meeting obligations associated with financial liabilities. The Foundation is exposed to this risk mainly in respect of its investments. The Foundation manages liquidity risk by holding investments in highly liquid mutual funds which are readily convertible to cash and by monitoring actual and projected cash flows.

Interest rate and currency risk

The Foundation is not exposed to significant interest rate or foreign currency risks. Interest rate risk is mitigated as the Foundation invests in fixed income investments (Note 4) and its capital lease payments are for a fixed amount (Note 14).

Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation and arises principally from cash and cash equivalents and pledges receivable. The Foundation only deposits cash with Bermuda banks which meet the regulatory requirements of the Bermuda Monetary Authority. The Foundation's current and non-current pledges receivable are considered to be fully collectible. The Trustees believe that the Foundation is not exposed to any significant concentration of credit risk.

11. **Financial instruments** (continued)

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 excess of revenues over expenditures of the Foundation by $401,435 (2017 - $405,100). 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 2017.

12. **Capital management**

The Foundation defines capital, for its own purposes, as restricted and unrestricted cumulative net assets. During 2018 the Foundation's objective when managing capital, which was unchanged from 2017, 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, 2018 the Foundation's accumulated net assets amounted to $4,446,252 (2017 - $4,587,113). The Foundation is not subject to any externally imposed requirements on capital.

13. **Government remittances payable**

Included in accounts payable and accrued liabilities are government remittances payable of $3,202 (2017 - $3,854).

14. **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 (2017 - $12,168) representing total repayments under the lease, which is included within office equipment in capital assets with related accumulated amortization of $7,605 (2017 - $4,563). The capital lease obligation reflects total future payments as follows:

Year ended June 30:		
2019	$	2,208

Interest of $nil (2017 - $nil) relating to the capital lease has been included in the statement of revenues, expenditures and net assets.

15. **Related party transactions**

During the year ended June 30, 2018, the Foundation received donations of $153,000 (2017 - $63,725) and pledges of $25,000 (2017 - $25,000) from parties related by virtue of common directorship.

All party transactions are recorded at the exchange amount which is the consideration established and agreed between the related parties.