

THE BERMUDA SLOOP FOUNDATION

Financial Statements
(With Independent Auditor's Report Thereon)

For the year ended August 31, 2017



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Independent Auditor's Report

To the Members of The Bermuda Sloop Foundation

Qualified Opinion

We have audited the financial statements of The Bermuda Sloop Foundation (the "Foundation"), which comprise the statement of financial position as at August 31, 2017, the statements of operations 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 financial statements present fairly, in all material respects, the financial position of the Foundation as at August 31, 2017, 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 ("ANSFPO").

Basis for Qualified Opinion

In common with many charitable organizations, the Foundation derives a portion of its revenue from the general public in the form of donations and fundraising activities, the completeness of which is not susceptible to satisfactory audit verification. Accordingly, our verification of donations, revenues from fundraising activities and deferred contributions was limited to the amounts recorded in the records of the Foundation. Therefore, we were not able to determine whether any adjustments might be necessary to donations, revenue from fund raising activities, amortization of deferred contributions and net surplus of revenues over expenditures reported in the statement of revenues and expenses for the year ended August 31, 2017, and deferred contributions and net assets reported in the statement of financial position as at that date.

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

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with ANSFPO 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.

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
February 20, 2018

The Bermuda Sloop Foundation

Statement of Financial Position

As at August 31, 2017

(Expressed in Bermuda dollars)

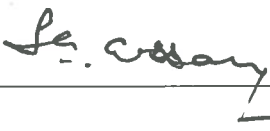
	<u>2017</u>	<u>2016</u>
Assets		
Current assets		
Cash and cash equivalents	\$ 369,278	\$ 309,846
Accounts receivable and prepayments	<u>85,929</u>	<u>97,033</u>
Total current assets	455,207	406,879
Capital assets (Note 4)	<u>3,850,222</u>	<u>4,018,582</u>
Total assets	<u>\$ 4,305,429</u>	<u>\$ 4,425,461</u>
Liabilities		
Current liabilities		
Deferred contributions (Notes 5 and 6)	\$ 134,103	\$ 563,553
Accounts payable and accrued liabilities (Note 7)	<u>247,255</u>	<u>371,998</u>
Total current liabilities	<u>381,358</u>	<u>935,551</u>
Non-current liabilities		
Long-term debt (Note 8)	<u>200,000</u>	<u>200,000</u>
Total liabilities	<u>581,358</u>	<u>1,135,551</u>
Fund balances (Note 11)	<u>3,724,071</u>	<u>3,289,910</u>
Total liabilities and fund balances	<u>\$ 4,305,429</u>	<u>\$ 4,425,461</u>

The notes on pages 7 to 13 are an integral part of the financial statements.

Approved by the Board of Directors



Director



Director

The Bermuda Sloop Foundation

Statement of Operations

Year ended August 31, 2017
(Expressed in Bermuda dollars)

	<u>2017</u>	<u>2016</u>
Revenues		
Fundraising activities	\$ 1,435,981	\$ 723,751
Donations and programme revenues	659,720	949,391
Donated goods and services (Note 10)	207,721	183,267
Government grants (Note 6)	157,500	127,083
Other revenue	<u>12,601</u>	<u>13,047</u>
Total revenues	<u>2,473,523</u>	<u>1,996,539</u>
Expenses		
Finance costs and depreciation		
Depreciation	168,360	168,360
Bank charges and interest (Note 8)	<u>16,829</u>	<u>31,524</u>
Total finance costs and depreciation	<u>185,189</u>	<u>199,884</u>
Office and general administration expenses		
Salaries, staff benefits and taxes (office only)	211,436	222,707
Business development and fundraising	195,734	100,546
Professional fees and casual labour	137,648	182,261
Office supplies, miscellaneous and other expenses	<u>38,060</u>	<u>22,769</u>
Total office and general administration expenses	<u>582,878</u>	<u>528,283</u>
Spirit of Bermuda Programme and Dockyard facility		
Salaries, staff benefits and taxes (crew only)	507,813	553,835
Supplies and repairs	331,761	263,397
Charter and casual crew, food and other expenses	224,000	138,894
Donations in-kind (Note 10)	<u>207,721</u>	<u>183,267</u>
Total Spirit of Bermuda Programme and Dockyard facility	<u>1,271,295</u>	<u>1,139,393</u>
Total expenses	<u>2,039,362</u>	<u>1,867,560</u>
Net surplus of revenues over expenses	434,161	128,979
Fund balance – beginning of year	<u>3,289,910</u>	<u>3,160,931</u>
Fund balance – end of year	<u>\$ 3,724,071</u>	<u>\$ 3,289,910</u>

The notes on pages 7 to 13 are an integral part of the financial statements.

The Bermuda Sloop Foundation

Statement of Cash Flows

For the year ended August 31, 2017
(Expressed in Bermuda dollars)

	<u>2017</u>	<u>2016</u>
Cash flows from operating activities		
Net surplus of revenues over expenses	\$ 434,161	\$ 128,979
Adjustments for:		
Change in fair value of investments	-	30,118
Depreciation	168,360	168,360
Changes in non-cash working capital balances:		
Decrease (increase) in accounts receivable and prepayments	11,104	(36,698)
Decrease in deferred contributions	(429,450)	(121,802)
Decrease in accounts payable and accrued liabilities	<u>(124,743)</u>	<u>(94,313)</u>
Net cash provided by operating activities	<u>59,432</u>	<u>74,644</u>
Cash flows from financing activities		
Repayment of long-term debt, net	<u>-</u>	<u>(478,052)</u>
Net cash used in financing activities	<u>-</u>	<u>(478,052)</u>
Increase (decrease) in cash and cash equivalents	59,432	(403,408)
Cash and cash equivalents at beginning of year	<u>309,846</u>	<u>713,254</u>
Cash and cash equivalents at end of year	<u>\$ 369,278</u>	<u>\$ 309,846</u>

The notes on pages 7 to 13 are an integral part of the financial statements

The Bermuda Sloop Foundation

Notes to the Financial Statements

For the year ended August 31, 2017

1. Nature of business

The Bermuda Sloop Foundation (the "Foundation") was incorporated by a Memorandum of Association as a Company Limited by Guarantee on December 22, 1998 and was registered as a charitable organization on November 15, 1999. The Foundation is registered as charity number 545 in accordance with the Bermuda Charities Act 2014.

The Foundation has developed the following mission statement with respect to its overall goals:

- a) To develop both character/team building and improved academic and technical achievement in large numbers of Bermuda's young people through outdoor leadership and experience using world class ocean sailing training.
- b) To teach Bermuda's maritime history to its people and visitors thereby increasing understanding and appreciation of the distinctive "Mujan" character, spirit and community.
- c) To serve as an ambassador and Bermudian icon in overseas port cities.

The Foundation offers a graduated, world-class sail training program to diverse young people on the "Spirit of Bermuda", an 87 foot three-mast, Bermuda-rigged schooner, based on a "Bermudian" type schooner built during the period 1810-1850.

The Foundation estimates that operating costs of the Spirit of Bermuda will be funded through a variety of means including education grants, private tuitions, corporate chartering, interest from a future endowment fund, sale of merchandise and corporate events. The Foundation estimates that the seaworthy life of the schooner will be a minimum of 35 years.

2. Basis of preparation

The Foundation prepares its financial statements in accordance with the requirements of the Chartered Professional Accountants of Canada ("CPA Canada") Handbook – Accounting Part III: Accounting Standards for Not-for-Profit Organizations ("ASNFP").

a) *Going concern*

These financial statements have been prepared on a going concern basis, which contemplates the realization of assets and settlement of liabilities in the normal course of business as they fall due.

The Foundation has reported an excess of current assets over current liabilities of \$73,849 (2016 – deficit of \$528,672) as at August 31, 2017 and is reliant on the continued support of its donors and the success of fundraising activities to allow it to meet its operating budget and repay its private loans and other creditors. During the previous year, the Foundation implemented a four stage plan to stabilize its financial position including (i) expense reduction and increased fund raising efforts to generate profitable operations; (ii) repaying bank loans; (iii) working with creditors to establish mutually acceptable payment and credit terms, and (iv) building an endowment fund to support future operations. The Foundation has successfully completed the first phase of the plan and has repaid its bank loans ahead of schedule (Note 8), and is making progress in reducing its liabilities to its other creditors, while managing to meet all current operating expenses. The building of an endowment fund is an objective for beyond the fiscal year ended August 31, 2017.

As at August 31, 2017 the Foundation has payroll related liabilities of \$48,091 (2016: \$95,997), due to a combination of factors (Note 7). The Foundation has previously paid the full amount due in respect of payroll tax arrears, and has continued to meet social insurance obligations and make regular monthly payments to reduce amounts due in arrears in accordance with an agreed repayment plan.

The Bermuda Sloop Foundation

Notes to the Financial Statements

For the year ended August 31, 2017

2. Basis of preparation (continued)

a) *Going concern (continued)*

Based on the significant progress made to date in achieving its planned objectives, the latest operating budget and future cash flow projections the Foundation's Board of Directors considers that the Foundation has the ability to meet its ongoing obligations for the foreseeable future and that the going concern basis of preparation is appropriate.

Accordingly, these financial statements do not reflect any adjustments to the carrying value of classification of the Foundation's assets and liabilities that would be necessary if the going concern assumption was not appropriate. Such adjustments would be material to these financial statements.

3. Significant accounting policies

The accounting policies set out below have been applied consistently unless otherwise stated. The principal accounting policies adopted by the Foundation are as follows:

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 revenues and expenses during the period. Actual results could differ from those estimates.

b) *Revenue recognition*

The Foundation follows the deferral method of accounting for contributions under which restricted contributions are recognized as revenue in the year in which the related expenses 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. Contributed capital assets are deferred and recognized as revenue at the same rate as the capital asset is depreciated.

Programme revenue is recognized when the programme has been completed. All other revenue is recognized on the accruals basis.

c) *Donated goods and contributed services*

Donated goods and contributed services are recorded as received when a fair value can be reasonably estimated and when the goods and services would otherwise have been purchased or incurred.

Volunteers contribute time to assist the Foundation in carrying out its activities. Contributed volunteer services are not recognized in the financial statements due to the difficulty in determining their value.

d) *Government grants*

Government grants are recognized over the period to which the grant relates when there is reasonable assurance that the Foundation will comply with any conditions attached to the grant and that the grant will be received.

e) *Cash and cash equivalents*

Cash and cash equivalent consists of cash on hand and current account deposits held with banks.

The Bermuda Sloop Foundation

Notes to the Financial Statements

For the year ended August 31, 2017

3. Significant accounting policies (continued)

f) Operating leases

Rentals payable under operating leases are charged to expenses on a straight line basis over the term of the relevant lease.

g) Capital assets

Capital assets are recorded at cost less accumulated depreciation and impairment losses. All expenses for design, planning and construction of the Spirit of Bermuda have been capitalized as part of the overall cost of the schooner. The value of donated assets is determined, where possible, based on the fair value as declared by the donor at the date of contribution.

Depreciation is computed using the straight line method based on the estimated useful lives of the assets as follows:

Spirit of Bermuda	
Design, hull, systems	35 years
Rigging	15 years
Other schooner assets	1 – 5 years
Sails, marine computer systems	1 – 5 years
Leasehold improvements	3 – 7 years
Other assets	1 – 5 years

Depreciation of the schooner commenced on September 5, 2006 when it came into service.

h) Financial instruments

Financial instruments consist of cash and cash equivalents, investments, accounts receivable, accounts payable and long-term debt.

Investments in marketable securities are measured at fair value based on quoted market prices. Changes in fair value are included in the statement of operations. All other financial instruments 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 any impairment write-down is recognized in the 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 statement of operations.

i) Foreign currencies

Transactions denominated in foreign currencies have been converted to Bermuda dollars at the appropriate prevailing rate of exchange at the date of each transaction. Monetary assets and liabilities denominated in foreign currencies are translated into Bermuda dollars at the rates of exchange prevailing at the year-end date. Resulting gains or losses are recorded in the statements of operations.

The Bermuda Sloop Foundation

Notes to the Financial Statements

For the year ended August 31, 2017

4. Capital assets

	<u>Cost</u>	<u>Accumulated depreciation</u>	<u>2017 Net book value</u>	<u>2016 Net book value</u>
Spirit of Bermuda	\$ 6,657,732	\$ 2,880,525	\$ 3,777,207	\$ 3,945,567
Leasehold improvements	353,991	353,991	-	-
Other	<u>108,751</u>	<u>35,736</u>	<u>73,015</u>	<u>73,015</u>
	<u>\$ 7,120,474</u>	<u>\$ 3,270,252</u>	<u>\$ 3,850,222</u>	<u>\$ 4,018,582</u>

Donated assets, comprising \$72,000 (2016: \$72,000) of original art and historical sailing memorabilia included in other capital assets, are not being depreciated. The cost and accumulated depreciation of capital assets as at August 31, 2016 were \$7,120,474 and \$3,101,892 respectively.

5. Deferred contributions

Deferred contributions of \$134,103 (2016: \$563,553) represent deferred contributions or externally restricted unspent resources relating to donations received in advance, contributed assets, net disbursements for facilitated events, restricted projects, and deferred income from government grants as further explained in Note 6.

6. Government grants

The Foundation received government grants of \$157,500 during the year ended August 31, 2017 (2016: \$150,000) of which \$157,500 has been recognized as revenue (2016: \$127,083) and \$87,500 (2016: \$87,500) has been accounted for as deferred contribution (Note 5) as it relates to future periods.

7. Accounts payable and accrued liabilities

	<u>2017</u>	<u>2016</u>
Accounts payable and accrued liabilities	\$ 186,664	\$ 263,001
Payroll related liabilities	48,091	95,997
Accrued liabilities	<u>12,500</u>	<u>13,000</u>
	<u>\$ 247,255</u>	<u>\$ 371,998</u>

Included within accounts payable and accrued liabilities are government remittances payable as follows:

	<u>2017</u>	<u>2016</u>
Social insurance	\$ 43,015	\$ 88,705
Payroll tax	<u>5,076</u>	<u>7,292</u>
	<u>\$ 48,091</u>	<u>\$ 95,997</u>

The Bermuda Sloop Foundation

Notes to the Financial Statements

For the year ended August 31, 2017

8. Long-term debt

Long-term debt comprises the following loans:

	<u>2017</u>	<u>2016</u>
Private loans	\$ <u>200,000</u>	\$ <u>200,000</u>
Total long-term debt	\$ 200,000	\$ 200,000

Clarien Bank and HSBC bank loans were paid in full during the year ended August 31, 2016. The Foundation has received two unsecured loans amounting to \$200,000 from private individuals for the purpose of refinancing its HSBC and Clarien Bank loans. Interest is payable at the rate of 1.0% per quarter (4.0% per annum) based on the principal balance outstanding on the first day of the calendar quarter, and the maturity date is December 31, 2020. Currently the loans are on interest only terms. The interest expense on the private loans for the year ended August 31, 2017 is \$8,000 (2016 - \$5,333).

9. Leases

A new lease for the Foundation's facilities at Unit 8, Royal Naval Dockyard, was signed from October 1, 2015 for a period of 3 years for \$32,400 per annum with an annual maintenance fee of \$3,600. In addition, Storage Unit 11 was rented from October 1, 2015 for a period of 3 years for \$5,320 per annum with an annual maintenance fee of \$1,280. The minimum annual lease commitment is as follows:

2018	\$ 42,600
2019	\$ 3,550

10. Donations in-kind

Donations in-kind represent the estimated fair value of goods and services provided to the Foundation.

The fair value of the donated services and office facilities recognized is as follows:

	<u>2017</u>	<u>2016</u>
Office space	\$ 61,050	\$ 61,088
Accounting services	48,736	-
Ship insurance	44,400	48,000
Berth fees	21,000	21,000
Cell phone service	13,200	13,200
Fuel	10,459	14,058
Miscellaneous donations in-kind	<u>8,876</u>	<u>25,921</u>
	\$ 207,721	\$ 183,267

The Bermuda Sloop Foundation

Notes to the Financial Statements

For the year ended August 31, 2017

11. Capital management

The Foundation defines capital, for its own purposes, as its accumulated fund balance. The Foundation's objective when managing capital is to hold sufficient fund balances 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 variable financial obligations and by holding cash to maintain sufficient liquidity to enable it to meet its obligations as they become due. As at August 31, 2017, the Foundation's accumulated fund balances amounted to \$3,724,071 (2016: \$3,289,910). The Foundation is not subject to any externally imposed requirements on capital.

12. Financial instruments

Fair values

The estimated fair values of the Foundation's financial instruments approximate their carrying values because of their short-term nature, or the fact they attract market rates of interest.

Liquidity risk

Liquidity risk is the risk that the Foundation will encounter difficulty in meeting obligations associated with its financial liabilities. The Association is exposed to this risk mainly in respect of its long-term debt and accounts payable.

Credit risk

The Foundation deposits all cash surpluses with two Bermuda-based financial institutions. Management believes that the Foundation is not exposed to any significant credit risk in relation to these deposits. The Foundation is exposed to credit risk in respect of its accounts receivable balances. The Foundation monitors its accounts receivable balances and believes that no provision for doubtful debts (2016: \$nil) as all receivables are expected to be collected in full. The Foundation maximum exposure to credit risk is limited to the carrying value of accounts receivable of \$85,929 (2016: \$93,783).

Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, market prices and interest rates, will affect the fair value of recognized assets and liabilities or future cash flows of the Foundation.

(i) Foreign exchange risk

The Foundation's transactions are mainly conducted in Bermuda dollars and, as such, it has minimal exposure to foreign exchange risk.

(ii) Interest rate risk

The Foundation is exposed to changes in interest rates, which may impact interest revenue on cash deposits. Interest on long-term debt is at a fixed rate.

(iii) Other price risk

The Foundation is exposed to changes in the market price of its investments in marketable securities. However, all investments were sold during the year ended August 31, 2016.

The Bermuda Sloop Foundation

Notes to the Financial Statements

For the year ended August 31, 2017

13. Related party transactions

The Foundation reported the following related party balances and transactions which occurred in the normal course of operations with parties related by virtue of common directorship.

	<u>2017</u>	<u>2016</u>
Accounts payable	\$ 168,731	\$ 217,274
Accounts receivable	\$ 1,122	\$ -
	<u> </u>	<u> </u>
Consulting services	\$ 24,825	\$ 3,330
Food and supplies	\$ 18,429	\$ 23,830
Training services	\$ 1,800	\$ 1,860
Ship repair and maintenance	\$ 1,517	\$ 42,353
	<u> </u>	<u> </u>

The Foundation made payments during the year on behalf of two Board directors in the sum of \$42,788 (2016: \$40,502) for health insurance premiums. The balance to be recovered as at August 31, 2017 is \$22 (2016: \$nil) which is included within accounts receivable.

The Foundation has received \$150,000 from a Board member for the purpose of refinancing its bank loans (Note 8). The interest expense on this loan for the year ended August 31, 2017 is \$6,000 (2016: \$4,000).

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

14. Subsequent events

In September 2017, a Government ferry was involved in a collision with the Spirit of Bermuda. Legal proceedings against the vessel's charter captain and the ferry captain have commenced and are expected to be completed in 2018. Based on legal advice, the Foundation believes it has no liability in relation to this incident. However the Foundation estimates its maximum potential obligation for repairs and legal expenses to be \$120,000 before any insurance claim. The Bermuda Sloop Foundation believes that full recovery of the cost of repairs will be made. Any costs incurred will be reflected in the Foundation's financial statements for the year ending August 31, 2018.