

The Bermuda Hospitals Charitable Trust

Financial Statements
March 31, 2014



October 17, 2016

Independent Auditor's Report

To the Trustees of The Bermuda Hospitals Charitable Trust

We have audited the accompanying financial statements of The Bermuda Hospitals Charitable Trust, which comprise the balance sheet as at March 31, 2014 and the statements of operations and changes in net assets and cash flows for the year then ended, and the related notes, which comprise 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 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 the 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 the auditor's 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, the auditor considers internal control relevant to the entity'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 entity'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.

*PricewaterhouseCoopers Ltd., Chartered Professional Accountants, P.O. Box HM 1171, Hamilton HM EX, Bermuda
T: +1 (441) 295 2000, F: +1 (441) 295 1242, www.pwc.com/bermuda*



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

Opinion

Basis for qualified opinion

In common with many not-for-profit organizations, The Bermuda Hospitals Charitable Trust derives revenues from donations and contributions and other transactions with the public, the completeness of which is not susceptible to satisfactory audit verification. Accordingly, our verification of these revenues was limited to the amounts recorded in the records of The Bermuda Hospitals Charitable Trust. Therefore, we were not able to determine whether any adjustments might be necessary to donations and contributions, excess of revenue over expenditures and cash flows from operations for the years ended March 31, 2014 and March 31, 2013, current assets as at March 31, 2014 and March 31, 2013 and net assets as at April 1 and March 31 for both the 2014 and 2013 years. Our audit opinion on the financial statements for the year ended March 31, 2013 was modified accordingly because of the possible effects of this limitation in scope.

Qualified opinion

In our opinion, except for the possible effects of the matter described in the basis for qualified opinion paragraph, the financial statements present fairly, in all material respects, the financial position of The Bermuda Hospitals Charitable Trust as at March 31, 2014 and the results of its operations and its cash flows for the year then ended in accordance with Accounting Standards for Not-For-Profit Organizations in Bermuda and Canada.

PricewaterhouseCoopers Ltd.

Chartered Professional Accountants

Reference: Independent Auditor's Report on the Financial Statements of The Bermuda Hospitals Charitable Trust as at March 31, 2014 and for the year then ended.

The Bermuda Hospitals Charitable Trust

Balance Sheet

As at March 31, 2014

	2014 \$	2013 \$
Assets		
Current assets		
Cash	13,972,363	6,855,349
Accounts receivable	7,906,393	3,465,573
Prepaid expenses and other current assets	13,836	32,851
	<u>21,892,592</u>	<u>10,353,773</u>
Investments (note 5)	103,065	100,469
Loan receivable (note 8)	331,882	177,233
Property and equipment (note 3)	5,511	7,768
	<u>22,333,050</u>	<u>10,639,243</u>
Total assets		
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	46,336	59,265
	<u>46,336</u>	<u>59,265</u>
Deferred contributions (note 4)	22,271,439	10,575,098
	<u>22,317,775</u>	<u>10,634,363</u>
Total liabilities		
Net assets	<u>15,275</u>	<u>4,880</u>
Total liabilities and net assets	<u>22,333,050</u>	<u>10,639,243</u>

Approved by the Trustees

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

The Bermuda Hospitals Charitable Trust

Statement of Operations and Changes in Net Assets

For the year ended March 31, 2014

	2014 \$	2013 \$
Revenue		
Donations and contributions (notes 4 and 9)	799,327	634,383
Dividends and interest income	4,468	4,650
	<u>803,795</u>	<u>639,033</u>
Expenditures		
Salaries and related expenses	503,554	498,768
Professional services	52,692	161,200
Office rent (note 9)	72,450	72,000
Audit fee (note 9)	30,050	30,000
Office expenses	26,619	18,980
Depreciation	2,257	2,257
Travel and meeting expenses	3,319	2,016
Bank charges	9,228	8,307
Fundraising expenses	95,827	103,828
	<u>795,996</u>	<u>897,356</u>
Total expenditures	795,996	897,356
Change in fair value of investments	<u>2,596</u>	<u>2,479</u>
Excess (deficiency) of revenue over expenditures	10,395	(255,844)
Net assets - Beginning of year	<u>4,880</u>	<u>260,724</u>
Net assets - End of year	<u>15,275</u>	<u>4,880</u>

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

The Bermuda Hospitals Charitable Trust

Statement of Cash Flows

For the year ended March 31, 2014

	2014	2013
	\$	\$
Cash flows for operating activities		
Excess (deficiency) of revenue over expenditures	10,395	(255,844)
Item not affecting cash:		
Depreciation	2,257	2,257
Change in fair value of investments	(2,596)	(2,479)
Amortization of deferred contribution	(700,000)	(524,015)
Changes in assets and liabilities:		
Accounts receivable	(4,440,820)	48,510
Prepaid expenses	19,015	(24,478)
Accounts payable and accrued liabilities	(12,929)	6,772
Deferred donations received	12,396,341	5,201,974
Net cash from operating activities	7,271,663	4,452,697
Cash flows for investing activities		
Purchase of property and equipment	-	(4,554)
Loan receivable	(154,649)	(128,326)
Net cash used in investing activities	(154,649)	(132,880)
Increase in cash	7,117,014	4,319,817
Cash - Beginning of year	6,855,349	2,535,532
Cash - End of year	13,972,363	6,855,349

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

The Bermuda Hospitals Charitable Trust

Notes to Financial Statements

March 31, 2014

1. Purpose of the organization

The Bermuda Hospitals Charitable Trust (the "Trust") was incorporated in Bermuda on July 3, 2003 by virtue of a Trust Deed in accordance with the Trustee Act 1975.

The Trust's overall goal, in accordance with the provisions of the Trust Deed, is to raise funds to further the charitable objectives of the Bermuda Hospitals Board, including purchase of medical equipment, supplies, plant and machinery and infrastructure of all types, and to supply these to any of the facilities under the supervision of the Bermuda Hospitals Board.

2. Significant accounting policies

The accompanying financial statements are prepared in accordance with Accounting Standards for Not-for-Profit Organizations in Bermuda and Canada ("ASNPO"). The preparation of financial statements in conformity with ASNPO 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 expenses during the reporting period. Actual amounts could differ from those estimates. The following are the significant accounting policies adopted by the Trust to prepare its financial statements.

(a) Revenue and deferred donations

The Trust follows the deferral method of accounting for donations as follows:

- i. Restricted or deferred donations relating to specific expenditures are initially recorded at fair value and deferred in the balance sheet and recognised as revenue in the year in which the related expenses are incurred.
- ii. Unrestricted donations are recognised as revenue in the year received.

Pledged donations are recognized as a receivable when the amount to be received can be reasonably estimated and ultimate collection is reasonably assured. Restricted pledges are recognized as revenue in the year in which the related expenses are incurred while unrestricted pledges are recognized as revenue in the year received or deemed receivable.

At the discretion of the Trustees, a portion of the deferred donations will be released to cover the ongoing expenses of the Trust, and recorded as revenue at the effective approval date.

(b) Contributed services

The Trust recognises all contributed services as part of donations in the statement of operations for which the fair value is readily determinable.

Volunteers contribute a significant amount of time to assist the Trust with its goals. Because of the difficulty of determining their fair value, volunteer contributed services are not recognized in the financial statements.

(c) Property and equipment

Property and equipment consist of computers and office equipment which are amortized on a straight-line basis over their estimated useful lives as follows:

Computers	3 - 5 years
Office equipment	3 - 5 years

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(d) **Investments**

Investments comprise marketable securities. Investments in quoted equity securities are carried at fair value. Changes in fair value are recognized in the statement of operations. The fair value of investments is determined by reference to their quoted market price. Investment income is recognized on an accrual basis.

Investments in unquoted equity securities are carried at cost.

(e) **Financial instruments**

The Trust initially measures its financial assets and liabilities at fair value, except for certain non-arm's length transactions.

The Trust subsequently measures its financial assets and financial liabilities at amortized cost, except for investments in quoted equity securities which are measured at fair value. Amortization is recorded using the effective interest rate method.

Financial assets measured at amortized cost include cash and donations receivable. Financial liabilities measured at amortized cost include accounts payable and accrued liabilities. The carrying amounts approximate fair value due to the short-term nature of these financial instruments.

The loan receivable arose from a related party transaction and is therefore measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

Financial assets are tested for impairment at the end of each reporting period when there are indications that the assets may be impaired.

3. **Property and equipment**

Property and equipment comprise:

	Cost	Accumulated amortization	Net book value 2014	Net book value 2013
	\$	\$	\$	\$
Computers	29,319	23,808	5,511	7,768
Office equipment	1,815	1,815	-	-
	31,134	25,623	5,511	7,768

The Bermuda Hospitals Charitable Trust

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4. Deferred contributions and pledged donations

Deferred contributions represent externally restricted resources. For the building of the new Hospital, donations revenue is recognized in the period that the funds are given to the Bermuda Hospitals Board.

Changes in the deferred contributions balance are as follows:

	Capital campaign \$	Purchase of morgue dialysis equipment \$	John Hopkins Phase 1 review \$	Building of the new Hospital \$	2014 Total \$	2013 Total \$
Beginning balance	11,000	25,000	10,682	10,528,416	10,575,098	5,897,139
Deferred donations recognized during the period	-	-	-	12,396,341	12,396,341	5,201,974
Amount recognized as income during the period	-	-	-	(700,000)	(700,000)	(524,015)
Ending balance	11,000	25,000	10,682	22,224,757	22,271,439	10,575,098

5. Investments

	No. of shares 2014	Cost 2014 \$	Fair value 2014 \$	No. of shares 2013	Cost 2013 \$	Fair value 2013 \$
At fair value:						
Ascendant Group Ltd.	1,116	15,624	10,602	1,116	15,624	12,890
BF&M Limited	3,907	58,605	70,287	3,907	58,605	65,403
At cost:						
Masters Ltd.	1,152	22,176	22,176	1,152	22,176	22,176
		96,405	103,065		96,405	100,469

6. Pension contributions

The Trust maintains a defined contribution pension plan in accordance with The National Pension Scheme (Occupational Pension) Act 1998, which is administered by Argus Group Limited and covers all employees. During the period, the Trust made contributions of \$ \$21,780 (2013 - \$21,035) into the plan.

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7. *Capital disclosures*

The Trust defines capital, for its own purposes, as the unrestricted cumulative excess of revenues over expenditures. During the current year the Trust's objective when managing capital, which was unchanged from the prior year, was to hold sufficient unrestricted net assets 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 to maintain sufficient liquidity to enable it to meet its obligations as they become due. The Trustees will also periodically allocate a portion of deferred donations to cover the ongoing operating expenses of the Trust. As at March 31, 2014 the Trust's unrestricted capital amounted to \$15,275 (2013 - \$4,880). The Trust is not subject to any externally imposed requirements on capital.

8. *Loan receivable*

The Trust has advanced funds on an interest free basis to the Bermuda Wellness Foundation, an organization formed in the U.S.A., to fund start-up costs and other initial operating costs. The purpose of Bermuda Wellness Foundation is to raise the charitable healthcare support from U.S.A. donors willing to support the health and wellbeing services in Bermuda. At March 31, 2014, the Trust has advanced a total of \$331,882 (2013 - \$177,233). On June 23, 2014, a payment agreement was entered between the Trust and Bermuda Wellness Foundation whereby the latter agrees to pay the Trust the lesser amount of 15% of donations received by the Bermuda Wellness Foundation in the preceding six months; or \$50,000 to be received semi-annually from June 2014 until the loan is paid in full. On July 21, 2014 and December 21, 2015, the Trust received \$39,000 and \$6,638, respectively, of loan repayments.

9. *Contributed services*

Donated audit fees of \$30,050 (2013 - \$30,000) and donated office rent of \$ 63,450 (2012 - \$72,000) are recognised within donations and contributions in the statement of operations, and the related expenses are recognized as part of the expenditures of the Trust.

10. *Financial instruments*

The Trust is exposed to various risks through its financial instruments. The following analysis provides a measure of the entity's risk exposure and concentrations as at March 31, 2014 and 2013.

Liquidity risk

Liquidity risk is the risk that the Trust will encounter difficulty in meeting obligations associated with financial liabilities. The Trust is exposed to this risk mainly in respect of its accounts payable and accrued liabilities. The Trust controls liquidity risk by management of working capital and cash flows. At March 31, 2014 and 2013, the Trust has sufficient cash to pay its various expenses. All donations receivable are collectible in less than a year. In addition, the Trust's investments in marketable securities are considered to be readily realisable as majority of the investments are listed on the Bermuda Stock Exchange (BSX).

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. The Trust's main credit risk arises principally from the Trust's cash, accounts receivable and loan receivable.

The Trust only deposits cash with major banks of high quality credit standing. The Trust is not exposed to significant credit risk on its cash. Donations receivable balances relate to pledged donations that will be collected in less than a year. The Trust considers all donations receivable balances to be recoverable and no allowance for impairment has been made. The Trust mitigates credit risk arising from its loan receivable by

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dealing with what management believes to be a financially sound counterparty and, accordingly, does not anticipate significant loss for non-performance.

Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. The Trust is mainly exposed to market risk through its investments. Majority of the Trust's investments are quoted on the BSX.

11. Subsequent event

In the period up to July 2016, the Trust made total donations of \$24.9 million to the Bermuda Hospitals Board for the construction of the Hospital.