

Hamilton Community Foundation
Consolidated Financial Statements
For the year ended March 31, 2019

Hamilton Community Foundation
Consolidated Financial Statements
For the year ended March 31, 2019

	Contents
Independent Auditor's Report	2 - 3
Consolidated Financial Statements	
Consolidated Statement of Financial Position	4
Consolidated Statement of Revenue and Expenses and Changes in Net Assets	5
Consolidated Statement of Cash Flows	6
Notes to Consolidated Financial Statements	7 - 16



Tel: 905 639 9500
Fax: 905 633 4939
Toll-free: 888 236 2383
www.bdo.ca

BDO Canada LLP
3115 Harvester Road, Suite 400
Burlington ON L7N 3N8 Canada

Independent Auditor's Report

To the Board of Directors of Hamilton Community Foundation

Opinion

We have audited the consolidated financial statements of Hamilton Community Foundation (the "Foundation"), which comprise the consolidated statement of financial position as at March 31, 2019, and the consolidated statements of revenue and expenses, changes in net assets and cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Foundation as at March 31, 2019, and consolidated results of operations and its consolidated cash flows for the year then ended in accordance with Canadian accounting standards for not-for-profit organizations.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Foundation in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada, 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.

Other Information

Management is responsible for the other information. The other information comprises:

- The information included in the Annual Report and the Report to the Community.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We obtained the Annual Report and the Report to the Community prior to the date of this auditor's report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in this auditor's report. We have nothing to report in this regard.

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

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with Canadian accounting standards for not-for-profit organizations, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the 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 Consolidated Financial Statements

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

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the 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 consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Foundation to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Foundation to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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.

BDO Canada LLP

Chartered Professional Accountants, Licensed Public Accountants
Burlington, Ontario
June 25, 2019

Hamilton Community Foundation Consolidated Statement of Financial Position

March 31	Endowment		Operating/Invested in Capital Assets		Restricted		Total	
	2019	2018	2019	2018	2019	2018	2019	2018
Assets								
Current								
Cash (bank indebtedness)	\$ 50,422	\$ 5,868	\$ (90,378)	\$ 31,715	\$ 602,436	\$ (147,524)	\$ 562,480	\$ (109,941)
Accounts receivable	-	-	152,530	130,735	77,098	-	229,628	130,735
Accrued income receivable	-	-	-	-	685,716	520,566	685,716	520,566
Prepaid expenses	-	-	88,184	75,944	-	-	88,184	75,944
Current portion of loans receivable (Note 4)	2,463,579	1,038,105	-	-	-	-	2,463,579	1,038,105
	2,514,001	1,043,973	150,336	238,394	1,365,250	373,042	4,029,587	1,655,409
Investments at:								
Cost (Note 2)	11,829,951	8,794,374	-	-	-	-	11,829,951	8,794,374
Market (Note 3)	124,577,653	128,201,032	11,748,222	11,088,850	42,594,701	39,327,537	178,920,576	178,617,419
Loans Receivable (Note 4)	7,423,433	5,364,713	-	-	-	-	7,423,433	5,364,713
Capital assets (Note 5)	-	-	52,071	34,554	-	-	52,071	34,554
	\$ 146,345,038	\$ 143,404,092	\$ 11,950,629	\$ 11,361,798	\$ 43,959,951	\$ 39,700,579	\$ 202,255,618	\$ 194,466,469

Liabilities and Net Assets

Current

Accounts payable and accrued liabilities	\$ -	\$ -	\$ 150,336	\$ 238,394	\$ 210,808	\$ 195,000	\$ 361,144	\$ 433,394
Deferred revenue	-	-	-	-	711,461	589,485	711,461	589,485
Funds held on behalf of third parties (Note 6)	-	-	11,748,222	11,088,850	-	-	11,748,222	11,088,850
	-	-	11,898,558	11,327,244	922,269	784,485	12,820,827	12,111,729

Net Assets

Endowment funds	146,345,038	143,404,092	-	-	-	-	146,345,038	143,404,092
Invested in capital assets	-	-	52,071	34,554	-	-	52,071	34,554
Restricted funds	-	-	-	-	43,037,682	38,916,094	43,037,682	38,916,094
	146,345,038	143,404,092	52,071	34,554	43,037,682	38,916,094	189,434,791	182,354,740
	\$ 146,345,038	\$ 143,404,092	\$ 11,950,629	\$ 11,361,798	\$ 43,959,951	\$ 39,700,579	\$ 202,255,618	\$ 194,466,469

On behalf of the Board of Directors:

Chair

Director

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

Hamilton Community Foundation Consolidated Statement of Revenue and Expenses and Changes in Net Assets

For the year ended March 31	Endowment		Operating/Invested in Capital Assets		Restricted		Total	
	2019	2018	2019	2018	2019	2018	2019	2018
Revenue:								
Investment income, net (Note 7)	\$ -	\$ -	\$ 2,479,464	\$ 2,450,049	\$ 8,153,503	\$ 2,882,535	\$ 10,632,967	\$ 5,332,584
Donations including bequests	2,048,769	4,693,380	22,000	20,000	7,367,152	1,142,732	9,437,921	5,856,112
Donations specified for community leadership projects	-	-	-	-	863,596	646,839	863,596	646,839
	2,048,769	4,693,380	2,501,464	2,470,049	16,384,251	4,672,106	20,934,484	11,835,535
Operational expenses (Note 8):								
Grant administration Community and Philanthropic Leadership	-	-	330,326	337,783	-	-	330,326	337,783
Development activities	-	-	305,676	289,409	-	-	305,676	289,409
Community Relations and Knowledge Dissemination	-	-	516,934	566,774	-	-	516,934	566,774
Administration and Governance	-	-	390,765	388,552	-	-	390,765	388,552
	-	-	940,246	895,850	-	-	940,246	895,850
	-	-	2,483,947	2,478,368	-	-	2,483,947	2,478,368
Excess (deficiency) of revenue over expenses before grants and leadership projects	2,048,769	4,693,380	17,517	(8,319)	16,384,251	4,672,106	18,450,537	9,357,167
Grants and leadership projects distributed (Note 9)	-	-	-	-	(11,370,486)	(8,213,995)	(11,370,486)	(8,213,995)
Excess (deficiency) of revenue over expenses for the year	2,048,769	4,693,380	17,517	(8,319)	5,013,765	(3,541,889)	7,080,051	1,143,172
Fund balances, beginning of year	143,404,092	137,708,765	34,554	42,873	38,916,094	43,459,930	182,354,740	181,211,568
Transfers (Note 10)	892,177	1,001,947	-	-	(892,177)	(1,001,947)	-	-
Fund balances, end of year	\$146,345,038	\$143,404,092	\$ 52,071	\$ 34,554	\$43,037,682	\$ 38,916,094	\$ 189,434,791	\$ 182,354,740

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

Hamilton Community Foundation Consolidated Statement of Cash Flows

For the year ended March 31	2019	2018
Cash flows provided by operating activities		
Excess of revenue over expenses for the year	\$ 7,080,051	\$ 1,143,172
Items not affecting cash		
Amortization of capital assets	24,546	24,219
Donated securities	(997,262)	(1,759,086)
Unrealized losses	2,280,649	6,841,927
Realized gain on sale of investments	(7,820,772)	(5,744,545)
Changes in non-cash working capital items		
Accounts receivable	(98,893)	(67,563)
Accrued income receivable	(165,150)	35,679
Prepaid expenses	(12,240)	(36,962)
Accounts payable and accrued liabilities	(72,250)	(228,250)
Deferred revenue	121,976	(39,582)
Funds held on behalf of third parties	659,372	796,027
	<u>1,000,027</u>	<u>965,036</u>
Cash flows from investing activities		
Purchase of investments	(209,771,518)	(141,537,095)
Proceeds from the sale of investments	212,970,169	141,389,421
Advance of loans receivable	(3,484,194)	(1,340,814)
Purchase of capital assets	(42,063)	(15,900)
	<u>(327,606)</u>	<u>(1,504,388)</u>
Increase (decrease) in cash during the year	672,421	(539,352)
Cash (bank indebtedness), beginning of year	<u>(109,941)</u>	<u>429,411</u>
Cash (bank indebtedness), end of year	<u>\$ 562,480</u>	<u>\$ (109,941)</u>

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

Hamilton Community Foundation

Notes to Consolidated Financial Statements

March 31, 2019

1. Significant Accounting Policies

Nature and Purpose of Organization

Hamilton Community Foundation (the "Foundation") was incorporated without share capital by special act in 1954, continued under the Hamilton Community Foundation Act, 1994, Ontario (the "Act"), and now have a continuance under the Canada Not-for-Profit Corporations Act. The Foundation's purpose is to act as a vehicle for donors to improve their community and to meet the changing needs and opportunities across all sectors of the Hamilton community through grant making and community leadership.

The Foundation is a public foundation registered under the Income Tax Act (Canada) (the "Tax Act") and, as such, is exempt from income taxes and able to issue donation receipts for income tax purposes.

Principles of Consolidation

The consolidated financial statements include the accounts of the Foundation, its wholly-owned subsidiary, 2375419 Ontario Inc. and The Hamilton Community Foundation Investment Trust. The Hamilton Community Foundation Investment Trust is a trust, established on June 19, 2013, whose sole beneficiary is the Foundation. 2375419 Ontario Inc. is the trustee corporation. On consolidation, all transactions and balances between the Foundation, 2375419 Ontario Inc. and the Hamilton Community Foundation Investment Trust have been eliminated.

Basis of Accounting

The consolidated financial statements have been prepared using Canadian accounting standards for not-for-profit organizations.

Fund Accounting

The Foundation follows the Restricted Fund method for accounting for contributions. The Foundation ensures, as part of its fiduciary responsibilities, all funds received with a restricted purpose are expensed for that purpose.

For financial reporting purposes, the accounts have been classified into the following funds:

- i) Endowment Fund
The Endowment Fund reports resources that are generally required to be maintained by the Foundation on a permanent basis.
- ii) Operating/Invested in Capital Assets Fund
The Operating/Invested in Capital Assets Fund ("Operating Fund") reports resources available for the Foundation's general operating activities. These activities include asset development, granting, administration and governance, community relations and knowledge dissemination and community and philanthropic leadership. The general costs of supporting these activities are reported as expenses in the Operating Fund.
- iii) Restricted Fund
The Restricted Fund reports resources that are available to be used for purposes specified by the donor. Also included are allocations of resources via interfund transfers that are restricted by the Foundation's Board of Directors (the "Board").

Revenue Recognition

Gifts received are generally considered unrestricted contributions to the Foundation unless a donor specifies otherwise, and are, therefore, reflected as revenue of the Restricted Fund. If a donor specifies that the contribution is for an existing endowed fund or specifies that it is to be retained permanently, it is recognized as revenue of the Endowment Fund.

Hamilton Community Foundation

Notes to Consolidated Financial Statements

March 31, 2019

1. Significant Accounting Policies (Continued)

Revenue Recognition (continued)

Contributions are recognized when received, except where amounts are received for specific community leadership projects. In these cases, contributions are deferred and recorded as revenue when the related expenses are incurred. Bequests are recorded upon receipt of the donated assets.

Contributed Services

Volunteers contribute a substantial number of hours each year to assist the Foundation in carrying out its activities. Because of the difficulty of determining their fair value, contributions of such services are not recognized in the consolidated financial statements.

Contributed Securities

Contributed securities are recorded at their fair value at the date of the contribution if fair value can be reasonably estimated.

Disclosure of Allocated Expenses

The Foundation engages in:

- Grant administration
- Community and philanthropic leadership
- Development activities
- Community relations and knowledge dissemination
- Administration and governance

Salaries and benefits, representing the largest portion of operating costs, are allocated to reflect time spent in each area. Direct expenses are charged directly to each area including consulting costs, travel, conferences, and memberships. In addition, general and administrative support expenses are incurred that are common to all functional areas of the Foundation. These expenses are allocated based on space allocation by functional area.

Investments

The investments of the Foundation are recorded at fair value based on quoted market prices. Investments that do not have a quoted value in an active market are recorded at cost, less impairment. Investment income includes interest, dividends, realized gain/(losses) and the net change in unrealized gains/(losses) for the year, less investment counsel and custodian fees.

The market values of investments denominated in foreign currencies are translated into Canadian dollars at the rate of exchange prevailing at the end of the year.

Purchases and sales of investments and investment income denominated in foreign currencies are translated into Canadian dollars at the rate of exchange prevailing on the respective dates of the transactions.

Investment income is allocated as follows:

- i) Endowment Fund:
 - Income earned on funds which the donor has stipulated a portion of income be added to principal; and
 - A portion of income equal to the amount required to preserve the purchasing power of the endowed capital as determined by the Foundation's Board.

Hamilton Community Foundation Notes to Consolidated Financial Statements

March 31, 2019

1. Significant Accounting Policies (Continued)

Investments (continued)

ii) Operating Fund:

- Interest earned on the assets held in the Operating Fund;
- Income earned on funds which the donor has stipulated the income be used for operations; and
- An amount equal to the aggregate of the administrative fee charged to each Endowment and Restricted Fund.

iii) Restricted Fund:

- Income earned on resources of the Endowment or Restricted Fund which is available for granting purposes as determined by the Board via interfund transfers or donor restrictions; and
- Reserve for future market declines.

Capital Assets

Capital assets, consisting of leasehold improvements, furniture and fixtures and computer equipment, are recorded at cost less accumulated amortization. Amortization is provided on a straight-line basis over five years for furniture and fixture, three years for computer equipment and the term of the lease for leasehold improvements.

Foreign Currency Translation

Foreign currency accounts are translated to Canadian dollars as follows:

At the transaction date, each asset, liability, revenue or expense is translated into Canadian dollars by the use of the exchange rate in effect at that date. At the year end date, monetary assets and liabilities are translated into Canadian dollars by using the exchange rate in effect at that date. The resulting foreign exchange gains and losses are included in income in the current period.

Use of Estimates

The preparation of consolidated financial statements in accordance with Canadian accounting standards for not-for-profit organizations requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses for the year. Actual results could differ from those estimates as additional information becomes available in the future.

Financial Instruments

Financial instruments are recorded at fair value when acquired or issued. In subsequent periods, equities traded in an active market are reported at fair value, with any unrealized gains and losses reported in the restricted fund and operating fund, other than financial instruments related to the endowment fund. In addition, all bonds and cash equivalents have been designated to be in the fair value category, with gains and losses reported in the restricted fund and operating fund, other than financial instruments related to the endowment fund. Changes in fair value of financial instruments related to the endowment fund are recorded directly in net assets. All other financial instruments are reported at cost or amortized cost less impairment, if applicable. Financial assets are tested for impairment when changes in circumstances indicate the asset could be impaired. Transaction costs on the acquisition, sale or issue of financial instruments are expensed for those items remeasured at fair value at each statement of financial position date and charged to the financial instrument for those measured at amortized cost.

Hamilton Community Foundation Notes to Consolidated Financial Statements

March 31, 2019

2. Investments at Cost

	2019	2018
Private equity	\$ 7,065,307	\$ 5,674,762
Real estate	1,893,699	1,885,143
Infrastructure	1,366,109	1,034,469
Private debt	1,504,836	200,000
	\$ 11,829,951	\$ 8,794,374

The Foundation applies an integrated investment approach, which includes investing in alternative investment classes, such as private equity, real estate, infrastructure and private debt. Investments at cost represent investments that do not have a quoted value in an active market and are recorded in accordance with the significant accounting policies of the Foundation. These investments are made in accordance with the Foundation's investment policy as approved by the Board, which includes guidelines regarding the minimum and maximum amount of alternative investment holdings.

3. Investments at Market

	2019	2018
Bonds	\$ 56,587,085	\$ 52,637,679
Equities:		
Canadian	43,856,275	43,650,950
Foreign	63,335,849	67,468,679
	163,779,209	163,757,308
Cash and cash equivalents	15,141,367	14,860,111
	\$ 178,920,576	\$ 178,617,419

The investments are held in four separate portfolios each of which is managed by a professional investment counselor selected to provide diversity of investment philosophy and style. Investments in each portfolio are made in accordance with the Foundation's investment policy as approved by the Board. The goal of the policy is to ensure that funds are maintained and grown while achieving maximum returns consistent with prudent investment. The investment policy includes guidelines regarding the minimum and maximum amount of equity holdings, foreign equity holdings and a maximum to be invested in any one related party or industry.

The Foundation manages its portfolio investments based on its cash flow needs and with a view to optimizing its investment income within an appropriate level of risk.

Hamilton Community Foundation Notes to Consolidated Financial Statements

March 31, 2019

3. Investments at Market (Continued)

The effective interest rate on bonds during the year varied from 1.000% to 7.405% (2018 - 1.000% to 7.405%). The maturities of these bonds range from October 28, 2019 to December 31, 2108 (2018 - from May 24, 2018 to December 31, 2108).

The effective interest rate on treasury bills and bankers acceptance included in cash equivalents during the year varied from 1.54% to 2.41% (2018 - 1.01% to 2.62%) with maturities ranging from April 4, 2019 to June 13, 2019 (2017 – April 2, 2018 to June 14, 2018).

4. Loans Receivable

Loans receivable consists of the following loans:

	2019	2018
Loan receivable (a)	\$ 1,700,000	\$ -
Loan receivable (b)	1,000,000	1,000,000
Loan receivable (c)	1,000,000	1,000,000
Loan receivable (d)	1,326,536	-
Various loans receivable (e)	4,860,476	2,902,818
Loan receivable, matured	-	1,500,000
	9,887,012	6,402,818
Less: Current Portion	2,463,579	1,038,105
	\$ 7,423,433	\$ 5,364,713

Hamilton Community Foundation Notes to Consolidated Financial Statements

March 31, 2019

4. Loans Receivable (Continued)

- (a) Term loan, bearing interest at 4.0% per annum, secured by land and building, repayable interest only monthly and maturing July 2021.
- (b) Loan advanced under a credit facility (the "Facility"), bearing interest at 5.0% on a portion of the Facility disbursed and weighted average interest accrued in the account of the borrower during applicable fiscal quarter with guaranteed minimum interest of 3.0% per annum, repayable interest only quarterly and maturing June 2019.
- (c) Term loan, bearing interest at 4.0% per annum, secured by a general security agreement over the assets of the borrower, repayable interest only annually and maturing May 2024.
- (d) Term loan, bearing interest at the greater of TD prime plus 0.5% and 3.5%, secured by assignment of occupancy income and specific assignment of mortgage receivables, repayable in monthly interest and principal payments of \$2,067 to \$3,100, maturing October 2023.
- (e) Various term loans (2019 – 11, 2018 – 7), between 3.0% to 5.5% per annum, secured by the land and building for which the loan relates, repayable interest only until certain conditions are met or time has elapsed with interest and principal repayments required thereafter and maturing between June 2019 to June 2024.

5. Capital Assets

	2019		2018	
	Cost	Accumulated Amortization	Cost	Accumulated Amortization
Leasehold improvements	\$ 21,641	\$ 16,948	\$ 18,145	\$ 11,271
Furniture and fixtures	9,364	2,770	9,282	3,121
Computer equipment	77,611	36,827	61,758	40,239
	\$ 108,616	\$ 56,545	\$ 89,185	\$ 54,631
Net book value		\$ 52,071		\$ 34,554

During the year, \$24,546 (2018 - \$24,219) of amortization expense on capital assets was incurred and is reported in the consolidated statement of revenue and expenses and changes in net assets.

During the year, fully amortized capital assets in the amount of \$22,632 (2018 - \$23,924) were written off by the Foundation.

Hamilton Community Foundation Notes to Consolidated Financial Statements

March 31, 2019

6. Funds Held on Behalf of Third Parties

Funds held on behalf of third parties of \$11,748,222 (2018 - \$11,088,850) are pooled with the investments of the Foundation. Capital and related income (losses) earned on these funds are to be distributed by the owners. Investment income or losses are allocated to these funds in the proportion of their capital to the total capital. Administration fees ranging from 0.5% to 1.5% of the fund balance are charged on these funds. The receipt and disbursement of these funds are not reflected in the consolidated statement of revenue and expenses and changes in net assets.

7. Investment Income (Loss), Net

The assets held by the Foundation are pooled for investment purposes. The investment income is allocated to the Endowment, Operating and Restricted Funds and funds held on behalf of third parties in accordance with stated accounting policies.

	2019	2018
Investment income during the year:		
Interest and dividends	\$ 6,554,162	\$ 7,641,609
Realized gains on sale of investments	7,820,772	5,744,545
Unrealized losses	<u>(2,280,649)</u>	<u>(6,841,927)</u>
	12,094,285	6,544,227
Deduct:		
Investment fees	(801,946)	(840,616)
Investment income allocated to funds held on behalf of third parties	<u>(659,372)</u>	<u>(371,027)</u>
	\$ 10,632,967	\$ 5,332,584
Allocated to:		
Operating Fund	\$ 2,479,464	\$ 2,450,049
Restricted Fund	<u>8,153,503</u>	<u>2,882,535</u>
	\$ 10,632,967	\$ 5,332,584

Investment counsel and custodian fees as a percentage of managed investments was 0.41% for the year (2018 – 0.47%).

Hamilton Community Foundation Notes to Consolidated Financial Statements

March 31, 2019

8. Expenses as Percentage of Average Total Assets

	2019	2018
Total assets:		
Opening	\$ 194,466,469	\$ 192,795,102
Closing	202,255,618	194,466,469
Average	198,361,044	193,630,786
Total operating expenses	\$ 2,483,947	\$ 2,478,368
Expenses as percentage of average total assets	1.25%	1.28%

The Foundation's operating expenses involve asset development, administration and governance, community relations and knowledge dissemination and activities related to grant administration, leadership and philanthropic services. These activities are not necessarily related to the donations received in any one year and the asset development methodology used by the Foundation creates normal gift delays, which may result in costs preceding the receipt of the gifts by several years.

In management's view, the ratio of total operating expenses to average total assets should be used to evaluate the operating costs. Ratios may fall within a range depending on the size and stage of development of a community foundation. Management considers the ratio of 1.25% (2018 - 1.28%) to be within an acceptable range compared with benchmarks established in the community foundation sector and continues to monitor both the actual results and the benchmarks on an ongoing basis.

9. Grants and Leadership Projects

In addition to grant administration, the Foundation undertakes a number of community leadership projects. These projects, many of which span a number of years, have a separate funding stream from operations through external gifts from donors, as well, as commitments made by the Board to support these initiatives.

	2019	2018
Grants and leadership projects were made as follows:		
Grants	\$ 10,720,617	\$ 7,676,464
Community leadership projects:		
Advancing post-secondary access program (ABACUS)	220,237	166,575
Green Shield Canada Six4Six Initiative	70,945	-
Hamilton Anchor Institution Leadership Table	22,100	89,506
Neighbourhood Development	211,506	66,751
Neighbourhood Leadership Institute	82,830	196,851
Other leadership projects	42,251	17,848
	\$ 11,370,486	\$ 8,213,995

Hamilton Community Foundation Notes to Consolidated Financial Statements

March 31, 2019

10. Transfers

During the year, an amount of \$892,177 was transferred to the Endowment Fund from the Restricted Fund reflecting a return of capital for funding purposes in prior years. In addition, there was a capitalization of funds that were temporarily held as restricted at the direction of the donor. In 2018, \$1,001,947 was transferred to the Endowment Fund from the Restricted Fund for the 2017 inflation adjustment and a return of capital transferred for funding purposes in prior years.

11. Commitments and Guarantee

As at March 31, 2019, the Foundation has extended pledges for future grants and distributions. These amounts, which have not been reflected as liabilities, total \$375,000 (2018 - \$747,384) and they are expected to be granted and paid over the next four years.

The Foundation has unfunded investment commitments related to private equity investments that can be drawn on demand. At March 31, 2019, the unfunded amount for private equity is:

U.S. dollars	\$ 6,876,046
Canadian dollars	2,522,705

The Foundation is committed to minimum annual operating lease payments on its premises which expires November 30, 2019 of \$168,151. The remaining commitments is for an operating lease on photocopiers of \$8,482 annually until June 2024.

2020	\$ 176,632
2021	8,482
2022	8,482
2023	8,482
2024	<u>8,482</u>
	\$ 210,560

The Foundation has guaranteed a credit facility entered into by an unrelated charitable organization and the Royal Bank of Canada for a maximum of \$1,000,000. Amount drawn down on this facility as at March 31, 2019 was \$Nil (2018 - \$Nil).

12. Interest in Life Insurance Policies

The Foundation is the assignee and/or owner of life insurance policies totaling approximately \$872,000 (2018 - \$870,000). No value related to these policies is included in these consolidated financial statements.

Hamilton Community Foundation Notes to Consolidated Financial Statements

March 31, 2019

13. Financial Instrument Risks

Interest Rate Risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Foundation is exposed to interest rate risk arising from the possibility that changes in interest rates will affect the value of fixed income denominated investments and loans receivable. There have been no changes in this risk from the prior year.

Market Risk

The Foundation is subject to market risk with respect to its investments. The values of these investments will fluctuate as a result of changes in market prices or other factors affecting the value of the investments. There have been no changes in this risk from the prior year.

Credit Risk

The Foundation is exposed to normal credit risk resulting from the possibility that a counterparty to a financial instrument defaults on their financial obligations; if there is a concentration of transactions carried out with the same counterparty; or of financial obligations which have similar economic characteristics such that they could be similarly affected by changes in economic conditions. The Foundation's financial instruments that are exposed to concentrations of credit risk relate primarily to fixed income investments and loans receivable. The Foundation manages the risk by limiting the credit exposure allowed by the fixed income managers. There have been no changes in this risk from the prior year.

Currency Risk

Investments in foreign securities are exposed to currency risk due to fluctuations in foreign exchange rates. The Foundation is exposed to currency risk on its foreign market equities as the prices denominated in foreign currencies are converted to Canadian dollars in determining fair value. The objective of the Foundation's investment policy is to control currency risk by maintaining a geographically diversified portfolio. There have been no changes in this risk from the prior year.

Liquidity Risk

Liquidity risk is the risk that the Foundation encounters difficulty in meeting its obligations associated with financial liabilities. Liquidity risk includes the risk that, as a result of operational liquidity requirements, the Foundation will not have sufficient funds to settle a transaction on a due date; will be forced to sell financial assets at a value, which is less than what they are worth; or may be unable to settle or recover a financial asset. Liquidity risk arises from investments at cost and loans receivable, which are illiquid in nature, and therefore cannot be readily disposed of in the event a liquidity need arises. Management believes the Foundation is subject to minimal liquidity risk.