

Hamilton Community Foundation
Consolidated Financial Statements
For the year ended March 31, 2023

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Independent Auditor's Report

To the Board of Directors of Hamilton Community Foundation

Qualified 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, 2023, and the consolidated statements of revenues and expenses and 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, except for the effects of the matter described in the Basis for Qualified Opinion section of our report, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Foundation as at March 31, 2023, and its 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 Qualified Opinion

In the current year, the Foundation changed its accounting policy for various financial instruments from cost to fair value, which constitutes a departure from Canadian accounting standards for not-for-profit organizations. Canadian accounting standards for not-for-profit organizations requires an entity to elect the basis for subsequent remeasurement at the time the instrument is initially recognized and the election is irrevocable. As a result, investments and net assets are overstated by \$7,985,428 as at March 31, 2023 and investment income and excess of revenues over expenses is overstated by \$7,985,428 for the year then ended.

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 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 qualified audit opinion.

Other Information

Management is responsible for the other information. The other information comprises the information included in the annual report.

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

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 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
Oakville, Ontario
September 26, 2023

Hamilton Community Foundation Consolidated Statement of Financial Position

March 31	Endowment		Operating/Invested in Capital Assets		Restricted		Total	
	2023	2022	2023	2022	2023	2022	2023	2022
Assets								
Current								
Cash	\$ 290,976	\$ 13,456	\$ 43,412	\$ 61,232	\$ 783,106	\$ 1,671,871	\$ 1,117,494	\$ 1,746,559
Accounts receivable	-	-	252,667	110,925	242,181	313,747	494,848	424,672
Accrued income receivable	-	-	-	-	554,092	623,620	554,092	623,620
Prepaid expenses	-	-	123,683	130,934	-	-	123,683	130,934
Current portion of loans receivable (Note 5)	3,649,673	5,479,512	-	-	-	-	3,649,673	5,479,512
	3,940,649	5,492,968	419,762	303,091	1,579,379	2,609,238	5,939,790	8,405,297
Investments at:								
Cost (Note 3)	34,148,240	44,093,033	-	-	-	-	34,148,240	44,093,033
Market (Notes 2 & 4)	144,423,715	135,261,764	2,372,496	2,289,087	66,603,476	65,852,431	213,399,687	203,403,282
Loans receivable (Note 5)	9,915,485	5,139,250	-	-	-	-	9,915,485	5,139,250
Capital assets (Note 6)	-	-	21,937	22,382	-	-	21,937	22,382
	\$ 192,428,089	\$ 189,987,015	\$ 2,814,195	\$ 2,614,560	\$ 68,182,855	\$ 68,461,669	\$ 263,425,139	\$ 261,063,244
Liabilities and Net Assets								
Current								
Accounts payable and accrued liabilities	\$ -	\$ -	\$ 419,763	\$ 303,092	\$ 533,068	\$ 328,060	\$ 952,831	\$ 631,152
Deferred revenue	-	-	-	-	1,227,696	1,039,761	1,227,696	1,039,761
Funds held on behalf of third party (Note 7)	-	-	2,372,496	2,289,087	-	-	2,372,496	2,289,087
	-	-	2,792,259	2,592,179	1,760,764	1,367,821	4,553,023	3,960,000
Net assets								
Endowment funds	192,428,089	189,987,015	-	-	-	-	192,428,089	189,987,015
Invested in capital assets	-	-	21,936	22,381	-	-	21,936	22,381
Restricted funds	-	-	-	-	66,422,091	67,093,848	66,422,091	67,093,848
	192,428,089	189,987,015	21,936	22,381	66,422,091	67,093,848	258,872,116	257,103,244
	\$ 192,428,089	\$ 189,987,015	\$ 2,814,195	\$ 2,614,560	\$ 68,182,855	\$ 68,461,669	\$ 263,425,139	\$ 261,063,244

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	
	2023	2022	2023	2022	2023	2022	2023	2022
Revenue								
Investment income, net (Notes 2 & 8)	\$ -	\$ -	\$ 2,729,567	\$ 2,646,019	\$ 7,441,139	\$ 7,687,250	\$ 10,170,706	\$ 10,333,269
Donations including bequests	3,378,630	6,022,711	113,000	-	3,572,788	4,460,219	7,064,418	10,482,930
Donations specified for community leadership projects	-	-	-	-	413,131	328,677	413,131	328,677
	3,378,630	6,022,711	2,842,567	2,646,019	11,427,058	12,476,146	17,648,255	21,144,876
Operational expenses (Note 9)								
Grant administration	-	-	542,519	450,717	-	-	542,519	450,717
Community and Philanthropic Leadership	-	-	192,543	287,125	-	-	192,543	287,125
Development activities	-	-	630,887	600,272	-	-	630,887	600,272
Community Relations and Knowledge Dissemination	-	-	427,689	398,904	-	-	427,689	398,904
Administration and Governance	-	-	1,049,374	923,220	-	-	1,049,374	923,220
	-	-	2,843,012	2,660,238	-	-	2,843,012	2,660,238
Excess (deficiency) of revenue over expenses before grants and leadership projects	3,378,630	6,022,711	(445)	(14,219)	11,427,058	12,476,146	14,805,243	18,484,638
Grants and leadership projects distributed (Note 10)	-	-	-	-	(13,036,371)	(13,625,729)	(13,036,371)	(13,625,729)
Excess (deficiency) of revenue over expenses for the year	3,378,630	6,022,711	(445)	(14,219)	(1,609,313)	(1,149,583)	1,768,872	4,858,909
Fund balances, beginning of year	189,987,015	181,353,506	22,381	36,600	67,093,848	70,854,229	257,103,244	252,244,335
Transfers (Note 11)	(937,556)	2,610,798	-	-	937,556	(2,610,798)	-	-
Fund balances, end of year	\$ 192,428,089	\$ 189,987,015	\$ 21,936	\$ 22,381	\$ 66,422,091	\$ 67,093,848	\$ 258,872,116	\$ 257,103,244

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	2023	2022
Cash flows from operating activities		
Excess of revenue over expenses for the year	\$ 1,768,872	\$ 4,858,909
Items not affecting cash		
Amortization of capital assets	15,693	26,562
Donated securities	(2,135,405)	(2,295,131)
Unrealized losses (gains)	(2,953,420)	10,071,728
Realized gain on sale of investments	(2,275,193)	(12,532,624)
Changes in non-cash working capital items		
Accounts receivable	(70,176)	437,054
Accrued income receivable	69,528	411,772
Prepaid expenses	7,251	(37,073)
Accounts payable and accrued liabilities	321,679	(67,739)
Deferred revenue	187,935	81,720
Funds held on behalf of third party	83,409	88,213
	<u>(4,979,827)</u>	<u>1,043,391</u>
Cash flows from investing activities		
Purchase of investments	(102,712,200)	(95,040,856)
Proceeds from the sale of investments	110,024,606	94,406,431
Advances of loans receivable	(5,770,000)	(1,563,713)
Repayments of loans receivable	2,823,604	1,617,945
Purchase of capital assets	(15,248)	(12,344)
	<u>4,350,762</u>	<u>(592,537)</u>
Increase (decrease) in cash during the year	(629,065)	450,854
Cash, beginning of year	1,746,559	1,295,705
Cash, end of year	\$ 1,117,494	\$ 1,746,559

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

Hamilton Community Foundation

Notes to Consolidated Financial Statements

March 31, 2023

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 the 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").

Hamilton Community Foundation

Notes to Consolidated Financial Statements

March 31, 2023

1. Significant Accounting Policies (Continued)

Revenue Recognition

Donations 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.

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 when reliably measurable. Those investments where fair value is not reliably measurable 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.

Hamilton Community Foundation

Notes to Consolidated Financial Statements

March 31, 2023

1. Significant Accounting Policies (Continued)

Investments (continued)

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.
- 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 (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.

Hamilton Community Foundation Notes to Consolidated Financial Statements

March 31, 2023

1. Significant Accounting Policies (Continued)

Financial Instruments

Financial instruments are recorded at fair value when acquired or issued. In subsequent periods, equities traded in an active market are recorded at fair value. In addition, all bonds and cash equivalents have been designated to be in the fair value category. For fiscal 2022, all other financial instruments are recorded at cost or amortized cost less impairment. For Fiscal 2023, certain alternative investments (infrastructure, real estate and private equity) have been designated to be in the fair value category (Note 2). Any unrealized gains (losses) are reported in the restricted fund and operating fund, other than financial instruments related to the endowment fund which are recorded in the restricted fund. Financial assets, subsequently recorded at cost, 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.

2. Change in Accounting Policy

Effective April 1, 2022, the Foundation changed its accounting policy for certain alternative investments such as private equity, real estate and infrastructure (collectively "alternative investments") from cost to fair value. When first invested in these types of investments, the alternative investments represented a small proportion of the entire investment portfolio and accordingly management made an irrevocable election to record these types of investments at cost as the information to record them at fair value was not readily available. However, over time the alternative investments have become an integral part of the investment strategy of the Foundation and thus increased in proportion of the total investment portfolio. Therefore, management has determined that maintaining certain alternative investments at cost does not provide relevant information to the Foundation's stakeholders. As such, management has changed their previously irrevocable election and elected to measure certain alternative investments at fair value. This change in accounting policy has been applied prospectively with no restatement of prior year's figures.

Hamilton Community Foundation Notes to Consolidated Financial Statements

March 31, 2023

2. Change in Accounting Policy (Continued)

	Previous accounting policy (at cost)	Adjustments	New accounting policy (at fair value)
Consolidated statement of financial position			
<u>March 31, 2023</u>			
Investments at market	\$205,414,259	\$ 7,985,428	\$213,399,687
Net assets	250,886,688	7,985,428	258,872,116
Consolidated statement of net and comprehensive income			
<u>March 31, 2023</u>			
Investment income, net	\$ 2,185,278	\$ 7,985,428	\$ 10,170,706
(Deficiency) excess of revenue over expenses	(6,216,556)	7,985,428	1,768,872
Consolidated statement of cash flows			
<u>March 31, 2023</u>			
Cash provided by (used in) operating activities	\$ (12,965,255)	\$ 7,985,428	\$ (4,979,827)

3. Investments at Cost

	<u>2023</u>	<u>2022</u>
Private equity	\$ 33,098,240	\$ 40,199,823
Real estate	-	1,817,604
Infrastructure	-	1,025,606
Private debt	1,050,000	1,050,000
	<u>\$ 34,148,240</u>	<u>\$ 44,093,033</u>

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.

Hamilton Community Foundation Notes to Consolidated Financial Statements

March 31, 2023

4. Investments at Market

	2023	2022
Bonds	\$ 7,397,356	\$ 6,636,748
Equities		
Canadian	68,618,446	70,968,361
Foreign	99,777,888	103,418,861
Emerging markets	4,071,978	3,890,424
Alternative investments (Note 2)		
Infrastructure	2,604,727	-
Real estate	3,792,430	-
Private equity	18,089,162	-
	204,351,987	181,023,970
Cash and cash equivalents	9,047,700	18,488,888
	\$213,399,687	\$203,403,282

The public market investments are held in two separate portfolios each of which is managed by a professional investment counsellor 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.

The effective interest rate on bonds during the year varied from 1.09% to 4.95% (2022 - 0.25% to 3.67%). The maturities of these bonds range from December 15, 2023 to July 25, 2029 (2022 - from August 2, 2022 to March 31, 2025).

The effective interest rate on treasury bills and bankers acceptance included in cash equivalents during the year varied from 4.39% to 4.81% (2022 - 0.06% to 0.65%) with maturities ranging from June 7, 2023 to December 4, 2023 (2022 - April 25, 2022 to June 23, 2022).

Hamilton Community Foundation Notes to Consolidated Financial Statements

March 31, 2023

5. Loans Receivable

Loans receivable consists of the following loans:

	2023	2022
Loans receivable (a)	\$ 4,504,372	\$ 3,500,000
Loan receivable (b)	1,000,000	1,000,000
Loan receivable (c)	3,150,000	-
Various loans receivable (d)	4,910,786	6,118,762
	13,565,158	10,618,762
Less: Current portion	3,649,673	5,479,512
	\$ 9,915,485	\$ 5,139,250

- (a) Term loans, bearing interest at 3.75% to 5.0% per annum, secured by land and building, repayable interest only monthly and maturing between February 2024 and October 2025.
- (b) 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 June 2024.
- (c) Term loan, bearing interest at 7.20% per annum, secured by a general security agreement by the land and building for which the loan relates, repayable interest only monthly and maturing March 2026.
- (d) Various term loans (2023 – 11, 2022 – 11), between 2.95% to 6.45% 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 May 2023 to January 2026.

6. Capital Assets

	2023		2022	
	Cost	Accumulated Amortization	Cost	Accumulated Amortization
Leasehold improvements	\$ -	\$ -	\$ 12,384	\$ 9,939
Furniture and fixtures	5,903	4,369	8,310	4,875
Computer equipment	22,098	1,695	17,364	862
	\$ 28,001	\$ 6,064	\$ 38,058	\$ 15,676
Net book value		\$ 21,937		\$ 22,382

Hamilton Community Foundation Notes to Consolidated Financial Statements

March 31, 2023

6. Capital Assets (Continued)

During the year, \$15,693 (2022 - \$26,562) 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 \$37,488 (2022 - \$36,212) were written off by the Foundation.

7. Funds Held on Behalf of Third Party

Funds held on behalf of third party of \$2,372,496 (2022 - \$2,289,087) are pooled with the investments of the Foundation. Capital and related income (losses) earned on these funds are to be distributed by request of the owner. Investment income or losses are allocated to these funds in the proportion of their capital to the total capital. Administration fees of 0.5% (2022 - 0.5%) 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.

8. Investment Income, 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.

	2023	2022
Investment income for the year:		
Interest and dividends	\$ 6,176,342	\$ 9,107,630
Realized gain on sale of investments	2,275,193	12,532,624
Unrealized gains (losses) (Note 2)	2,953,420	(10,071,728)
	11,404,955	11,568,526
Deduct:		
Investment counsel and custodian fees	(1,150,840)	(1,147,044)
Investment income allocated to funds held on behalf of third party	(83,409)	(88,213)
	\$ 10,170,706	\$ 10,333,269
Allocated to:		
Operating Fund	\$ 2,729,567	\$ 2,646,019
Restricted fund	7,441,139	7,687,250
	\$ 10,170,706	\$ 10,333,269

Investment counsel and custodian fees as a percentage of managed investments was 0.5% for the year (2022 - 0.5%).

Hamilton Community Foundation Notes to Consolidated Financial Statements

March 31, 2023

9. Expenses as Percentage of Average Total Assets

	2023	2022
Total assets:		
Opening	\$261,063,244	\$256,102,141
Closing	263,425,139	261,063,244
Average	262,244,192	258,582,693
Total operating expenses	\$ 2,843,012	\$ 2,660,238
Expenses as percentage of average total assets	1.08%	1.03%

The Foundation's operating expenses involve asset development, administration and governance, community relations and knowledge dissemination, and activities related to grant administration, community and philanthropic leadership services. These activities are not necessarily related to the donations received in any one year and the asset development methodology used by the Foundation results in normal donation delays, which may result in costs preceding the receipt of the donations 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 1.08% (2022 - 1.03%) 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.

Hamilton Community Foundation Notes to Consolidated Financial Statements

March 31, 2023

10. Grants and Leadership Projects Distributed

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 donations, as well, as commitments made by the Board to support these initiatives.

	2023	2022
Grants and leadership projects were made as follows:		
Grants	\$ 12,669,452	\$ 13,197,052
Community leadership projects:		
Advancing post-secondary access program (ABACUS)	128,563	126,820
Community investing project	27,516	38,226
Green Shield Canada	10,134	80,755
Hamilton Anchor Institution Leadership Table	63,770	36,117
Other leadership projects	136,936	146,759
	\$ 13,036,371	\$ 13,625,729

11. Transfers

During the year, net transfers of \$937,556 were transferred from the Endowment Fund to the Restricted Fund to meet the Foundation's spending policy. In 2022, net transfers of \$2,610,798 were transferred from the Restricted Fund to the Endowment Fund reflecting a return of capital transferred for funding purposes in the previous years.

12. Commitments and Guarantees

As at March 31, 2023, the Foundation has extended pledges for future grants and distributions. These amounts, which have not been reflected as liabilities, total \$1,180,024 (2022 - \$690,000) and they are expected to be granted and paid over the next two years.

The Foundation has unfunded investment commitments related to private equity investments and loans receivable that can be drawn on demand. At March 31, 2023, the unfunded amount for private equity and loans receivable as shown in U.S. and Canadian currency, respectively is:

U.S. dollars	\$ 3,938,773
Canadian dollars	9,294,226

Hamilton Community Foundation Notes to Consolidated Financial Statements

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13. Credit Facility

In the current year, the Foundation has an operating line of credit up to a maximum of \$8,000,000 (2022 - \$8,000,000), which bears interest at prime less 0.15% (2022 - 0.15%) per annum and secured by letters of credit. The credit facility is to be used by the Foundation to fund day to day operations, as well as bridge the timing of cashflows for private equity investment purposes (funds are not to be used for market leverage). As at March 31, 2023, the Foundation has a \$Nil (2022 - \$Nil) balance outstanding on the credit facility.

14. Interest in Life Insurance Policies

The Foundation is the assignee and/or owner of life insurance policies totaling approximately \$872,000 (2022 - \$872,000). No value related to these policies is included in these consolidated financial statements.

15. 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. 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. The Foundation manages market risk through asset allocation and, maintaining a portfolio that is well diversified on both a geographic and industry sector basis. During the year, the Foundation changed its accounting policy for certain investments from cost to fair value (Note 2) thereby increasing the volatility relating to investment income. The Foundation manages the risk by investing in accordance with an integrated investment approach.

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 cash, accounts receivable, fixed income investments and loans receivable. The Foundation manages the risk by limiting the credit exposure allowed by the fixed income managers and restricting the advance of loans to only those that can support credit worthiness as part of the Foundation's due diligence procedures. There have been no changes in this risk from the prior year.

Hamilton Community Foundation Notes to Consolidated Financial Statements

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15. Financial Instrument Risks (Continued)

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 certain alternative investments 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.

16. Comparative Information

Certain comparative amounts presented in the consolidated financial statements have been restated to conform to current year's presentation.