

Hamilton Community Foundation
Consolidated Financial Statements
For the year ended March 31, 2014

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Consolidated Financial Statements
For the year ended March 31, 2014

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Independent Auditor's Report

To the Board of Directors of Hamilton Community Foundation

We have audited the accompanying consolidated financial statements of the Hamilton Community Foundation (the "Foundation"), which comprise the consolidated statement of financial position as at March 31, 2014 and the consolidated statements of revenue and expenses and changes in net assets and cash flows for the year ended March 31, 2014, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Foundation's preparation and fair presentation of the consolidated 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 Foundation'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 consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Hamilton Community Foundation as at March 31, 2014 and the results of its operations and its cash flows for the year then ended March 31, 2014 in accordance with Canadian accounting standards for not-for-profit organizations.

Chartered Accountants, Licensed Public Accountants
Burlington, Ontario
June 17, 2014

Hamilton Community Foundation Consolidated Statement of Financial Position

March 31	2014	Endowment 2013	Operating/Invested in Capital Assets 2014	2013	2014	Restricted 2013	March 31 2014	Total March 31 2013
Assets								
Current								
Cash	\$ 50,167	\$ 370,950	\$ 105,404	\$ 45,865	\$ 109,629	\$ 119,601	\$ 265,200	\$ 536,416
Accounts receivable	-	-	62,914	55,187	50,000	-	112,914	55,187
Accrued income receivable	-	-	-	-	361,859	377,732	361,859	377,732
Prepaid expenses	-	-	30,178	19,833	-	-	30,178	19,833
	50,167	370,950	198,496	120,885	521,488	497,333	770,151	989,168
Investments at:								
Cost (Note 2)	1,655,670	-	-	-	-	-	1,655,670	-
Market (Note 3)	116,356,333	111,585,688	8,299,814	7,555,291	28,709,456	16,793,751	153,365,603	135,934,730
Capital assets (Note 4)	-	-	52,205	90,184	-	-	52,205	90,184
	\$ 118,062,170	\$ 111,956,638	\$ 8,550,515	\$ 7,766,360	\$29,230,944	\$17,291,084	\$ 155,843,629	\$ 137,014,082
Liabilities and Net Assets								
Current								
Accounts payable and accrued liabilities	\$ -	\$ -	\$ 168,701	\$ 283,961	\$ 344,114	\$ 957,407	\$ 512,815	\$ 1,241,368
Deferred revenue	-	-	15,000	-	512,354	420,037	527,354	420,037
Funds held on behalf of third parties (Note 5)	-	-	8,314,609	7,392,215	-	-	8,314,609	7,392,215
	-	-	8,498,310	7,676,176	856,468	1,377,444	9,354,778	9,053,620
Net assets								
Endowment funds	118,062,170	111,956,638	-	-	-	-	118,062,170	111,956,638
Invested in capital assets	-	-	52,205	90,184	-	-	52,205	90,184
Restricted funds	-	-	-	-	28,374,476	15,913,640	28,374,476	15,913,640
	118,062,170	111,956,638	52,205	90,184	28,374,476	15,913,640	146,488,851	127,960,462
	\$ 118,062,170	\$ 111,956,638	\$ 8,550,515	\$ 7,766,360	\$29,230,944	\$17,291,084	\$ 155,843,629	\$ 137,014,082

On behalf of the Board of Directors:

Chair

Director

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

Hamilton Community Foundation

Consolidated Statement of Revenue and Expenses and Changes in Net Assets

For the year ended	Endowment		Operating/Invested in Capital Assets		Restricted		Total	
March 31	2014	2013	2014	2013	2014	2013	2014	2013
Revenue:								
Investment income, net (Note 6)	\$ 969,353	\$ 422,039	\$2,099,381	\$1,966,039	\$17,507,542	\$ 9,444,906	\$ 20,576,276	\$ 11,832,984
Donations including bequests	4,000,964	3,375,575	11,591	12,843	2,113,507	2,094,586	6,126,062	5,483,004
Gifts specified for community leadership projects	-	-	-	-	430,957	423,430	430,957	423,430
	4,970,317	3,797,614	2,110,972	1,978,882	20,052,006	11,962,922	27,133,295	17,739,418
Operating expenses (Note 7):								
Grant administration	-	-	251,470	269,220	-	-	251,470	269,220
Community and Philanthropic Leadership	-	-	187,029	193,753	-	-	187,029	193,753
Development activities	-	-	608,123	598,403	-	-	608,123	598,403
Community Relations and Knowledge Dissemination	-	-	326,062	278,349	-	-	326,062	278,349
Administration and Governance	-	-	776,267	697,629	-	-	776,267	697,629
	-	-	2,148,951	2,037,354	-	-	2,148,951	2,037,354
Excess (deficiency) of revenue over expenses before grants and leadership projects	4,970,317	3,797,614	(37,979)	(58,472)	20,052,006	11,962,922	24,984,344	15,702,064
Grants and leadership projects distributed (Note 8)	-	-	-	-	(6,455,955)	(5,155,146)	(6,455,955)	(5,155,146)
Excess (deficiency) of revenue over expenses for the year	4,970,317	3,797,614	(37,979)	(58,472)	13,596,051	6,807,776	18,528,389	10,546,918
Fund balances, beginning of year	111,956,638	108,513,854	90,184	148,656	15,913,640	8,751,034	127,960,462	117,413,544
Transfers (Note 9)	1,135,215	(354,830)	-	-	(1,135,215)	354,830	-	-
Fund balances, end of year	\$118,062,170	\$111,956,638	\$ 52,205	\$ 90,184	\$28,374,476	\$15,913,640	\$146,488,851	\$127,960,462

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

Hamilton Community Foundation Consolidated Statement of Cash Flows

For the year ended March 31	2014	2013
Cash flows from operating activities:		
Excess of revenue over expenses for the year	\$ 18,528,389	\$ 10,546,918
Items not affecting cash:		
Amortization of capital assets	54,544	67,291
Donated securities	(1,859,962)	(1,214,488)
Unrealized gains	(12,476,644)	(7,152,902)
Gain on sale of investments	(5,265,857)	(1,149,624)
Changes in non-cash working capital items:		
Accounts receivable	(57,727)	(352)
Accrued income receivable	15,873	(23,743)
Prepaid expenses	(10,345)	600
Accounts payable and accrued liabilities	(728,553)	648,892
Deferred revenue	107,317	137,945
Funds held on behalf of third parties	922,394	716,167
	<u>(770,571)</u>	<u>2,576,704</u>
Cash flows from investing activities:		
Purchase of investments	(84,309,846)	(102,918,590)
Proceeds from the sale of investments	84,825,766	100,575,316
Purchase of capital assets	(16,565)	(8,819)
	<u>499,355</u>	<u>(2,352,093)</u>
Increase (decrease) in cash during the year	(271,216)	224,611
Cash, beginning of year	536,416	311,805
Cash, end of year	\$ 265,200	\$ 536,416

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

Hamilton Community Foundation

Notes to Consolidated Financial Statements

March 31, 2014

1. Significant Accounting Policies

Nature and Purpose of Organization

Hamilton Community Foundation (the "Foundation") was incorporated without share capital by special act in 1954 and then continued under the Hamilton Community Foundation Act, 1994, Ontario (the "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 which acts on behalf of the trust. 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, 2014

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 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 expenses, 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 dividends, interest, realized gains/(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 the income be added to principal; and
 - 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, 2014

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 Funds 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 revenues 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 operations, 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 operations, 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, 2014

2. Investments at Cost

	2014	2013
Private equity	\$ 796,770	\$ -
Real estate	858,900	-
	<u>\$ 1,655,670</u>	<u>\$ -</u>

The Foundation is moving toward an integrated investment approach, which includes investing in alternative investment classes, such as private equity and real estate. Investments at cost represent investments that do not have a quoted value in an active market and are recorded in accordance with the significant account 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

	2014	2013
Bonds	\$ 42,406,263	\$ 39,837,407
Equities:		
Canadian	42,773,499	38,189,443
Foreign	57,870,802	48,912,699
	<u>143,050,564</u>	<u>126,939,549</u>
Cash and cash equivalents	<u>10,315,039</u>	<u>8,995,181</u>
	<u>\$ 153,365,603</u>	<u>\$ 135,934,730</u>

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.

The effective interest rate on bonds during the year varied from 1.422% to 7.405% (2013 – from 1.327% to 9.976%). The maturities of these bonds range from January 30, 2015 to December 31, 2108 (2013 – December 15, 2013 to December 31, 2108).

The effective interest rate on treasury bills and bankers acceptance included in cash equivalents during the year varied from 0.01% to 1.27% (2013 – from 1.05% to 1.31%) with maturities ranging from April 20, 2014 to October 23, 2014 (2013 – from April 3, 2013 to November 27, 2013).

Hamilton Community Foundation

Notes to Consolidated Financial Statements

March 31, 2014

4. Capital Assets

	2014		2013	
	Cost	Accumulated Amortization	Cost	Accumulated Amortization
Leasehold improvements	\$ 349,750	\$ 321,237	\$ 348,762	\$ 279,906
Furniture and fixtures	19,181	9,365	24,474	11,061
Computer equipment	20,452	6,576	54,028	46,113
	<u>\$ 389,383</u>	<u>\$ 337,178</u>	<u>\$ 427,264</u>	<u>\$ 337,080</u>
Net book value		<u>\$ 52,205</u>		<u>\$ 90,184</u>

During the year, \$54,544 (2013 - \$67,291) of amortization expense on capital assets was incurred and is reported in the statement of revenue and expenses and changes in net assets.

During the year, fully amortized capital assets in the amount of \$54,446 (2013 - \$84,879) were written off by the Foundation.

5. Funds Held on Behalf of Third Parties

Funds held on behalf of third parties of \$8,314,609 (2013 - \$7,392,215) 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 2.0% of the fund balance are charged on these funds. The receipt and disbursement of these funds are not reflected in the statement of revenues and expenses and changes in net assets.

Hamilton Community Foundation

Notes to Consolidated Financial Statements

March 31, 2014

6. 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.

	2014	2013
Investment income during the year:		
Interest and dividends	\$ 4,660,349	\$ 4,791,448
Realized gains	5,265,857	1,149,294
Unrealized gains	12,476,644	7,152,902
	22,402,850	13,093,644
Deduct:		
Investment fees	(554,827)	(521,090)
Investment income allocated to funds held on behalf of third parties	(1,271,747)	(739,570)
	20,576,276	11,832,984
Allocated to:		
Endowment Fund	969,353	422,039
Operating Fund	2,099,381	1,966,039
Restricted Fund	17,507,542	9,444,906
	\$ 20,576,276	\$ 11,832,984

Hamilton Community Foundation

Notes to Consolidated Financial Statements

March 31, 2014

7. Expenses as Percentage of Average Total Assets

	2014	2013
Total assets:		
Opening	\$ 137,014,082	\$124,964,160
Closing	<u>155,843,629</u>	<u>137,014,082</u>
Average	<u>146,428,856</u>	<u>130,989,121</u>
Total operating expenses	<u>\$ 2,148,951</u>	<u>\$ 2,037,354</u>
Expenses as percentage of average total assets	<u>1.5%</u>	<u>1.6%</u>

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 1.5% (2013 - 1.6%) 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.

8. 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.

	2014	2013
Grants and leadership projects were made as follows:		
Grants	\$ 6,116,998	\$ 4,796,225
Community leadership projects:		
Hamilton Roundtable for Poverty Reduction	232,630	216,333
Neighbourhood Leadership Institute	42,479	-
Diversity	-	33,529
The Promise Education Strategy Research	21,164	-
Youth in Philanthropy Program	16,794	12,699
Neighbourhood Action Strategy Evaluation (formerly Tackling Poverty Together)	10,290	57,116
Other leadership projects	<u>15,600</u>	<u>39,244</u>
	<u>\$ 6,455,955</u>	<u>\$ 5,155,146</u>

Hamilton Community Foundation Notes to Consolidated Financial Statements

March 31, 2014

8. Grants and Leadership Projects (Continued)

Philanthropic services represent the Foundation's work to provide technical assistance to other philanthropic organizations and projects, as well as to foster the growth of community philanthropy and include the costs of the Hamilton Roundtable for Poverty Reduction.

9. Transfers

During the year, an amount of \$1,135,215 has been transferred from the Restricted Fund to the Endowment Fund. In 2013, \$354,830 was transferred from the Endowment Fund to the Restricted Fund. The majority of this year's transfers to the Endowment Fund from the Restricted Fund were to repay capital that was used in prior year to support granting.

10. Commitments

As at March 31, 2014, the Foundation has extended pledges for future grants and distributions. These amounts, which have not been reflected as liabilities, total \$536,634 (2013 - \$556,634) and they are expected to be granted and paid over the next five years.

The Foundation has unfunded investment commitments related to private equity investments that can be drawn on demand. At March 31, 2014, the unfunded amount for private equity is:

U.S. dollars	\$	1,957,350
Canadian dollars		1,450,000

The Foundation is committed to minimum annual operating lease payments on its premises as follows:

2015	\$	45,344
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11. Interest in Life Insurance Policies

The Foundation is the assignee and/or owner of life insurance policies totaling approximately \$5,058,130 (2013 - \$5,058,130). No value related to these policies is included in these consolidated financial statements.

Hamilton Community Foundation

Notes to Consolidated Financial Statements

March 31, 2014

12. 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. 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. 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.