

THE BERMUDA FINE ART TRUST

FINANCIAL STATEMENTS

MARCH 31, 2010

ARTHUR MORRIS, CHRISTENSEN & CO.

CHARTERED ACCOUNTANTS

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CHARTERED ACCOUNTANTS

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AUDITORS' REPORT

To The Trustees of The Bermuda Fine Art Trust

We have audited the statement of financial position of The Bermuda Fine Art Trust (the "Trust") as at March 31, 2010 and the statement of operations, changes in net assets and cash flows for the period October 1, 2008 to March 31, 2010. These financial statements are the responsibility of the Trust's management. Our responsibility is to express an opinion on these financial statements based on our audit.

Except as explained in the following paragraph, we conducted our audit in accordance with auditing standards generally accepted in Bermuda and Canada. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

The Trust derives revenues from memberships, exhibition sponsorships, admissions, contributions and gallery sales and rentals, the completeness of which is not susceptible to satisfactory audit verification. Accordingly, our verification of these revenues was limited to the amounts recorded in the records of the Trust and we were not able to determine whether adjustments, if any, might be necessary to revenues, deficiency of revenues over expenses and net assets.

In our opinion, except for the effect of adjustments, if any, which we may have determined to be necessary had we been able to satisfy ourselves concerning the completeness of the revenues referred to in the preceding paragraph, these financial statements present fairly, in all material respects, the financial position of the Trust as at March 31, 2010 and the results of its operations and cash flows for the period then ended in accordance with accounting principles generally accepted in Bermuda and Canada.

Arthur Morris, Christensen & Co.

**Hamilton, Bermuda
July 1, 2010**

THE BERMUDA FINE ART TRUST

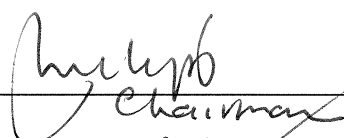
STATEMENT OF FINANCIAL POSITION

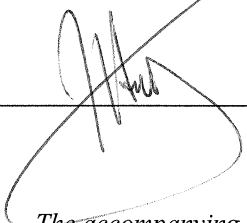
MARCH 31, 2010 AND SEPTEMBER 30, 2008

(Expressed in Bermuda dollars)

	2010	2008
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents (note 4)	\$ 914,292	\$ 759,076
Accounts receivable	-	48,637
Prepaid expenses	<u>-</u>	<u>38,031</u>
	914,292	845,744
INVESTMENTS , at market value (notes 5 and 9)	611,720	500,750
CAPITAL ASSETS (note 6)	185,989	292,426
PERMANENT COLLECTION (notes 3d and 7)	<u>411,167</u>	<u>407,942</u>
	<u>\$ 2,123,168</u>	<u>\$ 2,046,862</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	\$ 24,175	\$ 82,865
Deferred membership fees	42,356	88,912
Deferred contributions (note 8)	<u>482,000</u>	<u>450,505</u>
	<u>548,531</u>	<u>622,282</u>
NET ASSETS		
Net assets restricted for endowment purposes (note 9)	935,182	724,212
Net assets invested in capital assets	185,989	292,426
Net assets invested in the permanent collection	411,167	407,942
Unrestricted net assets	<u>42,299</u>	<u>-</u>
	<u>1,574,637</u>	<u>1,424,580</u>
	<u>\$ 2,123,168</u>	<u>\$ 2,046,862</u>

On behalf of the Board of Trustees:


 _____ Trustee


 _____ Trustee

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

THE BERMUDA FINE ART TRUST

STATEMENT OF OPERATIONS

FOR THE PERIOD OCTOBER 1, 2008 TO MARCH 31, 2010

(Expressed in Bermuda dollars)

	2010	(note 15) 2008
REVENUES		
Contributions (note 3f)	\$ 513,771	\$ 382,658
Memberships	251,462	168,636
Exhibition sponsorship	238,437	338,050
Other contribution (note 9)	100,000	-
Admissions	50,666	27,308
Gallery rental	17,558	9,772
Investment income (note 11)	1,226	3,911
Gallery shop sales	-	4,814
Other	-	21,532
Annual gala event	-	-
	<u>1,173,120</u>	<u>956,681</u>
EXPENSES		
Staff and staff related expenses	457,044	521,709
Marketing and advertising	139,772	148,511
Electricity	109,069	85,409
Professional fees (note 3f)	102,447	10,000
Occupancy	59,876	42,106
Printing and office supplies	49,119	52,635
Exhibition and events	36,870	263,719
Education program	33,792	-
Administration	11,569	-
Bad debt expense	5,232	-
Bank fees	4,965	5,743
Memberships	<u>1,028</u>	<u>-</u>
	1,010,783	1,129,832
AMORTIZATION	<u>123,250</u>	<u>79,272</u>
	<u>1,134,033</u>	<u>1,209,104</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENSES	<u>\$ 39,087</u>	<u>\$ (252,423)</u>

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

THE BERMUDA FINE ART TRUST

STATEMENT OF CHANGES IN NET ASSETS

FOR THE PERIOD OCTOBER 1, 2008 TO MARCH 31, 2010

(Expressed in Bermuda dollars)

	2010	(note 15) 2008
RESTRICTED FOR ENDOWMENT PURPOSES		
Balance, beginning of year	\$ 724,212	\$ 1,061,702
Transfer from (to) unrestricted assets (note 2)	100,000	(174,320)
Net change in unrealized losses on available for sale investments arising during the year	<u>110,970</u>	<u>(163,170)</u>
Balance, end of year	<u>935,182</u>	<u>724,212</u>
INVESTED IN CAPITAL ASSETS		
Balance, beginning of year	292,426	355,908
Amortization	(123,250)	(79,272)
Assets purchased	<u>16,813</u>	<u>15,790</u>
Balance, end of year	<u>185,989</u>	<u>292,426</u>
INVESTED IN THE PERMANENT COLLECTION		
Balance, beginning of year	407,942	407,669
Assets purchased	<u>3,225</u>	<u>273</u>
Balance, end of year	<u>411,167</u>	<u>407,942</u>
UNRESTRICTED NET ASSETS		
Balance, beginning of year	-	14,894
Excess (deficiency) of revenues over expenses	39,087	(252,423)
Transfer (to) from restricted for endowment purposes (note 2)	(100,000)	174,320
Amortization	123,250	79,272
Assets purchased	<u>(20,038)</u>	<u>(16,063)</u>
Balance, end of year	<u>42,299</u>	<u>-</u>
TOTAL NET ASSETS	\$ <u>1,574,637</u>	\$ <u>1,424,580</u>

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

THE BERMUDA FINE ART TRUST

STATEMENT OF CASH FLOWS

FOR THE PERIOD OCTOBER 1, 2008 TO MARCH 31, 2010

(Expressed in Bermuda dollars)

	2010	(note 15) 2008
CASH PROVIDED BY (USED FOR):		
OPERATING ACTIVITIES		
Excess (deficiency) of revenues over expenses	\$ 39,087	\$ (252,423)
Add item not requiring an outlay of funds:		
Amortization	123,250	79,272
Loss on sale of investment	<u>-</u>	<u>6,840</u>
	<u>162,337</u>	<u>(166,311)</u>
Changes in non-cash operating balances:		
Accounts receivable	48,637	11,613
Prepaid expenses	38,031	39,322
Accounts payable and accrued liabilities	(58,690)	25,639
Deferred membership fees	(46,556)	14,180
Deferred contributions	<u>31,495</u>	<u>84,150</u>
Change in net current assets	<u>12,917</u>	<u>174,904</u>
Net cash provided by operating activities	<u>175,254</u>	<u>8,593</u>
INVESTING ACTIVITIES		
Purchase of capital assets	(16,813)	(15,790)
Purchase of permanent collection assets	<u>(3,225)</u>	<u>(273)</u>
Net cash used for investing activities	<u>(20,038)</u>	<u>(16,063)</u>
FINANCING ACTIVITIES		
Proceeds from sale of investment	<u>-</u>	<u>100,000</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	155,216	92,530
CASH AND CASH EQUIVALENTS, beginning of period	<u>759,076</u>	<u>666,546</u>
CASH AND CASH EQUIVALENTS, end of period	<u>\$ 914,292</u>	<u>\$ 759,076</u>

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

THE BERMUDA FINE ART TRUST
NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD OCTOBER 1, 2008 TO MARCH 31, 2010
(Expressed in Bermuda dollars)

1. PURPOSE OF THE ORGANIZATION

a) Incorporation and purpose

The Bermuda Fine Art Trust (the "Trust") was incorporated by an Act of Parliament on April 5, 1982 and is registered under The Charities Act 1978 in Bermuda.

The principal purposes of the Trust are to:

- i) promote, benefit and advance the Arts in Bermuda;
- ii) procure, for exhibition purposes, major artwork created abroad and in Bermuda;
- iii) establish and operate premises to house collections of the Trust and other significant artwork in a climate controlled setting which shall be open to the general public; and
- iv) develop a multi-use cultural and educational facility that will broadly appeal and be utilized regularly for the benefit of the entire Bermuda community and overseas visitors.

b) Operations

- i) The Trust manages and operates The Bermuda National Art Gallery which consists of approximately 6,000 square feet of climate controlled secure space which was opened on March 15, 1992. The public art gallery is located within the City Hall and Arts Center in the city of Hamilton, Bermuda.
- ii) The Trust is the permanent custodian of the Watlington Collection which is owned by the Bermuda Government and consists of a collection of eighteen paintings which were received by bequest from the Estate of Hereward T. Watlington in 1988 as a gift to the people of Bermuda.
- iii) The Trust is the owner of the Young Collection and consists of a collection of sixty-nine works of art which were received by donation from John Hinson Young II and Nelga Vivian Young in 2007 as a gift to the people of Bermuda.

THE BERMUDA FINE ART TRUST

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE PERIOD OCTOBER 1, 2008 TO MARCH 31, 2010

(Expressed in Bermuda dollars)

2. FUNDING REQUIREMENTS

To fund operations, the Trust is dependant upon contributions, sponsorship and membership revenues. If revenues from these sources are not sufficient to fund operations the Trust may use endowment funds to support the operations of the Trust. At September 31, 2008, unrestricted net assets were in a deficit position of \$174,320. Accordingly the Trustees resolved to decrease the deficit to \$nil by transferring \$174,320 from net assets restricted for endowment purposes. The Trustees intend to reimburse net assets restricted for endowment purposes from unrestricted net assets from future surpluses on revenue over expenses, if any. In the current period, the Trustees approved the transfer of \$100,000 from unrestricted net assets to net assets restricted for endowment purposes, which reduced the obligation to assets restricted for endowment purposes to \$74,320. At March 31, 2010, unrestricted net assets were in an excess position of \$42,699.

The excess of revenues over expenses for the period ended March 31, 2010 was \$39,087 (2008 - deficiency of \$252,423). The ongoing operations of the Trust are highly dependent upon raising revenue from public and private contributions in each year, and the commensurate management of costs in order that the Trust can generate sufficient surpluses to complete the reimbursement of net assets to the endowment fund.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These financial statements have been prepared in accordance with accounting principles generally accepted in Bermuda and Canada using the accruals basis of accounting. The significant accounting policies adopted by the Trust are as follows:

a) Cash and cash equivalents

Cash and cash equivalents comprise cash and highly liquid money market funds.

b) Investments

Investments are classified as available-for-sale and are carried at fair value, with the unrealized gains and losses included in net assets restricted for endowment purposes in net assets. The cost of investments sold is based on specific identification method with realized gains and losses on sale included in deferred contributions.

A decline in the market value of available-for-sale investments below cost that is deemed other than temporary is charged to earnings, resulting in the establishment of a new cost basis for the investment.

The Company adopted the provisions of Canadian Institute of Chartered Accountants Handbook Section 3862, "Financial Instruments – Disclosure" ("CICA 3862") effective June 2009 and the adoption did not have a material impact on the Company's financial statements when adopted.

THE BERMUDA FINE ART TRUST

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE PERIOD OCTOBER 1, 2008 TO MARCH 31, 2010

(Expressed in Bermuda dollars)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

b) Investments (continued)

In determining fair value, the Company uses various valuation approaches. CICA 3862 establishes a fair value hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. Observable inputs are those that market participants would use in pricing the asset or liability based on market data obtained from sources independent of the Company. Unobservable inputs reflect the Company's assumption about the inputs market participants would use in pricing the asset or liability developed based on the best information available in the circumstances.

The fair value hierarchy is categorized into three levels based on the inputs as follows:

Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2 – Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly; and

Level 3 – Inputs for the asset or liability that are based on unobservable market data.

c) Capital assets

Purchased capital assets are recorded at cost. Amortization is recorded on a straight line basis over the assets' estimated useful lives, which are as follows:

Renovations and improvements	20 years
Office furniture and fixtures	5 years
Computer hardware and software	4 years

d) Permanent collection

Permanent collection consists of purchased artwork recorded at cost and capital restoration costs.

THE BERMUDA FINE ART TRUST

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE PERIOD OCTOBER 1, 2008 TO MARCH 31, 2010

(Expressed in Bermuda dollars)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

e) Revenue recognition

The Trust follows the deferral method of accounting for contributions. Restricted contributions are recognized as revenue in the year in which the related expenses are incurred. Unrestricted contributions are recognized as revenue when received or receivable if the amount can be reasonably estimated and collection is reasonably assured. Endowment contributions are recognized as direct increases in net assets.

Revenue from memberships is recognized as earned over the membership year which is April 1 to March 31. Membership fees paid in advance are deferred and recognized in the related period.

Donated art objects are not reflected in these financial statements.

Unrestricted investment income is recognized as revenue when earned. Restricted investment income is recorded in deferred contributions and recognized as revenue in the year in which the related expenses are incurred.

f) Contributed services

The Trust receives support from many individuals and the local business community. This support is generally in the form of professional services and the contribution of personal time. The fair value of the audit fees of \$15,000 (2008 - \$10,000) of which \$12,500 (2008 - \$8,000) is a donation in kind. Other non-monetary support cannot be reasonably estimated and is not reflected in these financial statements.

g) Use of estimates

The preparation of financial statements in conformity with accounting principles generally accepted in Bermuda and Canada, requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. While management believes that the amounts included in the financial statements reflect the Company's best estimates and assumptions, actual results could differ from these estimates.

THE BERMUDA FINE ART TRUST

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE PERIOD OCTOBER 1, 2008 TO MARCH 31, 2010

(Expressed in Bermuda dollars)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

h) New accounting pronouncements

In February 2008, the Canadian Institute of Chartered Accountants (“CICA”) announced that Canadian generally accepted accounting principles (“GAAP”) for publicly accountable enterprises will be replaced by International Financial Reporting Standards (“IFRS”) for fiscal years beginning on or after January 1, 2011.

For not-for-profit organizations that are not publicly accountable, the Accounting Standards Board (“AcSB”) proposes a free choice of the accounting standards which include the 4400 series of Handbook Sections and reference to standards for private enterprises when appropriate, or IFRS.

The AcSB is working jointly with Public Sector Accounting Board to reconsider the current requirements of the 4400 series of Handbook Sections after the two Boards finalize their respective strategic directions.

The AcSB has reaffirmed that the existing accounting standards in Part V - Pre-Change Over Accounting Standards of the Handbook will be maintained for use by not-for-profit organizations until the new direction for setting standards for private sector organizations has been approved.

The Trustees have approved preparation of these statements based on Part V of the CICA Handbook.

4. CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise:

	2008	2008
Current accounts	\$ 211,215	\$ 37,912
Money market accounts, restricted for future operating activities (note 8)	160,636	251,410
Money market accounts, restricted for endowment	<u>542,441</u>	<u>469,754</u>
	<u>\$ 914,292</u>	<u>\$ 759,076</u>

THE BERMUDA FINE ART TRUST

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED MARCH 31, 2010

(Expressed in Bermuda dollars)

5. INVESTMENTS

The cost and fair value of investments are as follows:

	<u>Cost</u>	<u>Gross Unrealized Losses</u>	<u>Market Value</u>
2010			
Equity securities	\$ <u>707,670</u>	\$ <u>(95,950)</u>	\$ <u>611,720</u>
2008			
Equity securities	\$ <u>707,670</u>	\$ <u>(206,920)</u>	\$ <u>500,750</u>

Equity securities comprise preferred stock which earns interest at rates between 6% and 8%.

The unrealized losses are deemed temporary.

Investments are restricted for endowment purposes. Related investment income is available for restoration and maintenance of art work, and is included in deferred contributions, as seen in note 8.

All investments above are valued based on level 1 of the fair value hierarchy.

6. CAPITAL ASSETS

Capital assets are comprised of the following:

	<u>Cost</u>	<u>Accumulated Amortization</u>	<u>2010 Net Book Value</u>	<u>2008 Net Book Value</u>
Renovations and improvements	\$ 1,324,569	\$ 1,172,561	\$ 152,008	\$ 251,350
Office furniture and fixtures	66,542	41,323	25,219	28,066
Computer hardware and software	<u>36,455</u>	<u>27,693</u>	<u>8,762</u>	<u>13,010</u>
	\$ <u>1,427,566</u>	\$ <u>1,241,577</u>	\$ <u>185,989</u>	\$ <u>292,426</u>

THE BERMUDA FINE ART TRUST

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE PERIOD OCTOBER 1, 2008 TO MARCH 31, 2010

(Expressed in Bermuda dollars)

7. PERMANENT COLLECTION

At year end, the estimated and insurance value of all artwork held by the Trust was \$3,544,027 (2008 - \$5,018,567). In addition, collections on loan were insured for \$1,438,625 (2008 - \$1,052,950). These values are the trustees' best estimate, obtained through discussions with the Bermuda National Gallery staff and insurance appraisers.

8. DEFERRED CONTRIBUTIONS

Deferred contributions represent amounts received from donors which are to be used for specific purposes. Deferred contributions comprise as follows:

	2010	2008
Restricted for future operating activities		
Beginning balance	\$ 271,485	\$ 246,550
Less amount recognized as revenue during the period	(84,727)	(41,550)
Add amount received relating to subsequent years	<u>43,535</u>	<u>66,485</u>
Ending balance	\$ <u>230,293</u>	\$ <u>271,485</u>
Restricted for restoration and maintenance of certain collections of artwork		
Beginning balance	\$ 179,020	\$ 119,805
Add investment income restricted during the period	<u>72,687</u>	<u>59,215</u>
Ending balance	\$ <u>251,707</u>	\$ <u>179,020</u>
Total deferred contributions, end of period	\$ <u>482,000</u>	\$ <u>450,505</u>

	2010	2008
Deferred contributions are comprised of amounts restricted for:		
Ondaatje wing of the gallery	\$ 187,600	\$ 200,000
Restoration and maintenance of certain collections of artwork	251,707	179,020
Exhibitions	32,693	55,000
Restoration and maintenance of Bermuda collection	10,000	5,985
Education	<u>-</u>	<u>10,500</u>
	\$ <u>482,000</u>	\$ <u>450,505</u>

THE BERMUDA FINE ART TRUST

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE PERIOD OCTOBER 1, 2008 TO MARCH 31, 2010

(Expressed in Bermuda dollars)

9. NET ASSETS RESTRICTED FOR ENDOWMENT PURPOSES

The net assets restricted for endowment purposes are subject to externally imposed restrictions stipulating that the resources be maintained permanently.

	2010	2008
Restricted net assets comprise:		
Balance, beginning of year	\$ 724,212	\$ 1,061,702
Transfer from (to) unrestricted net assets	100,000	(174,320)
Net change in unrealized losses on available for sale investments arising during the year	<u>110,970</u>	<u>(163,170)</u>
Balance, end of year	<u>\$ 935,182</u>	<u>\$ 724,212</u>

During the year the Trust received a special contribution of \$100,000 from the Christian Humann Foundation, which is recorded as an other contribution in the statement of operations. The Trustees have authorized the transfer of the other contribution from unrestricted net assets to net assets restricted for endowment purposes to restore the purchasing power of the endowment fund.

10. NATIONAL ART GALLERY PROPERTY LEASE TERMS

The Trust has a twenty-five year lease from the Corporation of Hamilton. The lease, which bears a nominal rent of \$25 per annum, expires on December 1, 2013 and will be renewed for 21 years at a rent of \$1,000 per annum.

11. INVESTMENT INCOME

Investment income earned is reported as follows:

	2010	(note 15) 2008
Investment income earned on unrestricted resources	\$ 1,266	\$ 3,911
Investment income earned on resources held for endowment	72,687	66,055
Loss on disposal of investment	<u>-</u>	<u>(6,840)</u>
Total investment income earned in the period	73,953	63,126
Less amount deferred for restoration and maintenance of artwork	<u>(72,687)</u>	<u>(59,215)</u>
Total investment income recognized as revenue	<u>\$ 1,266</u>	<u>\$ 3,911</u>

THE BERMUDA FINE ART TRUST

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE PERIOD OCTOBER 1, 2008 TO MARCH 31, 2010

(Expressed in Bermuda dollars)

12. FINANCIAL INSTRUMENTS

The Trust's financial instruments consist of cash and cash equivalents, accounts receivable, investments, accounts payable and accrued liabilities.

The carrying values of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities approximate fair value due to their short term nature.

In the Trust's opinion, the risk of loss due to credit risk is not significant as cash and cash equivalents are placed with high credit quality financial institutions.

Quoted equity securities are stated at fair value in accordance with the last quoted price on the last trading day of the year, as advised by the independent investment managers. The Company engages independent professional investment advisors to manage its investments. In the opinion of management, the risk of loss due to credit risk is not significant.

13. CAPITAL MANAGEMENT

The Trust manages its capital to mitigate the foregoing risks and to provide reasonable assurance that it will be able to meet its requirements and continue as a going concern.

14. SUBSEQUENT EVENTS

As at the date of the audit report, the unrealized loss on investments held for endowment purposes increased to \$127,740. This change in unrealized loss creates a decrease of approximately \$31,790 in net assets available for endowment purposes.

15. COMPARATIVE FIGURES

During the period the Trust changed its year end from September 30 to March 31. The comparative figures relate to the year ended September 30, 2008.

Certain comparative figures have been reclassified to conform to the current year financial statement presentation.