

Financial Statements of

**THE BAHAMAS PROTECTED AREAS FUND**

June 30, 2018

# THE BAHAMAS PROTECTED AREAS FUND

## Financial Statements

June 30, 2018

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## INDEPENDENT AUDITORS' REPORT

To the Board of Directors of  
**THE BAHAMAS PROTECTED AREAS FUND**

### *Opinion*

We have audited the financial statements of The Bahamas Protected Areas Fund ("the Fund"), which comprise the statement of financial position as at June 30, 2018 and the statements of comprehensive loss, changes in fund balances and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Fund as at June 30, 2018, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS").

### *Basis for Opinion*

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Fund in accordance with the ethical requirements that are relevant to our audit of the financial statements in The Bahamas, 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.

### *Responsibilities of Management for the Financial Statements*

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Fund'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 Fund or to cease operations, or has no realistic alternative but to do so.

The board of directors is responsible for overseeing the Fund's financial reporting process.

## INDEPENDENT AUDITORS' REPORT (continued)

### *Auditors' Responsibilities for the Audit of the Financial Statements*

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' 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 ISAs 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 financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the 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 expressing an opinion on the effectiveness of the Fund'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 Fund's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the 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 auditors' report. However, future events or conditions may cause the Fund to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

**INDEPENDENT AUDITORS' REPORT (continued)**

*Report on Other Legal and Regulatory Requirements*

In our opinion, under the provisions of the Bahamas Protected Areas Fund Act, 2014 (the "Act"), the accounting records required by the Act to be kept by the Fund of which we are the auditors have been kept in accordance with the provisions of the Act.



**CHARTERED ACCOUNTANTS**

January 29, 2019  
Nassau, Bahamas

# THE BAHAMAS PROTECTED AREAS FUND

## Statement of Financial Position

June 30, 2018

(Expressed in Bahamian dollars)

	2018	2017
<b>ASSETS</b>		
<b>Current assets</b>		
Cash on hand and at bank (Note 4)	\$ 193,702	\$ 732,246
Cash at broker - restricted (Note 5)	375,297	-
Term deposit	-	2,002,619
Available-for-sale investments (Note 6)	2,101,808	-
Interest receivable	24,477	1,390
<b>Total current assets</b>	<b>2,695,284</b>	<b>2,736,255</b>
<b>Non-current assets</b>		
Fixed assets	853	1,279
<b>Total assets</b>	<b>2,696,137</b>	<b>2,737,534</b>
<b>LIABILITIES</b>		
Accounts payable and accrued expenses	27,129	9,000
Deferred grant (Note 7)	136,268	165,680
<b>Total liabilities</b>	<b>163,397</b>	<b>174,680</b>
<b>NET ASSETS</b>	<b>\$2,532,740</b>	<b>\$2,562,854</b>
<b>FUND BALANCES</b>	<b>\$2,532,740</b>	<b>\$2,562,854</b>

See accompanying notes. See Independent Auditors' Report on pages 1 to 3.

These financial statements were approved on behalf of the Board of Directors on January 29, 2019 and signed on its behalf by:

  
Chairperson

  
Director

# THE BAHAMAS PROTECTED AREAS FUND

## Statement of Comprehensive Loss

For the year ended June 30, 2018

	2018	2017
<b>INCOME</b>		
Grant (Note 7)	\$129,412	\$29,820
Interest income	22,273	749
Dividends	1,293	-
	<b>152,978</b>	<b>30,569</b>
<b>EXPENSES</b>		
General and administrative (Note 9)	82,990	11,709
Payroll	78,775	19,748
Realized loss on sale of available-for-sale investments	4,477	-
	<b>166,242</b>	<b>31,457</b>
<b>Net operating loss</b>	<b>(13,264)</b>	<b>(888)</b>
<b>OTHER COMPREHENSIVE LOSS</b>		
<i>Item that may be reclassified subsequently to profit or loss</i>		
Net change in fair value of available-for-sale investments (Note 6)	(16,850)	-
<b>NET LOSS AND TOTAL COMPREHENSIVE LOSS</b>	<b>\$(30,114)</b>	<b>(888)</b>
<b>Total comprehensive loss is represented by:</b>		
Total comprehensive loss of the General Fund	\$(36,830)	\$(1,637)
Total comprehensive income of the Endowment Fund	6,716	749
	<b>\$(30,114)</b>	<b>\$ (888)</b>

See accompanying notes. See Independent Auditors' Report on pages 1 to 3.

# THE BAHAMAS PROTECTED AREAS FUND

## Statement of Changes in Fund Balances

For the year ended June 30, 2018

	Endowment Fund	General Fund	Total
<b>FUND BALANCE AS AT JUNE 30, 2016</b>	\$2,501,918	\$ 61,824	\$2,563,742
Total comprehensive income/(loss)	749	(1,637)	(888)
<b>FUND BALANCE AS AT JUNE 30, 2017</b>	2,502,667	60,187	2,562,854
Total comprehensive income/(loss):			
Net income/(loss)	23,566	(36,830)	(13,264)
Other comprehensive loss	(16,850)	-	(16,850)
	6,716	(36,830)	(30,114)
<b>FUND BALANCE AS AT JUNE 30, 2018</b>	\$2,509,383	\$ 23,357	\$2,532,740

See accompanying notes. See Independent Auditors' Report on pages 1 to 3.



# THE BAHAMAS PROTECTED AREAS FUND

## Statement of Cash Flows

For the year ended June 30, 2018

	2018	2017
<b>Cash flows from operating activities:</b>		
Net loss	\$ (30,114)	\$ (888)
Adjustment to reconcile net loss to cash provided by operating activities:		
Interest	(22,273)	(749)
Depreciation	426	-
Realized gain on sale of investment	4,477	-
Net change in unrealized loss on available-for-sale investments	16,850	-
<b>Cash used in operations before changes in operating assets and liabilities</b>	<b>(30,634)</b>	<b>(1,637)</b>
<b>Increase in operating assets:</b>		
Interest receivable	(814)	(1,342)
<b>Increase (decrease) in operating liabilities:</b>		
Accounts payable and accrued expenses	18,129	4,500
Deferred grant	(29,412)	70,180
<b>Net cash (used in) provided by operating activities</b>	<b>(42,731)</b>	<b>71,701</b>
<b>Cash flows from investing activities:</b>		
Increase in cash at broker - restricted	(375,297)	-
Purchase of fixed assets	-	(1,279)
Payments on purchase of available-for-sale investments	(4,055,164)	-
Proceeds from sale of available-for-sale investments	1,932,029	-
Decrease in term deposit	2,002,619	-
<b>Net cash used in investing activities</b>	<b>(495,813)</b>	<b>(1,279)</b>
<b>Net (decrease) increase in cash and cash equivalents</b>	<b>(538,544)</b>	<b>70,422</b>
Cash and cash equivalents, beginning of the year	732,246	661,824
<b>CASH AND CASH EQUIVALENTS, END OF THE YEAR</b>	<b>\$ 193,702</b>	<b>\$ 732,246</b>
<b>Represented by:</b>		
Cash on hand	\$ 350	\$ 500
Cash at bank	193,352	731,746
	<b>\$ 193,702</b>	<b>\$ 732,246</b>

See accompanying notes. See Independent Auditors' Report on pages 1 to 3.

# THE BAHAMAS PROTECTED AREAS FUND

## Notes to Financial Statements

June 30, 2018

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### 1. GENERAL INFORMATION

The Bahamas Protected Areas Fund (“the Fund”) was established as a corporate body under the provisions of the Bahamas Protected Areas Fund Act, 2014 (“the Act”) on July 7, 2014. The general purpose of the Fund is to ensure sustainable financing into perpetuity for the management of protected areas in The Bahamas, including management activities under the Caribbean Challenge Initiative and the objectives of the Caribbean Biodiversity Fund, for the scientific and policy research and education, conservation and management of protected areas and programmes. The affairs of the Fund are administered by a board of directors.

The principal administrative office of the Fund is located at Pineapple Grove, Old Fort Bay, Nassau, The Bahamas.

The financial statements were authorized to be issued by the Board of Directors of the Fund on January 29, 2019.

### 2. ADOPTION OF NEW AND AMENDED INTERNATIONAL FINANCIAL REPORTING STANDARDS

At the date of these financial statements, the following standards and amendments to the existing standards issued by the International Accounting Standards Board (“the IASB”) have not been applied in these financial statements as they are not yet effective:

IFRS 2 (amendments)	-	Share-based Payment - amendments for clarifications on classification and measurement of share-based payment transactions - effective from January 1, 2018
IFRS 3 (amendments)	-	Clarifying Definition of a Business - effective from January 1, 2020
IFRS 9	-	Financial Instruments - effective from January 1, 2018
IFRS 15	-	Revenue from Contracts with Customers - effective from January 1, 2018
IFRS 16	-	Leases - effective from January 1, 2019
IFRS 17	-	Insurance Contracts - effective from January 1, 2021
IAS 40 (amendments)	-	Transfers of Investment Property - effective from July 1, 2018
IFRIC 22	-	Foreign Currency Transactions and Advance Consideration - effective from January 1, 2018

The Board of Directors of the Fund anticipates that the adoption of these standards and amendments will have no material impact on the Fund’s financial statements.

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### a. Statement of compliance

The financial statements of the Fund have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the IASB. The significant accounting policies set out below have been consistently applied during the period.

# THE BAHAMAS PROTECTED AREAS FUND

## Notes to Financial Statements

June 30, 2018

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### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### b. Basis of preparation

These financial statements have been prepared on the historical cost basis. The financial statements are expressed in Bahamian dollars which is the functional and reporting currency of the Fund.

#### c. Use of estimates and judgments

The preparation of the financial statements in compliance with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected. Information about significant areas of estimation uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the financial statements is included in the following notes:

- Note 3(d) - Financial assets and liabilities
- Note 10 - Fair value of financial instruments
- Note 11 - Financial risk management

#### d. Financial assets and liabilities

The Fund classifies its financial assets into the following categories: available-for-sale financial assets and loans and receivables. The classification depends on the nature and purpose of the financial assets. Management determines the classification at the time of initial recognition.

##### (i) Available-for-sale financial assets

Available-for-sale ("AFS") financial assets are non-derivative financial assets that are either designated in this category or not classified in any of the other categories. AFS investments are those intended to be held for the long-term but which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or prices. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses, are recognized in other comprehensive loss. Available-for-sale financial assets comprise available-for-sale investments.

##### (ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are initially recognized at fair value. Subsequently, they are measured at amortized cost using the effective interest method less impairments losses, if any. Balances included in this classification are cash on hand and at bank, term deposit and interest receivable.

# THE BAHAMAS PROTECTED AREAS FUND

## Notes to Financial Statements

June 30, 2018

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### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### d) Financial assets and liabilities (continued)

##### Interest receivable

Interest receivable represents accrued interest receivable on available-for-sale investments.

##### Available-for-sale investments

Available-for-sale investments are carried at fair value based on the following:

- (i) The Fund measures investments in mutual funds at fair value based on the latest available net asset value per share of the mutual fund.
- (ii) Debt and equity securities are measured at fair value based on quoted market prices at the close of trading on the reporting date for that instrument in an active market. Financial assets are regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis.

Unrealized gains and losses arising from changes in the fair value of available-for-sale investments are recognized in other comprehensive income.

##### Impairment of financial assets

The carrying amounts of the Fund's financial assets carried at amortised cost are reviewed at each reporting date to determine whether there is any objective evidence of impairment. A financial asset is impaired if its carrying amount exceeds its estimated recoverable amount. Impairment losses on assets carried at amortized cost are measured as the difference between the carrying amount of the assets and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Impairment losses are recognized in the statement of comprehensive loss. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined if no impairment loss had been recognized.

##### Fair value hierarchy

The Fund measures fair values using the following fair value hierarchy that reflects the significance of the inputs in making the measurements:

- |         |                                                                                                                                                                                      |
|---------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Level 1 | - Quoted prices (unadjusted) in active markets for identical assets or liabilities.                                                                                                  |
| Level 2 | - Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices). |
| Level 3 | - Inputs for the asset or liability that are not based on observable market data (i.e. unobservable inputs).                                                                         |

# THE BAHAMAS PROTECTED AREAS FUND

## Notes to Financial Statements

June 30, 2018

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### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### d. Financial assets and liabilities (continued)

##### Fair value hierarchy (continued)

The level in the fair value hierarchy within which the fair value measurement is categorized is determined on the basis of the lowest level input that is significant to the fair value measurement. For this purpose, the significance of an input is assessed against the fair value measurement in its entirety. If a fair value measurement uses observable inputs that require significant adjustment based on unobservable inputs, the measurement is a Level 3 measurement. Assessing the significance of a particular input to the fair value measurement in its entirety requires judgment, considering factors specific to the asset or liability.

The determination of what constitutes "observable" requires significant judgment by the Fund. The Fund considers observable data to be market data that is readily available, regularly distributed or updated, reliable and verifiable, not proprietary, and provided by independent sources that are actively involved in the relevant market.

##### Recognition of financial assets and liabilities

The Fund recognizes financial assets and financial liabilities on the day it becomes a party to the contractual provisions of the instruments.

##### Derecognition of financial assets and liabilities

The Fund derecognizes a financial asset when the contractual rights to receive cash flows from the financial asset expire or have been transferred and the Fund has transferred substantially all the risks and rewards of ownership of the asset or the Fund has transferred control of the asset. A financial liability is derecognized when the obligation specified in the contract is discharged, cancelled or expires.

##### Offsetting financial assets and liabilities

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously.

The Fund classifies its financial liabilities as other financial liabilities.

##### Other financial liabilities

Other financial liabilities are initially recognized at fair value, net of transaction costs. Subsequently, they are measured at amortized cost using the effective interest method. Interest expense is recognized on an effective yield basis. The effective interest method calculates the amortized cost of a financial liability and allocates interest expense over the earlier of payoff or scheduled maturity. Balances included in this classification are accounts payable and accrued expenses.

#### e. Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and at bank of the General Fund.

# THE BAHAMAS PROTECTED AREAS FUND

## Notes to Financial Statements

June 30, 2018

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

f. Term deposit

Term deposit represents a deposit with an original maturity of over three months.

g. Foreign currency transactions and balances

The financial statements are presented in Bahamian dollars, which is the Fund's functional and presentation currency. Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. Exchange differences arising on retranslations are included in the statement of comprehensive loss.

h. Related parties

Related parties represent entities or individuals that can exercise significant influence or control over the operations and policies of the Fund. All related party transactions are shown in these financial statements as such.

i. Income and expenses recognition

Grants

Grants are recognized as income when received or receivable or in the period as specified by the grantor against approved expenses. Grants that have been received but are specified for use against future expenses are deferred and recognized as liabilities.

Interest income

Interest income is recognized on an accrual basis using the effective interest rate method.

Dividend income

Dividend income is recognized when the Fund's right to receive payment is established.

All other income and expenses are recognized on the accrual basis.

### 4. CASH ON HAND AND AT BANK

As at June 30, 2018, cash on hand and at bank are as follows:

	2018	2017
<b>General Fund:</b>		
Cash on hand	\$ 350	\$ 500
Cash at bank		
RBC Royal Bank (Bahamas) Limited - main account	181,204	198,675
RBC Royal Bank (Bahamas) Limited - operating	12,148	33,302
RBC Royal Bank (Bahamas) Limited - restricted	-	499,769
	<b>\$193,702</b>	<b>\$732,246</b>

# THE BAHAMAS PROTECTED AREAS FUND

## Notes to Financial Statements

June 30, 2018

### 5. CASH AT BROKER - RESTRICTED

	2018	2017
<b>Endowment Fund:</b>		
Cash at broker		
CFAL - Fixed deposit	\$376,387	\$ -
CFAL - USD account	1,511	-
CFAL - CIBC	(2,601)	-
	<u>\$375,297</u>	<u>\$ -</u>

As at June 30, 2018, cash at broker is restricted as this is part of the Endowment Fund. According to the Act, no part of the endowment's capital may be used to cover the Fund's administrative and operating costs of the General Fund unless approved by the unanimous vote of all board members. (See also Note 8).

### 6. AVAILABLE-FOR-SALE INVESTMENTS

As at June 30, 2018, available-for-sale investments are as follows:

	2018		
	Quantity	Cost	Fair value
<u>Equity Securities</u>			
FOCOL Holdings Limited	16,795	\$ 75,983	\$ 57,775
Commonwealth Bank Limited	15,818	74,726	65,645
Fidelity Bank (Bahamas) Limited	2,394	25,151	26,813
		<u>175,860</u>	<u>150,233</u>
<u>Mutual Funds</u>			
CFAL Bond Fund, Ltd.	233,651	500,000	504,640
CFAL Money Market Investment Fund, Ltd. 'A'	30,074	58,563	60,319
		<u>558,563</u>	<u>564,959</u>
<u>Debt Securities</u>			
US Treasury Notes (1.5%, due 31/08/18)	497,000	496,787	496,787
Bahamas Government Registered Stocks:			
3.875% due 15/10/2020	14,200	14,308	14,308
4.250% due 15/10/2022	2,600	2,654	2,654
4.250% due 15/01/2024	120,000	120,484	120,484
Prime + 0.2500% due 04/05/2024	250,000	250,000	250,000
Prime + 0.2500% due 23/02/2028	250,000	250,672	250,672
Prime + 0.0833% due 26/04/2028	150,700	151,308	151,308
Prime + 0.0625% due 26/07/2033	100,000	100,403	100,403
		<u>1,386,616</u>	<u>1,386,616</u>
		<u>\$2,121,039</u>	<u>\$2,101,808</u>

# THE BAHAMAS PROTECTED AREAS FUND

## Notes to Financial Statements

June 30, 2018

### 6. AVAILABLE-FOR-SALE INVESTMENTS (continued)

Included in the fund balance of the Endowment Fund is the net change in fair value of available-for-sale investments arising from the re-measurement of these investments to fair value. The movement in the fair value reserve is as follows:

Balance at July 1, 2017	\$ -
Net change in fair value of available-for-sale investments	(16,850)
Balance at June 30, 2018	\$(16,850)

### 7. DEFERRED GRANT

In 2015, the Fund entered into an operational support agreement with Waitt Foundation (the "Foundation") to provide operational support to the Fund through a grant of \$100,000 for the year ended December 31, 2016. Under the agreement, the funds are to be used for approved expenditure. The Foundation renewed the grant to provide for additional funding of up to \$400,000 over a further period of four years. The Fund is responsible for certain deliverables as outlined in the agreement.

Deferred grant represents the deferred portion of the grant received.

The movement in the deferred grant is as follows:

Balance as at June 30, 2016	\$ 95,500
Grant received	100,000
Grant used for approved expenditure	(29,820)
Balance as at June 30, 2017	165,680
Grant received	100,000
Grant used for approved expenditure	(129,412)
Balance as at June 30, 2018	\$136,268

### 8. FUND BALANCES

#### General Fund

The General Fund represents the unrestricted fund balance and comprises the accumulated surplus of the Fund.

#### Endowment Fund

The Endowment Fund represents the permanently restricted fund balance. In 2016, the government of The Bahamas and the Global Environment Facility (GEF), a United Nations Environment Program (UNEP) funded the Endowment Fund in the amount of \$2,000,000 and \$500,000, respectively.

According to the Act, no part of the endowment's capital may be used to cover the Fund's administrative and operating costs, the General Fund, unless approved by the unanimous vote of all board members. The capital of the Endowment Fund shall be invested by an investment manager, hired by the Board of Directors, (the "Board") through a transparent and competitive public tender process, subject to the approval of a special majority vote (an affirmative vote of at least three-fourths of the Directors then serving) of the Board.



# THE BAHAMAS PROTECTED AREAS FUND

## Notes to Financial Statements

June 30, 2018

### 9. GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses for the year were as follows:

	2018	2017
Professional fees	\$54,879	\$ 4,500
Travel and accommodation	13,972	1,658
Website hosting and update	3,000	1,710
Marketing and public relations	2,908	1,500
Bank charges	2,833	1,069
Investment management fees	2,333	-
Office supplies	1,349	419
Others	1,290	853
Depreciation	426	-
	<u>\$82,990</u>	<u>\$11,709</u>

### 10. FAIR VALUE OF FINANCIAL INSTRUMENTS

Management estimates that the carrying values of the financial assets and liabilities disclosed in the statement of financial position approximate their fair values at the reporting date for one or more of the following reasons:

- (i) Short-term maturities;
- (ii) Interest rates approximate market rates; and
- (iii) Carrying values approximate fair values.

#### Fair value hierarchy

The table below analyses the class of financial instruments measured at fair value by the level in the fair value hierarchy within which the fair value measurement is categorized at the reporting date:

	2018			Total
	Level 1	Level 2	Level 3	
Available-for-sale investments	\$150,233	\$1,951,575	\$ -	\$2,101,808

# THE BAHAMAS PROTECTED AREAS FUND

## Notes to Financial Statements

June 30, 2018

### 11. FINANCIAL RISK MANAGEMENT

The Fund's activities expose it to a variety of financial risks: market risk (including, interest rate risk, foreign currency risk and other price risk), credit risk and liquidity risk.

(a) Market risk

Market risk is the possibility that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market prices.

(i) Interest rate risk

Interest rate risk arises from the effects of fluctuations in the prevailing levels of market interest rates on the fair value or future cash flows of financial assets and liabilities. The fixed deposit held by broker and the investments in debt securities are exposed to interest rate risk. The Fund's strategy takes into consideration the current market conditions, with short-term interest rates at their lowest historical levels, to maximize the return of the Fund while maintaining a high level of liquidity.

Management's best estimates of the effect on net income for the year due to reasonably possible increases in interest rates, with all other variables held constant, are indicated in the table below. The actual results may differ from the sensitivity analysis below and the difference could be material. Equivalent decreases in interest rates by the percentages shown below would result in equivalent but opposite effects to the amounts shown below.

	2018		2017	
	Change in interest rates	Effect on net income	Change in interest rates	Effect on net income
Fixed deposit held by broker	1.0%	\$3,764	-	\$ -
Debt securities	0.5%	\$3,762	-	\$ -
Term deposit	-	\$ -	1.0%	\$20,026

(ii) Foreign currency risk

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in foreign exchange rates. The Bahamian dollar is the Fund's functional currency. At the reporting date, the Fund's financial instruments are primarily denominated in Bahamian dollars, except for a United States dollar denominated debt security. As the parity between the United States and the Bahamian dollar is unlikely to change in the short-term, the Fund's exposure to any movement in the exchange rate is not considered significant.

(iii) Other price risk

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market prices (other than those arising from interest rate risk or currency risk). It embodies not only the potential for loss but also the potential for gain. The Fund is exposed to other price risk through its investments in equity securities and mutual funds. Other price risk is mitigated by the Fund maintaining a diversified portfolio of financial instruments.

# THE BAHAMAS PROTECTED AREAS FUND

## Notes to Financial Statements

June 30, 2018

### 11. FINANCIAL RISK MANAGEMENT (continued)

(a) Market risk (continued)

(iii) Other price risk (continued)

Management's best estimates of the effect on the Fund's net income due to reasonably possible increases in market prices by the percentages shown, with all other variables remaining constant, are indicated in the table below:

	2018		
	1%	5%	10%
Investments in equity securities	\$1,502	\$ 7,512	\$15,023
Investments in mutual funds	\$5,650	\$28,248	\$56,496

Equal decreases in market prices would have decreased net income by the same amounts.

(b) Credit risk

Credit risk represents the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. Financial assets which potentially expose the Fund to credit risk consist principally of cash and cash equivalents, term deposit, interest receivable and investments in debt securities.

The Fund manages and controls credit risk by setting limits on the amount of risk it is willing to accept for individual counterparties and by monitoring exposures in relation to such limits. The Fund seeks to mitigate its exposure to credit risk by placing its financial assets with reputable financial institutions. At June 30, 2018, the maximum exposure to credit risk before any credit enhancements is the carrying amount of the financial assets as set out below:

	2018	2017
<b><u>Financial assets:</u></b>		
<u>Available-for-sale investments</u>		
Investments in debt securities	\$1,386,616	\$ -
<u>Loans and receivables</u>		
Cash at bank	193,352	731,746
Cash at broker - restricted	375,297	-
Interest receivable	24,477	1,390
Term deposit	-	2,002,619
	<b>\$1,979,742</b>	<b>\$2,735,755</b>

# THE BAHAMAS PROTECTED AREAS FUND

Notes to Financial Statements

June 30, 2018

## 11. FINANCIAL RISK MANAGEMENT (continued)

### (c) Liquidity risk

The objective of liquidity risk management is to ensure the availability of sufficient funds to honor all of the Fund's financial commitments and funding requirements. The Fund maintains an appropriate level of liquid assets to meet cash requirements for normal operating purposes.

The following table details the Fund's remaining contractual maturities for its financial liabilities as at June 30, 2018 and indicates the undiscounted cash flows of such financial liabilities based on the earliest date on which the Fund can be required to pay. The table includes only principal cash flows.

	0 – 3 months	3 – 12 months	Total
<b>2018</b>			
<b>Financial liabilities</b>			
Accounts payable and accrued expenses	\$27,129	\$ -	\$27,129
	0 – 3 months	3 – 12 months	Total
<b>2017</b>			
<b>Financial liabilities</b>			
Accounts payable and accrued expenses	\$ 9,000	\$ -	\$ 9,000

## 12. CAPITAL MANAGEMENT

The Fund manages its capital to ensure that it will be able to continue as a going concern. Ultimate responsibility for the management of the Fund's balances rests with the Board of Directors. The capital structure of the Fund is represented by its fund balances. The Fund is not subject to externally imposed capital requirements except for the Endowment Fund where restrictions on utilization are specified in the Act and by the Caribbean Biodiversity Fund, as disclosed in the Note 8.

See Independent Auditors' Report on pages 1 to 3.