

Financial Statements of

THE BAHAMAS PROTECTED AREAS FUND

June 30, 2020

THE BAHAMAS PROTECTED AREAS FUND

Financial Statements

June 30, 2020

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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, 2020, and the statements of comprehensive (loss)/income, 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, 2020, 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.

Report on Other Legal and Regulatory Requirements

In our opinion, under the provisions of the Bahamas Protected Areas Fund Act, 2014 and the 2019 Amendments ("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.

A handwritten signature in black ink, appearing to read "Bob Tilly".

CHARTERED ACCOUNTANTS

March 30, 2021
Nassau, Bahamas

THE BAHAMAS PROTECTED AREAS FUND

Statement of Financial Position


June 30, 2020

(Expressed in Bahamian dollars)


	2020	2019
ASSETS		
Current assets		
Cash on hand and at bank (Note 4)	\$ 254,321	\$ 161,550
Cash at broker - restricted (Note 5)	7,453	174,195
Term deposit	5,000	-
Financial assets at fair value through profit or loss (Note 6)	2,615,096	2,410,113
Interest receivable	28,225	27,390
Prepayments	5,529	4,551
Total current assets	2,915,624	2,777,799
Non-current assets		
Fixed assets	9,671	12,046
Total assets	2,925,295	2,789,845
LIABILITIES		
Accounts payable and accrued expenses	24,548	8,971
Deferred grant (Note 7)	288,419	130,386
Total liabilities	312,967	139,357
NET ASSETS	\$2,612,328	\$2,650,488
FUND BALANCES (Note 8)	\$2,612,328	\$2,650,488

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

These financial statements were approved by the Board of Directors on March 30, 2021 and signed on its behalf by:



Chairperson



Director

THE BAHAMAS PROTECTED AREAS FUND

Statement of Comprehensive (Loss)/Income

For the year ended June 30, 2020

	2020	2019
INCOME		
Grants (Note 7)	\$ 91,967	\$105,882
Interest income	73,671	64,207
Donations	27,656	22,155
Dividends	10,085	5,853
Realized gain on sale of financial assets at FVTPL	7,237	8,520
Net change in unrealized gain on financial assets at FVTPL	-	37,255
Total income	210,616	243,872
EXPENSES		
General and administrative (Note 9)	105,372	46,077
Payroll	99,487	80,047
Net change in unrealized loss on financial assets at FVTPL	43,917	-
Total expenses	248,776	126,124
Total comprehensive (loss)/income	\$ (38,160)	\$117,748
Total comprehensive (loss)/income is represented by:		
Total comprehensive (loss)/income of the General Fund	\$ (77,999)	\$ 10,433
Total comprehensive income of the Endowment Fund	39,839	107,315
	\$ (38,160)	\$117,748

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, 2020

	Endowment Fund	General Fund	Total
FUND BALANCES AS AT JUNE 30, 2018	\$2,509,383	\$23,357	\$2,532,740
Total comprehensive income	107,315	10,433	117,748
FUND BALANCES AS AT JUNE 30, 2019	2,616,698	33,790	2,650,488
Total comprehensive (loss)/income	39,839	(77,999)	(38,160)
FUND BALANCES AS AT JUNE 30, 2020	\$2,656,537	\$(44,209)	\$2,612,328

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, 2020

	2020	2019
Cash flows from operating activities:		
Net (loss)/income	\$ (38,160)	\$ 117,748
Adjustments to reconcile net (loss)/income to net cash provided by/(used in) operating activities:		
Interest	(73,671)	(64,207)
Depreciation	2,374	1,399
Realized loss/(gain) on sale of financial assets at FVTPL	(7,237)	(8,520)
Net change in unrealized loss/(gain) on financial assets at FVTPL	43,917	(37,255)
Cash (used in)/provided by operations before changes in operating assets and liabilities	(72,777)	9,165
(Increase) in operating assets:		
Interest receivable	(835)	(2,913)
Prepayments	(978)	(4,551)
Increase/(decrease) in operating liabilities:		
Accounts payable and accrued expenses	15,577	(18,158)
Deferred grant	158,033	(5,882)
Net cash provided by/(used in) operating activities	99,020	(22,339)
Cash flows from investing activities:		
Interest received	73,671	64,207
Increase in cash at broker - restricted	166,742	201,102
Decrease in term deposit	(5,000)	-
Purchase of fixed assets	-	(12,592)
Payments on purchase of financial assets at FVTPL	(1,488,896)	(3,609,263)
Proceeds from sale of financial assets at FVTPL	1,247,234	3,346,733
Net cash used in investing activities	(6,249)	(9,813)
Net increase/(decrease) in cash and cash equivalents	92,771	(32,152)
Cash and cash equivalents, beginning of the year	161,550	193,702
CASH AND CASH EQUIVALENTS, END OF THE YEAR	\$ 254,321	\$ 161,550
Represented by:		
Cash on hand	\$ 500	\$ 350
Cash at bank	253,821	161,200
	\$ 254,321	\$ 161,550

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

THE BAHAMAS PROTECTED AREAS FUND

Notes to Financial Statements

June 30, 2020

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 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 Fund maintains the following funds:

- General Fund

The Fund, by all or any recognized means, raises funds for the furtherance of the Fund's purposes and applies the same in accordance with the provisions of the Act.

- Endowment Fund

The Endowment Fund represents a permanently restricted fund balance and will not be available to cover administrative and operating costs, unless otherwise approved by a unanimous vote of all board members.

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 March 30, 2021.

2. ADOPTION OF NEW STANDARDS 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 3 (amendments)	-	Business Combinations - clarifying the definition of a business - effective from January 1, 2020
IFRS 9, IAS 39 and IFRS 7 (amendments)	-	Interest Rate Benchmark Reform - effective from January 1, 2020
IFRS 17	-	Insurance Contracts - effective from January 1, 2021
IAS 1 and IAS 8 (amendments)	-	Definition of Material - the amendments clarify and align the definition of 'material' and provide guidance to help improve consistency in the application of that concept whenever it is used in IFRS - effective from January 1, 2020

The Board of Directors is in the process of determining the effects, if any, on the financial statements of the adoption of such standards and amendments to the existing standards.

THE BAHAMAS PROTECTED AREAS FUND

Notes to Financial Statements

June 30, 2020

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 to all periods presented, unless otherwise stated.

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

Financial assets

The Fund classifies its financial assets into the following measurement categories: those to be measured subsequently at fair value through profit or loss and those to be measured at amortized cost. The classification depends on the Fund's business model for managing the financial assets and the instrument's contractual cash flow characteristics.

(i) Financial assets at fair value through profit or loss (FVTPL)

Financial assets at fair value through profit or loss is the classification for instruments that are held for trading or managed and whose performance is evaluated on a fair value basis and are measured at fair value through profit or loss because they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets. Financial assets at fair value through profit or loss are initially recognized at fair value. Transaction costs directly attributable to the assets are recorded as an expense. Subsequent to initial recognition, financial assets at FVTPL are re-measured at fair value. Unrealized gains and losses arising from changes in the fair value of these financial assets are recognized in the statement of comprehensive (loss)/income. Balances included in this classification are investments in equity securities, exchange-traded funds, mutual funds, preference shares and debt securities.

THE BAHAMAS PROTECTED AREAS FUND

Notes to Financial Statements

June 30, 2020

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

d. Financial assets and liabilities (continued)

Financial assets (continued)

(ii) Financial assets at amortized cost

Financial assets at amortized cost apply to instruments for which an entity has a business model to hold financial assets to collect the contractual cash flows, which are solely payments of principal and interest. Subsequent to initial recognition, financial assets at amortized cost are re-measured at amortized cost. Balances included in this classification are cash on hand and at bank, cash at broker-restricted, term deposit and interest receivable.

Interest receivable

Interest receivable represents accrued interest receivable on the term deposit and debt securities.

Investments in mutual funds

Investments in mutual funds are classified at fair value through profit or loss and are initially measured at fair value. After initial measurement, the Fund continues to measure these investments at fair value. Investments in mutual funds are fair valued based on published net asset values at the reporting date. Unrealized gains and losses arising from changes in the fair value of these investments are recognized in net change in unrealized (loss)/gain on financial assets at FVTPL in the statement of comprehensive (loss)/income.

Investments in exchange-traded funds, debt and equity securities

Exchange-traded funds, 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 these investments are recognized in net change in unrealized (loss)/gain on financial assets at FVTPL in the statement of comprehensive (loss)/income.

Investments in preference shares

The fair values of investments in preference shares of publicly-listed companies are initially measured at the cost being the transaction price, excluding transaction costs. As of the reporting date, the Fund continues to measure these investments at cost because the Fund believes that in the absence of an active market for these investments and the wide range of possible fair values, cost represents the best estimate of fair value.

Impairment of financial assets

IFRS 9 replaced the 'incurred loss' model in IAS 39 with the 'expected credit loss' (ECL) model. The new impairment model applies to financial assets measured at amortized cost. Under IFRS 9, credit losses are recognized earlier than under IAS 39.

THE BAHAMAS PROTECTED AREAS FUND

Notes to Financial Statements

June 30, 2020

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

d. Financial assets and liabilities (continued)

Impairment of financial assets (continued)

At each reporting date, the Fund assesses whether financial assets carried at amortized cost are credit-impaired. A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred. Evidence that a financial asset is credit-impaired includes the following observable data: significant financial difficulty of the borrower or issuer; a breach of contract such as a default; or it is probable that the borrower will enter bankruptcy or other financial reorganization.

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 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.

THE BAHAMAS PROTECTED AREAS FUND

Notes to Financial Statements

June 30, 2020

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

d. Financial assets and liabilities (continued)

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.

Financial liabilities

The Fund classifies its financial liabilities as financial liabilities at amortized cost. Financial liabilities at amortized cost are initially measured at fair value, net of transaction costs, and are subsequently remeasured at amortized cost using the effective interest rate method. The balance included in this classification is account payable and accrued expenses.

e. Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and at bank.

f. 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 into the functional currency using the exchange rate prevailing at that date. Exchange differences arising on retranslations are included in the statement of comprehensive (loss)/income.

g. 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.

h. Income and expenses recognition

Grants

Grants are recognized as income when received or receivable 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.

THE BAHAMAS PROTECTED AREAS FUND

Notes to Financial Statements

June 30, 2020

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

h. Income and expenses recognition (continued)

Dividend income

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

Donation income

Donations are recognized as income when received

Other income and expenses

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

4. CASH ON HAND AND AT BANK

As at June 30, 2020, cash on hand and at bank are as follows:

	2020	2019
General Fund:		
Cash on hand	\$ 500	\$ 350
Cash at bank		
RBC Royal Bank (Bahamas) Limited - main account	242,001	150,493
RBC Royal Bank (Bahamas) Limited - operating	8,508	10,199
RBC Royal Bank (Bahamas) Limited - general	3,312	508
	253,821	161,200
	\$254,321	\$161,550

5. CASH AT BROKER - RESTRICTED

	2020	2019
Endowment Fund:		
Cash at broker		
CFAL - USD account	\$6,539	\$ 11,138
CFAL - FCIB	914	2,947
CFAL - Fixed deposit	-	160,110
	\$7,453	\$174,195

As at June 30, 2020, cash at broker is restricted as it is part of the Endowment Fund (See Note 8).

THE BAHAMAS PROTECTED AREAS FUND

Notes to Financial Statements

June 30, 2020

6. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

As at June 30, 2020, financial assets at fair value through profit or loss are as follows:

	2020			2019		
	Quantity	Cost	Fair value	Quantity	Cost	Fair value
Equity Securities - (BSD)						
Commonwealth Bank Limited	15,818	\$ 74,726	\$ 63,272	15,818	\$ 74,726	\$ 71,023
J.S Johnson & Company Limited	4,595	65,338	69,844	-	-	-
FOCOL Holdings Limited	16,795	75,983	64,493	16,795	75,983	57,271
Fidelity Bank (Bahamas) Limited	2,394	25,151	34,713	2,394	25,151	34,593
		241,198	232,322		175,860	162,887
Exchange-traded Funds - (USD)						
First Trust NASDAQ-100 Equal-Weighted Index Fund	1,285	100,276	102,654	-	-	-
ishares iBoxx Investment Grade Corporate Bond ETF	758	100,013	101,951	-	-	-
Invesco S&P 500 High Dividend Low Volatility ETF	2,308	100,159	75,979	-	-	-
SPDR Portfolio Intermediate Term Corporate Bond ETF	1,394	50,093	50,923	-	-	-
ishares ESG USD Corporate Bond ETF	1,836	50,163	50,710	-	-	-
ishares MSCI USA ESG select ETF	358	50,118	47,889	-	-	-
Schwab US Dividend Equity ETF	858	50,060	44,401	-	-	-
SPDR Gold Shares	64	9,971	10,711	-	-	-
		510,853	485,218		-	-
Mutual Funds						
CFAL Bond Fund, Ltd.	121,286	266,511	283,243	143,732	310,911	322,749
Preference Shares						
FOCOL Pref. A 1.75%	30,000	30,000	30,000	-	-	-
Balance carried forward		\$1,048,562	\$1,030,783		\$486,771	\$485,636

THE BAHAMAS PROTECTED AREAS FUND

Notes to Financial Statements

June 30, 2020

6. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (continued)

	2020			2019		
	Quantity	Cost	Fair value	Quantity	Cost	Fair value
Balance brought forward		\$1,048,562	\$1,030,783		\$486,771	\$485,636
Debt Securities						
US Treasury Notes						
1.7%, due 30/09/19	-	-	-	497,000	496,389	496,573
Bahamas Government Registered Stocks:						
4.830% due 23/02/2028	250,000	250,672	255,317	250,000	250,672	258,363
Prime + 0.2500% due 04/05/2024	250,000	250,000	252,591	250,000	250,000	252,502
Prime + 0.0833% due 26/04/2028	150,700	151,308	152,072	150,700	151,308	152,017
4.660% due 13/07/2028	150,000	150,000	151,611	150,000	150,000	153,307
5.060% due 13/07/2038	150,000	150,000	142,828	150,000	150,000	151,116
5.000% due 15/10/2038	150,000	150,000	141,735	150,000	150,000	150,017
4.250% due 15/07/2024	120,000	120,484	123,724	120,000	120,484	124,807
Prime + 0.0625% due 26/07/2033	100,000	100,403	100,277	100,000	100,403	100,226
6.050% due 15/06/2050	97,600	97,600	97,600	-	-	-
5.000% due 15/01/2039	69,100	69,100	67,893	69,100	69,100	68,587
5.600% due 15/07/2049	64,000	64,000	60,450	-	-	-
5.350% due 17/01/2040	21,900	21,900	21,253	-	-	-
3.875% due 15/10/2020	14,200	14,308	14,308	14,200	14,308	14,308
4.250% due 15/10/2022	2,600	2,654	2,654	2,600	2,654	2,654
		1,592,429	1,584,313		1,905,318	1,924,477
		\$2,640,991	\$2,615,096		\$2,392,089	\$2,410,113

7. DEFERRED GRANTS

In 2015, the Fund entered into a grant agreement with Waitt Foundation (the "Foundation") for operational support to the Fund by providing an initial grant of \$100,000 from January 1 to December 31, 2016. Under the agreement, the grant is available for approved expenditures, including operational and project implementation expenses. The Foundation renewed the grant to provide for additional funding of up to \$400,000 over a further period of four years until December 31, 2020. The Fund is responsible for certain deliverables as outlined in the agreement.

In November 2019, the Fund was advised that the German Federal Ministry of Economic Cooperation and Development (BMZ), through the German Development Bank (KfW), had committed up to 1M euros intended for post-Hurricane Dorian assessments and recovery. In addition, the Caribbean Biodiversity Fund's (CBF) board also pledged US\$150,000 for the same effort. The combined grant of US\$1,260,000 is specifically for the purpose of financing and providing sub-grants to support ecosystem impact assessments, ecosystem-based recovery efforts (including protected areas infrastructure), the provision of water purification systems and renewable energy initiatives in and around Grand Bahama and Abaco.

THE BAHAMAS PROTECTED AREAS FUND

Notes to Financial Statements

June 30, 2020

7. DEFERRED GRANTS (continued)

The movement in the deferred grants is as follows:

Balance as at June 30, 2018	\$ 136,268
Grant received	100,000
Grant used for approved expenditure	(105,882)
Balance as at June 30, 2019	130,386
Grants received	250,000
Grants used for approved expenditure	(91,967)
Balance as at June 30, 2020	\$ 288,419

8. FUND BALANCES

General Fund

The General Fund represents the unrestricted balance 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 administrative and operating costs of the General Fund, unless approved by a 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, through a transparent and competitive public tender process, subject to the approval of at least three-fourths of the Directors.

9. GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses for the year were as follows:

	2020	2019
Marketing and public relations	\$ 28,925	\$ -
Rent	20,533	11,095
Other	7,521	3,406
Travel and accommodation	7,486	3,007
Maintenance	7,332	-
Professional fees	7,000	5,000
Investment management fees	5,600	5,600
Utilities	5,409	1,783
Office supplies	5,365	11,526
Website hosting and update	3,490	396
Bank charges	2,451	1,423
Depreciation	2,374	1,399
Insurance	1,886	1,442
	\$105,372	\$46,077

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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 classes 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:

	2020			
	Level 1	Level 2	Level 3	Total
<u>Financial assets at FVTPL</u>				
Equity securities	\$232,322	\$ -	\$ -	\$ 232,322
Exchange traded funds	485,218	-	-	485,218
Debt securities	-	1,584,313	-	1,584,313
Mutual funds	-	283,243	-	283,243
Preference shares	-	30,000	-	30,000
	\$717,540	\$1,897,556	\$ -	\$2,615,096

	2019			
	Level 1	Level 2	Level 3	Total
<u>Financial assets at FVTPL</u>				
Equity securities	\$162,887	\$ -	\$ -	\$ 162,887
Debt securities	-	1,924,477	-	1,924,477
Mutual funds	-	322,749	-	322,749
Financial assets at FVTPL	\$162,887	\$2,247,226	\$ -	\$2,410,113

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 term 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.

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11. FINANCIAL RISK MANAGEMENT (continued)

(a) Market risk (continued)

(i) Interest rate risk (continued)

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.

	2020		2019	
	Change in interest rates	Effect on net income	Change in interest rates	Effect on net income
Term deposit held by broker	0.5%	\$ 37	0.5%	\$ 871
Debt securities	0.5%	\$7,922	0.5%	\$9,622

(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 US\$ denominated exchange-traded funds (ETF) (2019 - a 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, exchange-traded funds and mutual funds. Other price risk is mitigated by the Fund maintaining a diversified portfolio of financial instruments.

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:

	2020		
	1%	5%	10%
<u>Financial assets at FVTPL</u>			
Exchange-traded funds	\$4,852	\$24,261	\$48,522
Equity securities	\$2,323	\$11,616	\$23,232
Mutual funds	\$2,832	\$14,162	\$28,324

THE BAHAMAS PROTECTED AREAS FUND

Notes to Financial Statements

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11. FINANCIAL RISK MANAGEMENT (continued)

(a) Market risk (continued)

(iv) Other price risk (continued)

	2019		
	1%	5%	10%
<u>Financial assets at FVTPL</u>			
Equity securities	\$1,628	\$ 8,144	\$16,288
Mutual funds	\$3,227	\$16,137	\$32,275

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 at bank, cash at broker-restricted, term deposit, interest receivable and investments in debt securities and preference shares.

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, invest in publicly-traded companies and government-issued debt securities. At June 30, 2020, the maximum exposure to credit risk before any credit enhancements is the carrying amount of the financial assets as set out below:

	2020	2019
<u>Financial assets at FVTPL</u>		
Debt securities	\$1,584,313	\$1,924,477
Preference shares	30,000	-
<u>Financial assets at amortized cost</u>		
Cash at bank	253,821	161,200
Cash at broker - restricted	7,453	174,195
Term deposit	5,000	-
Interest receivable	28,225	27,390
	\$1,908,812	\$2,287,262

(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.

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11. FINANCIAL RISK MANAGEMENT (continued)

(c) Liquidity risk

The following table details the Fund's remaining contractual maturities for its financial liabilities as at June 30, 2020 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.

2020	Less than 3 months	Total
Financial liabilities		
Accounts payable and accrued expenses	\$24,548	\$24,548

2019	Less than 3 months	Total
Financial liabilities		
Accounts payable and accrued expenses	\$ 8,971	\$ 8,971

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 where restrictions on the utilization of the Endowment Fund are specified in the Act and by the Caribbean Biodiversity Fund, as disclosed in the Note 8.

13. COVID-19 PANDEMIC

In December, 2019, a new strain of coronavirus ("COVID-19") surfaced in Wuhan, China. This virus continues to spread around the world, resulting in business and social disruption. COVID-19 was declared a global pandemic by the World Health Organization on March 11, 2020.

As the COVID-19 pandemic is ongoing and the near term worldwide economic outlook remains uncertain, management is unable to reasonably estimate the length or severity of the pandemic, or the extent to which the disruption may materially impact the Fund's financial statements in the future.

As at the reporting date, any impact on the balances due to the ongoing COVID-19 pandemic has been appropriately accounted for in accordance with the reporting framework. Management does not believe there is any risk to the Fund's ability to continue as a going concern for the foreseeable future from the reporting date due to the COVID-19 pandemic.

See Independent Auditors' Report on pages 1 to 3.