

FINANCIAL STATEMENTS OF

WATOTO CANADA

December 31, 2022

INDEPENDENT AUDITOR'S REPORT

To the directors of
Watoto Canada

Qualified Opinion

We have audited the financial statements of Watoto Canada, which comprise the statement of financial position as at December 31, 2022, the statement of designated funds, and the statements of operations and changes in net assets and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, except for the effects of the matter described in the Basis for Qualified Opinion section of our report, the accompanying financial statements present fairly, in all material respects, the financial position of the Ministry as at December 31, 2022, and its results of operations and its cash flows for the year then ended in accordance with Canadian accounting standards for not-for-profit organizations ("ASNPO").

Basis for Qualified Opinion

In common with many not-for-profit organizations, the Ministry derives revenue from fundraising activities the completeness of which is not susceptible to satisfactory audit verification. Accordingly, verification of these revenues was limited to the amounts recorded in the records of the Ministry. Therefore, we were not able to determine whether any adjustments might be necessary to fundraising revenue, excess of revenues over expenses, and net assets for the year ended December 31, 2022. Our audit opinion on the financial statements for the year ended December 31, 2022 was modified accordingly because of the possible effects of this limitation in scope.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Ministry in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with ASNPO, 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.

INDEPENDENT AUDITOR'S REPORT, continued

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

Those charged with governance are responsible for overseeing the Ministry's financial reporting process.

Auditor's 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 auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements. As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

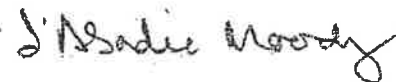
- ♦ Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- ♦ Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Ministry'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 Ministry's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Ministry to cease to continue as a going concern.

INDEPENDENT AUDITOR'S REPORT, continued

- * 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.

Langley, British Columbia
June 8, 2023

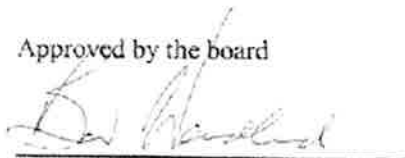


Chartered Professional Accountants

WATOTO CANADA
STATEMENT OF FINANCIAL POSITION
As at December 31, 2022

	2022	2021
ASSETS		
Current		
Cash and cash equivalents (Note 5)	\$ 608,677	\$ 743,222
Short term investment	49,612	85,972
Receivables	6,769	9,106
Tour inventory	109,478	112,446
Prepaid expenses	20,461	11,103
Due from related parties (Note 3)	67,053	1,917
	<u>862,050</u>	<u>963,766</u>
Property and equipment (Note 4)	<u>154,623</u>	<u>178,975</u>
	<u>\$ 1,016,673</u>	<u>\$ 1,142,741</u>
LIABILITIES		
Current		
Accounts payable and accrued liabilities	\$ 46,537	\$ 33,648
Sponsorship funds payable	318,611	312,281
	<u>365,148</u>	<u>345,929</u>
NET ASSETS		
Designated Funds (Note 5)	10,361	36,944
Unrestricted Balance	<u>641,164</u>	<u>759,868</u>
	<u>651,525</u>	<u>796,812</u>
	<u>\$ 1,016,673</u>	<u>\$ 1,142,741</u>

Approved by the board



Director



Director

See accompanying notes to the financial statements

WATOTO CANADA
STATEMENT OF DESIGNATED FUNDS
Year ended December 31, 2022

	Sponsorship	Houses/Schools and Sustainability	Mission Team Travel	Volunteer Travel Funds	2022	2021
DONATIONS						
Direct	\$ 3,580,587	\$ 20,571	\$ 19,134	\$ 80,911	\$ 3,701,203	\$ 3,886,169
	<u>3,580,587</u>	<u>20,571</u>	<u>19,134</u>	<u>80,911</u>	<u>3,701,203</u>	<u>3,886,169</u>
EXPENDITURES						
Orphan support	3,580,587				3,580,587	3,787,869
Building projects		45,560			45,560	86,649
Travel teams (refunded)			20,728		20,728	8,066
Others				80,911	80,911	8,021
	<u>3,580,587</u>	<u>45,560</u>	<u>20,728</u>	<u>80,911</u>	<u>3,727,786</u>	<u>3,890,605</u>
Excess of revenue over expenditures (expenditures over revenue)	0	(24,989)	(1,594)	-	(26,583)	11,696
Reclassification	-	-	-	-	-	-
BALANCE, beginning of year	-	24,989	11,955	-	36,944	25,248
BALANCE, end of year	<u>\$0</u>	<u>\$0</u>	<u>\$10,361</u>	<u>\$0</u>	<u>\$10,361</u>	<u>\$36,944</u>

WATOTO CANADA**STATEMENT OF OPERATIONS AND CHANGES IN NET ASSETS****Year ended December 31, 2022**

	2022	2021
REVENUES		
General donations	\$ 767,265	\$ 773,425
Interest and investment income (loss)	(1,575)	21,955
Product sales	2,799	893
	<u>768,489</u>	<u>796,273</u>
OPERATIONS		
Uganda support (Note 6)	110,568	72,057
Tour expenses (Note 7)	13,783	22,869
Product cost of sales	3,062	250
	<u>127,413</u>	<u>95,176</u>
	<u>641,076</u>	<u>701,097</u>
ADMINISTRATIVE AND GENERAL EXPENSES		
Accounting and legal	15,341	18,067
Advertising and promotion	22,363	832
Amortization	34,952	42,576
Consulting fees	1,780	-
Insurance	16,718	8,840
Interest and bank charges	64,782	72,542
Directors expenses	711	908
Board expenses	-	555
Office and administration	96,261	79,952
Postage and courier	13,651	15,520
Printing	20,034	19,708
Rent and utilities	49,697	53,051
Salaries and related benefits	396,554	410,277
Telephone	8,887	8,882
Travel	18,049	5,057
	<u>759,780</u>	<u>736,767</u>
DEFICIENCY OF REVENUES OVER ADMINISTRATIVE AND GENERAL EXPENSES FROM OPERATIONS	(118,704)	(35,670)

See accompanying notes to the financial statements

WATOTO CANADA
STATEMENT OF OPERATIONS AND CHANGES IN NET ASSETS,
continued
Year ended December 31, 2022

	<u>2022</u>	<u>2021</u>
OTHER INCOME		
Government subsidies	<u>-</u>	<u>49,694</u>
(DEFICIENCY) EXCESS OF REVENUES OVER ADMINISTRATIVE AND GENERAL EXPENSES	<u>(118,704)</u>	<u>14,024</u>
UNRESTRICTED BALANCE, beginning of year	<u>759,868</u>	<u>745,844</u>
UNRESTRICTED BALANCE, end of year	<u>\$ 641,164</u>	<u>\$ 759,868</u>

See accompanying notes to the financial statements

WATOTO CANADA
STATEMENT OF CASH FLOWS
Year ended December 31, 2022

	2022	2021
OPERATING ACTIVITIES		
(Deficiency) excess of revenues over administrative and general expenses	\$ (118,704)	\$ 14,024
Item not affecting cash		
Amortization	40,859	42,576
	(77,845)	56,600
Change in non-cash working capital items		
Short term investment	36,360	(42,542)
Receivables	2,337	1,109
Tour inventory	2,968	250
Prepaid expenses	(9,358)	5,097
Accounts payable and accrued liabilities	12,889	3,487
Sponsorship funds payable	6,330	(6,040)
	(26,319)	17,961
FINANCING ACTIVITIES		
Advances to related parties	(65,136)	(10,496)
Designated Funds	(26,583)	19,080
	(91,719)	8,584
INVESTING ACTIVITY		
Purchase of property and equipment	(16,507)	(63,611)
DECREASE IN CASH	(134,545)	(37,066)
CASH, beginning of year	743,222	780,288
CASH, end of year	\$ 608,677	\$ 743,222

See accompanying notes to the financial statements

WATOTO CANADA

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2022

1. Nature of operations

Watoto Canada (the 'Ministry') was incorporated under the Canada Corporations Act on September 19, 2001 as a non-share capital corporation. The mission of the Ministry is to raise the next generation of Ugandan leaders by placing parentless children in families where the necessary love, care, spiritual discipleship and physical needs are provided. Our goal is to equip these precious children with the essential moral values and life skills that will enable them to make a significant and lasting impact.

The Ministry is a registered charity under the Income Tax Act.

2. Significant accounting policies

The Ministry applies the Canadian accounting standards for not-for-profit organizations.

(a) Capital management

The Ministry's capital is comprised of its net assets. The Ministry's objective when managing capital is to safeguard the Ministry's ability to continue to fund charitable programs and administrative activities. Management monitors the Ministry's capital to ensure there is adequate assets to fund ongoing operations.

(b) Cash equivalents

The Ministry considers all investments with maturities of three months or less and demand bank loans that are utilized periodically for day to day operations to be cash equivalents.

(c) Investments

The Ministry has elected to classify all of its investments as held-for-trading, and accordingly they are recorded at fair value. Changes in fair values during the year are included in revenue or expenditures on the statement of operations.

Quoted market prices were used to determine the fair value of the investments as at the year end date.

WATOTO CANADA
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2022

2. Significant accounting policies, continued

(d) Fair value hierarchy

The Ministry classifies its financial assets and liabilities at fair value using a fair value hierarchy made up of three levels, according to the inputs used in making the measurements.

Level 1: This level includes assets and liabilities measured at fair value based on unadjusted quoted prices for identical assets and liabilities in an active market that the Ministry can access at the measurement date.

Level 2: This category includes measurements that use, either directly or indirectly, observable inputs other than quoted prices included in level 1. Derivative instruments in this category are measured using models or other standard valuation techniques using observable market data.

Level 3: The measurements in this category depend upon inputs that are less observable, not available or for which observable inputs do not justify most of the instruments' fair value.

(e) Property and equipment

Property and equipment are recorded at cost. The Ministry provides for amortization using the following methods at rates designed to amortize the cost of the property and equipment over their estimated useful lives. One half of the year's amortization is recorded in the year of acquisition. No amortization is recorded in the year of disposal. The annual amortization rates and methods are as follows:

Vehicles	30% Declining balance
Furniture and fixtures	20% Declining balance
Choir equipment	20% Declining balance
Computer equipment	30 - 45% Declining balance
Computer software	100% Declining balance

(f) Impairment of long-lived assets

The Ministry tests for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable. Recoverability is assessed by comparing the carrying amount to the projected undiscounted future net cash flows the long-lived assets are expected to generate through their direct use and eventual disposition. When a test for impairment indicates that the carrying amount of an asset is not recoverable, an impairment loss is recognized to the extent carrying value exceeds its fair value.

WATOTO CANADA
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2022

2. Significant accounting policies, continued

(g) Revenue recognition

The Ministry follows the Restricted Fund Method of accounting for donations. Under the method, restricted donations are recorded as revenue in the year received in the fund that corresponds with the restriction as shown on the statement of designated funds. Unrestricted donations are recognized as revenue of the operating fund in the year received or receivable.

Sponsorship revenues are recorded in the Sponsorship fund when received. This includes sponsorship funds prepaid by donors that relate to future fiscal periods. Watoto Canada sends sponsorship funds to Watoto Childcare Ministries (Uganda) on a monthly basis. These funds will be expensed on a monthly basis by Uganda for the corresponding month of Sponsorship.

Houses/Schools and Sustainability revenues relate to donations designated by the donors towards infrastructure projects in Uganda.

Mission Team Travel revenues relate to donations designated by the donors towards travel costs for various missions undertaken.

Pledges are not recognized until received. Gifts in kind are recorded at the estimated fair value of the gifts received.

Goods and services received at no cost to the Ministry are recorded in the financial statements where the fair market values of the corresponding goods and services can be reasonably determined.

(h) Financial instrument classification

Financial instruments	Classification	Subsequent measurement
Cash and cash equivalents	Held for trading	Fair value
Short term investments	Held for trading	Fair value
Receivables	Loans and receivables	Amortized cost using the effective interest method
Accounts payable and accrued liabilities	Other liabilities	Amortized cost using the effective interest method

WATOTO CANADA
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2022

2. Significant accounting policies, continued

(i) Foreign currency translation

Monetary assets and liabilities of the Ministry which are denominated in foreign currencies are translated at year end exchange rates. Other assets and liabilities are translated at rates in effect at the date the assets were acquired and liabilities incurred. Revenue and expenses are translated at the rates of exchange in effect at their transaction dates. The resulting gains or losses are included in operations.

(j) Use of estimates

The preparation of financial statements in conformity with Canadian accounting standards for not-for-profit organizations requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the balance sheet date and the reported amounts of revenues and expenses during the year. Actual results could differ from those estimates.

WATOTO CANADA
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2022

3. Due to (from) related parties and related party transactions

	2022	2021
Watoto Kampala	\$ (160)	\$ -
Kampala Pentecostal Church	(66,893)	(1,917)
	<u>\$ (67,053)</u>	<u>\$ (1,917)</u>

The balances due to (from) related parties are unsecured, non-interest bearing with no specific terms of repayment. The parties are related by way of common directors.

A significant portion of the Ministry's work takes place in Uganda and the Ministry funds operations via an agency agreement with Watoto Uganda, an entity related by way of common directors.

4. Property and equipment

	2022			2021	
	Cost	Accumulated amortization	Net Book Value		Net Book Value
Vehicles	\$ 346,725	\$ 296,381	\$ 50,344	\$	71,920
Furniture and fixtures	98,174	89,545	8,629		10,786
Choir equipment	159,636	136,008	23,628		29,535
Computer equipment	115,325	110,269	5,056		3,123
Computer software	515,574	448,608	66,966		-
Capital in progress	-	-	-		63,611
	\$ 1,235,434	\$ 1,080,811	\$ 154,623	\$	178,975

5. Designated Funds

Included in cash and cash equivalents are restricted cash equal to the designated funds balance at year end.

WATOTO CANADA
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2022

6. Uganda support

	<u>2022</u>	<u>2021</u>
General support	\$ 28,625	\$ 25,000
Donor advised funds sent	<u>81,943</u>	<u>47,057</u>
	<u>\$ 110,568</u>	<u>\$ 72,057</u>

7. Tour expenses

	<u>2022</u>	<u>2021</u>
Administration and office	\$ 42	\$ 86
Amortization	5,907	7,384
Bus	7,834	9,801
Equipment	<u>-</u>	<u>5,598</u>
	<u>\$ 13,783</u>	<u>\$ 22,869</u>

8. Commitment

The Ministry has committed to a new premise lease for its office premise in Burlington, Ontario. The new lease starts on May 1, 2021 and expires on April 30, 2024. Annual lease payments under the leases are as follows:

2023	\$ 40,000
2024	<u>13,333</u>
	<u>\$ 53,333</u>

WATOTO CANADA
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2022

9. Financial instruments

Transactions in financial instruments may result in an entity assuming or transferring to another party one or more of the financial risks described below. The required disclosures provide information that assists users of financial statements in assessing the extent of risk related to financial instruments.

(a) Fair value

The fair value of current financial assets and current financial liabilities approximates their carrying value due to their short-term maturity dates. The fair value of long-term financial liabilities approximates their carrying value based on the presumption that the Ministry is a going concern and thus expects to fully repay the outstanding amounts.

(b) Foreign exchange risk

The Ministry is potentially exposed to foreign exchange risk in United States dollars, Ugandan Shillings and Kenyan Shillings. Foreign exchange risk is the risk that the exchange rate that was in effect on the date that an obligation in a foreign currency was made to the Ministry by a customer, or that an obligation in a foreign currency was made to the Ministry to a supplier, is different at the time of settlement than it was at time that the obligation was determined. The Ministry reduces its exposure to foreign exchange risk by carefully monitoring exchange rates on obligations that are made to the Ministry. The Ministry does not utilize financial instruments to manage its foreign exchange risk. The Ministry maintains adequate foreign currency balances in its bank provided by its customers that discharged their obligations to the Ministry in the related currency, to discharge its related foreign currency obligations. In the opinion of management the foreign exchange risk exposure to the company is low and is not significant.

(c) Market risk

Market risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices, whether the factors are specific to the instrument or all instruments traded in the market. The value of investments held by the Ministry at December 31, 2022 is \$49,612 (\$2021 - \$85,972).

(d) Liquidity risk

The Ministry has limited exposure to liquidity risk in years where general donations are significantly lower than expected, potentially leading to the inability to meet accounts payable and accrued liabilities of \$46,537 (2021 - \$33,648). Liquidity risk is the risk that the Ministry cannot repay its obligations when they become due to its creditors. The Ministry reduces its exposure to liquidity risk by ensuring pledged funds are actually received before they are expensed, as well as keeping note of when authorized payments become due. In the opinion of management the liquidity risk is low and not significant.