

Report is not dated

FINANCIAL STATEMENTS OF

WATOTO CANADA

December 31, 2015



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Draft - June 23, 2016

INDEPENDENT AUDITOR'S REPORT

To the Directors of
Watoto Canada

We have audited the accompanying financial statements of Watoto Canada, which comprise the statement of financial position as at December 31, 2015, the statement of designated funds, and the statements of operations, changes in net assets and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian accounting standards for not-for-profit organizations, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Ministry's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Ministry's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

INDEPENDENT AUDITOR'S REPORT, continued

Basis for Qualified Opinion

Watoto Canada, in common with many charitable organizations, derives its revenue from donations, the completeness of which is not susceptible to satisfactory audit verification. Accordingly, our audit verification for donations revenue was limited to the amounts recorded in the records of the Ministry and we were not able to determine whether any adjustments might be necessary to donations revenue, excess of revenue over expenditures, and net assets.

Opinion

Except as noted in the above paragraph, in our opinion, the financial statements present fairly, in all material respects, the financial position of Watoto Canada as at December 31, 2015, and the results of its operations and its cash flows for the year then ended in accordance with Canadian accounting standards for not-for-profit organizations.

Langley, British Columbia

Chartered Professional Accountants

Draft - JUN 22, 2015

WATOTO CANADA
STATEMENT OF FINANCIAL POSITION
As at December 31, 2015

	2015	2014
ASSETS		
Current		
Cash and cash equivalents	\$ 1,052,387	\$ 753,960
Receivables	3,402	37,407
Inventory	37,174	20,138
Prepaid expenses	5,958	8,139
Due from related parties (Note 3)	15,760	11,876
	<u>1,114,681</u>	<u>831,520</u>
Property and equipment (Note 4)	156,091	137,675
	<u>\$ 1,270,772</u>	<u>\$ 969,195</u>
LIABILITIES		
Current		
Accounts payable and accrued liabilities	\$ 67,951	\$ 96,070
Sponsorship funds payable	333,226	339,482
	<u>401,177</u>	<u>435,552</u>
NET ASSETS		
Designated Funds	378,102	451,880
Unrestricted Balance	491,493	81,763
	<u>869,595</u>	<u>533,643</u>
	<u>\$ 1,270,772</u>	<u>\$ 969,195</u>

Draft - June 23, 2016

Approved by the board

_____ Director

_____ Director

See accompanying notes to the financial statements

WATOTO CANADA
STATEMENT OF DESIGNATED FUNDS
Year ended December 31, 2015

	Sponsorship	Houses/Schools and Sustainability	Mission Team Travel	Volunteer Travel Funds	2015	2014
DONATIONS						
Direct	\$ 3,923,872	\$ 346,575	\$ 138,482	\$ 37,084	\$ 4,446,013	\$ 4,434,431
	<u>3,923,872</u>	<u>346,575</u>	<u>138,482</u>	<u>37,084</u>	<u>4,446,013</u>	<u>4,434,431</u>
EXPENDITURES						
Orphan support	3,903,859				3,903,859	3,627,960
Building projects		455,187			455,187	391,551
Travel teams			128,481		128,481	318,992
Others				32,264	32,264	74,457
	<u>3,903,859</u>	<u>455,187</u>	<u>128,481</u>	<u>32,264</u>	<u>4,519,791</u>	<u>4,412,960</u>
Excess of revenue over expenditures (expenditures over revenue)	20,013	(108,612)	10,001	4,820	(73,778)	21,471
Reclassification					-	-
BALANCE, beginning of year	110,886	247,730	71,129	22,135	451,880	430,409
BALANCE, end of year	<u>\$130,899</u>	<u>\$139,118</u>	<u>\$81,130</u>	<u>\$26,955</u>	<u>\$378,102</u>	<u>\$451,880</u>

WATOTO CANADA
STATEMENT OF OPERATIONS
Year ended December 31, 2015

	<u>2015</u>	<u>2014</u>
REVENUES		
General donations	\$ 1,502,822	\$ 1,406,124
Interest and other income	824	6,931
Product sales	<u>289,595</u>	<u>302,347</u>
	<u>1,793,241</u>	<u>1,715,402</u>
OPERATIONS		
Uganda support (Note 5)	119,181	77,251
Tour expenses (Note 6)	356,730	466,647
Product cost of sales	<u>67,168</u>	<u>110,532</u>
	<u>543,079</u>	<u>654,430</u>
	<u>1,250,162</u>	<u>1,060,972</u>
ADMINISTRATIVE AND GENERAL EXPENSES		
Accounting and legal	17,808	20,981
Advertising and promotion	20,329	21,879
Amortization	61,178	32,164
Insurance	5,697	5,532
Interest and bank charges	76,866	84,999
Directors expenses	29,513	23,176
Board expenses	13,453	1,204
Fundraising expense	10	142
Office and administration	14,253	33,737
Postage and courier	22,512	37,089
Printing	26,668	28,334
Rent and utilities	77,935	92,644
Salaries and related benefits	462,153	537,333
Telephone	9,381	20,201
Travel	<u>2,776</u>	<u>7,311</u>
	<u>840,532</u>	<u>946,726</u>
EXCESS OF REVENUES OVER ADMINISTRATIVE AND GENERAL EXPENSES FROM OPERATIONS	409,630	114,246
OTHER INCOME		
Gain on sale of property and equipment	<u>100</u>	<u>4,892</u>
EXCESS OF REVENUES OVER ADMINISTRATIVE AND GENERAL EXPENSES	<u>\$ 409,730</u>	<u>\$ 119,138</u>

See accompanying notes to the financial statements

WATOTO CANADA
STATEMENT OF CHANGES IN NET ASSETS
Year ended December 31, 2015

	<u>2015</u>	<u>2014</u>
UNRESTRICTED BALANCE, beginning of year	\$ 81,763	\$ (37,375)
Excess of revenues over administrative and general expenses	<u>409,730</u>	<u>119,138</u>
UNRESTRICTED BALANCE, end of year	<u>\$ 491,493</u>	<u>\$ 81,763</u>

Draft - June 23, 2016

See accompanying notes to the financial statements

WATOTO CANADA
STATEMENT OF CASH FLOWS
Year ended December 31, 2015

	2015	2014
OPERATING ACTIVITIES		
Excess of revenues over administrative and general expenses	\$ 409,730	\$ 119,138
Items not affecting cash		
Amortization	78,272	50,259
Gain on sale of property and equipment	(100)	(4,892)
	<u>487,902</u>	<u>164,505</u>
Change in non-cash working capital items		
Receivables	34,005	(12,244)
Inventory	(17,036)	28,065
Prepaid expenses	2,181	49,719
Accounts payable and accrued liabilities	(28,120)	7,361
Sponsorship funds payable	(6,256)	52,627
	<u>472,676</u>	<u>290,033</u>
FINANCING ACTIVITIES		
Advances to related parties	(3,884)	786
Designated Funds	(73,778)	21,471
	<u>(77,662)</u>	<u>22,257</u>
INVESTING ACTIVITIES		
Purchase of property and equipment	(96,687)	(35,125)
Proceeds on disposal of property and equipment	100	8,492
	<u>(96,587)</u>	<u>(26,633)</u>
INCREASE IN CASH	298,427	285,657
CASH, beginning of year	753,960	468,303
CASH, end of year	\$ 1,052,387	\$ 753,960

See accompanying notes to the financial statements

WATOTO CANADA
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2015

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 enterprises.

(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) 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. 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

Amortization of leasehold improvements is recorded over the term of the lease.

In the year of acquisition one-half the annual rates are charged.

WATOTO CANADA
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2015

2. Significant accounting policies, continued

(d) 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.

(e) 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, only for the month the sponsorship funds relate to, as agreed to by both parties. As a result, a balance is retained in the Sponsorship fund at the end of each fiscal period for funds received from donors that relate to future fiscal years of sponsorship. These funds will be expensed on a monthly basis when they are sent to Uganda for the corresponding month of Sponsorship.

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.

(f) 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.

WATOTO CANADA
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2015

2. Significant accounting policies, continued

(g) 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.

3. Due to (from) related parties

The balances due to/from related parties are unsecured, non-interest bearing with no specific terms of repayment.

4. Property and equipment

	2015		2014	
	Cost	Accumulated amortization	Net Book Value	Net Book Value
Vehicles	\$ 39,767	\$ 32,060	\$ 7,707	\$ 11,010
Furniture and fixtures	88,382	60,720	27,662	28,426
Leasehold improvements	3,280	3,196	84	456
Choir equipment	130,183	58,347	71,836	82,009
Computer equipment	92,845	85,247	7,598	11,194
Computer software	229,428	188,224	41,204	4,580
	\$ 583,885	\$ 427,794	\$ 156,091	\$ 137,675

5. Uganda support

	2015	2014
General support	\$ 12,000	\$ 12,000
Donor advised funds sent	65,251	-
	\$ 77,251	\$ 12,000

WATOTO CANADA
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2015

6. Tour expenses

	2015	2014
Administration and office	\$ 33,370	\$ 42,283
Bus	44,459	98,994
Clothing	15,374	15,868
Equipment	5,359	5,515
Honoraria	7,050	12,712
Meals	6,450	14,257
Medical insurance	6,035	12,347
Travel and accommodation	132,586	91,113
Tour wages	75,826	125,634
Training	30,221	47,924
	<u>\$ 356,730</u>	<u>\$ 466,647</u>

7. Commitment

The Ministry is committed to a triple net lease for its office premises in Victoria, British Columbia and Oakville, Ontario. The Victoria lease expires on October 31, 2016 and the Oakville lease expires on February 28, 2019. Minimum lease payments under the lease are as follows:

2016	\$ 45,196
2017	25,159
2018	25,345
2019	4,224
	<u>\$ 99,924</u>

8. 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.

WATOTO CANADA
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2015

8. Financial instruments, continued

(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) 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 \$67,951 (2014 - \$96,070). 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.

9. Comparative figures

The financial statements have been reclassified, where applicable, to conform to the presentation used in the current year. The changes do not affect prior year earnings.

During the current year the Ministry reclassified sponsorship funds collected for future years and previously recorded as unearned revenue into sponsorship revenue in the statement of designated funds.