

Homer Watson House Foundation
Financial Statements
For the Year Ended December 31, 2022

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Financial Statements
For the Year Ended December 31, 2022**

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Independent Auditor's Report

To the board of directors of Homer Watson House Foundation

Opinion

We have audited the financial statements of Homer Watson House Foundation (the Entity), which comprise the statement of financial position as at December 31, 2022, the statements of operations, 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, the accompanying financial statements present fairly, in all material respects, the financial position of the Entity as at December 31, 2022, and its financial performance and cash flows for the year then ended in accordance with Canadian accounting standards for not-for-profit organizations.

Basis for Opinion

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 Entity 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 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 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.

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

Those charged with governance are responsible for overseeing the Entity'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 Entity'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 Entity'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 Entity 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.

Chartered Professional Accountants, Licensed Public Accountants

Waterloo, Ontario
June 27, 2023

Homer Watson House Foundation Statement of Financial Position

December 31	2022	2021
Assets		
Current		
Cash	\$ 576,195	\$ 431,534
Cash - Heritage Fund (Note 2)	91,829	21,029
Short-term investments (Note 3)	428,254	486,118
Accounts receivable	30,998	2,218
Prepaid expenses	897	1,104
Heritage Fund		
Investments - internally restricted (Note 2)	-	61,578
	1,128,173	1,003,581
Capital assets (Note 4)	12,458	8,774
Art Collection (Note 5)	100	100
	12,558	8,874
	\$ 1,140,731	\$ 1,012,455
Liabilities and Net Assets		
Current		
Accounts payable and accrued liabilities	\$ 175,065	\$ 67,084
Deferred contributions	4,464	-
	179,529	67,084
Net Assets		
Unrestricted funds		
General fund	266,778	221,901
Internally restricted funds		
Special Projects fund	177,786	177,786
HWHG Legacy fund	424,809	463,077
Heritage fund	91,829	82,607
	961,202	945,371
	\$ 1,140,731	\$ 1,012,455

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

Homer Watson House Foundation Statement of Changes in Net Assets

For the year ended December 31	General Fund <small>(Unrestricted - Note 1)</small>	Special Projects Fund <small>(Internally Restricted - Note 1)</small>	HWHG Legacy Fund <small>(Internally Restricted - Note 1)</small>	Heritage Fund <small>(Internally Restricted - Note 1)</small>	2022	2021
Balance, beginning of the year	\$ 221,901	\$ 177,786	\$ 463,077	\$ 82,607	\$ 945,371	\$ 628,484
Excess (deficiency) of revenues over expenses	44,877	-	(38,268)	9,222	15,831	316,887
Balance, end of the year	\$ 266,778	\$ 177,786	\$ 424,809	\$ 91,829	\$ 961,202	\$ 945,371

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

Homer Watson House Foundation Statement of Operations

For the year ended December 31	2022	2021
Revenue (Loss)		
Federal funding	\$ 18,941	\$ 62,874
Municipal funding	288,652	231,339
Provincial funding	100,900	93,120
Foundations	14,482	6,556
Registration and program fees	79,793	61,590
Fundraising and donations	24,582	41,082
Gain (loss) on sale of investments	(3,312)	134,539
Exhibitions	16,333	4,573
Other revenue	6,671	3,679
Investment income	13,911	13,486
Unrealized losses on investments	(46,816)	(53,758)
	514,137	599,080
Expenses		
Wages and benefits	409,915	293,875
Programming	21,347	24,244
Fundraising	7,550	477
Advertising and promotion	617	179
Operational	11,000	16,397
Facilities maintenance	22,310	16,226
Conservation and collections	33,028	34,225
Staff training	705	676
Exhibitions	13,881	2,483
Insurance	2,775	4,067
Professional fees	13,790	9,251
Miscellaneous	1,662	1,675
Amortization	2,584	1,058
Project expenses	87,042	-
	628,206	404,833
Excess (deficiency) of revenue over expenses before other revenue	(114,069)	194,247
Other revenue (loss)		
Canada Emergency Wage Subsidy	-	63,593
MAP assistance program	129,900	59,047
	129,900	122,640
Excess of revenue over expenses	\$ 15,831	\$ 316,887

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

Homer Watson House Foundation Statement of Cash Flows

For the year ended December 31	2022	2021
Cash provided by (used in)		
Cash flows from operating activities		
Excess of revenue over expenses	\$ 15,831	\$ 316,887
Items not affecting cash:		
Amortization of capital assets	2,584	1,058
Unrealized losses on short-term investments	46,816	53,758
Loss (gain) on disposal of investments	65,152	(134,539)
	130,383	237,164
Changes in non-cash working capital:		
Accounts receivable	(28,780)	52,715
Inventory	-	7,389
Prepaid expenses	207	996
Accounts payable and accrued liabilities	107,981	(38,028)
Deferred contributions	4,464	(5,723)
	214,255	254,513
Cash flows from investing activities		
Purchases of capital assets	(6,268)	(9,832)
Purchases of short-term investments	(29,237)	(618,557)
Proceeds on disposal of short-term investments	36,711	618,439
	1,206	(9,950)
Increase in cash during the year	215,461	244,563
Cash, beginning of the year	452,563	208,000
Cash, end of the year	\$ 668,024	\$ 452,563
Represented by:		
Cash	\$ 576,195	\$ 431,534
Cash - Heritage Fund	91,829	21,029
	\$ 668,024	\$ 452,563

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

Homer Watson House Foundation Notes to Financial Statements

December 31, 2022

1. Significant Accounting Policies

Nature and Purpose of Organization

The mission of the Homer Watson House Foundation is to preserve and celebrate the legacy of Homer Watson's creative spirit by stimulating the appreciation, enjoyment, and practice of the visual arts.

The City of Kitchener owns the property commonly known as the Homer Watson House & Gallery and the surrounding grounds commonly known as 1754 and 1762 Old Mill Road, Kitchener. The Province of Ontario has a heritage easement registered on title to the property. The Homer Watson House Foundation is an incorporated non-profit entity that manages the property and the activities at the Homer Watson House & Gallery in consultation with and subject to the approval of the Council of the City of Kitchener. The Foundation receives and is dependent upon funding from the City of Kitchener to assist in the management and maintenance of the facilities.

The Foundation is incorporated under the Ontario Corporations Act as a non-for-profit organization and is a registered charity under the Income Tax Act (Canada) and accordingly is exempt from income tax.

Basis of Accounting

The financial statements have been prepared using Canadian accounting standards for not-for-profit organizations.

Homer Watson House Foundation

Notes to Financial Statements

December 31, 2022

1. Significant Accounting Policies (continued)

Fund Accounting

To ensure observation of restrictions placed on the use of resources available to Homer Watson House Foundation, the accounts are maintained in accordance with the principles of fund accounting. The resources are classified for accounting and reporting purposes into the following funds which have been established according to their nature and purpose:

The unrestricted General fund, reports the assets, liabilities, revenues and expenses related to program delivery and administrative activities.

The internally restricted Special Projects fund, reports the assets, liabilities, revenues and expenses related to long-term projects. Contributions and disbursements from this fund are at the discretion of the Board of Directors. Revenues earned on the investments held by the fund are reported in this fund.

The unrestricted Museum Gallery fund reports the funds that are available to develop the collection at the Homer Watson House Foundation. Contributions and disbursements from this fund are at the discretion of the Board of Directors.

The internally restricted Homer Watson House & Gallery Legacy fund (HWHG Legacy fund) reports the assets, liabilities, revenues and expenses related to capital and other expenditures. Contributions and disbursements from this fund are at the discretion of the Board of Directors. Revenues earned on the investments held by the fund are reported in this fund.

The internally restricted Heritage fund, reports funds that were established under the Province of Ontario's Heritage Challenge Fund Community Program. Investment income earned on the resources of the fund is reported in this fund.

Revenue Recognition

The Foundation follows the restricted fund method of accounting for contributions whereby externally restricted contributions, including endowment contributions, are recognized upon receipt in the appropriate fund corresponding to the purpose for which they were contributed. Externally restricted contributions to the General fund are recognized as revenue when the related expenditure occurs. Unrestricted contributions are recognized in the General fund when received or receivable and collection is reasonable assured. Wage subsidy grants are recorded in the period in which the related expenditures are incurred.

Registration and program fees are recognized when the program takes place.

Homer Watson House Foundation

Notes to Financial Statements

December 31, 2022

1. Significant Accounting Policies (continued)

Financial Instruments

Arm's length financial instruments are recorded at fair value at initial recognition.

In subsequent periods, equities traded in an active market and derivatives are reported at fair value, with any change in fair value reported in income. All other financial instruments are reported at cost or amortized cost less impairment. Transaction costs on the acquisition, sale or issue of financial instruments are expensed for those items measured at fair value and charged to the financial instrument for those measured at amortized cost.

Financial assets are tested for impairment when indicators of impairment exist. When a significant change in the expected timing or amount of the future cash flows of the financial asset is identified, the carrying amount of the financial asset is reduced and the amount of the write-down is recognized in net income. A previously recognized impairment loss may be reversed to the extent of the improvement, provided it is not greater than the amount that would have been reported at the date of the reversal had the impairment not been recognized previously, and the amount of the reversal is recognized in net income.

Homer Watson House Foundation

Notes to Financial Statements

December 31, 2022

1. Significant Accounting Policies (continued)

Capital Assets

Purchased capital assets are stated at cost less accumulated amortization. Contributed capital assets are recorded at fair value at the date of contribution, unless fair value is not determinable in which case contributed tangible capital assets are recorded at nominal value at the date of contribution. Contributed tangible capital assets are subsequently amortized. Expenditures for repairs and maintenance are expensed as incurred. Betterments that extend the useful life of the capital asset are capitalized.

Amortization based on the estimated useful life of the asset is calculated as follows:

	Method	Rate
Equipment	Declining balance	20%
Office furniture	Declining balance	20%
Computer hardware	Declining balance	30%

Amortization expense is reported in the statement of operations.

When a capital asset no longer contributes to the Foundation's ability to provide goods and services, or the future economic benefits or service potential of the tangible capital asset is less than its carrying value, the excess of its net carrying amount over its fair value or replacement cost is recognized as an expense in the statement of operations. Any unamortized deferred contribution amount related to the capital asset is recognized in revenue in the statement of operations, provided that all restrictions have been complied with.

When a capital asset is disposed of, the difference between the net proceeds on disposition and the net carrying amount is recognized in the statement of operations. Any unamortized deferred contribution amount related to the capital asset disposed of is recognized in revenue in the statement of operations, provided that all restrictions have been complied with.

Contributed Services

Volunteers contribute many hours per year to assist the Foundation in carrying out its activities. Due to the difficulty of determining their fair value, contributed services are not recognized in the financial statements.

Homer Watson House Foundation Notes to Financial Statements

December 31, 2022

1. Significant Accounting Policies (continued)

Use of estimates	The preparation of these financial statements in conformity with Canadian accounting standards for not-for-profit organizations requires management to make estimates and assumptions that affect the reported amount of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the current period. These estimates are reviewed periodically and adjustments are made to income as appropriate in the year they become known. Estimates are made in the collectability of accounts receivables.
Foreign currency translation	Foreign currency transactions are translated at the rates of exchange in effect at the dates of the transaction. Resulting foreign currency denominated monetary assets and liabilities are translated at the rates of exchange in effect at the balance sheet date. Gains and losses on translation of monetary assets and liabilities are included in net income.

Homer Watson House Foundation Notes to Financial Statements

December 31, 2022

2. Investments

The internally restricted GIC held by the Heritage Fund matured in March 2022. Interest income allocated to the fund for the year amounted to \$9,222 (2021 - \$334). Upon maturity of the GIC, the proceeds were transferred to the general fund as instructed by the Board of Directors.

As at December 31, 2022, \$41,461 (2021 - \$46,816) was also held in an Endowment Fund with the Waterloo Region Community Foundation. The investments of this fund form part of the pool of investments of the Waterloo Community Foundation and the fund is entitled to a proportionate share of the investment income of the Waterloo Community Foundation as determined by their Board of Directors.

3. Short-term Investments

The carrying amounts of investments are comprised of the following:

	<u>2022</u>	<u>2021</u>
General Fund:		
Portfolio shares	\$ -	\$ 18,901
Mutual fund	<u>3,445</u>	<u>4,140</u>
	3,445	23,041
HWHG Legacy Fund:		
Mutual fund	362	-
Portfolio shares	<u>424,447</u>	<u>463,077</u>
	<u>\$ 428,254</u>	<u>\$ 486,118</u>

Homer Watson House Foundation Notes to Financial Statements

December 31, 2022

4. Capital Assets

	2022		2021	
	Cost	Accumulated Amortization	Cost	Accumulated Amortization
Equipment	\$ 5,871	\$ 801	\$ 1,190	\$ 119
Office furniture	7,238	2,008	7,133	713
Computer hardware	2,992	834	1,509	226
	16,101	3,643	9,832	1,058
Net book value		\$ 12,458		\$ 8,774

Amortization expense for the year is \$2,584 (2021 - \$1,058) and is presented as amortization expense on the statement of operations.

5. Art Collection

The Foundation holds a collection of art created by Homer Watson, Phoebe Watson and artists associated with the Doon School of Fine Arts that is held for exhibition and education. The collection is shown on the statement of financial position as an asset at a nominal value of \$100.

Acquisitions of works of art and related costs are shown as collection acquisitions on the statement of operations in the year of acquisition. Artwork donated to the collection is recorded as a donation and expenditure at fair value, only when fair value can be easily obtained. During the year \$2,190 (2021 - \$27,345) was recorded as a revenue in fundraising and donations and as an expense in conservation and collections for donated artwork.

6. Endowment Fund

The Homer Watson House and Gallery Arts Endowment Fund is established at the Ontario Arts Foundation. Under the terms of the agreement, the capital cannot be withdrawn and only the related income can be distributed to the Foundation.

The market value of the this fund at December 31, 2022 was \$88,829 (2021 - \$104,277). The distribution from the Endowment Fund during the year was \$4,857 (2021 - \$4,547). The book value is \$65,140 (2021 - \$65,140).

Homer Watson House Foundation

Notes to Financial Statements

December 31, 2022

7. Financial Instruments

Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. The Foundation is exposed to credit risk resulting from the possibility that a customer or counterparty to a financial instrument defaults on their financial obligations; if there is a concentration of transactions carried out with the same counterparty; or of financial obligations which have similar economic characteristics such that they could be similarly affected by changes in economic conditions. The Foundation's financial instruments that are exposed to concentrations of credit risk relate primarily to its accounts receivable. The majority of the Foundation's receivables are from government sources and the Foundation works to ensure it meets all eligibility criteria in order to qualify to receive the funding.

Liquidity risk

Liquidity risk is the risk that the Foundation will encounter difficulty in meeting its obligations associated with financial liabilities. Liquidity risk includes the risk that, as a result of operational liquidity requirements, the Foundation will not have sufficient funds to settle a transaction on the due date; will be forced to sell financial assets at a value, which is less than what they are worth; or may be unable to settle or recover a financial asset. The Foundation is exposed to this risk mainly in respect of its accounts payable and accrued liabilities.

The Foundation's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient cash flows to fund its operations and to meet its liabilities when due, under both normal and stressed conditions. The Foundation maintains a portion of its invested assets in liquid securities.

Market Risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk and other price risk. The Foundation is mainly exposed to currency risk, interest rate risk and other price risk.

Currency risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Foundation has certain portfolio investments held in US dollars.

Homer Watson House Foundation Notes to Financial Statements

December 31, 2022

7. Financial Instruments (continued)

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Foundation is exposed to interest rate risk on its fixed and floating interest rate financial instruments. Fixed-interest instruments subject the Foundation to a fair value risk while the floating rate instruments subject it to a cash flow risk.

The Foundation is exposed to changes in interest rates related to its investments in marketable securities. The Foundation's primary objective is to ensure the security of principal amounts invested and provide for a high degree of liquidity, while achieving a satisfactory return. Treasury risk management policies specify various investment parameters including eligible types of investment, maximum maturity dates, maximum exposure by counterparties and maximum credit ratings.

Other price risk

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market. The Foundation is exposed to other price risk through its investments in quoted shares.

The Foundation manages other price risk through asset allocation and maintaining a portfolio that is well diversified.

These risks remain unchanged from the prior year.
