

Horatio Alger Association of Canada

Financial Statements
December 31, 2018
(expressed in Canadian dollars)



Independent auditor's report

To the Directors of Horatio Alger Association of Canada

Our opinion

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Horatio Alger Association of Canada (the Association) as at December 31, 2018 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.

What we have audited

The Association's financial statements comprise:

- the statement of financial position as at December 31, 2018;
- the statement of operations and changes in fund balances for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies.

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

Independence

We are independent of the Association in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada. We have fulfilled our other ethical responsibilities in accordance with these requirements.

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.

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

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

PricewaterhouseCoopers LLP

Chartered Professional Accountants, Licensed Public Accountants

Toronto, Ontario
October 4, 2019

Horatio Alger Association of Canada

Statement of Financial Position

As at December 31, 2018

(expressed in Canadian dollars)

				2018	2017
	General Fund	Scholarship Fund	Endowment Fund	Total	Total
	\$	\$	\$	\$	\$
Assets					
Cash and cash equivalents	2,072,719	550,013	219,241	2,841,973	5,176,890
Investments (note 3)	-	-	3,542,239	3,542,239	-
Accounts receivable – net (note 4)	781,210	937,079	221,154	1,939,443	879,828
Prepaid assets	54,678	-	-	54,678	15,707
Due to/from related party	-	-	-	-	94,876
	<u>2,908,607</u>	<u>1,487,092</u>	<u>3,982,634</u>	<u>8,378,333</u>	<u>6,167,301</u>
Liabilities					
Accounts payable and accrued expenses	85,434	-	-	85,434	55,858
Scholarships payable (note 5)	-	903,225	-	903,225	886,401
Due to/from related party	793	-	-	793	-
	<u>86,227</u>	<u>903,225</u>	<u>-</u>	<u>989,452</u>	<u>942,259</u>
Fund Balances					
Unrestricted	2,822,380	-	-	2,822,380	914,795
Externally restricted (note 6)	-	583,867	3,982,634	4,566,501	4,310,247
	<u>2,822,380</u>	<u>583,867</u>	<u>3,982,634</u>	<u>7,388,881</u>	<u>5,225,042</u>
	<u>2,908,607</u>	<u>1,487,092</u>	<u>3,982,634</u>	<u>8,378,333</u>	<u>6,167,301</u>

Approved by the Board of Directors

V.P. Watson Director Terry Owens Director

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

Horatio Alger Association of Canada
Statement of Operations and Changes in Fund Balances
For the year ended December 31, 2018

(expressed in Canadian dollars)

				2018	2017
	General Fund \$	Scholarship Fund \$	Endowment Fund \$	Total \$	Total \$
Revenue					
Contributions	3,825,664	1,232,788	8,506	5,066,958	4,009,595
Grants received (note 8)	121,355	-	-	121,355	74,302
Investment income	-	-	(161,970)	(161,970)	-
	3,947,019	1,232,788	(153,464)	5,026,343	4,083,897
Expenses					
Educational programs	995,869	-	-	995,869	335,163
Member meetings	130,147	-	-	130,147	542,886
Fundraising events	615,831	-	-	615,831	415,053
Scholarships – net	-	823,070	-	823,070	946,962
Administration	297,587	-	-	297,587	223,825
	2,039,434	823,070	-	2,862,504	2,463,889
Excess (deficiency) of revenue over expenses for the year	1,907,585	409,718	(153,464)	2,163,839	1,620,008
Fund balances – Beginning of year	914,795	174,149	4,136,098	5,225,042	3,605,034
Fund balances – End of year	2,822,380	583,867	3,982,634	7,388,881	5,225,042

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

Horatio Alger Association of Canada

Statement of Cash Flows

For the year ended December 31, 2018

(expressed in Canadian dollars)

	2018 \$	2017 \$
Cash provided by (used in)		
Operating activities		
Excess of revenue over expenses for the year	2,163,839	1,620,008
Adjustment for		
Unrealized (gains) losses on investments	176,089	-
Net change in non-cash working capital	<u>(1,181,517)</u>	<u>(299,711)</u>
	<u>1,158,411</u>	<u>1,320,297</u>
Financing activities		
Cash from endowment contributions	<u>225,000</u>	<u>225,000</u>
Investing activities		
Acquisition of investments restricted for endowment purposes	<u>(3,718,328)</u>	-
Increase (decrease) in cash and cash equivalents during the year	<u>(2,334,917)</u>	<u>1,545,297</u>
Cash and cash equivalents – Beginning of year	<u>5,176,890</u>	<u>3,631,593</u>
Cash and cash equivalents – End of year	<u><u>2,841,973</u></u>	<u><u>5,176,890</u></u>

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

Horatio Alger Association of Canada

Notes to Financial Statements

December 31, 2018

(expressed in Canadian dollars)

1 Purpose of the Association

The Horatio Alger Association of Canada (the Association) is a not-for-profit organization established to induct as members contemporary role models whose experiences exemplify the opportunities for a successful life, to provide scholarship assistance to deserving young Canadians and to mentor scholarship recipients and educate youth about the limitless possibilities available to them. The Association is incorporated under the Canada Corporations Act as a not-for-profit organization and is a registered charity under the Income Tax Act (Canada).

2 Summary of significant accounting policies

These financial statements were prepared in accordance with Canadian accounting standards for not-for-profit organizations (ASNPO) and include the following significant accounting policies.

Fund accounting

The Association follows the restricted fund method of accounting for contributions.

The General Fund accounts for the organization's program delivery and administrative activities. This fund reports unrestricted resources and grants.

The Scholarship Fund reports only externally restricted resources that are to be used for scholarships to Canadian students in the program.

The Endowment Fund reports externally restricted resources to be maintained permanently and unrestricted dividend and interest income and gains and losses on investments, where the restricted resources are being held.

Cash and cash equivalents

The Association's policy is to present bank balances and term deposits with a maturity period of three months or less from the date of acquisition under cash and cash equivalents, except those held as part of the investment portfolio.

Investments

The Association initially measures its financial assets and financial liabilities at fair value. The Association subsequently measures its financial assets and financial liabilities at amortized cost with the exception of its equity investments, which are traded in an active market and measured at fair value. Changes in fair value are recognized in the statement of operations and changes in fund balances.

Financial assets measured at amortized cost include cash and accounts receivable.

Financial liabilities measured at amortized cost include accounts payable and scholarships payable.

Horatio Alger Association of Canada

Notes to Financial Statements

December 31, 2018

(expressed in Canadian dollars)

Financial assets measured at fair value include equity instruments held as part of the investment portfolio.

Transaction costs related to financial assets measured at fair value are expensed as incurred. Transaction costs related to other financial assets and financial liabilities are included or deducted in the initial measurement of the asset or liability.

Revenue recognition

Unrestricted contributions are recognized as revenue of the General Fund in the year received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured.

Restricted contributions in the Scholarship Fund are recognized as revenue in the year received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured.

Restricted contributions in the Endowment Fund are recognized as revenue in the year received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured. Investment income in the Endowment Fund includes dividend and interest income, realized investment gains and losses on sales of investments measured at amortized costs, and unrealized gains and losses on investments measured at fair value. Interest income is recognized on a time proportion basis, while dividend income is recognized on the declaration date. Gains on investments are recognized when they arise.

All restricted contributions have a corresponding restricted fund where revenue is recognized or will otherwise be recognized in the general fund under the deferral method.

Allocation of expenses

The costs of providing the Association's General Fund activities have been summarized on a program basis under the statement of operations and changes in fund balances. Expenses that can be identified with a specific program or supporting service are allocated directly. Certain operating costs have been allocated among the programs and supporting services benefited.

Scholarships

The Association records an expense and payable when a scholarship is awarded to a student and the likelihood of payment of the scholarship is considered probable. The Association records an estimate for forfeitures at the time the scholarship is awarded. Scholarships are expected to be paid in future periods greater than one year are discounted to present value based on expected future cash flows at an appropriate discount rate commensurate of the risks involved.

Horatio Alger Association of Canada

Notes to Financial Statements

December 31, 2018

(expressed in Canadian dollars)

3 Investments

	2018 \$	2017 \$
Restricted cash equivalents (Endowment Fund, investment only)	776,093	-
Quoted shares measured at fair value	2,766,146	-
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Investments	3,542,239	-
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4 Accounts receivable

The Association obtained \$5,058,187 in pledges for 2018, of which 66% were collected before the end of the year. The accounts receivable balance consists of the following as at December 31, 2018:

	2018			2017	
	Operating Fund \$	Scholarship Fund \$	Endowment Fund \$	Total \$	Total \$
Amounts due in					
Less than one year	752,734	835,315	125,000	1,713,049	465,997
One to five years	30,000	108,791	100,000	238,791	435,000
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Accounts receivable	782,734	944,106	225,000	1,951,840	900,997
Discounting of pledges due greater than one year	(1,524)	(7,027)	(3,846)	(12,397)	(21,169)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Accounts receivable – net	781,210	937,079	221,154	1,939,443	879,828
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Horatio Alger Association of Canada

Notes to Financial Statements

December 31, 2018

(expressed in Canadian dollars)

5 Scholarships

During the year ended December 31, 2018, the Association awarded \$868,647 (2017 – \$970,908) of scholarships with forfeitures of \$52,508 (2017 – \$20,000). As at December 31, 2018, \$903,225 (2017 – \$886,401) of scholarships, net of discount of \$18,244 (2017 – \$19,304) and net of forfeiture allowance of \$17,508 (2017 – \$nil) remained to be distributed. The discount used of 4% is based on a projected market interest rate. The expected future payments on the awarded scholarships as at December 31, 2018 are as follows:

	2018 \$	2017 \$
Payable in one year	576,248	524,906
Payable in two years	246,646	254,837
Payable in three years	116,083	125,962
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	938,977	905,705
Discounting of scholarships due greater than one year	(18,244)	(19,304)
Forfeiture allowance	(17,508)	-
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	903,225	886,401
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6 Externally restricted net assets

Major categories of externally imposed restrictions on net assets are as follows:

	2018 \$	2017 \$
Restricted for scholarships	583,867	174,149
Endowments – the income for which is restricted for scholarships	3,982,634	4,136,098
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	4,566,501	4,310,247
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7 Excellence Gala

During 2018, the Association organized its second Excellence Gala to raise funds for general operations. Contributions reported in the General Fund include revenue for this event of \$3,818,372.

Horatio Alger Association of Canada

Notes to Financial Statements

December 31, 2018

(expressed in Canadian dollars)

8 Fellow organizations

Horatio Alger Association of Distinguished Americans, Inc. (Horatio), a fellow not-for-profit organization operating in the United States of America and exempt from income taxes under Internal Revenue Service Code Section 501(c)(3), contributes services and revenue to the Association's programs. The two organizations are independent of each other, but share a management team and some common directors. In addition, the Association reimburses Horatio for direct expenses incurred on its behalf. The Association received approximately \$574,670 in contributions and services during the year ended December 31, 2018 and \$295,299 in 2017. The allocation is provided below:

	2018 \$	2017 \$
In-kind services	121,355	74,302
Contributions restricted for Scholarship Fund	453,315	220,997
Total support	<u>574,670</u>	<u>295,299</u>

9 Financial risk

The Association is exposed to various risks through its financial instruments.

Credit risk

The Association is exposed to credit risk with respect to accounts receivable.

Liquidity risk

Liquidity risk is the risk of being unable to meet cash requirements or to fund obligations as they come due. The Association is exposed to liquidity risk with respect to the financial liabilities recognized in the statement of financial position.

Currency risk

Currency risk is the risk the fair value or future cash flows of a financial instrument will fluctuate because of change in foreign exchange rates. As at December 31, 2018, a portion of cash and accounts receivable amounting to \$180,284 (2017 – \$108,833) and \$453,315 (2017 – \$220,997), respectively, are denominated in US dollars and translated into Canadian dollars in the financial statements.

In addition, as at December 31, 2018, \$884,975 (2017 – \$nil) in investments presented in Canadian dollars were held in US equities and denomination.

Other price risk

The Association is exposed to other price risk through its equity investments, for which the fair value fluctuates with the changes in the market prices.