

# **Horatio Alger Association of Canada**

Financial Statements

**December 31, 2021**

(expressed in Canadian dollars)



## Independent auditor's report

To the Directors of Horatio Alger Association of Canada

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### 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, 2021 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, 2021;
- 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 significant accounting policies and other explanatory information.

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### 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.

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### 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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"PwC" refers to PricewaterhouseCoopers LLP, an Ontario limited liability partnership.



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.

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### **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  
November 1, 2022

# Horatio Alger Association of Canada

## Statement of Financial Position

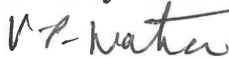
As at December 31, 2021

(expressed in Canadian dollars)

	2021			2020	
	General Fund \$	Scholarship Fund \$	Endowment Fund \$	Total \$	Total \$
<b>Assets</b>					
Cash and cash equivalents	1,915,359	1,389,123	250,650	3,555,132	2,382,060
Investments (note 3)	-	-	11,465,326	11,465,326	9,928,297
Accounts receivable – net (note 4)	464,104	531,401	-	995,505	1,425,756
Prepaid assets	45,500	-	-	45,500	37,122
Due from related party	-	-	-	-	16,205
	<u>2,424,963</u>	<u>1,920,524</u>	<u>11,715,976</u>	<u>16,061,463</u>	<u>13,789,440</u>
<b>Liabilities</b>					
Accounts payable and accrued expenses	11,629	-	-	11,629	86,148
Scholarships payable (note 5)	-	1,904,829	-	1,904,829	1,681,377
Due to related party	<u>378,843</u>	<u>-</u>	<u>-</u>	<u>378,843</u>	<u>68,518</u>
	<u>390,472</u>	<u>1,904,829</u>	<u>-</u>	<u>2,295,301</u>	<u>1,836,043</u>
<b>Fund Balances</b>					
Unrestricted	2,034,491	-	-	2,034,491	1,592,087
Externally restricted (note 6)	<u>-</u>	<u>15,695</u>	<u>11,715,976</u>	<u>11,731,671</u>	<u>10,361,310</u>
	<u>2,034,491</u>	<u>15,695</u>	<u>11,715,976</u>	<u>13,766,162</u>	<u>11,953,397</u>
	<u>2,424,963</u>	<u>1,920,524</u>	<u>11,715,976</u>	<u>16,061,463</u>	<u>13,789,440</u>

Subsequent events (note 11)

Approved by the Board of Directors



Director



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, 2021

(expressed in Canadian dollars)

	2021			2020	
	General Fund \$	Scholarship Fund \$	Endowment Fund \$	Total \$	Total \$
Revenue					
Contributions	1,854,318	1,117,531	3,846	2,975,695	3,295,347
Grants received (note 8)	184,007	-	-	184,007	327,128
Investment income	-	-	1,647,730	1,647,730	101,739
	2,038,325	1,117,531	1,651,576	4,807,432	3,724,214
Expenses					
Educational programs	327,717	-	-	327,717	117,003
Member meetings	83,761	-	-	83,761	79,157
Fundraising events	112,063	-	-	112,063	269,582
Scholarships – net	-	1,698,746	-	1,698,746	1,578,412
Administration	572,380	-	200,000	772,380	442,959
	1,095,921	1,698,746	200,000	2,994,667	2,547,113
Excess (deficiency) of revenue over expenses for the year	942,404	(581,215)	1,451,576	1,812,765	1,177,101
Fund balances – Beginning of year	1,592,087	96,910	10,264,400	11,953,397	10,776,296
Interfund transfers	(500,000)	500,000	-	-	-
Fund balances – End of year	2,034,491	15,695	11,715,976	13,766,162	11,953,397

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, 2021

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(expressed in Canadian dollars)

	2021 \$	2020 \$
<b>Cash provided by (used in)</b>		
<b>Operating activities</b>		
Excess of revenue over expenses for the year	1,812,765	1,177,101
Adjustment for		
Unrealized gains on investments	(1,647,730)	(38,061)
Income reinvested	-	(63,679)
Net change in non-cash working capital	897,336	(721,818)
	1,062,371	353,543
<b>Financing activities</b>		
Cash from endowment contributions	110,701	(104,664)
<b>Investing activities</b>		
Acquisition of investments restricted for endowment purposes	-	(2,200,000)
<b>Change in cash and cash equivalents during the year</b>	1,173,072	(1,951,121)
<b>Cash and cash equivalents – Beginning of year</b>	2,382,060	4,333,180
<b>Cash and cash equivalents – End of year</b>	3,555,132	2,382,060

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

# Horatio Alger Association of Canada

## Notes to Financial Statements

December 31, 2021

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(expressed in Canadian dollars)

### 1 Purpose of the Association

Horatio Alger Association of Canada (the Association) is a not-for-profit organization established to induct as life 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 Association's program delivery and administrative activities. This fund reports unrestricted resources and grants.

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

The Endowment Fund reports internally and 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, 2021

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(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 cost, 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 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 with the risks involved.

# Horatio Alger Association of Canada

## Notes to Financial Statements

December 31, 2021

(expressed in Canadian dollars)

### 3 Investments

	2021 \$	2020 \$
Restricted cash equivalents (Endowment Fund, investment only)	666,947	1,118,138
Quoted shares measured at fair value	10,798,379	8,810,159
	<u>11,465,326</u>	<u>9,928,297</u>

### 4 Accounts receivable

The Association obtained \$2,963,929 (2020 – \$3,185,899) in pledges for 2021, of which 74% (2020 – 54%) were collected before the end of the year. The accounts receivable balance consists of the following as at December 31, 2021:

	2021			2020
	Operating Fund \$	Scholarship Fund \$	Endowment Fund \$	Total \$
Amounts due in				
Less than one year	377,500	546,253	100,000	1,023,753
One to five years	100,000	16,636	100,000	216,636
	<u>477,500</u>	<u>562,889</u>	<u>200,000</u>	<u>1,240,389</u>
Discounting of pledges due greater than one year (include allowance for bad debt)	(13,396)	(31,488)	(200,000)	(244,884)
	<u>464,104</u>	<u>531,401</u>	<u>-</u>	<u>995,505</u>
				<u>1,425,756</u>

### 5 Scholarships

During the year ended December 31, 2021, the Association awarded \$1,743,750 (2020 – \$1,696,500) of scholarships with forfeitures of \$61,660 (2020 – \$113,409). As at December 31, 2021, \$2,006,097 (2020 – \$1,753,398) of scholarships, net of the discount of \$40,237 (2020 – \$40,643) and net of forfeiture allowance of \$61,031 (2020 – \$59,378), remained to be distributed. The discount rate of 4% used is based on a projected market interest rate. The expected future payments on the awarded scholarships as at December 31, 2021 are as follows:

	\$
2022	1,205,603
2023	544,997
2024	255,497
	<u>2,006,097</u>

# Horatio Alger Association of Canada

## Notes to Financial Statements

December 31, 2021

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(expressed in Canadian dollars)

### 6 Externally restricted net assets

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

	2021 \$	2020 \$
Restricted for scholarships	15,695	96,910
Endowments – the income which is restricted for scholarships	11,715,976	10,264,400
	<u>11,731,671</u>	<u>10,361,310</u>

### 7 Excellence Gala

During 2021, the Association did not host a Gala event.

### 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. As at December 31, 2021, the amount owed was \$378,843. The Association received approximately \$661,356 in contributions and services during the year ended December 31, 2021 and (2020 – \$864,519). The allocation is provided below:

	2021 \$	2020 \$
In-kind services	184,007	327,128
General contributions	96,116	130,620
Contributions restricted for Scholarship Fund	<u>381,233</u>	<u>406,771</u>
	<u>661,356</u>	<u>864,519</u>

### 9 Interfund transfers

During the year, the Association transferred \$500,000 from the General Fund to the Scholarship Fund to fund scholarship disbursements.

# Horatio Alger Association of Canada

## Notes to Financial Statements

December 31, 2021

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(expressed in Canadian dollars)

### 10 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 changes in foreign exchange rates. As at December 31, 2021, a portion of cash amounting to \$396,638 (2020 – \$406,260) are denominated in US dollars and translated into Canadian dollars in the financial statements.

In addition, as at December 31, 2021, \$4,709,677 (2020 – \$3,310,649) 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.

### 11 Subsequent events

Horatio Alger Association of Canada Foundation (the Foundation) was created on February 20, 2020 for the purpose of holding funds currently designated by Horatio Alger Association of Canada's board of directors as endowment funds, in addition to any future contributions so directed. The Association is the sole member of the Foundation. The Canadian Revenue Agency granted a charitable exempt status of the Foundation effective January 1, 2021. The Foundation will be consolidated with the Association for reporting purposes.

In March 2022, the Association's board of directors approved the transfer of the assets in the amount of \$11,172,743 from the Association's investment accounts previously collected by the Association for endowment fund purposes.