

Horatio Alger Association of Canada

Consolidated Financial Statements
December 31, 2022
(expressed in Canadian dollars)



Independent auditor's report

To the Directors of Horatio Alger Association of Canada

Our opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of Horatio Alger Association of Canada and its subsidiary (together, the Association) as at December 31, 2022 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 consolidated financial statements comprise:

- the consolidated statement of financial position as at December 31, 2022;
- the consolidated statement of operations and changes in fund balances for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include significant accounting policies and other explanatory information.

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 consolidated 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 consolidated 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 consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated 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 consolidated 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 consolidated 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 consolidated 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 consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Association to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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 6, 2023

Horatio Alger Association of Canada

Consolidated Statement of Financial Position

As at December 31, 2022

(expressed in Canadian dollars)

	2022			2021	
	General Fund \$	Scholarship Fund \$	Endowment Fund \$	Total \$	Total \$
Assets					
Cash and cash equivalents	5,474,593	1,576,950	-	7,051,543	3,555,132
Investments (note 3)	-	-	11,557,327	11,557,327	11,465,326
Accounts receivable – net (note 4)	1,084,077	-	-	1,084,077	995,505
Prepaid assets	50,226	-	-	50,226	45,500
Fixed assets – net	2,925	-	-	2,925	-
Due from related party	-	-	250,648	250,648	-
	6,611,821	1,576,950	11,807,975	19,996,746	16,061,463
Liabilities					
Accounts payable and accrued expenses	49,892	-	-	49,892	11,629
Scholarships payable (note 5)	-	1,357,431	-	1,357,431	1,904,829
Due to related party	636,492	-	-	636,492	378,843
	686,384	1,357,431	-	2,043,815	2,295,301
Fund Balances					
Unrestricted	5,925,437	-	-	5,925,437	2,034,491
Externally restricted (note 6)	-	219,519	11,807,975	12,027,494	11,731,671
	5,925,437	219,519	11,807,975	17,952,931	13,766,162
	6,611,821	1,576,950	11,807,975	19,996,746	16,061,463

Approved by the Board of Directors

V. P. Watsa

Director

Alan D. Doherty

Director

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

Horatio Alger Association of Canada

Consolidated Statement of Operations and Changes in Fund Balances

For the year ended December 31, 2022

(expressed in Canadian dollars)

	2022			2021
	General Fund \$	Scholarship Fund \$	Endowment Fund \$	Total \$
Revenue				
Contributions	7,614,068	808,401	-	8,422,469
Grants received (note 8)	-	-	-	184,007
Investment income	-	-	91,999	91,999
	7,614,068	808,401	91,999	8,514,468
Expenses				
Educational programs	786,585	-	-	786,585
Member meetings	867,215	-	-	867,215
Fundraising events	1,446,154	-	-	1,446,154
Scholarships – net	-	604,577	-	604,577
Administration	623,168	-	-	623,168
	3,723,122	604,577	-	4,327,699
Excess of revenue over expenses for the year	3,890,946	203,824	91,999	4,186,769
Fund balances – Beginning of year	2,034,491	15,695	11,715,976	13,766,162
Fund balances – End of year	5,925,437	219,519	11,807,975	17,952,931

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

Horatio Alger Association of Canada

Consolidated Statement of Cash Flows

For the year ended December 31, 2022

(expressed in Canadian dollars)

	2022 \$	2021 \$
Cash provided by (used in)		
Operating activities		
Excess of revenue over expenses for the year	4,186,769	1,812,765
Adjustment for		
Unrealized gains on investments	(91,999)	(1,647,730)
Net change in non-cash working capital	(598,359)	897,336
	3,496,411	1,062,371
Financing activities		
Cash from endowment contributions	-	110,701
Increase in cash and cash equivalents during the year	3,496,411	1,173,072
Cash and cash equivalents – Beginning of year	3,555,132	2,382,060
Cash and cash equivalents – End of year	7,051,543	3,555,132

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

Horatio Alger Association of Canada

Notes to Consolidated Financial Statements

December 31, 2022

(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).

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

On March 2, 2022, the Association's board of directors approved the transfer to the Foundation of assets in the amount of \$11,172,743 from the Association's investment accounts previously funded by the Association for the purpose of establishing an endowment. The transfer was completed on March 31, 2022. There was no activity and there were no net assets in the Foundation prior to March 31, 2022. No adjustments were necessary to align the accounting policies of the Foundation to those of the Association. Subsequent to the transfer, all amounts within the Foundation are consolidated with the Association for reporting purposes. The funds and income within the Foundation are subject to the same restrictions they had prior to the transfer, that is, for the purpose of scholarships.

2 Summary of significant accounting policies

These consolidated 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.

Horatio Alger Association of Canada

Notes to Consolidated Financial Statements

December 31, 2022

(expressed in Canadian dollars)

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 consolidated statement of operations and changes in fund balances.

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

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

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.

Horatio Alger Association of Canada

Notes to Consolidated Financial Statements

December 31, 2022

(expressed in Canadian dollars)

Allocation of expenses

The costs of providing the Association's General Fund activities have been summarized on a program basis under the consolidated 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.

3 Investments

	2022 \$	2021 \$
Restricted cash equivalents (Endowment Fund, investment only)	1,171,092	666,947
Quoted shares measured at fair value	10,386,235	10,798,379
Investments	11,557,327	11,465,326

4 Accounts receivable

The Association obtained \$8,419,257 (2021 – \$2,963,929) in pledges for 2022, of which 99% (2021 – 74%) were collected before the end of the year. The accounts receivable balance consists of the following as at December 31, 2022:

	2022			2021	
	Operating Fund \$	Scholarship Fund \$	Endowment Fund \$	Total \$	Total \$
Amounts due in					
Less than one year	1,065,750	-	-	1,065,750	885,688
One to five years	19,600	-	-	19,600	114,303
Accounts receivable	1,085,350	-	-	1,085,350	999,991
Discounting of pledges due greater than one year (include allowance for bad debt)	(1,273)	-	-	(1,273)	(4,486)
Accounts receivable – net	1,084,077	-	-	1,084,077	995,505

Horatio Alger Association of Canada

Notes to Consolidated Financial Statements

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5 Scholarships

During the year ended December 31, 2022, the Association awarded \$683,000 (2021 – \$1,743,750) of scholarships with forfeitures of \$93,011 (2021 – \$61,660). As at December 31, 2022, \$1,413,203 (2021 – \$2,006,097) of scholarships, net of the discount of \$14,792 (2021 – \$40,237) and net of forfeiture allowance of \$40,980 (2021 – \$61,031), remained to be distributed. The discount rate of 4.5% used is based on a projected market interest rate. The expected future payments on the awarded scholarships as at December 31, 2022 are as follows:

	\$
2023	1,085,574
2024	311,045
2025	16,583
	<hr/>
	1,413,202
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6 Externally restricted net assets

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

	2022 \$	2021 \$
Restricted for scholarships	219,519	15,695
Endowments – the income from which is restricted for scholarships	11,807,975	11,715,976
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	12,027,494	11,731,671
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7 Excellence Gala

During 2022, the Association organized an Excellence Gala event to raise funds for general operations. Contributions reported in the General Fund include revenue for this event of \$5,258,569.

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, 2022, the amount owed was \$385,843. The Association received approximately \$245,138 in contributions and services during the year ended December 31, 2022 and \$661,356 in 2021. The allocation is provided below:

Horatio Alger Association of Canada

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	2022 \$	2021 \$
In-kind services	-	184,007
General contributions	132,261	96,116
Excellence Gala contributions	112,877	-
Contributions restricted for Scholarship Fund	-	381,233
Total support	245,138	661,356

Friends of HAAC, Inc., 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 revenue to the Association's programs. The two organizations are independent of each other but share a management team. The Association received approximately \$843,655 in contributions during the year ended December 31, 2022. The allocation is provided below:

	2022 \$	2021 \$
In-kind services	-	-
General contributions	843,655	-
Contributions restricted for Scholarship Fund	-	-
Total support	843,655	-

9 Interfund transfers

During the year, the Association made no transfers between funds.

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 consolidated 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, 2022, a portion of cash amounting to \$937,189 (2021 – \$396,638) is denominated in US dollars and translated into Canadian dollars in the consolidated financial statements.

In addition, as at December 31, 2022, \$11,557,327 (2021 – \$4,709,677) in investments presented in Canadian dollars were held in US equities and denomination.

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(expressed in Canadian dollars)

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.