

Horatio Alger Association of Distinguished Americans, Inc. and Affiliate

Consolidated Financial Report
December 31, 2018

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Independent Auditor's Report

To the Board of Directors
Horatio Alger Association of Distinguished Americans, Inc.

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Horatio Alger Association of Distinguished Americans, Inc. and Affiliate (the Association), which comprise the consolidated statement of financial position as of December 31, 2018, the related consolidated statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the consolidated financial statements (collectively, the financial statements).

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation 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 auditing standards generally accepted in the United States of America. Those standards require that we 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 entity'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 entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant 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 audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Horatio Alger Association of Distinguished Americans, Inc. and Affiliate as of December 31, 2018, and the changes in their net assets and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As disclosed in Note 1 to the financial statements, the Association adopted the Financial Accounting Standards Board Accounting Standards Update 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. The adoption of this standard resulted in the statement of functional expenses, additional disclosures over liquidity and changes to the classification of net assets. Our opinion is not modified with respect to this matter.

Report on Summarized Comparative Information

We have previously audited the Association's 2017 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated August 29, 2018. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2017, is consistent in all material respects, with the audited financial statements from which it has been derived.

RSM US LLP

McLean, Virginia
September 17, 2019

Horatio Alger Association of Distinguished Americans, Inc. and Affiliate

**Consolidated Statement of Financial Position
December 31, 2018
(With Comparative Totals for 2017)**

	2018	2017
Assets		
Cash and cash equivalents	\$ 28,080,754	\$ 36,404,069
Prepaid expenses and other assets	808,503	1,711,075
Contributions receivable, net	25,216,137	23,766,000
Investments	220,895,190	215,555,650
Investments in deferred compensation assets	330,334	515
Furniture, equipment and leasehold improvements, net	519,939	52,020
Beneficial interest in perpetual trust	1,628,488	1,838,732
	<u>\$ 277,479,345</u>	<u>\$ 279,328,061</u>
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued expenses	\$ 1,120,951	\$ 495,514
Scholarships payable, net	28,615,143	25,664,192
Deferred compensation plan obligations	330,334	515
Deferred rent	94,444	92,826
Total liabilities	<u>30,160,872</u>	<u>26,253,047</u>
Commitments (Notes 9 and 11)		
Net assets:		
Without donor restrictions:		
Undesignated	10,574,848	11,812,763
Board-designated endowment assets	204,231,767	210,100,550
	<u>214,806,615</u>	<u>221,913,313</u>
With donor restrictions	32,511,858	31,161,701
	<u>247,318,473</u>	<u>253,075,014</u>
	<u>\$ 277,479,345</u>	<u>\$ 279,328,061</u>

See notes to consolidated financial statements.

Horatio Alger Association of Distinguished Americans, Inc. and Affiliate

Consolidated Statement of Activities Year Ended December 31, 2018 (With Comparative Totals for 2017)

	2018			2017 Total
	Without Donor Restrictions	With Donor Restrictions	Total	
Support and revenue:				
Contributions:				
Horatio Alger Membership Programs and Induction Ceremonies	\$ 9,778,826	\$ 2,643,233	\$ 12,422,059	\$ 12,701,485
Scholarships and other	4,590,178	11,051,470	15,641,648	7,182,812
Capital campaign	-	12,149,096	12,149,096	29,296,100
Giving clubs	-	1,328,886	1,328,886	2,111,598
Release of scholarship liability	-	-	-	1,368,099
Video and book sales and other revenue	53,847	-	53,847	117,072
Pledges rescinded	-	(982,908)	(982,908)	(552,887)
Net assets released from restrictions:				
Satisfaction of program restrictions:				
Scholarships and other	7,088,029	(7,088,029)	-	-
Induction ceremony	3,735,620	(3,735,620)	-	-
Capital campaign	1,067,568	(1,067,568)	-	-
Satisfaction of time restrictions:				
Capital campaign	11,543,659	(11,543,659)	-	-
Giving clubs	1,194,500	(1,194,500)	-	-
Total support and revenue	39,052,227	1,560,401	40,612,628	52,224,279
Expenses:				
Program services:				
Scholarship programs	15,021,707	-	15,021,707	16,737,064
Membership and induction programs	5,697,663	-	5,697,663	6,169,116
Member support and meetings	2,330,497	-	2,330,497	1,295,671
Alumni scholars programs	1,724,544	-	1,724,544	151,489
National Scholar's visibility	1,687,080	-	1,687,080	1,870,779
National Scholars' Conference	705,103	-	705,103	572,865
American Spirit Bridge	500,082	-	500,082	2,420,000
Educational media and publications	463,011	-	463,011	359,301
Scholar services and support	127,116	-	127,116	-
Research	115,048	-	115,048	-
Field directors meeting	84,510	-	84,510	71,101
State of Our Nation's Youth	-	-	-	75,574
Collegiate Partners Program	-	-	-	94,144
Total program services	28,456,361	-	28,456,361	29,817,104
Supporting services:				
Administration and general	1,248,450	-	1,248,450	1,041,757
Fundraising	555,519	-	555,519	604,494
Total supporting services	1,803,969	-	1,803,969	1,646,251
Total expenses	30,260,330	-	30,260,330	31,463,355
Change in net assets before other changes	8,791,897	1,560,401	10,352,298	20,760,924
Investment (loss) income, net	(15,898,595)	-	(15,898,595)	29,919,667
Change in value of beneficial interest in perpetual trust	-	(210,244)	(210,244)	164,345
Change in net assets	(7,106,698)	1,350,157	(5,756,541)	50,844,936
Net assets:				
Beginning	221,913,313	31,161,701	253,075,014	202,230,078
Ending	\$ 214,806,615	\$ 32,511,858	\$ 247,318,473	\$ 253,075,014

See notes to consolidated financial statements.

Horatio Alger Association of Distinguished Americans, Inc. and Affiliate

Consolidated Statement of Functional Expenses
 Year Ended December 31, 2018
 (With Comparative Totals for 2017)

	Program Services														Management and General	Fundraising	Total Supporting Services	2018 Total	2017 Total
	Scholarships	Membership and Induction	Member Support and Meetings	Alumni Scholars	National Scholars' Visibility	National Scholar Conference	American Spirit Bridge	Educational Media and Publications	Scholar Services and Support	Research	Field Directors	Total Program Services							
Scholarships and grants, net	\$ 13,507,575	\$ 10,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 15,400	\$ -	\$ -	\$ -	\$ 13,532,975	\$ -	\$ -	\$ -	\$ 13,532,975	\$ 14,957,927		
Production and audio visual	-	2,264,043	285,140	290,500	552,492	32,608	-	-	-	-	-	3,424,783	-	-	-	3,424,783	3,431,310		
Professional fees	387,406	290,433	239,389	202,504	170,883	46,588	82	215,200	54,525	79,444	7,500	1,693,954	418,782	24,000	442,782	2,136,736	1,711,119		
Salaries and taxes	310,321	302,521	219,648	47,634	-	50,699	-	89,976	21,310	18,803	35,795	1,096,707	276,191	284,640	560,831	1,657,538	1,569,084		
Meals	28,861	714,747	262,825	352,833	43	144,331	-	7,327	-	-	6,327	1,517,294	10,020	-	10,020	1,527,314	1,118,530		
Entertainment	-	370,291	386,515	160,570	363,702	1,175	-	-	-	-	-	1,282,253	3,868	-	3,868	1,286,121	1,318,690		
Public relations	101,180	98,816	64,889	48,529	519,089	1,640	-	25,500	356	-	-	859,999	70,580	-	70,580	930,579	732,546		
Hotel	13,965	239,894	175,272	279,596	4,979	205,690	-	8,207	-	-	-	927,603	2,139	-	2,139	929,742	665,284		
Benefits	152,586	148,751	108,002	23,422	-	24,929	-	44,242	10,478	9,246	17,601	539,257	135,584	139,959	275,543	814,800	843,160		
Travel and transportation	67,774	287,009	124,586	86,108	55,556	97,877	-	1,477	1,049	309	3,345	725,090	44,905	4,672	49,577	774,667	668,097		
Contribution expense	-	-	-	-	-	-	500,000	-	-	-	-	500,000	-	-	-	500,000	2,420,000		
Occupancy	74,166	139,729	67,585	34,259	-	9,823	-	17,432	4,129	3,643	6,935	357,701	53,509	55,147	108,656	466,357	396,314		
Special event administration	-	437,328	2,500	-	-	12,500	-	-	-	-	-	452,328	-	-	-	452,328	111,412		
Printing	20,884	77,214	118,690	18,259	1,978	5,520	-	51,921	-	-	-	294,466	36,327	780	37,107	331,573	243,583		
Website/technology	179,732	22,282	18,986	27,323	-	3,539	-	6,281	1,488	1,313	2,499	263,443	17,695	18,469	36,164	299,607	98,575		
Temporary help	21,640	138,624	56,042	30,646	10,900	4,539	-	3,840	909	802	1,528	269,470	12,795	12,148	24,943	294,413	103,828		
Miscellaneous	84,633	6,351	42,236	11,696	188	12,819	-	250	-	-	100	158,273	32,160	224	32,384	190,657	151,990		
Recognition items	895	32,258	40,361	44,896	-	15,980	-	-	-	-	-	134,390	29,390	-	29,390	163,780	176,589		
Postage and shipping	35,192	24,007	21,316	9,558	1,560	2,414	-	1,312	306	270	515	96,450	4,411	4,093	8,504	104,954	94,230		
Office expense	7,382	18,781	30,887	15,148	970	3,338	-	1,026	243	214	408	78,397	3,148	3,245	6,393	84,790	45,158		
Photography	450	44,222	12,635	463	6,781	-	-	-	-	-	-	77,186	-	-	-	77,186	41,984		
Insurance	-	-	2,250	2,250	-	-	-	-	-	-	-	4,500	62,451	-	62,451	66,951	27,165		
Equipment rental	-	-	28,332	23,423	-	-	-	-	-	-	-	51,755	3,194	-	3,194	54,949	3,303		
Depreciation and amortization	11,732	11,436	8,303	1,801	-	1,917	-	3,401	806	711	1,353	41,460	7,493	3,702	11,195	52,655	15,769		
Wardrobe allowance	-	2,128	905	-	-	19,574	-	-	-	-	-	22,607	150	-	150	22,757	28,346		
Telephone	5,284	3,803	3,368	736	184	630	-	1,063	252	222	469	16,011	3,264	3,364	6,628	22,639	27,994		
Multimedia material	4,664	11,741	1,611	180	-	192	-	340	81	71	135	19,015	1,044	1,076	2,120	21,135	71,771		
Dues and subscriptions	5,385	-	-	38	-	-	-	-	-	-	-	5,423	5,192	-	5,192	10,615	10,455		
Financial processing fees	-	-	-	-	-	-	-	-	-	-	-	-	8,245	-	8,245	-	-		
Educational programs and meetings	-	-	8,224	-	-	-	-	-	-	-	-	8,224	-	-	8,224	-	367,696		
Repairs and maintenance	-	1,254	-	-	-	-	-	-	-	-	-	1,254	5,387	-	6,641	9,190	-		
Public outreach	-	-	-	-	4,093	-	-	-	-	-	-	4,093	-	-	4,093	-	-		
Furniture and equipment rental	-	-	-	-	-	-	-	-	-	-	-	-	526	-	526	526	2,256		
	\$ 15,021,707	\$ 5,697,663	\$ 2,330,497	\$ 1,724,544	\$ 1,687,080	\$ 705,103	\$ 500,082	\$ 463,011	\$ 127,116	\$ 115,048	\$ 84,510	\$ 28,456,361	\$ 1,248,450	\$ 555,519	\$ 1,803,969	\$ 30,260,330	\$ 31,463,355		

See notes to consolidated financial statements.

Horatio Alger Association of Distinguished Americans, Inc. and Affiliate

Consolidated Statement of Cash Flows
Year Ended December 31, 2018
(With Comparative Totals for 2017)

	2018	2017
Cash flows from operating activities:		
Change in net assets	\$ (5,756,541)	\$ 50,844,936
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Unrealized and realized loss (gain) on investments, net	20,463,537	(27,199,451)
Pledges rescinded	982,908	552,887
Increase (decrease) in discount on contributions receivable	71,797	(301,928)
Depreciation and amortization	52,655	15,769
Forfeitures on scholarships payable	(1,507,111)	(3,010,831)
Decrease (increase) in allowance for scholarship forfeitures	218,895	(220,835)
Increase in discount on scholarships payable	(60,692)	(41,861)
Change in beneficial interest in perpetual trust	210,244	(164,345)
Change in deferred rent	1,618	10,087
Contributions restricted for long-term investment	-	(500,000)
Changes in assets and liabilities:		
Decrease (increase) in:		
Prepaid expenses and other assets	902,572	(524,426)
Contributions receivable	(2,504,842)	3,220,008
Increase in:		
Accounts payable and accrued expenses	625,437	33,351
Scholarships payable	4,299,859	6,080,072
Deferred compensation plan obligations	329,819	2,088,514
Net cash provided by operating activities	18,330,155	30,881,947
Cash flows from investing activities:		
Purchases of investments	(180,570,982)	(239,527,199)
Purchases of deferred compensation assets	(329,819)	-
Proceeds from sale of deferred compensation assets	-	(2,088,514)
Proceeds from sales and maturities of investments	154,767,905	198,384,259
Purchases of furniture, equipment and leasehold improvements	(520,574)	(39,595)
Net cash used in investing activities	(26,653,470)	(43,271,049)
Cash flows from financing activities:		
Contributions restricted for long-term investment	-	500,000
Net cash provided by financing activities	-	500,000
Net decrease in cash and cash equivalents	(8,323,315)	(11,889,102)
Cash and cash equivalents:		
Beginning	36,404,069	48,293,171
Ending	\$ 28,080,754	\$ 36,404,069

See notes to consolidated financial statements.

Horatio Alger Association of Distinguished Americans, Inc. and Affiliate

Notes to Consolidated Financial Statements

Note 1. Nature of Activities and Significant Accounting Policies

Nature of activities: Horatio Alger Association of Distinguished Americans, Inc. and Affiliate (the Association) consists of two entities: Horatio Alger Association of Distinguished Americans, Inc. (Horatio) and Horatio Alger Endowment Fund (the Fund).

Horatio is a nonprofit organization established to promote and advance the American tradition of success through scholarships for young Americans, educational programs, research, publications and events.

The Fund holds and manages the endowment funds previously held by Horatio and takes actions, as appropriate, to grow the funds of the endowment to support the educational and scholarship programs of Horatio.

The Association operates the following programs:

Other scholarship programs: These programs include the internship and placement program, the cost of scholar services, such as financial advising, the Alumni Advisory Council, the Scholarship Selection Committee and the members' forum meetings. The Association also offers grants to scholars pursuing graduate studies through the Dennis Washington Leadership Graduate Scholarship program. Expenses for this program are included in scholarship programs in the consolidated statement of activities.

Membership and induction programs: The Horatio Alger Award (the Award) is recognized as one of the nation's most prestigious honors. The Award is presented during the annual membership program and induction ceremonies held in Washington, D.C. each year during a multi-day program for members, Life Partners and Friends of Distinction, held in conjunction with the National Scholars' Conference. The programs focus on member achievements, interviews with new members, opportunities for member networking, mentoring of the National Scholars and educational programs regarding the future of the American Dream.

State Scholarship Program: Scholarships are awarded to provide financial assistance to students in particular states who have exhibited integrity and perseverance in overcoming personal adversity and who aspire to pursue higher education. The programs annually award scholarships ranging from \$2,500 to \$10,500 to deserving students, as well as provide educational and financial counseling towards obtaining a college degree. Expenses for this program are included in scholarship programs in the consolidated statement of activities.

National Scholars' Program: This program allows more than 100 students each year from high schools across the United States and Puerto Rico to receive Horatio Alger National Scholarships. These students, known as National Scholars, receive a \$25,000 scholarship to apply to a college of their choice. The Association's Horatio Alger National Scholarship award of \$25,000 is available to scholars for a four-year period during which the scholars may request a maximum of \$6,250 per year. Awards may be used only for tuition, fees, room, board, books and supplies. Horatio Alger National Scholarships are awarded on the basis of a student's overcoming adversity, critical financial need, personal potential and academic achievement, school and community, work history, character and promise of future contributions to society. Expenses for this program are included in scholarship programs in the consolidated statement of activities.

Horatio Alger Association of Distinguished Americans, Inc. and Affiliate

Notes to Consolidated Financial Statements

Note 1. Nature of Activities and Significant Accounting Policies (Continued)

Member support and meetings: The Association convenes the Lifetime Members and Life Partners to advance the mission, programs and services of the Association on a regular basis including, but not limited to, the Annual Board of Directors Meeting, Annual Awards Week in Washington and at specialized forums, such as the International Forum, alumni summits and regional convenings, such as the Association's concert series. These activities include ongoing communications with members, such as Forum; the biennial report, *Only in America*; and other online and printed materials that keep the members connected to the Association's mission and work.

Alumni scholars programs: As the scholarship programs have grown, the number of students considered alumni of the program, both those in undergraduate school and those who have graduated, has grown rapidly. The alumni programs include the Association's ongoing work with scholars as they pursue their undergraduate degrees; the alumnus of the year program that recognizes outstanding alumni each year; the semiannual newsletter, *Strive and Succeed*; an online message board for scholars to communicate; and the Scholars Alumni Summit meeting.

National Scholars' visibility: Through dedicated ambassadors and special events, the Association endeavors to establish connections with educational professionals (school principals, guidance counselors, teachers and other nonprofit organizations) for the purpose of identifying students best matching the Association's special criteria for its scholarship programs. These activities also serve as public service announcements highlighting the Association's maxim that success is available to those dedicated to the principles of integrity, hard work, perseverance and compassion for others.

National Scholars' Conference: This program allows recipients of the Horatio Alger National Scholarship to attend the annual four-day conference in Washington, D.C. The conference provides National Scholars the opportunity to meet with Association members to gain a better understanding of the American free enterprise system and to network with other exceptional students who are overcoming adversity. They also meet with congressional leaders to gain deeper insight into the operation of the federal government. The goal of the conference is to awaken the scholars to the possibilities that are available to them as American citizens and to encourage their participation and interest in building a strong future for our nation.

American Spirit Bridge Program: In 2017, the Association underwrote construction of the American Spirit Bridge at the National World War II Museum in New Orleans. Funded by individual member contributions, this sponsorship honors members who have served in the armed forces and loved ones who fought in World War II.

Educational materials: This program provides information about the Association's mission and programs through a variety of sources. Publications are printed for members, National Scholars, education partners, friends and the general public. The educational documents reinforce the message of Horatio Alger's original characters that success as an adult is within the reach of every young person with a dream and a commitment to hard work and integrity.

Scholar services and support: This program provides services and support to Horatio Alger Association scholars and alumni apart from scholarship assistance. This includes financial aid counseling, subsidizing tuition towards online education, networking with fellow scholar recipients and alumni, partnering with colleges and universities to maximize on-campus support for scholars enrolled and offering financial, legal and behavioral health resources.

Horatio Alger Association of Distinguished Americans, Inc. and Affiliate

Notes to Consolidated Financial Statements

Note 1. Nature of Activities and Significant Accounting Policies (Continued)

Research: The Association conducts research on U.S. scholars' views on education, life goals, family, relationships, the U.S. economy, news, media, technology, politics, spirituality and the transition from high school into college and careers. The Association's research also highlights the quantitative and qualitative characteristics of its scholarship recipients.

Field directors' meeting: The Association has volunteer field directors throughout the United States who serve as ambassadors to private, parochial and public schools in promoting the scholarships, programs and services of the Association. Most field directors are secondary or higher education professionals and some are alumni of the Association's scholarship programs. Field directors convene for training on occasion and communicate regularly with the headquarters staff.

State of Our Nation's Youth: Conducted every four years in collaboration with Peter Hart and Associates and New York University, this longstanding program and publication surveys the attitudes of 14 through 23-year-old American youth regarding education, politics and the issues shaping their lives. The report is released at a national press conference and distributed to media, education leaders and Association members.

Collegiate Partners Program: This program is a unique program under which private and public colleges and universities unite with the Association to form a consortium for the purpose of providing special financial assistance to National and State Scholars to reduce their educational costs. Collegiate partner institutions usually match the amount the scholar brings to the school and then offer aid through campus scholarships, grants and work-study programs. This program has grown rapidly to include over 280 institutions of higher learning.

Career/technical scholarships: This program provides scholarships to attend community colleges for training and certification in a range of career and technical fields leading to associate degrees or certification for students to enter careers. Students in these programs will also be given an opportunity to further advance their education in the future through scholarship assistance. Expenses for this program are included in scholarship programs in the consolidated statement of activities.

A summary of the Association's significant accounting policies follows:

Basis of accounting: The accompanying consolidated financial statements are presented in accordance with the accrual basis of accounting, whereby unconditional support is recognized when received, revenue is recognized when earned and expenses are recognized when incurred.

Principles of consolidation: The accompanying consolidated financial statements include the accounts of Horatio and the Fund. All significant intercompany accounts and transactions have been eliminated in consolidation.

Basis of presentation: The consolidated financial statement presentation follows the recommendations of the Financial Accounting Standards Board (FASB) Accounting Standards Codification (the Codification). As required by the Not-for-Profit topics of the Codification, Balance Sheet and Income Statement, the Association is required to report information regarding its financial position and activities according to two classes of net assets: without donor restrictions and with donor restrictions.

Horatio Alger Association of Distinguished Americans, Inc. and Affiliate

Notes to Consolidated Financial Statements

Note 1. Nature of Activities and Significant Accounting Policies (Continued)

Net assets, support and revenue, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Association are classified and reported as follows:

Without donor restrictions: Net assets that are not subject to donor-imposed stipulations. The Board of Directors has designated certain net assets without donor-imposed stipulations to be part of the board-designated quasi-endowment.

With donor restrictions: Net assets subject to donor-imposed stipulations that will be met either by actions of the Association and/or the passage of time. Net assets subject to donor-imposed stipulations that neither expire by the passage of time, nor can be fulfilled or otherwise removed by the actions of the Association are held in perpetuity. Generally, the donors of these assets permit the Association to use all or part of the income earned on related investments for general or specific purposes.

Unconditional contributions, without donor restrictions, are reported as increases of net assets without donor restrictions when received. Unconditional contributions with donor-imposed restrictions related to awards activities that are met in the same fiscal year they are received are included in net assets without donor restrictions support. Unconditional contributions for other programs with donor-imposed restrictions that are met in the same fiscal year they are received are included in net assets with donor restrictions. Expenses are reported as decreases in net assets without donor restrictions. Gains and losses on investments are reported as increases or decreases in net assets without donor restrictions unless their use is restricted by explicit donor stipulations or by law. Expirations of donor restrictions recognized on net assets are reported as reclassifications from net assets with donor restrictions to net assets without donor restrictions.

Measure of operations: The Association considers operations to include all changes in net assets, exclusive of investment income and changes in value of its beneficial interest in perpetual trust.

Cash and cash equivalents: The Association considers all highly-liquid investments purchased with an initial maturity of three months or less to be cash equivalents.

Financial risk: The Association maintains cash in bank deposit accounts which, at times, may exceed federally-insured limits. The Association has not experienced any losses in such accounts. The Association believes it is not exposed to any significant financial risk on cash.

The Association invests in a professionally managed portfolio that contains various securities that are exposed to risks, such as interest, market and credit. Due to the level of risk associated with such investments and the level of uncertainty related to changes in the value of such investments, it is at least reasonably possible that changes in risks in the near-term could materially affect investment balances and the amounts reported in the consolidated financial statements. The money market funds and cash held within the portfolio are presented with cash and cash equivalents.

Contributions: Unconditional contributions, which include unconditional promises to give, are recognized as support in the period received net of allowance for estimated uncollectible amounts and net of discount to present value for pledges expected to be received in future periods greater than one year. Unconditional contributions to be received after one year are discounted at an appropriate discount rate commensurate with the risks involved. Amortization of the discount is recorded as support and is used in accordance with donor-imposed restrictions, if any, on the contributions. Contributions of assets other than cash are recorded at their estimated fair value at the date of gift. Management determines the allowance for doubtful contributions receivable based on historical experience regarding collections. Contributions are written off when deemed uncollectible.

Horatio Alger Association of Distinguished Americans, Inc. and Affiliate

Notes to Consolidated Financial Statements

Note 1. Nature of Activities and Significant Accounting Policies (Continued)

Investments: Investments in corporate fixed income, partnership and hedge funds, equity mutual funds, common stock, government securities and money market funds are reported at fair value. Fair value is determined by using quoted market prices on marketable securities. The partnerships and hedge funds are reported at estimated fair values based on a practical expedient, the net asset value per share or equivalent, provided by the investment managers. The Association believes the carrying amount of these financial instruments is a reasonable estimate of fair value. Because these investments are not readily marketable, their estimated value is subject to additional uncertainty and, therefore, values realized upon disposition may vary significantly from currently reported values.

Investment (loss) income, recorded in the consolidated statement of activities, consists of unrealized and realized gains and losses and interest and dividends, net of fees.

Furniture, equipment and leasehold improvements: Furniture, equipment and leasehold improvements are stated at cost, less accumulated depreciation and amortization. Depreciation and amortization are computed on a straight-line basis over the shorter of the estimated useful lives or lease terms of the assets, which range from 2 to 10 years. The Association capitalizes all property and equipment purchased with a cost of \$1,000 or more.

Beneficial interest in perpetual trust: The Association recorded its beneficial interest in a perpetual trust as a contribution with donor restrictions to be held in perpetuity in the period in which it was notified of the irrevocable nature of the trust. The Association determines the fair value of its trust interest based on the fair value of the underlying assets within the trust. Changes in the value of the Association's interest are recorded in each subsequent period in the donor restricted change in net assets. Support received on this trust, which is paid annually, is classified as support without donor restrictions in the accompanying consolidated statement of activities. For the year ended December 31, 2018, the loss incurred on this trust was \$210,244.

Valuation of long-lived assets: Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of long-lived assets is measured by a comparison of the carrying amount of the asset to future undiscounted net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the estimated fair value of the assets. Assets to be disposed of are reportable at the lower of the carrying amount or fair value, less cost to sell.

Scholarships: The Association records an expense and payable when a scholarship is awarded to a student. 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.

Income tax: Horatio and the Fund have been recognized as exempt from federal income taxes by the Internal Revenue Service under Section 501(c)(3) of the Internal Revenue Code and each has been classified as an organization that is not-a-private foundation. Horatio and the Fund earn unrelated business income from parking and public transportation benefits provided to employees that results in de minimis unrelated business income tax.

Management evaluated the tax positions and concluded that Horatio and the Fund have taken no uncertain tax positions that require adjustment to the consolidated financial statements to comply with the provisions of this guidance.

Horatio Alger Association of Distinguished Americans, Inc. and Affiliate

Notes to Consolidated Financial Statements

Note 1. Nature of Activities and Significant Accounting Policies (Continued)

Functional allocation of expenses: The costs of providing the Association's programs and activities have been summarized on a functional basis in the consolidated statements of activities and functional expenses. Expenses that can be identified with a specific program or supporting service are directly charged. Certain other overhead costs, such as depreciation, occupancy and information technology, have been allocated among the programs and supporting services benefited based on personnel costs.

Use of estimates: The preparation of the consolidated financial statements requires management to make estimates and assumptions that affect the reporting of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements. The Association is also required to make estimates and assumptions that affect the reported amounts of support and revenue and expenses during the reporting period. Actual results could differ from those estimates.

Adopted accounting pronouncement: In August 2016, the FASB issued Accounting Standards Update (ASU) 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. The amendments in this ASU make improvements to the information provided in financial statements and accompanying notes of nonprofit entities. The amendments set forth the FASB's improvements to net asset classification requirements and the information presented about a nonprofit entity's liquidity, financial performance and cash flows.

Pending accounting pronouncements: In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. A lessee is required to record a right-of-use asset and a lease liability for all leases with a term of greater than 12 months. Leases with a term of 12 months or less will be accounted for similar to existing guidance for operating leases today. The ASU is expected to impact the Association's consolidated financial statements as the Association has certain operating lease arrangements for which it is the lessee. The standard is effective on January 1, 2020, with early adoption permitted.

In June 2018, the FASB issued ASU 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*, which provides additional guidance on characterizing grants and similar contracts with resource providers as either exchange transactions or contributions, as well as distinguishing between conditional contributions and unconditional contributions. The updated standard will be effective for resource recipients for annual reporting periods beginning after December 15, 2018, and resource providers one year later. Management is currently evaluating the effect on the consolidated financial statements.

Prior year information: The consolidated financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP). Accordingly, such information should be read in conjunction with the Association's consolidated financial statements for the year ended December 31, 2017, from which the summarized information was derived.

Reclassifications: Certain items have been reclassified to conform to current year presentation. These reclassifications had no impact on change in net assets or net assets.

Subsequent events: The Association evaluated subsequent events through September 17, 2019, which is the date the consolidated financial statements were available to be issued.

Horatio Alger Association of Distinguished Americans, Inc. and Affiliate

Notes to Consolidated Financial Statements

Note 2. Contributions Receivable

Contributions receivable represent the uncollected balance of unconditional promises to give. The majority of the Association's contributions are made by Board members, former Board members and members and represent giving club contributions, awards activities and scholarship funds/capital campaign contributions. The balance of contributions receivable, net of discount and allowance for uncollectible contributions consists of the following at December 31, 2018:

	Giving Clubs	Awards Activities	Scholarships/ Capital Campaign	Total
Amounts due in:				
Less than one year	\$ 1,070,000	\$ 1,664,000	\$ 8,273,031	\$ 11,007,031
One to five years	2,040,500	-	13,372,952	15,413,452
Greater than five years	-	-	353,000	353,000
Gross contributions receivable	3,110,500	1,664,000	21,998,983	26,773,483
Less unamortized discount on contributions receivable (4%)	(142,179)	-	(841,104)	(983,283)
Less allowance for uncollectible contributions	(62,210)	(33,280)	(478,573)	(574,063)
Contributions receivable, net	\$ 2,906,111	\$ 1,630,720	\$ 20,679,306	\$ 25,216,137

Note 3. Fair Value Measurements

The Association follows the Codification topic, Fair Value Measurement. The topic applies to all assets and liabilities that are being measured and reported on a fair value basis. The topic establishes a framework for measuring fair value in accordance with U.S. GAAP and expands disclosure about fair value measurements. The topic enables the reader of the consolidated financial statements to assess the inputs used to develop those measurements by establishing a hierarchy for ranking the quality and reliability of the information used to determine fair values. The topic requires that assets and liabilities carried at fair value will be classified and disclosed in one of the following three categories:

Level 1: Quoted market prices in active markets for identical assets or liabilities

Level 2: Observable market-based inputs or unobservable inputs corroborated by market data

Level 3: Unobservable inputs not corroborated by market data

In determining the appropriate levels, the Association performs a detailed analysis of the assets and liabilities that are subject to the topic. At each reporting period, all assets and liabilities for which the fair value measurement is based on significant unobservable inputs are classified as Level 3.

Horatio Alger Association of Distinguished Americans, Inc. and Affiliate

Notes to Consolidated Financial Statements

Note 3. Fair Value Measurements (Continued)

The table below presents the balances of assets measured at fair value on a recurring basis by level within the hierarchy:

	Level 1	Level 2	Level 3	Total
Assets:				
Equity mutual funds:				
Large blend	\$ 28,434,266	\$ -	\$ -	\$ 28,434,266
Diversified emerging markets	3,661,601	-	-	3,661,601
Total equity mutual funds	32,095,867	-	-	32,095,867
Government securities:				
U.S. Treasury securities	-	6,969,587	-	6,969,587
Total government securities	-	6,969,587	-	6,969,587
Corporate fixed income:				
Consumer cyclical	-	23,867,925	-	23,867,925
Technology	-	17,706,608	-	17,706,608
Industrial	-	15,399,326	-	15,399,326
Communication	-	15,160,029	-	15,160,029
Basic materials	-	5,909,467	-	5,909,467
Real estate	-	5,724,108	-	5,724,108
Healthcare	-	4,682,911	-	4,682,911
Financial	-	3,920,283	-	3,920,283
Consumer defensive	-	2,983,595	-	2,983,595
Foreign	-	1,878,623	-	1,878,623
Total corporate fixed income	-	97,232,875	-	97,232,875
Common stock:				
Financial	9,283,588	-	-	9,283,588
Healthcare	3,950,152	-	-	3,950,152
Consumer cyclical	3,530,624	-	-	3,530,624
Technology	3,498,292	-	-	3,498,292
Industrial	2,370,683	-	-	2,370,683
Energy	2,229,635	-	-	2,229,635
Utilities	1,345,934	-	-	1,345,934
Real estate	1,219,324	-	-	1,219,324
Consumer defensive	1,164,375	-	-	1,164,375
Basic materials	1,149,908	-	-	1,149,908
Services	850,786	-	-	850,786
Total common stock	30,593,301	-	-	30,593,301
Alternative investments valued using a net asset value per share or equivalent as a practical expedient (a)				
Total investments at fair value	62,689,168	104,202,462	-	220,895,190
Money market funds in cash and cash equivalents				
	5,481,606	-	-	5,481,606
Beneficial interest in perpetual trust				
Total assets at fair value	\$ 68,170,774	\$ 104,202,462	\$ 1,628,488	\$ 228,005,284

(a) In accordance with the Association's previous adoption of ASU 2015-07, certain investments that were measured at a net asset value per share (or its equivalent) have not been classified in the fair value hierarchy. The fair value amounts of those investments presented in this table are intended to permit reconciliation of the fair value hierarchy to the line item presented in the consolidated statement of financial position.

The equity mutual funds, government securities, common stock and money market funds are classified as Level 1 instruments as they are actively traded on public exchanges with identical assets.

Horatio Alger Association of Distinguished Americans, Inc. and Affiliate

Notes to Consolidated Financial Statements

Note 3. Fair Value Measurements (Continued)

The corporate fixed income securities are classified as Level 2 instruments as there are not quoted market prices in active markets for identical assets. Their value is determined using models and other valuation methodologies, which are corroborated by market data.

The beneficial interest in perpetual trust is classified as a Level 3 instrument as there is no market for the Association's interest in the trust. Further, the Association's asset is the right to receive cash flows from the trust, not the assets of the trust themselves. Although the trust assets may be investments for which quoted prices in an active market are available, the Association does not control those investments.

For assets and liabilities measured at fair value on a recurring basis using significant unobservable inputs (Level 3), the Codification requires reconciliation of the beginning and ending balances separately for each major category of assets and liabilities, except for derivative assets and liabilities, which may be presented net. The table below represents the reconciliation of the Association's assets measured at fair value on a recurring basis using significant unobservable inputs:

	<u>Beneficial Interest in Perpetual Trust</u>
Beginning balance of assets, January 1, 2018	\$ 1,838,732
Change in value of beneficial interest in perpetual trust	<u>(210,244)</u>
Ending balance of assets, December 31, 2018	<u><u>\$ 1,628,488</u></u>

For fair value measurements categorized within Level 3 of the fair value hierarchy, the Association is required to provide quantitative information about significant unobservable inputs used in the fair value measurement. The following table provides the required information for the Association:

Type	Fair Value at December 31, 2018	Valuation Technique	Unobservable Inputs	Range
Beneficial interest in trust	\$ 1,628,488	Percentage of assets held by custodian	Market activity	5%

Investment loss, net for the year ended December 31, 2018, consists of the following:

Unrealized and realized loss, net	\$ (20,463,537)
Interest and dividends	5,273,170
Investment fees	<u>(708,228)</u>
	<u><u>\$ (15,898,595)</u></u>

Horatio Alger Association of Distinguished Americans, Inc. and Affiliate

Notes to Consolidated Financial Statements

Note 3. Fair Value Measurements (Continued)

The following presents further information regarding the composition of the partnerships and hedge funds at December 31, 2018:

Strategy Category	Fair Value	Redemption Frequency	Redemption Notice Period
International (a)	\$ 26,312,839	See note (a) below	See note (a) below
Emerging markets (b)	11,782,043	See note (b) below	See note (b) below
Global equity – long-term growth (c)	10,778,124	See note (c) below	See note (c) below
Global equity – small/micro cap (d)	2,831,620	See note (d) below	See note (d) below
International long-term growth – mid/small cap (e)	2,207,540	See note (e) below	See note (e) below
Distressed (f)	48,553	See note (f) below	See note (f) below
Multi-strategy (g)	42,841	See note (g) below	See note (g) below
	<u>\$ 54,003,560</u>		

International: (a) This category includes a diversified portfolio of international equities to afford participants an opportunity to obtain long-term capital gains and income from a diversified portfolio of equity securities generally located in any country other than the United States. 100% of the investments in this category are liquid as the capital contributed to the fund is redeemable on the first business day of the month. The participant must notify the investment manager at least 10 business days before the withdrawal date.

Emerging markets: (b) This category includes a diversified portfolio of foreign commingled funds for the purpose of trading and investing in securities. This category employs a long-term strategy for all of its investments. 100% of the investments in this category are liquid as the capital contributed to the fund is redeemable on a monthly basis. Withdrawals can be made from the fund on the last day of each month. The participant must notify the investment manager in writing at least 30 days before the prior month-end to make a withdrawal request.

Global equity – long-term growth: (c) This category includes a diversified portfolio of global equity investments with the primary goal of achieving long-term growth. 100% of the investments in this category are liquid as the capital contributed to the fund is redeemable on a monthly basis. Participants must notify the investment manager at least six business days before the month-end to make a withdrawal request. Withdrawal legal documents must be returned to the investment manager and the custodial trustee at least four business days before the month-end.

Global equity – small/micro cap: (d) This category includes a diversified portfolio of global equities with a strong bias towards small and micro cap companies. Investments include companies based in the United States, developed foreign countries and emerging/frontier markets. 100% of the investments in this category are liquid as the capital contributed to the fund is redeemable on a monthly basis. Participants must notify the investment manager at least 30 business days before the month-end to make a withdrawal request.

Horatio Alger Association of Distinguished Americans, Inc. and Affiliate

Notes to Consolidated Financial Statements

Note 3. Fair Value Measurements (Continued)

International long-term growth – mid/small cap: (e) This category includes a diversified portfolio of international equities to afford participants an opportunity to obtain long-term capital gains and income from a diversified portfolio of mid and small capitalization equity securities generally located in any country other than the United States and Canada. 100% of the investments in this category are liquid as the capital contributed to the fund is redeemable on a monthly basis. The participant must notify the investment manager at least 10 business days before the month-end to make a withdrawal request. Withdrawal legal documents must be returned to the investment manager and the custodial trustee at least four business days before the month-end.

Distressed: (f) This category includes investments made into distressed or stressed companies. The manager can invest in any instrument across a company's capital structure, including equity, debt, bank loans, dips (debtor in possession) convertible bonds and more. The companies can be in various stages of stress or distress, including bankruptcy and post-bankruptcy reorganization. 100% of the investments in this category are considered illiquid, as the capital contributed to the partnership is not redeemable for a period of 10 years from the initial closing date of the fund, which was in March 2007. The Association expects to redeem the remaining funds during the year ending December 31, 2019.

Multi-strategy: (g) This category includes a combination of strategies. Managers have the flexibility to invest across all asset classes and to change their allocations to various strategies and instruments as they see fit. Instruments include equities, options, futures, bonds, loans, derivatives and others. In addition, the fund may pursue the value-oriented strategy through short-selling and investments in private or less liquid instruments. This fund is currently in liquidation.

The Association has no unfunded commitments to the funds described above.

Note 4. Furniture, Equipment and Leasehold Improvements

At December 31, 2018, furniture, equipment and leasehold improvements consist of the following:

Furniture and equipment	\$ 832,349
Leasehold improvements	338,180
	<u>1,170,529</u>
Less accumulated depreciation and amortization	650,590
	<u><u>\$ 519,939</u></u>

Depreciation and amortization expense for the year ended December 31, 2018, was \$52,655.

Horatio Alger Association of Distinguished Americans, Inc. and Affiliate

Notes to Consolidated Financial Statements

Note 5. Scholarships

During the year ended December 31, 2018, the Association awarded \$14,391,442 of scholarships, with forfeitures of \$1,507,111. The scholarships are recorded as State Scholarship Program, National Scholars' Program and other scholarship programs expenses in the accompanying consolidated statement of activities. At December 31, 2018, \$28,615,143 of scholarships, net of the allowance and discount of \$1,443,012 and \$609,713, respectively, remain to be disbursed. The expected future payments on the awarded scholarships at December 31, 2018, are as follows:

Years ending December 31:	
2019	\$ 18,366,253
2020	8,403,104
2021	3,898,511
	<u>\$ 30,667,868</u>

Note 6. Employee Benefit Plans

The Association has a tax deferred annuity plan available to all full-time employees. Participating employees may defer up to 50% of their gross salary and after one year of employee service, the Association will match the amount of deferral up to 10%. The amount of the expense incurred under this plan was \$93,704 for the year ended December 31, 2018.

The Association maintains a deferred compensation plan. Assets and obligations under this plan at December 31, 2018, were \$330,334. For the year ended December 31, 2018, the Association contributed \$329,819 under this plan. The assets are considered Level 1 instruments while the liabilities are considered Level 2.

Note 7. Donor Restricted Net Assets

Changes in donor restricted net assets during the year ended December 31, 2018, are as follows:

	December 31, 2017	Additions	Releases and Rescinded Pledges	December 31, 2018
Purpose and time restricted:				
Scholarships and other	\$ 8,357,619	\$ 11,051,470	\$ (7,675,937)	\$ 11,733,152
Horatio Alger Membership Programs and Induction Ceremonies	3,790,620	2,643,233	(3,790,620)	2,643,233
Time restricted:				
Giving clubs	3,699,175	1,328,886	(1,534,500)	3,493,561
Donor-restricted endowment	15,314,287	11,938,852	(12,611,227)	14,641,912
	<u>\$ 31,161,701</u>	<u>\$ 26,962,441</u>	<u>\$ (25,612,284)</u>	<u>\$ 32,511,858</u>

Note 8. Endowment

The Association follows the Codification Subtopic, Reporting Endowment Funds. The Codification addresses accounting issues related to guidelines in the Uniform Prudent Management of Institutional Funds Act of 2006.

Horatio Alger Association of Distinguished Americans, Inc. and Affiliate

Notes to Consolidated Financial Statements

Note 8. Endowment (Continued)

The Association has adopted investment and spending policies for endowments that attempt to provide a predictable stream of funding to programs while maintaining purchasing power. Annual investment income earned on the endowments held by the Association is to be used to fund educational programs and scholarships in current and future years.

Distributions of income earned on the perpetual trust are to be used by the Association to fund scholarships or promote other Association goals.

The Association may utilize up to 5% and additional amounts as determined by the Board of Directors of the endowment fund cash and investment balance to underwrite educational programs and scholarship expenses. The previous end of year endowment fund balance shall be the basis for determining the allowable withdrawal, and this process shall be incorporated into the Association's annual budget presentation to the Board of Directors. If any of the funds are not needed by the end of the fiscal year, they will remain in the endowment.

The Association considers all capital campaign contributions to be part of the Association's board-designated endowment. Capital campaign contributions received by the Association not fully collected when received are restricted due to time and are included in the donor restricted portion of the donor-restricted endowment. When the Association collects the cash related to these contributions, and therefore, satisfies the time restriction, the funds are released from the restriction. At that time, the funds are included in the board-designated endowment. Capital campaign contributions collected in full when received are restricted for purpose. These contributions are included in the restricted portion of the donor-restricted endowment and are released into the board-designated endowment. Donor restricted capital campaign contributions received during the year ended December 31, 2018, were \$12,149,096.

Transfers from donor restricted net assets relating to capital campaign contributions during the year ended December 31, 2018, were comprised of cash collections and write-offs totaling \$12,611,227.

The Association's endowment funds consist of the following at December 31, 2018:

	Without Donor Restrictions	With Donor Restrictions	Total
Donor-restricted endowment funds	\$ -	\$ 14,641,912	\$ 14,641,912
Board-designated endowment funds	204,231,767	-	204,231,767
	<u>\$ 204,231,767</u>	<u>\$ 14,641,912</u>	<u>\$ 218,873,679</u>

For the year ended December 31, 2018, the Association had the following endowment-related activities:

	Board- Designated Endowment	With Donor Restrictions	Total
Net assets, December 31, 2017	\$ 210,100,550	\$ 15,314,287	225,414,837
Contributions	-	12,149,096	12,149,096
Transfers from donor restricted net assets	12,611,227	(12,611,227)	-
Net investment loss	(16,005,114)	-	(16,005,114)
Change in value of beneficial interest in perpetual trust	-	(210,244)	(210,244)
Appropriation of endowment assets for expenditure	(2,474,896)	-	(2,474,896)
Net assets, December 31, 2018	<u>\$ 204,231,767</u>	<u>\$ 14,641,912</u>	<u>\$ 218,873,679</u>

Horatio Alger Association of Distinguished Americans, Inc. and Affiliate

Notes to Consolidated Financial Statements

Note 9. Leases

The Association has a lease for office and parking spaces that runs through April 2026. The lease is subject to annual escalations of 3%. Rent expense for the year ended December 31, 2018, was approximately \$240,000.

Future minimum lease payments for this operating lease at December 31, 2018, are due as follows:

Years ending December 31:	
2019	\$ 300,003
2020	304,478
2021	286,996
2022	295,614
2023	304,507
Thereafter	775,610
	<u>\$ 2,267,208</u>

Note 10. Related Party Transactions

The Association receives significant support in the form of contributions from Board members, which is reflected in the consolidated statement of activities.

Horatio Alger Association of Canada (HAA – Canada) is a charitable organization dedicated to the belief that hard work, honesty and determination can conquer all obstacles. The Board of Directors of HAA – Canada is comprised of six individuals, two of which are also on the Board of Directors of the Association. The Association has no financial interest in HAA – Canada and, thus, there is no consolidation. During the year ended December 31, 2018, the Association provided HAA – Canada approximately \$382,500 of contributions, of which approximately \$335,000 was unpaid at December 31, 2018, and is included within accounts payable and accrued expenses on the consolidated statement of financial position. During the year ended December 31, 2018, the Association additionally provided HAA – Canada approximately \$93,162 of donated services.

Note 11. Commitments

The Association has in place a signed employment agreement with its Executive Director, which includes a severance package to be paid if employment is terminated without cause. The employment agreement with the Executive Director of the Association also provides certain deferred compensation benefits.

The Association has entered into several agreements for meeting space for future meetings. In the event of cancellation, the Association is required to pay various costs as stipulated in the contracts, the amounts of which are dependent upon the date of cancellation. This amount is not accrued in the accompanying consolidated financial statements as management does not believe any losses will be incurred under these contracts.

Note 12. Liquidity and Financial Availability

The Association receives substantial donor restricted gifts to establish endowments that will exist in perpetuity and contributions with donor time and purpose restrictions. The income generated from donor-restricted endowments may be donor restricted or general as to use.

Horatio Alger Association of Distinguished Americans, Inc. and Affiliate

Notes to Consolidated Financial Statements

Note 12. Liquidity and Financial Availability (Continued)

Investment income without donor restrictions, earnings appropriated from endowments with donor restrictions and board-designated endowments (quasi-endowments), contributions without donor restrictions and contributions with donor restrictions for use in current activities and programs are considered to be available to meet cash needs for general expenditures. General expenditures include administrative and general expenses, fundraising expenses and grant commitments expected to be paid in the subsequent year. Annual operations are defined as activities occurring during and included in the budget for a fiscal year.

The Association manages its cash available to meet general expenditures following three guiding principles:

- Operating within a prudent range of financial soundness and stability.
- Maintaining a sufficient level of asset liquidity.
- Monitoring and maintaining reserves to provide reasonable assurance that long-term grant commitments and obligations related to endowments with donor restrictions and quasi-endowments will continue to be met.

The table below represents financial assets available for general expenditures within one year of December 31, 2018:

Cash and cash equivalents	\$ 28,080,754
Contributions receivable, net	25,216,137
Investments	220,895,190
Beneficial interest in perpetual trust	<u>1,628,488</u>
	275,820,569
Less:	
Board-designated net assets*	204,231,767
Donor restricted net assets	<u>32,511,858</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 39,076,944</u>

* The Board designated net assets can be used to meet general expenditures at the discretion of the Board of Directors.