

Horatio Alger Association of Distinguished Americans, Inc. and Affiliate

Consolidated Financial Report
December 31, 2019

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RSM US LLP

Independent Auditor's Report

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, 2019, 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, 2019, 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.

Report on Summarized Comparative Information

We have previously audited the Association's 2018 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated September 17, 2019. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2018, is consistent in all material respects, with the audited financial statements from which it has been derived.

RSM US LLP

McLean, Virginia
September 1, 2020

Horatio Alger Association of Distinguished Americans, Inc. and Affiliate

**Consolidated Statement of Financial Position
December 31, 2019
(With Comparative Totals for 2018)**

	2019	2018
Assets		
Cash and cash equivalents	\$ 52,018,669	\$ 28,080,754
Prepaid expenses and other assets	1,067,505	808,503
Contributions receivable, net	16,984,784	25,216,137
Other receivables	1,004,022	-
Investments	232,147,776	220,895,190
Investments in deferred compensation assets	861,142	330,334
Furniture, equipment and leasehold improvements, net	497,413	519,939
Beneficial interest in perpetual trust	1,881,371	1,628,488
	<u>\$ 306,462,682</u>	<u>\$ 277,479,345</u>
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued expenses	\$ 698,615	\$ 1,120,951
Scholarships payable, net	31,871,722	28,615,143
Deferred compensation plan obligations	861,142	330,334
Deferred rent	87,309	94,444
Total liabilities	<u>33,518,788</u>	<u>30,160,872</u>
Commitments (Notes 9, 11, and 13)		
Net assets:		
Without donor restrictions:		
Undesignated	2,528,935	10,574,848
Board-designated endowment assets	246,879,142	204,231,767
	<u>249,408,077</u>	<u>214,806,615</u>
With donor restrictions	23,535,817	32,511,858
	<u>272,943,894</u>	<u>247,318,473</u>
	<u>\$ 306,462,682</u>	<u>\$ 277,479,345</u>

See notes to consolidated financial statements.

Horatio Alger Association of Distinguished Americans, Inc. and Affiliate

Consolidated Statement of Activities Year Ended December 31, 2019 (With Comparative Totals for 2018)

	2019			2018 Total
	Without Donor Restrictions	With Donor Restrictions	Total	
Support and revenue:				
Contributions:				
Horatio Alger Membership Programs and Induction Ceremonies	\$ 8,570,555	\$ 1,427,768	\$ 9,998,323	\$ 12,422,059
Scholarships and other	2,652,431	4,686,167	7,338,598	14,658,740
Capital campaign	-	4,988,155	4,988,155	12,149,096
Giving clubs	-	2,625,387	2,625,387	1,328,886
Video and book sales and other revenue	60,910	-	60,910	53,847
Net assets released from restrictions:				
Satisfaction of program restrictions:				
Scholarships and other	6,019,995	(6,019,995)	-	-
Endowment appropriation	155,391	(155,391)	-	-
Induction ceremony	2,848,233	(2,848,233)	-	-
Satisfaction of time restrictions:				
Capital campaign	12,897,876	(12,897,876)	-	-
Giving clubs	1,470,000	(1,470,000)	-	-
Total support and revenue	34,675,391	(9,664,018)	25,011,373	40,612,628
Expenses:				
Program services:				
Scholarships	18,726,582	-	18,726,582	15,021,707
Membership and induction	5,769,411	-	5,769,411	5,697,663
National Scholars' Conference	2,049,631	-	2,049,631	705,103
Member support and meetings	1,938,587	-	1,938,587	2,330,497
National Scholar's visibility	1,625,918	-	1,625,918	1,687,080
Scholar services and support	623,761	-	623,761	127,116
Educational media and publications	358,520	-	358,520	463,011
Alumni scholars programs	166,030	-	166,030	1,724,544
Research	91,865	-	91,865	115,048
Field directors program	54,460	-	54,460	84,510
American Spirit Bridge	-	-	-	500,082
Total program services	31,404,765	-	31,404,765	28,456,361
Supporting services:				
Management and general	2,036,600	-	2,036,600	1,248,450
Fundraising	465,823	-	465,823	555,519
Total supporting services	2,502,423	-	2,502,423	1,803,969
Total expenses	33,907,188	-	33,907,188	30,260,330
Change in net assets before other changes	768,203	(9,664,018)	(8,895,815)	10,352,298
Investment income (loss) , net	33,833,259	435,094	34,268,353	(15,898,595)
Change in value of beneficial interest in perpetual trust	-	252,883	252,883	(210,244)
Change in net assets	34,601,462	(8,976,041)	25,625,421	(5,756,541)
Net assets:				
Beginning	214,806,615	32,511,858	247,318,473	253,075,014
Ending	\$ 249,408,077	\$ 23,535,817	\$ 272,943,894	\$ 247,318,473

See notes to consolidated financial statements.

Horatio Alger Association of Distinguished Americans, Inc. and Affiliate

Consolidated Statement of Functional Expenses
 Year Ended December 31, 2019
 (With Comparative Totals for 2018)

	Program Services														2019 Total	2018 Total
	Scholarships	Membership and Induction	National Scholars' Conference	Member Support and Meetings	National Scholars' Visibility	Scholar Services and Support	Educational Media and Publications	Alumni Scholars	Research	Field Directors	Total Program Services	Management and General	Fundraising	Total Supporting Services		
Scholarships and grants, net	\$ 17,278,819	\$ 35	\$ -	\$ -	\$ -	\$ 249,554	\$ -	\$ 2,092	\$ -	\$ -	\$ 17,530,500	\$ -	\$ -	\$ -	\$ 17,530,500	\$ 13,532,975
Production and audio visual	2,286	2,717,455	709,423	392,301	278,777	-	-	10,580	-	-	4,110,822	53,626	-	53,626	4,164,448	3,424,783
Professional fees	586,593	494,965	112,185	55,566	16,752	49,925	230,470	43,788	31,227	7,500	1,628,971	250,939	1,000	251,939	1,880,910	2,136,736
Entertainment	-	497,797	319,445	186,075	625,000	-	-	-	-	-	1,628,317	3,660	-	3,660	1,631,977	1,286,121
Salaries and taxes	158,621	235,918	49,392	244,274	-	142,207	33,724	39,394	21,040	22,532	947,102	418,124	236,351	654,475	1,601,577	1,657,538
Meals	11,980	612,218	379,900	187,534	-	7,403	-	7,769	-	151	1,206,955	42,957	-	42,957	1,249,912	1,527,314
Public relations	81,439	46,865	23,923	59,309	626,134	6,237	-	-	20,000	-	863,907	60,707	-	60,707	924,614	930,579
Benefits	81,528	121,258	25,387	125,552	-	73,092	17,333	20,248	10,814	11,581	486,793	214,868	121,480	336,348	823,141	814,800
Hotel	19,348	403,939	228,121	123,663	-	1,021	-	6,058	-	1,939	784,089	38,206	-	38,206	822,295	929,742
Travel and transportation	35,550	247,686	95,250	150,453	-	2,856	647	11,814	403	2,394	547,053	90,625	4,528	95,153	642,206	774,667
Website/technology	246,944	19,809	3,943	22,983	-	8,762	2,077	2,777	1,296	1,388	309,079	27,138	14,562	41,700	350,779	299,607
Occupancy and related costs	47,046	75,015	9,944	44,727	-	26,038	-	6,174	7,213	3,852	4,126	223,235	76,559	43,276	119,835	343,070
Printing	31,463	73,426	16,319	20,265	10,705	-	63,874	2,461	645	-	219,158	29,001	1,030	30,031	249,189	331,573
Special event administration	-	-	-	205,521	-	-	-	-	-	-	205,521	-	-	-	205,521	452,328
Bad debt	-	-	-	-	-	-	-	-	-	-	-	500,000	-	500,000	-	-
Photography	500	77,755	10,820	19,750	68,550	-	-	-	-	-	177,375	7,481	-	7,481	184,856	77,186
Temporary help	17,508	9,467	13,157	17,274	-	41,827	792	7,340	494	529	108,388	11,154	13,442	24,596	132,984	294,413
Postage and shipping	31,264	24,604	2,346	22,268	-	2,891	790	790	446	559	85,958	8,991	4,924	13,915	99,873	104,954
Miscellaneous	63,972	3,448	2,288	3,192	-	100	-	60	-	-	73,060	24,936	-	24,936	97,996	190,657
Insurance	-	33,743	-	2,186	-	-	-	-	-	-	35,929	57,708	-	57,708	93,637	66,951
Depreciation and amortization	8,003	11,920	2,499	12,348	-	7,196	1,705	1,994	1,067	1,137	47,869	16,660	5,672	22,332	70,201	52,655
Telephone	14,791	5,236	1,028	3,836	-	2,138	507	592	316	339	28,783	6,313	3,553	9,866	38,649	22,639
Dues and subscriptions	1,638	-	-	12,000	-	-	-	-	-	-	13,638	9,953	12,000	21,953	35,591	10,615
Wardrobe allowance	-	2,122	28,036	-	-	-	-	-	-	-	30,158	-	-	-	30,158	22,757
Multimedia material	42	14,844	13	14,984	-	36	9	10	5	6	29,949	108	61	169	30,118	21,135
Office expense	3,662	7,560	2,480	3,425	-	2,478	418	487	260	279	21,049	6,019	2,944	8,963	30,012	84,790
Financial processing fees	-	-	-	-	-	-	-	-	-	-	-	23,017	-	23,017	-	8,245
Recognition items	1,790	32,326	14,436	9,101	-	-	-	563	-	-	58,216	39,148	1,000	40,148	98,364	163,780
Equipment rental	325	-	1,096	-	-	-	-	-	-	-	1,421	9,523	-	9,523	10,944	54,949
Repairs and maintenance	-	-	-	-	-	-	-	-	-	-	-	7,584	-	7,584	6,641	-
Furniture and equipment rental	1,470	-	-	-	-	-	-	-	-	-	1,470	1,595	-	1,595	3,065	526
Contribution expense	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	500,000
Educational programs and meetings	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	8,224
Public outreach	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	4,093
	\$ 18,726,582	\$ 5,769,411	\$ 2,049,631	\$ 1,938,587	\$ 1,625,918	\$ 623,761	\$ 358,520	\$ 166,030	\$ 91,865	\$ 54,460	\$ 31,404,765	\$ 2,036,600	\$ 465,823	\$ 2,502,423	\$ 33,907,188	\$ 30,260,330

See notes to consolidated financial statements.

Horatio Alger Association of Distinguished Americans, Inc. and Affiliate

**Consolidated Statement of Cash Flows
Year Ended December 31, 2019
(With Comparative Totals for 2018)**

	2019	2018
Cash flows from operating activities:		
Change in net assets	\$ 25,625,421	\$ (5,756,541)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Unrealized and realized (gain) loss on investments, net	(27,682,925)	20,463,537
Change in discount on contributions receivable	(236,597)	71,797
Change in allowance on contributions receivable	413,663	68,747
Depreciation and amortization	70,201	52,655
Forfeitures on scholarships payable	(2,016,948)	(1,507,111)
Change in allowance for scholarship forfeitures	(371,699)	218,895
Change in discount on scholarships payable	90,870	(60,692)
Change in beneficial interest in perpetual trust	(252,883)	210,244
Change in deferred rent	(7,135)	1,618
(Increase) decrease in:		
Prepaid expenses and other assets	(259,002)	902,572
Contributions receivable	8,054,287	(1,590,681)
Other receivables	(1,004,022)	-
Increase (decrease) in:		
Accounts payable and accrued expenses	(422,336)	625,437
Scholarships payable	5,554,356	4,299,859
Deferred compensation plan obligations	530,808	329,819
Net cash provided by operating activities	8,086,059	18,330,155
Cash flows from investing activities:		
Purchases of investments	(407,218,021)	(180,570,982)
Purchases of deferred compensation assets	(530,808)	(329,819)
Proceeds from sales and maturities of investments	423,648,360	154,767,905
Purchases of furniture, equipment and leasehold improvements	(47,675)	(520,574)
Net cash provided by (used in) investing activities	15,851,856	(26,653,470)
Net increase (decrease) in cash and cash equivalents	23,937,915	(8,323,315)
Cash and cash equivalents:		
Beginning	28,080,754	36,404,069
Ending	\$ 52,018,669	\$ 28,080,754

See notes to consolidated financial statements.

Horatio Alger Association of Distinguished Americans, Inc. and Affiliate

Notes to the 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:

Scholarships: State 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.

The National Scholars' 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 involvement, 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.

Other scholarship 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.

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 scholarships in the consolidated statement of activities.

Membership and induction: 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 concurrently 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.

Horatio Alger Association of Distinguished Americans, Inc. and Affiliate

Notes to the Consolidated Financial Statements

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

The 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.

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.

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.

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.

Educational media and publications: 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.

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.

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.

Horatio Alger Association of Distinguished Americans, Inc. and Affiliate

Notes to the Consolidated Financial Statements

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

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.

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.

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.

Horatio Alger Association of Distinguished Americans, Inc. and Affiliate

Notes to the Consolidated Financial Statements

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

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.

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 the Consolidated Financial Statements

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

Investments: Investments in equity mutual funds, government securities, corporate fixed income, common stock, alternative investments, and money market funds are reported at fair value. Fair value is determined by using quoted market prices on marketable securities. The alternative investments 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 income (loss), 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.

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 had no net unrelated business income tax during the year ended December 31, 2019.

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 the 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 June 2018, the FASB issued Accounting Standards Update (ASU) 2018-08, Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made. This ASU clarifies the guidance for evaluating whether a transaction is reciprocal (i.e., an exchange transaction) or nonreciprocal (i.e., a contribution) and for distinguishing between conditional and unconditional contributions. The ASU also clarifies the guidance used by entities other than not-for-profits to identify and account for contributions made. The Association adopted the new standard as a resource recipient effective for the year ended December 31, 2019, using the modified prospective method.

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, 2022, with early adoption permitted.

ASU 2018-08 is required to be adopted by the Association as a resource provider during the year ending December 31, 2020.

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, 2018, from which the summarized information was derived.

Reclassification: Certain items in the December 31, 2018 financial statements have been reclassified to conform to the December 31, 2019 presentation. The reclassifications had no effect on the previously reported change in net assets or net assets.

Subsequent events: The Association evaluated subsequent events through September 1, 2020, which is the date the consolidated financial statements were available to be issued.

Horatio Alger Association of Distinguished Americans, Inc. and Affiliate

Notes to the 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, 2019:

	Giving Clubs	Awards Activities	Scholarships/ Capital Campaign	Total
Amounts due in:				
Less than one year	\$ 1,430,000	\$ 795,000	\$ 4,702,440	\$ 6,927,440
One to five years	2,850,500	-	8,276,360	11,126,860
Greater than five years	-	-	596,149	596,149
Gross contributions receivable	4,280,500	795,000	13,574,949	18,650,449
Less unamortized discount on contributions receivable (4%)	(158,366)	-	(588,320)	(746,686)
Less allowance for uncollectible contributions	(558,393)	(15,900)	(344,686)	(918,979)
Contributions receivable, net	<u>\$ 3,563,741</u>	<u>\$ 779,100</u>	<u>\$ 12,641,943</u>	<u>\$ 16,984,784</u>

At December 31, 2019, the Association had \$15,350,000 outstanding on conditional matching contributions.

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 the 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	\$ 69,710,081	\$ -	\$ -	\$ 69,710,081
Total equity mutual funds	69,710,081	-	-	69,710,081
Government securities:				
U.S. Treasury securities	-	19,950,687	-	19,950,687
Total government securities	-	19,950,687	-	19,950,687
Corporate fixed income:				
Consumer cyclical	-	36,475,574	-	36,475,574
Technology	-	30,153,755	-	30,153,755
Communication services	-	21,154,385	-	21,154,385
Consumer defensive	-	10,886,797	-	10,886,797
Industrial	-	9,917,014	-	9,917,014
Healthcare	-	9,868,319	-	9,868,319
Financial	-	6,708,037	-	6,708,037
Real estate	-	5,090,957	-	5,090,957
Basic materials	-	4,679,513	-	4,679,513
Energy	-	2,200,847	-	2,200,847
Foreign	-	1,076,646	-	1,076,646
Total corporate fixed income	-	138,211,844	-	138,211,844
Common stock:				
Financial	4,075,080	-	-	4,075,080
Healthcare	161,689	-	-	161,689
Total common stock	4,236,769	-	-	4,236,769
Alternative investments valued using a net asset value per share or equivalent as a practical expedient (a)				
Total investments at fair value	73,946,850	158,162,531	-	232,147,776
Money market funds in cash and cash equivalents				
	36,498,734	-	-	36,498,734
Beneficial interest in perpetual trust				
Total assets at fair value	-	-	1,881,371	1,881,371
	\$ 110,445,584	\$ 158,162,531	\$ 1,881,371	\$ 270,527,881

- (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 the Consolidated Financial Statements

Note 3. Fair Value Measurements (Continued)

The government securities and 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, 2019	\$ 1,628,488
Change in value of beneficial interest in perpetual trust	<u>252,883</u>
Ending balance of assets, December 31, 2019	<u><u>\$ 1,881,371</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, 2019	Valuation Technique	Unobservable Inputs	Range
Beneficial interest in trust	\$ 1,881,371	Percentage of assets held by custodian	Market activity	5%

Investment income, net for the year ended December 31, 2019, consists of the following:

Unrealized and realized gain, net	\$ 27,682,925
Interest and dividends	7,238,025
Investment fees	<u>(652,597)</u>
	<u><u>\$ 34,268,353</u></u>

The following presents further information regarding the composition of the alternative investments at December 31, 2019:

Strategy Category	Fair Value	Redemption Frequency	Redemption Notice Period
Distressed (a)	\$ 37,297	See note (a) below	See note (a) below
Multi-strategy (b)	<u>1,098</u>	See note (b) below	See note (b) below
	<u><u>\$ 38,395</u></u>		

Horatio Alger Association of Distinguished Americans, Inc. and Affiliate

Notes to the Consolidated Financial Statements

Note 3. Fair Value Measurements (Continued)

Distressed: (a) 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 were initially 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, 2020.

Multi-strategy: (b) 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, 2019, furniture, equipment and leasehold improvements consist of the following:

Furniture and equipment	\$ 869,434
Leasehold improvements	338,180
	<u>1,207,614</u>
Less accumulated depreciation and amortization	710,201
	<u>\$ 497,413</u>

Depreciation and amortization expense for the year ended December 31, 2019, was \$70,201.

Note 5. Scholarships

The expected future payments on the awarded scholarships at December 31, 2019, are as follows:

Years ending December 31:	
2020	\$ 20,607,709
2021	8,980,611
2022	4,616,956
	<u>34,205,276</u>
Less allowance	(1,814,711)
Less present value discounts	(518,843)
	<u>\$ 31,871,722</u>

Horatio Alger Association of Distinguished Americans, Inc. and Affiliate

Notes to the Consolidated Financial Statements

Note 6. Employee Benefit Plans

The Association has a retirement plan established under Section 403(b) of the Internal Revenue Code available to all full-time employees. After one year of employee service, employee deferrals are eligible for a matching contribution from the Association, up to 10%. The amount of the expense incurred under this plan was \$99,832 for the year ended December 31, 2019.

The Association maintains a deferred compensation plan. Assets and obligations under this plan at December 31, 2019, were \$861,142. For the year ended December 31, 2019, the Association contributed \$530,808 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, 2019, are as follows:

	December 31, 2018	Additions	Releases and Rescinded Pledges	December 31, 2019
Purpose and time restricted:				
Scholarships and other	\$ 11,733,152	\$ 4,686,167	\$ (6,019,995)	\$ 10,399,324
Horatio Alger Membership Programs and Induction Ceremonies	2,643,233	1,427,768	(2,848,233)	1,222,768
Time restricted:				
Giving clubs	3,493,561	2,625,387	(1,470,000)	4,648,948
Beneficial interest in trust	1,628,488	252,883	-	1,881,371
Donor-restricted endowment	13,013,424	5,423,249	(13,053,267)	5,383,406
	<u>\$ 32,511,858</u>	<u>\$ 14,415,454</u>	<u>\$ (23,391,495)</u>	<u>\$ 23,535,817</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.

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.

The Association may utilize up to 4% 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 is the basis for determining the allowable withdrawal, and this process is 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.

Horatio Alger Association of Distinguished Americans, Inc. and Affiliate

Notes to the Consolidated Financial Statements

Note 8. Endowment (Continued)

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, 2019, were \$4,988,155.

Transfers from donor restricted net assets relating to capital campaign contributions during the year ended December 31, 2019, were comprised of cash collections and write-offs totaling \$12,897,876.

The Association's endowment funds consist of the following at December 31, 2019:

	Without Donor Restrictions	With Donor Restrictions	Total
Donor-restricted endowment funds	\$ -	\$ 5,383,406	\$ 5,383,406
Board-designated endowment funds	246,879,142	-	246,879,142
	<u>\$ 246,879,142</u>	<u>\$ 5,383,406</u>	<u>\$ 252,262,548</u>

For the year ended December 31, 2019, the Association had the following endowment-related activities:

	Board- Designated Endowment	With Donor Restrictions	Total
Net assets, December 31, 2018	\$ 204,231,767	\$ 13,013,424	\$ 217,245,191
Contributions	-	4,988,155	4,988,155
Transfers from donor restricted net assets	12,897,876	(12,897,876)	-
Net investment gain	31,894,192	435,094	32,329,286
Appropriation of endowment assets for expenditure	(2,144,693)	(155,391)	(2,300,084)
Net assets, December 31, 2019	<u>\$ 246,879,142</u>	<u>\$ 5,383,406</u>	<u>\$ 252,262,548</u>

Horatio Alger Association of Distinguished Americans, Inc. and Affiliate

Notes to the 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 and related costs for the year ended December 31, 2019, was approximately \$343,000.

Future minimum lease payments for this operating lease at December 31, 2019, are due as follows:

Years ending December 31:		
2020	\$	305,916
2021		288,481
2022		297,147
2023		304,507
2024		313,662
Thereafter		461,948
	\$	<u>1,971,661</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, 2019, the Association paid certain expenses on behalf of HAA – Canada. At December 31, 2019, approximately \$1,004,022 was owed to the Association and is included within other receivables on the consolidated statement of financial position. During the year ended December 31, 2019, the Association additionally provided HAA – Canada approximately \$259,000 of donated services and \$554,000 of unconditional contributions.

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 the 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, 2019:

Cash and cash equivalents	\$ 52,018,669
Contributions receivable, net	16,984,784
Investments	232,147,776
Beneficial interest in perpetual trust	<u>1,881,371</u>
	303,032,600
Less:	
Board-designated net assets*	246,879,142
Donor restricted net assets	<u>23,535,817</u>
Financial assets available to meet cash needs for general expenditures within one year	<u><u>\$ 32,617,641</u></u>

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

Note 13. Subsequent Event

On January 30, 2020, the World Health Organization declared the coronavirus outbreak a "Public Health Emergency of International Concern" and on March 11, 2020, declared it to be a pandemic. Actions taken around the world to help mitigate the spread of the coronavirus include restrictions on travel, and quarantines in certain areas, and forced closures for certain types of public places and businesses. The coronavirus and actions taken to mitigate it have had and are expected to continue to have an adverse impact on the economies and financial markets of many countries, including the geographical area in which the Association operates. Management is continually monitoring, in consultation with its Board of Directors, the potential impact of the pandemic on the Association will adjust planned expenditures as the Board deems appropriate.