

# **Horatio Alger Association of Distinguished Americans, Inc. and Affiliates**

Consolidated Financial Report  
December 31, 2020

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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 Affiliates (the Association), which comprise the consolidated statement of financial position as of December 31, 2020, 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 Affiliates as of December 31, 2020, 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 2019 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated September 1, 2020. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2019, is consistent in all material respects, with the audited financial statements from which it has been derived.

*RSM US LLP*

McLean, Virginia  
September 9, 2021

Horatio Alger Association of Distinguished Americans, Inc. and Affiliates

Consolidated Statement of Financial Position  
December 31, 2020  
(With Comparative Totals for 2019)

	2020	2019
<b>Assets</b>		
Cash and cash equivalents	\$ 52,104,645	52,018,669
Prepaid expenses and other assets	1,392,860	1,067,505
Contributions receivable, net	15,217,406	16,984,784
Other receivables	62,393	1,004,022
Investments	259,988,368	232,147,776
Investments in deferred compensation assets	1,392,160	861,142
Furniture, equipment and leasehold improvements, net	457,465	497,413
Beneficial interest in perpetual trust	2,078,351	1,881,371
	<u>\$ 332,693,648</u>	<u>\$ 306,462,682</u>
<b>Liabilities and Net Assets</b>		
Liabilities:		
Accounts payable and accrued expenses	\$ 1,243,113	\$ 698,615
Scholarships payable, net	31,226,296	31,871,722
Deferred compensation plan obligations	1,392,160	861,142
Deferred rent	96,431	87,309
<b>Total liabilities</b>	<u>33,958,000</u>	<u>33,518,788</u>
Commitments and contingencies (Notes 9 and 11)		
Net assets:		
Without donor restrictions:		
Undesignated	11,160,640	2,528,935
Board-designated endowment assets	265,306,351	246,879,142
	<u>276,466,991</u>	<u>249,408,077</u>
With donor restrictions	22,268,657	23,535,817
	<u>298,735,648</u>	<u>272,943,894</u>
	<u>\$ 332,693,648</u>	<u>\$ 306,462,682</u>

See notes to consolidated financial statements.

## Horatio Alger Association of Distinguished Americans, Inc. and Affiliates

### Consolidated Statement of Activities Year Ended December 31, 2020 (With Comparative Totals for 2019)

	2020			2019 Total
	Without Donor Restrictions	With Donor Restrictions	Total	
Support and revenue:				
Contributions:				
Horatio Alger Membership Programs and Induction Ceremonies	\$ 297,100	\$ 857,900	\$ 1,155,000	\$ 9,998,323
Scholarships and other	2,401,008	3,835,495	6,236,503	7,338,598
Capital campaign	-	4,940,305	4,940,305	4,988,155
Giving clubs	-	4,642,234	4,642,234	2,625,387
Video and book sales and other revenue	28,995	-	28,995	60,910
Loss on rescinded promises to give	-	(3,367,119)	(3,367,119)	-
Satisfaction of program restrictions:				
Scholarships	5,642,710	(5,642,710)	-	-
Endowment appropriation	155,391	(155,391)	-	-
Induction ceremony	1,244,000	(1,244,000)	-	-
Satisfaction of time restrictions:				
Capital campaign	3,045,731	(3,045,731)	-	-
Giving clubs	2,720,218	(2,720,218)	-	-
<b>Total support and revenue</b>	<b>15,535,153</b>	<b>(1,899,235)</b>	<b>13,635,918</b>	<b>25,011,373</b>
Expenses:				
Program services:				
Scholarships	12,495,173	-	12,495,173	18,726,582
Membership and induction	3,351,027	-	3,351,027	5,769,411
Member support and meetings	1,156,156	-	1,156,156	1,938,587
National Scholars' Conference	791,532	-	791,532	2,049,631
Scholar services and support	739,844	-	739,844	623,761
Educational media and publications	406,865	-	406,865	358,520
National Scholar's visibility	319,750	-	319,750	1,625,918
Research	172,906	-	172,906	91,865
Field directors	108,554	-	108,554	54,460
Alumni scholars	104,546	-	104,546	166,030
<b>Total program services</b>	<b>19,646,353</b>	<b>-</b>	<b>19,646,353</b>	<b>31,404,765</b>
Supporting services:				
Management and general	1,930,814	-	1,930,814	2,036,600
Fundraising	577,112	-	577,112	465,823
<b>Total supporting services</b>	<b>2,507,926</b>	<b>-</b>	<b>2,507,926</b>	<b>2,502,423</b>
<b>Total expenses</b>	<b>22,154,279</b>	<b>-</b>	<b>22,154,279</b>	<b>33,907,188</b>
<b>Change in net assets before other changes</b>	<b>(6,619,126)</b>	<b>(1,899,235)</b>	<b>(8,518,361)</b>	<b>(8,895,815)</b>
Other changes:				
Investment income, net	24,242,377	435,095	24,677,472	34,268,353
Change in value of beneficial interest in perpetual trust	-	196,980	196,980	252,883
Other income - insurance proceeds	9,435,663	-	9,435,663	-
<b>Total other changes</b>	<b>33,714,040</b>	<b>632,075</b>	<b>34,346,115</b>	<b>34,521,236</b>
<b>Change in net assets</b>	<b>27,058,914</b>	<b>(1,267,160)</b>	<b>25,791,754</b>	<b>25,625,421</b>
Net assets:				
Beginning	249,408,077	23,535,817	272,943,894	247,318,473
Ending	\$ 276,466,991	\$ 22,268,657	\$ 298,735,648	\$ 272,943,894

See notes to consolidated financial statements.

Horatio Alger Association of Distinguished Americans, Inc. and Affiliates

Consolidated Statement of Functional Expenses  
 Year Ended December 31, 2020  
 (With Comparative Totals for 2019)

	Program Services										Supporting Services			2020 Total	2019 Total	
	Scholarships	Membership and Induction	Member Support and Meetings	National Scholars' Conference	Scholar Services and Support	Educational Media and Publications	National Scholars' Visibility	Research	Field Directors	Alumni Scholars	Total Program Services	Management and General	Fundraising			Total Supporting Services
Scholarships and grant, net	\$ 11,015,542	\$ -	\$ -	\$ -	\$ 208,408	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 11,223,950	\$ -	\$ -	\$ -	\$ 11,223,950	\$ 17,530,500
Professional fees	774,719	309,508	116,341	140,676	237,889	319,428	5,000	91,107	58,275	26,164	2,079,107	321,447	14,960	336,407	2,415,514	1,880,910
Production and audio visual	10,894	1,381,949	266,874	203,514	-	-	-	-	-	-	1,863,231	-	-	-	1,863,231	4,164,448
Salaries and taxes	184,013	292,433	291,760	53,032	82,831	39,564	-	26,095	27,610	43,099	1,040,437	492,388	302,837	795,225	1,835,662	1,601,577
Bad debt	-	-	-	-	-	-	-	-	-	-	-	409,000	-	409,000	500,000	500,000
Benefits	87,087	138,430	138,113	25,104	41,866	16,072	-	12,352	13,070	20,402	492,496	233,755	143,652	377,407	869,903	823,141
Entertainment	-	232,575	3,911	97,605	-	-	169,650	-	-	-	503,741	3,345	-	3,345	507,086	1,631,977
Public relations	60,588	110,474	17,121	43,261	4,118	-	124,925	-	-	-	360,487	60,627	-	60,627	421,114	924,614
Special event administration	-	257,487	71,873	89,986	-	-	-	-	-	-	419,346	436	-	436	419,782	205,521
Occupancy	38,110	87,629	43,778	7,957	12,428	5,936	-	3,915	4,142	6,466	210,361	78,226	45,441	123,667	334,028	343,070
Other expenses	324,220	540,542	206,385	130,397	152,304	25,865	20,175	39,437	5,457	8,415	1,453,197	331,590	70,222	401,812	1,855,009	4,301,430
	<u>\$ 12,495,173</u>	<u>\$ 3,351,027</u>	<u>\$ 1,156,156</u>	<u>\$ 791,532</u>	<u>\$ 739,844</u>	<u>\$ 406,865</u>	<u>\$ 319,750</u>	<u>\$ 172,906</u>	<u>\$ 108,554</u>	<u>\$ 104,546</u>	<u>\$ 19,646,353</u>	<u>\$ 1,930,814</u>	<u>\$ 577,112</u>	<u>\$ 2,507,926</u>	<u>\$ 22,154,279</u>	<u>\$ 33,907,188</u>

See notes to consolidated financial statements.

**Horatio Alger Association of Distinguished Americans, Inc. and Affiliates**

**Consolidated Statement of Cash Flows  
Year Ended December 31, 2020  
(With Comparative Totals for 2019)**

	2020	2019
Cash flows from operating activities:		
Change in net assets	\$ 25,791,754	\$ 25,625,421
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Unrealized and realized gain on investments, net	(16,925,400)	(27,682,925)
Change in discount on contributions receivable	(132,261)	(236,597)
Change in allowance on contributions receivable	(265,378)	413,663
Depreciation and amortization	75,174	70,201
Forfeitures on scholarships payable	(5,166,276)	(2,016,948)
Change in allowance for scholarship forfeitures	(391,021)	(371,699)
Change in discount on scholarships payable	(7,640)	90,870
Change in beneficial interest in perpetual trust	(196,980)	(252,883)
Change in deferred rent	9,122	(7,135)
Changes in assets and liabilities		
(Increase) decrease in:		
Prepaid expenses and other assets	(325,355)	(259,002)
Contributions receivable	2,165,017	8,054,287
Other receivables	941,629	(1,004,022)
Increase (decrease) in:		
Accounts payable and accrued expenses	544,498	(422,336)
Scholarships payable	4,919,511	5,554,356
Deferred compensation plan obligations	531,018	530,808
<b>Net cash provided by operating activities</b>	<b>11,567,412</b>	<b>8,086,059</b>
Cash flows from investing activities:		
Purchases of investments	(206,858,821)	(407,218,021)
Purchases of deferred compensation assets	(531,018)	(530,808)
Proceeds from sales and maturities of investments	195,943,629	423,648,360
Purchases of furniture, equipment and leasehold improvements	(35,226)	(47,675)
<b>Net cash (used in) provided by investing activities</b>	<b>(11,481,436)</b>	<b>15,851,856</b>
<b>Net increase in cash and cash equivalents</b>	<b>85,976</b>	<b>23,937,915</b>
Cash and cash equivalents:		
Beginning	52,018,669	28,080,754
Ending	\$ 52,104,645	\$ 52,018,669

See notes to consolidated financial statements.

## Horatio Alger Association of Distinguished Americans, Inc. and Affiliates

### Notes to the Consolidated Financial Statements

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#### Note 1. Nature of Activities and Significant Accounting Policies

**Nature of activities:** Horatio Alger Association of Distinguished Americans, Inc. and Affiliates (the Association) consists of three entities: Horatio Alger Association of Distinguished Americans, Inc. (Horatio), Horatio Alger Endowment Fund (the Fund), and Friends of HAAC, Inc. (Friends).

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 and takes actions, as appropriate, to grow the funds of the endowment to support the educational and scholarship programs of Horatio.

Friends is a nonprofit organization established to raise and distribute funds and provide support for the Horatio Alger Association of Canada (HAAC).

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.

## Horatio Alger Association of Distinguished Americans, Inc. and Affiliates

### Notes to the Consolidated Financial Statements

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

**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.

**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' Conference:** This annual program allows newly-awarded recipients of the Horatio Alger National Scholarship to attend the 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.

**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 mental 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.

**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.

**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 Affiliates

### Notes to the Consolidated Financial Statements

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

**Field directors:** 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.

**Alumni scholars:** 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.

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

**Principles of consolidation:** The accompanying consolidated financial statements include the accounts of Horatio, the Fund, and Friends. 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. During the year ended December 31, 2020, the Association filed and received an insurance claim related to the cancellation of a major event in the amount of \$9,435,663. The amount is presented on the consolidated statement of activities in other changes.

**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.

## Horatio Alger Association of Distinguished Americans, Inc. and Affiliates

### Notes to the Consolidated Financial Statements

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

**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.

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

Investment 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.

## Horatio Alger Association of Distinguished Americans, Inc. and Affiliates

### Notes to the Consolidated Financial Statements

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

**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 a scholarship award expense when deemed to be unconditional. The scholarship awarded to a student is unconditional once the Association confirms enrollment. Until enrollment is confirmed, the scholarship is considered conditional 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. Friends' application for such recognition is pending. None had net unrelated business income tax during the year ended December 31, 2020.

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

**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.

**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, 2019, from which the summarized information was derived.

**Use of estimates:** The preparation of the consolidated financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. 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 provider for the year ended December 31, 2020, using the modified prospective method. The adoption of this ASU had no impact on the recognition pattern of expenses.

## Horatio Alger Association of Distinguished Americans, Inc. and Affiliates

### Notes to the Consolidated Financial Statements

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

**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.

**Subsequent events:** The Association evaluated subsequent events through September 9, 2021, which is the date the consolidated financial statements were available to be issued.

#### 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, 2020:

	Giving Clubs	Awards Activities	Scholarships/ Capital Campaign	Other	Total
Amounts due in:					
Less than one year	\$ 1,910,000	\$ 395,000	\$ 4,680,151	\$ 100,000	\$ 7,085,151
One to five years	4,430,281	-	4,670,000	-	9,100,281
Greater than five years	-	-	300,000	-	300,000
Gross contributions receivable	6,340,281	395,000	9,650,151	100,000	16,485,432
Less unamortized discount on contributions receivable (4%)	(249,962)	-	(364,463)	-	(614,425)
Less allowance for uncollectible contributions	(126,806)	(297,000)	(227,795)	(2,000)	(653,601)
Contributions receivable, net	\$ 5,963,513	\$ 98,000	\$ 9,057,893	\$ 98,000	\$ 15,217,406

At December 31, 2020, the Association had approximately \$15,000,000 outstanding on conditional matching contributions.

## Horatio Alger Association of Distinguished Americans, Inc. and Affiliates

### Notes to the Consolidated Financial Statements

#### 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 generally accepted accounting principles 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.

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	\$ 98,360,970	\$ -	\$ -	\$ 98,360,970
Total equity mutual funds	98,360,970	-	-	98,360,970
Government securities:				
U.S. Treasury securities and government securities	-	26,266,406	-	26,266,406
Total government securities	-	26,266,406	-	26,266,406
Corporate fixed income:				
Technology	39,272,475	-	-	39,272,475
Consumer cyclical	29,243,837	-	-	29,243,837
Communication services	20,478,959	-	-	20,478,959
Industrial	10,695,820	-	-	10,695,820
Consumer defensive	7,971,104	-	-	7,971,104
Foreign	5,595,114	-	-	5,595,114
Financial	5,146,715	-	-	5,146,715
Basic materials	4,685,712	-	-	4,685,712
Healthcare	3,903,264	-	-	3,903,264
Energy	2,328,655	-	-	2,328,655
Real estate	1,865,557	-	-	1,865,557
Total corporate fixed income	131,187,212	-	-	131,187,212
Common stock:				
Financial	4,173,780	-	-	4,173,780
Total common stock	4,173,780	-	-	4,173,780
Total investments at fair value	233,721,962	26,266,406	-	259,988,368
Money market funds in cash and cash equivalents	41,576,512	-	-	41,576,512
Beneficial interest in perpetual trust	-	-	2,078,351	2,078,351
Total assets at fair value	\$ 275,298,474	\$ 26,266,406	\$ 2,078,351	\$ 303,643,231

The equity mutual funds, 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 Affiliates

### Notes to the Consolidated Financial Statements

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#### 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.

Investment income, net of fees for the year ended December 31, 2020, consists of the following:

Unrealized and realized gain, net	\$ 16,925,400
Interest and dividends	8,273,225
Investment fees	(521,153)
	<u>\$ 24,677,472</u>

#### Note 4. Furniture, Equipment and Leasehold Improvements

At December 31, 2020, furniture, equipment and leasehold improvements consist of the following:

Furniture and equipment	\$ 897,712
Leasehold improvements	338,180
	<u>1,235,892</u>
Less accumulated depreciation and amortization	778,427
	<u>\$ 457,465</u>

Depreciation and amortization expense for the year ended December 31, 2020, was \$75,174.

#### Note 5. Scholarships

The expected future payments on the awarded unconditional scholarships at December 31, 2020, are as follows:

Years ending December 31:	
2021	\$ 20,065,934
2022	9,379,211
2023	4,412,606
	<u>33,857,751</u>
Less allowance	(2,205,732)
Less present value discounts	(425,723)
	<u>\$ 31,226,296</u>

## Horatio Alger Association of Distinguished Americans, Inc. and Affiliates

### Notes to the Consolidated Financial Statements

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#### 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 \$115,735 for the year ended December 31, 2020.

The Association maintains a deferred compensation plan. Assets and obligations under this plan at December 31, 2020, were \$1,392,160. For the year ended December 31, 2020, the Association contributed \$531,018 under this plan. The assets are considered Level 1 instruments while the liabilities are considered Level 2.

Subsequent to December 31, 2020, the Association established a deferred compensation plan for a separate employee.

#### Note 7. Donor Restricted Net Assets

Changes in donor restricted net assets during the year ended December 31, 2020, are as follows:

	December 31, 2019	Additions	Releases and Rescinded Pledges	December 31, 2020
Scholarships	\$ 10,399,324	\$ 3,835,495	\$ (8,309,829)	\$ 5,924,990
Horatio Alger Membership Programs and Induction Ceremonies	1,222,768	857,900	(1,244,000)	836,668
Giving clubs	4,648,948	4,642,234	(2,920,218)	6,370,964
Beneficial interest in trust	1,881,371	196,980	-	2,078,351
Capital Campaign	2,275,583	4,940,305	(3,545,731)	3,670,157
Donor-restricted permanent endowment	3,107,823	435,095	(155,391)	3,387,527
	<u>\$ 23,535,817</u>	<u>\$ 14,908,009</u>	<u>\$ (16,175,169)</u>	<u>\$ 22,268,657</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 Affiliates

### 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, 2020, were \$4,940,305.

Transfers from donor restricted net assets relating to capital campaign contributions during the year ended December 31, 2020, were comprised of cash collections and rescinded pledges totaling \$3,545,731.

The Association's endowment funds consist of the following at December 31, 2020:

	Board- Designated Endowment	Time and donor restricted for Board- Designated Endowment	With Donor Restrictions	Total
Net assets, December 31, 2019	\$ 246,879,142	\$ 2,275,583	\$ 3,107,823	\$ 252,262,548
Contributions	-	4,940,305	-	4,940,305
Transfers from donor restricted net assets	3,045,731	(3,045,731)	-	-
Loss on rescinded promises to give	-	(500,000)	-	(500,000)
Net investment gain	23,853,887	-	435,095	24,288,982
Appropriation of endowment assets for expenditure	(8,472,409)	-	(155,391)	(8,627,800)
Net assets, December 31, 2020	<u>\$ 265,306,351</u>	<u>\$ 3,670,157</u>	<u>\$ 3,387,527</u>	<u>\$ 272,364,035</u>

For the year ended December 31, 2020, the Association had the following endowment-related activities:

	Without Donor Restrictions	Time and donor restricted for Board- Designated Endowment	With Donor Restrictions	Total
Donor-restricted endowment funds	\$ -	\$ 3,670,157	\$ 3,387,527	\$ 7,057,684
Board-designated endowment funds	265,306,351	-	-	265,306,351
	<u>\$ 265,306,351</u>	<u>\$ 3,670,157</u>	<u>\$ 3,387,527</u>	<u>\$ 272,364,035</u>

## Horatio Alger Association of Distinguished Americans, Inc. and Affiliates

### Notes to the Consolidated Financial Statements

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#### 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, 2020, was approximately \$287,000.

Future minimum lease payments for this operating lease at December 31, 2020, are due as follows:

Years ending December 31:	
2021	\$ 288,481
2022	297,147
2023	304,507
2024	313,662
2025	323,046
2026	138,902
	<u>\$ 1,665,745</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.

HAAC is a charitable organization dedicated to the belief that hard work, honesty and determination can conquer all obstacles. The Board of Directors of HAAC is comprised of eight individuals, one of which is also on the Executive Committee of the Association. The Association has no financial interest in HAAC and, thus, there is no consolidation. During the year ended December 31, 2020, the Association paid certain expenses on behalf of HAAC. At December 31, 2020, \$62,393 was owed to the Association and is included within other receivables on the consolidated statement of financial position. During the year ended December 31, 2020, the Association additionally provided HAAC approximately \$245,000 of donated services and \$404,000 of unconditional contributions.

#### Note 11. Commitments and Contingency

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.

On January 30, 2020, the World Health Organization declared the coronavirus (COVID-19) 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, 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. While it is unknown how long these conditions will last, the Association's management does not expect a material negative financial impact in the near term.

## Horatio Alger Association of Distinguished Americans, Inc. and Affiliates

### Notes to the Consolidated Financial Statements

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#### 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.

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, 2020:

Cash and cash equivalents	\$ 52,104,645
Contributions receivable, net	15,217,406
Other receivables	62,393
Investments	259,988,368
Beneficial interest in perpetual trust	<u>2,078,351</u>
	329,451,163
Less:	
Board-designated net assets*	265,306,351
Donor restricted net assets	<u>22,268,657</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 41,876,155</u>

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