

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

Consolidated Financial Report  
December 31, 2021

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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

#### **Opinion**

We have audited the 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, 2021, 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).

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Association as of December 31, 2021, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

#### **Basis for Opinion**

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Association and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### **Responsibilities of Management for the Financial Statements**

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Association's ability to continue as a going concern within one year after the date that the financial statements are issued or available to be issued.

#### **Auditor's Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and, therefore, is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Association's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Association's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

**Report on Summarized Comparative Information**

We have previously audited the Association's 2020 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated September 9, 2021. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2020, is consistent in all material respects, with the audited financial statements from which it has been derived.

*RSM US LLP*

McLean, Virginia  
July 27, 2022

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

**Consolidated Statement of Financial Position  
December 31, 2021  
(With Comparative Totals for 2020)**

	2021	2020
<b>Assets</b>		
Cash and cash equivalents	\$ 36,369,140	\$ 52,104,645
Prepaid expenses and other assets	2,535,534	1,392,860
Promises to give, net	27,400,277	15,217,406
Other receivables	292,394	62,393
Investments	306,535,033	259,988,368
Investments in deferred compensation assets	2,235,576	1,392,160
Furniture, equipment and leasehold improvements, net	476,745	457,465
Beneficial interest in perpetual trust	2,440,989	2,078,351
	<u>\$ 378,285,688</u>	<u>\$ 332,693,648</u>
<b>Liabilities and Net Assets</b>		
Liabilities:		
Accounts payable and accrued expenses	\$ 590,011	\$ 1,243,113
Scholarships payable, net	31,614,832	31,226,296
Deferred compensation plan obligations	2,235,576	1,392,160
Deferred rent	162,427	96,431
<b>Total liabilities</b>	<u>34,602,846</u>	<u>33,958,000</u>
Commitments and contingencies (Note 11)		
Net assets:		
Without donor restrictions:		
Undesignated	6,240,708	11,160,640
Board-designated endowment assets	302,653,375	265,306,351
	<u>308,894,083</u>	<u>276,466,991</u>
With donor restrictions	34,788,759	22,268,657
	<u>343,682,842</u>	<u>298,735,648</u>
	<u>\$ 378,285,688</u>	<u>\$ 332,693,648</u>

See notes to consolidated financial statements.

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

### Consolidated Statement of Activities Year Ended December 31, 2021 (With Comparative Totals for 2020)

	2021			2020 Total
	Without Donor Restrictions	With Donor Restrictions	Total	
Support and revenue:				
Contributions:				
Horatio Alger Membership Programs and Induction Ceremonies	\$ 20,500	\$ 2,931,915	\$ 2,952,415	\$ 1,155,000
Scholarships and other	3,316,175	5,390,346	8,706,521	6,236,503
Capital campaign	-	26,466,037	26,466,037	4,940,305
Giving clubs	-	1,247,156	1,247,156	4,642,234
Video and book sales and other revenue	20,115	-	20,115	28,995
Loss on rescinded promises to give	-	(429,377)	(429,377)	(3,367,119)
Satisfaction of program restrictions:				
Scholarships	4,954,535	(4,954,535)	-	-
Induction ceremony	685,000	(685,000)	-	-
Satisfaction of time restrictions:				
Capital campaign	15,813,379	(15,813,379)	-	-
Giving clubs	2,100,742	(2,100,742)	-	-
<b>Total support and revenue</b>	<b>26,910,446</b>	<b>12,052,421</b>	<b>38,962,867</b>	<b>13,635,918</b>
Expenses:				
Program services:				
Scholarships	12,807,992	-	12,807,992	12,495,173
Membership and induction	1,809,233	-	1,809,233	3,351,027
Member support and meetings	2,748,671	-	2,748,671	1,156,156
National Scholars' Conference	467,646	-	467,646	791,532
Scholar services and support	804,499	-	804,499	739,844
Educational media and publications	472,671	-	472,671	406,865
National Scholar's visibility	1,003,413	-	1,003,413	319,750
Research	236,125	-	236,125	172,906
Field directors	126,965	-	126,965	108,554
Alumni scholars	289,691	-	289,691	104,546
<b>Total program services</b>	<b>20,766,906</b>	<b>-</b>	<b>20,766,906</b>	<b>19,646,353</b>
Supporting services:				
Management and general	2,504,229	-	2,504,229	1,930,814
Fundraising	598,840	-	598,840	577,112
<b>Total supporting services</b>	<b>3,103,069</b>	<b>-</b>	<b>3,103,069</b>	<b>2,507,926</b>
<b>Total expenses</b>	<b>23,869,975</b>	<b>-</b>	<b>23,869,975</b>	<b>22,154,279</b>
<b>Change in net assets before other changes</b>	<b>3,040,471</b>	<b>12,052,421</b>	<b>15,092,892</b>	<b>(8,518,361)</b>
Other changes:				
Investment income, net	29,383,102	105,043	29,488,145	24,677,472
Change in value of beneficial interest in perpetual trust	-	362,638	362,638	196,980
Other income	3,519	-	3,519	9,435,663
<b>Change in net assets</b>	<b>32,427,092</b>	<b>12,520,102</b>	<b>44,947,194</b>	<b>25,791,754</b>
Net assets:				
Beginning	276,466,991	22,268,657	298,735,648	272,943,894
Ending	<b>\$ 308,894,083</b>	<b>\$ 34,788,759</b>	<b>\$ 343,682,842</b>	<b>\$ 298,735,648</b>

See notes to consolidated financial statements.

Horatio Alger Association of Distinguished Americans, Inc. and Affiliates

Consolidated Statement of Functional Expenses  
Year Ended December 31, 2021  
(With Comparative Totals for 2020)

	Program Services										Supporting Services			2021 Total	2020 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	\$ 11,575,266	\$ -	\$ -	\$ -	\$ 142,648	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 11,717,914	\$ 570,000	\$ -	\$ 570,000	\$ 12,287,914	\$ 11,223,950
Professional fees	496,906	194,928	197,376	181,207	440,863	278,959	43,199	180,771	55,275	48,562	2,118,046	536,847	9,239	546,086	2,664,132	2,415,514
Salaries and taxes	208,608	310,544	314,754	58,073	20,527	43,160	-	27,721	30,353	47,196	1,060,936	544,576	312,544	857,120	1,918,056	1,835,662
Benefits	103,211	153,645	155,728	28,732	12,148	21,354	-	13,715	15,017	23,351	526,901	268,496	154,684	423,180	950,081	869,903
Temporary help	3,748	5,579	5,654	1,043	369	775	-	498	545	848	19,059	9,783	5,615	15,398	34,457	-
Bad debt	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	409,000
Production	-	50,278	298,621	-	-	-	100,496	-	1,000	-	450,395	-	-	-	450,395	507,086
Public relations	148,352	99,660	37,950	37,274	1,991	-	853,097	105	-	488	1,178,917	80,791	-	80,791	1,259,708	421,114
Special event administration	-	296,123	79,449	93,500	-	-	-	-	-	-	469,072	-	-	-	469,072	419,782
Occupancy	27,401	88,559	41,344	7,628	2,696	5,669	-	3,641	3,987	15,199	196,124	71,532	41,053	112,585	308,709	334,028
Other expenses	244,500	609,917	1,617,795	60,189	183,257	122,754	6,621	9,674	20,788	154,047	3,029,542	422,204	75,705	497,909	3,527,451	3,718,240
	<b>\$ 12,807,992</b>	<b>\$ 1,809,233</b>	<b>\$ 2,748,671</b>	<b>\$ 467,646</b>	<b>\$ 804,499</b>	<b>\$ 472,671</b>	<b>\$ 1,003,413</b>	<b>\$ 236,125</b>	<b>\$ 126,965</b>	<b>\$ 289,691</b>	<b>\$ 20,766,906</b>	<b>\$ 2,504,229</b>	<b>\$ 598,840</b>	<b>\$ 3,103,069</b>	<b>\$ 23,869,975</b>	<b>\$ 22,154,279</b>

See notes to consolidated financial statements.

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

**Consolidated Statement of Cash Flows  
Year Ended December 31, 2021  
(With Comparative Totals for 2020)**

	2021	2020
Cash flows from operating activities:		
Change in net assets	\$ 44,947,194	\$ 25,791,754
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Unrealized and realized gain on investments	(19,651,369)	(16,925,400)
Change in discount on contributions receivable	616,399	(132,261)
Change in allowance on contributions receivable	(51,452)	(265,378)
Depreciation and amortization	90,332	75,174
Forfeitures on scholarships payable—graduated, unused balance	(367,069)	(1,899,146)
Forfeitures on scholarships payable—other	(2,064,976)	(3,267,130)
Change in allowance for scholarship forfeitures	(54,597)	(391,021)
Change in discount on scholarships payable	51,540	(7,640)
Change in beneficial interest in perpetual trust	(362,638)	(196,980)
Change in deferred rent	65,996	9,122
Changes in assets and liabilities		
(Increase) decrease in:		
Prepaid expenses and other assets	(1,142,674)	(325,355)
Contributions receivable	(12,747,818)	2,165,017
Other receivables	(230,001)	941,629
Increase (decrease) in:		
Accounts payable and accrued expenses	(653,102)	544,498
Scholarships payable	2,823,638	4,919,511
Deferred compensation plan obligations	843,416	531,018
<b>Net cash provided by operating activities</b>	<b>12,112,819</b>	<b>11,567,412</b>
Cash flows from investing activities:		
Purchases of investments	(330,077,480)	(206,858,821)
Purchases of deferred compensation assets	(843,416)	(531,018)
Proceeds from sales and maturities of investments	303,182,184	195,943,629
Purchases of furniture, equipment and leasehold improvements	(109,612)	(35,226)
<b>Net cash used in investing activities</b>	<b>(27,848,324)</b>	<b>(11,481,436)</b>
<b>Net (decrease) increase in cash and cash equivalents</b>	<b>(15,735,505)</b>	<b>85,976</b>
Cash and cash equivalents:		
Beginning	52,104,645	52,018,669
Ending	\$ 36,369,140	\$ 52,104,645

See notes to consolidated financial statements.

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

### Notes to 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.

**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 Affiliates

### Notes to Consolidated Financial Statements

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

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

**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.

**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.

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

### Notes to Consolidated Financial Statements

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

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.

**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.

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

### Notes to Consolidated Financial Statements

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

**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 two 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.

**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, 2021.

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.

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

### Notes to Consolidated Financial Statements

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

**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, 2020, 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.

**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.

**Subsequent events:** The Association evaluated subsequent events through July 27, 2022, which is the date the consolidated financial statements were available to be issued.

#### Note 2. Promises to Give

Promises to give represent the uncollected balance of unconditional promises to give. The majority of the Association's promises to give 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 promises to give, net of discount and allowance for uncollectible promises to give consists of the following at December 31, 2021:

	Giving Clubs	Awards Activities	Scholarships/ Capital Campaign	Total
Amounts due in:				
Less than one year	\$ 1,829,782	\$ 2,466,240	\$ 7,355,432	\$ 11,651,454
One to five years	3,569,758	-	12,812,038	16,381,796
Greater than five years	-	-	1,200,000	1,200,000
Gross promises to give	5,399,540	2,466,240	21,367,470	29,233,250
Less unamortized discount on promises to give (3%)	(181,621)	-	(1,049,203)	(1,230,824)
Less allowance for uncollectible promises to give	(107,991)	(49,325)	(444,833)	(602,149)
Promises to give, net	\$ 5,109,928	\$ 2,416,915	\$ 19,873,434	\$ 27,400,277

At December 31, 2021, the Association had approximately \$15,000,000 outstanding on conditional matching contributions.

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

### Notes to 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	\$ 145,546,615	\$ -	\$ -	\$ 145,546,615
Total equity mutual funds	145,546,615	-	-	145,546,615
Government securities:				
U.S. Treasury securities and government securities	-	10,638,441	-	10,638,441
Total government securities	-	10,638,441	-	10,638,441
Corporate fixed income:				
Technology	-	37,202,709	-	37,202,709
Communication services	-	32,103,912	-	32,103,912
Consumer cyclical	-	31,520,978	-	31,520,978
Industrial	-	12,006,599	-	12,006,599
Healthcare	-	9,224,116	-	9,224,116
Financial	-	9,092,134	-	9,092,134
Consumer defensive	-	4,677,173	-	4,677,173
Basic materials	-	3,942,687	-	3,942,687
Real estate	-	3,661,560	-	3,661,560
Foreign	-	1,510,165	-	1,510,165
Total corporate fixed income	-	144,942,033	-	144,942,033
Common stock:				
Financial	5,407,944	-	-	5,407,944
Total common stock	5,407,944	-	-	5,407,944
Total investments at fair value	150,954,559	155,580,474	-	306,535,033
Money market funds in cash and cash equivalents	18,456,569	-	-	18,456,569
Beneficial interest in perpetual trust	-	-	2,440,989	2,440,989
Total assets at fair value	\$ 169,411,128	\$ 155,580,474	\$ 2,440,989	\$ 327,432,591
Financial liabilities:				
Deferred compensation	\$ -	\$ 2,235,576	\$ -	\$ 2,235,576

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

### Notes to Consolidated Financial Statements

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#### Note 3. Fair Value Measurements (Continued)

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.

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, 2021, consists of the following:

Unrealized and realized gain	\$ 19,651,369
Interest and dividends	10,373,305
Investment fees	(536,529)
	<u>\$ 29,488,145</u>

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

At December 31, 2021, furniture, equipment and leasehold improvements consist of the following:

Furniture and equipment	\$ 1,006,120
Leasehold improvements	338,180
	<u>1,344,300</u>
Less accumulated depreciation and amortization	867,555
	<u>\$ 476,745</u>

Depreciation and amortization expense for the year ended December 31, 2021, was \$90,332.

#### Note 5. Scholarships

The expected future payments on the awarded unconditional scholarships at December 31, 2021, are as follows:

Years ending December 31:	
2022	\$ 21,587,388
2023	8,926,737
2024	3,735,219
	<u>34,249,344</u>
Less allowance	(2,260,329)
Less present value discounts	(374,183)
	<u>\$ 31,614,832</u>

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

### Notes to 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 \$122,233 for the year ended December 31, 2021.

The Association maintains a deferred compensation plan. Assets and obligations under this plan at December 31, 2021, were \$2,235,576. For the year ended December 31, 2021, the Association contributed \$595,821 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, 2021, are as follows:

	December 31, 2020	Additions	Releases and Rescinded Pledges	December 31, 2021
Scholarships	\$ 5,924,990	\$ 5,390,346	\$ (5,383,912)	\$ 5,931,424
Horatio Alger Membership Programs and Induction Ceremonies	836,668	2,931,915	(685,000)	3,083,583
Giving clubs	6,370,964	1,247,156	(2,100,742)	5,517,378
Beneficial interest in trust	2,078,351	362,638	-	2,440,989
Capital campaign	3,670,157	26,466,037	(15,813,379)	14,322,815
Donor-restricted permanent endowment	3,387,527	105,043	-	3,492,570
	<u>\$ 22,268,657</u>	<u>\$ 36,503,135</u>	<u>\$ (23,983,033)</u>	<u>\$ 34,788,759</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. Through 2021, 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.

Effective January 1, 2022, the 12-quarter average cash and investment balance through September 30<sup>th</sup> of the previous calendar year will become the basis for determining the allowable withdrawal.

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

### Notes to 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, 2021, were \$26,466,037.

Transfers from donor restricted net assets relating to capital campaign contributions during the year ended December 31, 2021, were comprised of cash collections totaling \$15,813,379.

The Association's endowment funds consist of the following at December 31, 2021:

	Board- Designated Endowment	Time and Donor Restricted for Board- Designated Endowment	With Donor Restrictions	Total
Net assets, December 31, 2020	\$ 265,306,351	\$ 3,670,157	\$ 3,387,527	\$ 272,364,035
Contributions	-	26,466,037	-	26,466,037
Transfers from donor restricted net assets	15,813,379	(15,813,379)	-	-
Net investment gain	29,436,107	-	105,043	29,541,150
Appropriation of endowment assets for expenditure	(7,902,462)	-	-	(7,902,462)
Net assets, December 31, 2021	<u>\$ 302,653,375</u>	<u>\$ 14,322,815</u>	<u>\$ 3,492,570</u>	<u>\$ 320,468,760</u>

For the year ended December 31, 2021, 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	\$ -	\$ 14,322,815	\$ 3,492,570	\$ 17,815,385
Board-designated endowment funds	302,653,375	-	-	302,653,375
	<u>\$ 302,653,375</u>	<u>\$ 14,322,815</u>	<u>\$ 3,492,570</u>	<u>\$ 320,468,760</u>

#### 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, 2021, was approximately \$245,000.

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

### Notes to Consolidated Financial Statements

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#### Note 9. Leases (Continued)

Future minimum lease payments for this operating lease at December 31, 2021, are due as follows:

Years ending December 31:		
2022	\$	297,147
2023		304,507
2024		313,662
2025		323,046
2026		138,902
		<u>1,377,264</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 seven individuals, two of which are also on the Executive Committee or Board of the Association. The Association has no financial interest in HAAC and, thus, there is no consolidation. During the year ended December 31, 2021, the Association paid certain expenses on behalf of HAAC. At December 31, 2021, \$292,394 was owed to the Association and is included within other receivables on the consolidated statement of financial position. During the year ended December 31, 2021, the Association additionally provided HAAC approximately \$442,992 of donated services and \$80,000 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.

Subsequent to the coronavirus outbreak in 2020 in North America, there has been substantial volatility in financial markets and the economy. The coronavirus and actions to mitigate it have had, and are expected to continue to have, an adverse impact on the economics and financial markets, including the geographical areas in which the Association operates.

Management is continually monitoring the impact of COVID-19 and will adjust activities should there be a significant impact in future periods.

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

### Notes to 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, 2021:

Cash and cash equivalents	\$ 36,369,140
Contributions receivable, net	27,400,277
Other receivables	292,394
Investments	306,535,033
Beneficial interest in perpetual trust	<u>2,440,989</u>
	373,037,833
Less:	
Board-designated net assets*	302,653,375
Donor restricted net assets	<u>34,788,759</u>
Financial assets available to meet cash needs for general expenditures within one year	<u><u>\$ 35,595,699</u></u>

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