

Horatio Alger Association of Distinguished Americans, Inc. and Affiliates

Consolidated Financial Report
December 31, 2023

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Independent Auditor's Report

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

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, 2023, 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, 2023, 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.

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 2022 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our reported dated September 5, 2023. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2022, is consistent, in all material respects, with the audited financial statements from which it has been derived.

RSM US LLP

McLean, Virginia
August 22, 2024

Horatio Alger Association of Distinguished Americans, Inc. and Affiliates

Consolidated Statement of Financial Position
December 31, 2023
(With Comparative Totals for 2022)

	2023	2022
Assets		
Cash and cash equivalents	\$ 40,926,421	\$ 31,170,644
Investments	301,591,189	287,632,330
Prepaid expenses and other assets	3,489,336	2,706,981
Promises to give, net	18,360,030	22,710,564
Receivables due from HAAC	691,837	284,586
Investments in deferred compensation assets	167,582	92,499
Furniture, equipment and leasehold improvements, net	449,829	411,595
Operating lease right-of-use asset, net	619,996	875,694
Beneficial interest in perpetual trust	2,191,432	1,992,140
	<u>\$ 368,487,652</u>	<u>\$ 347,877,033</u>
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued expenses	\$ 1,943,099	\$ 2,025,449
Scholarships payable, net	21,288,167	22,863,259
Deferred compensation plan obligations	167,582	92,499
Lease liabilities, net	729,119	1,015,914
Total liabilities	<u>24,127,967</u>	<u>25,997,121</u>
Commitments and contingency (Note 11)		
Net assets:		
Without donor restrictions:		
Undesignated	6,116,969	3,276,094
Board-designated endowment assets	312,884,862	290,682,827
	<u>319,001,831</u>	<u>293,958,921</u>
With donor restrictions	25,357,854	27,920,991
	<u>344,359,685</u>	<u>321,879,912</u>
	<u>\$ 368,487,652</u>	<u>\$ 347,877,033</u>

See notes to consolidated financial statements.

Horatio Alger Association of Distinguished Americans, Inc. and Affiliates

Consolidated Statement of Activities Year Ended December 31, 2023 (With Comparative Totals for 2022)

	2023			2022
	Without Donor Restrictions	With Donor Restrictions	Total	Total
Support and revenue:				
Contributions:				
Horatio Alger Membership Programs and Induction Ceremonies	\$ 11,659,210	\$ 2,533,067	\$ 14,192,277	\$ 14,694,654
Scholarships and other	1,725,157	1,843,119	3,568,276	3,791,475
Capital campaign	1,346,100	4,603,866	5,949,966	19,596,286
Giving clubs	158,044	2,102,191	2,260,235	556,195
Other revenue	15,324	-	15,324	83,405
Loss on abrogated promises to give	-	(43,180)	(43,180)	(525,000)
Satisfaction of program restrictions:				
Scholarships	1,771,929	(1,771,929)	-	-
Induction ceremony	2,615,000	(2,615,000)	-	-
Satisfaction of time restrictions:				
Capital campaign	7,150,514	(7,150,514)	-	-
Giving clubs	2,462,222	(2,462,222)	-	-
Total support and revenue	28,903,500	(2,960,602)	25,942,898	38,197,015
Expenses:				
Program services:				
Scholarships	11,779,365	-	11,779,365	4,129,875
Membership and induction	8,263,709	-	8,263,709	8,142,154
Member support and meetings	2,988,135	-	2,988,135	4,418,547
National Scholars' Conference	1,989,847	-	1,989,847	1,963,821
National Scholars' visibility	1,593,953	-	1,593,953	1,515,386
Scholar services and support	927,087	-	927,087	896,399
Research	617,601	-	617,601	577,127
Educational media and publications	712,446	-	712,446	699,791
American Enterprise Summit	365,343	-	365,343	-
Alumni scholars	280,492	-	280,492	2,135,693
Field directors	177,835	-	177,835	250,589
Total program services	29,695,813	-	29,695,813	24,729,382
Supporting services:				
Management and general	3,215,018	-	3,215,018	2,821,130
Fundraising	470,335	-	470,335	1,251,138
Total supporting services	3,685,353	-	3,685,353	4,072,268
Total expenses	33,381,166	-	33,381,166	28,801,650
Change in net assets before other changes	(4,477,666)	(2,960,602)	(7,438,268)	9,395,365
Other changes:				
Investment gains (loss), net	29,520,576	198,173	29,718,749	(31,005,688)
Change in value of beneficial interest in perpetual trust	-	199,292	199,292	(448,848)
Other income	-	-	-	256,241
Change in net assets	25,042,910	(2,563,137)	22,479,773	(21,802,930)
Net assets:				
Beginning	293,958,921	27,920,991	321,879,912	343,682,842
Ending	\$ 319,001,831	\$ 25,357,854	\$ 344,359,685	\$ 321,879,912

See notes to consolidated financial statements.

Horatio Alger Association of Distinguished Americans, Inc. and Affiliates

Consolidated Statement of Functional Expenses Year Ended December 31, 2023 (With Comparative Totals for 2022)

	2023												2023 Total	2022 Total			
	Program Services						Supporting Services										
	Membership and Scholarships	Member Support and Meetings	National Scholars' Conference	National Scholars' Visibility	Scholar Services and Support	Research	Educational Media and Publications	American Enterprise Summit	Alumni Scholars	Field Directors	Total Program Services	Management and General	Fundraising	Total Supporting Services			
Scholarships and grants, net	\$ 10,107,765	\$ -	\$ -	\$ -	\$ 40,693	\$ -	\$ 3,262	\$ -	\$ -	\$ -	\$ 10,151,720	\$ -	\$ -	\$ -	\$ 10,151,720	\$ 2,995,734	
Production and entertainment	15,346	3,921,359	717,433	486,231	445,021	15,201	13,500	-	-	-	5,614,091	3,829	-	3,829	5,617,920	7,209,575	
Professional fees	744,945	449,029	243,367	233,531	5,860	557,435	178,084	315,366	11,475	52,346	75,654	2,867,092	1,138,428	-	1,138,428	4,005,520	3,509,589
Other expenses	290,648	661,936	405,398	337,919	119,578	117,268	238,102	183,494	7,958	33,743	43,392	2,439,436	488,809	70,723	559,532	2,998,968	3,697,389
Hotel	51,738	1,362,658	683,115	366,181	74,964	15,901	-	-	128,316	12,942	345	2,696,160	6,539	-	6,539	2,702,699	2,050,402
Salaries and taxes	294,400	326,539	402,012	81,019	37,690	106,940	131,019	127,712	-	63,830	37,513	1,608,674	679,306	259,847	939,153	2,547,827	4,115,800
Meals	27,880	812,662	75,731	296,415	75,649	8,535	-	-	1,218	362	1,298,452	33,380	-	33,380	1,331,832	1,918,694	
Public relations	88,281	117,988	89,415	34,866	748,556	6,833	-	458	-	77,622	401	1,164,420	69,856	-	69,856	1,234,276	1,013,136
Benefits	125,088	138,590	170,676	34,390	21,797	45,418	55,617	54,247	-	27,091	15,936	688,850	281,618	110,452	392,070	1,080,920	1,061,193
Special event administration	-	411,291	155,268	110,156	60,468	-	-	-	217,594	-	-	954,777	40,960	-	40,960	995,737	798,409
Bad debt	-	-	-	-	-	-	-	-	-	-	-	395,000	-	395,000	395,000	40,000	
Occupancy	31,843	59,304	43,484	8,763	4,174	12,367	14,171	13,814	-	11,404	4,058	203,382	73,500	28,107	101,607	304,989	344,406
Temporary help	1,431	2,353	2,236	376	196	496	608	593	-	296	174	8,759	3,793	1,206	4,999	13,758	47,323
	<u>\$ 11,779,365</u>	<u>\$ 8,263,709</u>	<u>\$ 2,968,135</u>	<u>\$ 1,969,847</u>	<u>\$ 1,593,953</u>	<u>\$ 927,067</u>	<u>\$ 617,601</u>	<u>\$ 712,446</u>	<u>\$ 365,343</u>	<u>\$ 280,492</u>	<u>\$ 177,835</u>	<u>\$ 29,695,813</u>	<u>\$ 3,215,018</u>	<u>\$ 470,335</u>	<u>\$ 3,685,353</u>	<u>\$ 33,381,166</u>	<u>\$ 26,801,650</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, 2023
(With Comparative Totals for 2022)**

	2023	2022
Cash flows from operating activities:		
Change in net assets	\$ 22,479,773	\$ (21,802,930)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Unrealized and realized (gain) loss on investments	(20,755,406)	38,755,108
Change in discount on contributions receivable	(35,721)	(90)
Change in allowance on contributions receivable	18,685	(125,583)
Depreciation and amortization	123,941	108,215
Forfeitures on scholarships payable—graduated, unused balance	-	(481,914)
Forfeitures on scholarships payable—other	(3,042,238)	(3,571,765)
Change in allowance for scholarship forfeitures	(2,122,010)	957,388
Change in discount on scholarships payable	(288,529)	140,948
Change in beneficial interest in perpetual trust	(200,411)	448,848
Amortization of operating lease right-of-use asset	255,698	252,265
Changes in assets and liabilities		
(Increase) decrease in:		
Prepaid expenses and other assets	(782,354)	(171,447)
Promises to give	4,367,570	4,815,386
Receivables due from HAAC	(407,251)	7,808
(Decrease) increase in:		
Accounts payable and accrued expenses	(82,350)	1,435,438
Scholarships payable	3,877,685	(5,796,230)
Deferred compensation plan obligations	75,083	(2,143,077)
Lease liabilities	(286,795)	(274,471)
Net cash provided by operating activities	3,195,370	12,553,897
Cash flows from investing activities:		
Purchases of investments	(373,281,768)	(354,305,631)
Proceeds from sales and maturities of investments	380,079,433	334,453,226
(Purchases of) redemption of deferred compensation assets	(75,083)	2,143,077
Purchases of furniture, equipment and leasehold improvements	(162,175)	(43,065)
Net cash provided by (used in) investing activities	6,560,407	(17,752,393)
Net increase (decrease) in cash and cash equivalents	9,755,777	(5,198,496)
Cash and cash equivalents:		
Beginning	31,170,644	36,369,140
Ending	\$ 40,926,421	\$ 31,170,644

See notes to consolidated financial statements.

Horatio Alger Association of Distinguished Americans, Inc. and Affiliates

Notes to Consolidated Financial Statements

Note 1. Nature of Activities and Significant Accounting Policies

Nature of activities: Horatio Alger Association of Distinguished Americans, Inc. and 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 \$10,000 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, 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 scholar programs include the internship and placement program, the cost of scholar services, such as financial advising, the Alumni Activities Committee, 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 and technical scholarships provide \$2,500 scholarships to attend secondary school adult education programs or accredited post-secondary institutions 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 Consolidated Financial Statements

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 National Scholars and educational programs regarding the future of the American Dream.

Member support and meetings: The Association convenes Members and their 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 The 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.

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 mission that success is available to those dedicated to the principles of integrity, hard work, perseverance and compassion for others.

Scholar services and support: This program provides services and support to Horatio Alger Association scholars and alumni apart from scholarship assistance. This includes financial aid counseling, college preparedness programs, 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.

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, effects of the pandemic 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.

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 of Distinction 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.

Horatio Alger Association of Distinguished Americans, Inc. and Affiliates

Notes to Consolidated Financial Statements

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

American Enterprise Summit: The American Enterprise Summit is a program for disadvantaged middle-school students from across the country to learn about entrepreneurship and capitalism, and to learn why education is the key to long-term success. Sessions are led by Members who share their stories of overcoming adversity, as well as Association staff. Students and their sponsors (typically a faculty member from each school) participate in this four-day program in Washington, D.C.

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*; and the Scholars Alumni Summit meeting.

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.

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. 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 Consolidated Financial Statements

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/promises to give: 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 promises to give 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 exchange-traded funds, government securities, corporate fixed income and common stock 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.

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 estimate 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.

Horatio Alger Association of Distinguished Americans, Inc. and Affiliates

Notes to Consolidated Financial Statements

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

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, the Fund and Friends 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. None had net unrelated business income tax during the year ended December 31, 2023.

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.

Use of estimates: The preparation of the consolidated financial statements in conformity with generally accepted accounting principles (GAAP) 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.

Leases: The Association determines if an arrangement is or contains a lease at inception, which is the date on which the terms of the contract are agreed to, and the agreement creates enforceable rights and obligations. Under Topic 842, a contract is or contains a lease when: (i) explicitly or implicitly identified assets have been deployed in the contract, and (ii) the customer obtains substantially all of the economic benefits from the use of that underlying asset and directs how and for what purpose the asset is used during the term of the contract. The Association also considers whether its service agreements include the right to control the use of an asset.

The Association recognizes its office lease on its consolidated statement of financial position as a right-of-use (ROU) asset representing the right to use an underlying asset and a lease liability representing the obligation to make lease payments over the lease term, measured on a discounted basis. Leases are classified as either finance leases or operating leases based on certain criteria. Classification of the lease affects the pattern of expense recognition in the consolidated statement of activities.

Horatio Alger Association of Distinguished Americans, Inc. and Affiliates

Notes to Consolidated Financial Statements

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

The Association made an accounting policy election under Topic 842 not to recognize ROU assets and lease liabilities for leases with a term of 12 months or less. For all other leases, the Association recognizes ROU assets and lease liabilities based on the present value of lease payments over the lease term at the commencement date of the lease (or January 1, 2022, for existing leases upon the adoption of Topic 842). The ROU assets also include any initial direct costs incurred and lease payments made at or before the commencement date, and are reduced by any lease incentives. To determine the present value of lease payments, the Association made an accounting policy election available to non-public companies to utilize a risk-free borrowing rate, which is aligned with the lease term as the lease commencement date (or remaining term for leases existing upon the adoption of Accounting Standards Codification (ASC) 842).

The Association's leases may include a non-lease component representing additional services transferred to the Association, such as common area maintenance for real estate. The Association made an accounting policy election to account for each separate lease component and the non-lease components associated with that lease component as a single lease component. Non-lease components that are variable in nature are recorded in variable lease expense in the period incurred.

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 U.S. GAAP. Accordingly, such information should be read in conjunction with the Association's consolidated financial statements for the year ended December 31, 2022, from which the summarized information was derived.

Subsequent events: The Association has evaluated subsequent events through August 22, 2024, the date on which 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, 2023:

	Giving Clubs	Awards Activities	Scholarships/ Capital Campaign	Total
Amounts due in:				
Less than one year	\$ 1,525,347	\$ 1,375,000	\$ 5,560,276	\$ 8,460,623
One to five years	2,269,785	250,000	8,119,886	10,639,671
Greater than five years	-	-	950,000	950,000
Gross promises to give	3,795,132	1,625,000	14,630,162	20,050,294
Less unamortized discount on promises to give	(209,296)	-	(985,717)	(1,195,013)
Less allowance for uncollectible promises to give	(164,103)	(32,500)	(298,648)	(495,251)
Promises to give, net	<u>\$ 3,421,733</u>	<u>\$ 1,592,500</u>	<u>\$ 13,345,797</u>	<u>\$ 18,360,030</u>

At December 31, 2023, 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:				
Exchange-traded funds:				
Large blend	\$ 124,852,937	\$ -	\$ -	\$ 124,852,937
Total exchange-traded funds	124,852,937	-	-	124,852,937
Government securities:				
U.S. Treasury securities and government securities	-	24,396,133	-	24,396,133
Total government securities	-	24,396,133	-	24,396,133
Corporate fixed income:				
Technology	-	26,963,881	-	26,963,881
Consumer cyclical	-	23,119,433	-	23,119,433
Communication services	-	20,082,164	-	20,082,164
Healthcare	-	13,256,610	-	13,256,610
Industrial	-	8,839,446	-	8,839,446
Financial	-	10,149,617	-	10,149,617
Consumer defensive	-	6,500,913	-	6,500,913
Basic materials	-	4,641,893	-	4,641,893
Real estate	-	2,582,274	-	2,582,274
Foreign	-	710,549	-	710,549
Total corporate fixed income	-	116,846,780	-	116,846,780
Common stock:				
Financial	6,540,911	-	-	6,540,911
Total common stock	6,540,911	-	-	6,540,911
Total investments at fair value	131,393,848	141,242,913	-	272,636,761
Investments measured using a practical expedient	-	-	-	18,954,428
Redeemable preferred stock	-	-	-	10,000,000
Total investments presented on the statement of financial position	131,393,848	141,242,913	-	301,591,189
Deferred compensation asset	167,582	-	-	167,582
Beneficial interest in perpetual trust	-	-	2,191,432	2,191,432
Total assets at fair value	\$ 131,561,430	\$ 141,242,913	\$ 2,191,432	\$ 303,950,203
Financial liabilities:				
Deferred compensation	\$ -	\$ 167,582	\$ -	\$ 167,582

Horatio Alger Association of Distinguished Americans, Inc. and Affiliates

Notes to Consolidated Financial Statements

Note 3. Fair Value Measurements (Continued)

The exchange-traded funds and common stock 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 no 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.

On November 13, 2022, an individual gifted the Association 10,000 shares of redeemable preferred stock at \$1,000 per share (\$10,000,000 par value). Effective December 22, 2023, the Association received notice of redemption at a redemption price of \$10,000,000. The gift is, therefore, stated at a carrying value of \$10,000,000 as of December 31, 2023.

The investment measured using a practical expedient is not subject to the fair value hierarchy in the table above. The following table presents further information regarding the composition of the fund at December 31, 2023:

Strategy Category	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Leveraged loan portfolio	<u>\$ 18,954,428</u>	<u>\$ -</u>	Up to 25% quarterly	90 Days

Investment income, net of fees for the year ended December 31, 2023, consists of the following:

Unrealized and realized gains	\$ 20,755,406
Interest and dividends	9,589,819
Investment fees	<u>(626,476)</u>
	<u>\$ 29,718,749</u>

Note 4. Furniture, Equipment and Leasehold Improvements

At December 31, 2023, furniture, equipment and leasehold improvements consist of the following:

Furniture and equipment	\$ 1,058,418
Leasehold improvements	338,180
Website	<u>143,694</u>
	1,540,292
Less accumulated depreciation and amortization	<u>1,090,463</u>
	<u>\$ 449,829</u>

Depreciation and amortization expense for the year ended December 31, 2023, was \$123,941.

Horatio Alger Association of Distinguished Americans, Inc. and Affiliates

Notes to Consolidated Financial Statements

Note 5. Scholarships

The expected future payments on the awarded unconditional scholarships at December 31, 2023, are as follows:

Years ending December 31:	
2024	\$ 16,802,461
2025	4,796,229
2026	3,736,952
	<u>25,335,642</u>
Less allowance	(3,424,951)
Less present value discounts	(622,524)
	<u><u>\$ 21,288,167</u></u>

Scholarships expense per the consolidated statement of activities is \$11,779,365 for the year ended December 31, 2023. This amount comprises gross scholarships expenses less forfeitures on scholarships payable of \$3,042,238.

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 \$146,235 for the year ended December 31, 2023.

The Association maintains a deferred compensation plan. Assets and obligations under this plan at December 31, 2023, were \$167,582. For the year ended December 31, 2023, the Association contributed \$608,309 under this plan. The assets are considered Level 1 instruments while the liabilities are considered Level 2.

Note 7. Donor Restricted Net Assets

Donor restricted net assets and related activity as of and for the year ended December 31, 2023, are as follows:

	December 31, 2022	Additions	Releases	December 31, 2023
Scholarships	\$ 4,323,840	\$ 1,843,119	\$ (1,815,109)	\$ 4,351,850
Horatio Alger Membership Programs and Induction Ceremonies	2,080,668	2,533,067	(2,615,000)	1,998,735
Giving clubs	4,271,171	2,102,191	(2,462,222)	3,911,140
Beneficial interest in trust	1,992,140	199,292	-	2,191,432
Capital campaign	11,930,109	4,603,866	(7,150,514)	9,383,461
Donor-restricted permanent endowment	3,323,063	198,173	-	3,521,236
	<u>\$ 27,920,991</u>	<u>\$ 11,479,708</u>	<u>\$ (14,042,845)</u>	<u>\$ 25,357,854</u>

Horatio Alger Association of Distinguished Americans, Inc. and Affiliates

Notes to Consolidated Financial Statements

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. Effective January 1, 2022, the 12-quarter average cash and investment balance through September 30th of the previous calendar year is the basis for determining 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.

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, 2023, were \$11,082,244.

Transfers from donor restricted net assets relating to capital campaign contributions during the year ended December 31, 2023, were comprised of cash collections totaling \$7,150,514.

The Association's endowment funds consist of the following balances and activity during the year ended December 31, 2023:

	Board- Designated Endowment	Time and Donor Restricted for Board- Designated Endowment	With Donor Restrictions	Total
Net assets, December 31, 2022	\$ 290,682,827	\$ 11,930,109	\$ 3,323,063	\$ 305,935,999
Contributions	-	4,603,866	-	4,603,866
Transfers from donor restricted net assets	7,150,514	(7,150,514)	-	-
Net investment gains	30,047,621	-	198,173	30,245,794
Appropriation of endowment assets for expenditure	(14,996,100)	-	-	(14,996,100)
Net assets, December 31, 2023	<u>\$ 312,884,862</u>	<u>\$ 9,383,461</u>	<u>\$ 3,521,236</u>	<u>\$ 325,789,559</u>

Horatio Alger Association of Distinguished Americans, Inc. and Affiliates

Notes to Consolidated Financial Statements

Note 8. Endowment (Continued)

The Association had the following endowment-related balances as of December 31, 2023:

	Without Donor Restrictions	Time and Donor Restricted for Board- Designated Endowment	With Donor Restrictions	Total
Donor-restricted endowment funds	\$ -	\$ 9,383,461	\$ 3,521,236	\$ 12,904,697
Board-designated endowment funds	312,884,862	-	-	312,884,862
	<u>\$ 312,884,862</u>	<u>\$ 9,383,461</u>	<u>\$ 3,521,236</u>	<u>\$ 325,789,559</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, 2023, was approximately \$273,000.

Future undiscounted cash flows under Topic 842 for each of the next three years and thereafter, and reconciliation to the lease liability recognized on the consolidated statement of financial position as of December 31, 2023, is as follows:

Years ending December 31:	
2024	\$ 313,662
2025	323,046
2026	110,368
Future minimum lease payments	<u>747,076</u>
Less imputed interest	<u>(17,957)</u>
Discounted long-term lease liability	<u>\$ 729,119</u>

Cash paid on the lease during the year ended December 31, 2023, was approximately \$305,000.

Supplemental consolidated statement of financial position information related to the lease is as follows:

Operating lease asset	\$ 619,996
Operating lease liability, net	\$ 729,119
Weighted-average remaining lease term:	
Operating lease	2.33 years
Weighted-average discount rate:	
Operating lease	2.00%

Horatio Alger Association of Distinguished Americans, Inc. and Affiliates

Notes to Consolidated Financial Statements

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 six 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, 2023, the Association paid certain expenses on behalf of HAAC. At December 31, 2023, \$691,837 was owed to the Association and is included as receivables due from HAAC on the consolidated statement of financial position. During the year ended December 31, 2023, the Association additionally provided HAAC \$37,000 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 Association has entered into several agreements for meeting space for future meetings. In the event of cancellation, the Association is required to pay various costs as stipulated in the contracts, the amounts of which are dependent upon the date of cancellation. This amount is not accrued in the accompanying consolidated financial statements as management does not believe any losses will be incurred under these contracts.

Note 12. Liquidity and Financial Availability

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

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.

Horatio Alger Association of Distinguished Americans, Inc. and Affiliates

Notes to Consolidated Financial Statements

Note 12. Liquidity and Financial Availability (Continued)

The table below represents financial assets available for general expenditures within one year of December 31, 2023:

Cash and cash equivalents	\$ 40,926,421
Investments	301,591,189
Promises to give, net	18,360,030
Receivables due from HAAC	<u>691,837</u>
	361,569,477
Less:	
Board-designated net assets*	312,884,862
Donor restricted net assets	<u>25,357,854</u>
Financial assets available to meet cash needs for general expenditures within one year	<u><u>\$ 23,326,761</u></u>

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