

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

Consolidated Financial Report  
December 31, 2022

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RSM US LLP

## 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, 2022, 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, 2022, 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.

### Emphasis of Matter

As discussed in Note 1 to the financial statements, the Association has changed its method of accounting for leases effective January 1, 2022, due to the adoption of Financial Accounting Standards Board's Accounting Standards Codification Topic 842, Leases. Our opinion is not modified with respect to this matter.

### 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.

*RSM US LLP*

McLean, Virginia  
September 5, 2023

Horatio Alger Association of Distinguished Americans, Inc. and Affiliates

Consolidated Statement of Financial Position  
December 31, 2022

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**Assets**

Cash and cash equivalents	\$ 31,170,644
Investments	287,632,330
Prepaid expenses and other assets	2,706,981
Promises to give, net	22,710,564
Receivables due from HAAC	284,586
Investments in deferred compensation assets	92,499
Furniture, equipment and leasehold improvements, net	411,595
Operating lease right-of-use asset	875,694
Beneficial interest in perpetual trust	1,992,140

\$ 347,877,033

**Liabilities and Net Assets**

Liabilities:

Accounts payable and accrued expenses	\$ 2,025,449
Scholarships payable, net	22,863,259
Deferred compensation plan obligations	92,499
Lease liabilities, net	1,015,914
<b>Total liabilities</b>	<u><u>25,997,121</u></u>

Commitments and contingency (Note 11)

Net assets:

Without donor restrictions:

Undesignated	3,276,094
Board-designated endowment assets	290,682,827
	<u>293,958,921</u>

With donor restrictions

27,920,991  
321,879,912

\$ 347,877,033

See notes to consolidated financial statements.

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

### Consolidated Statement of Activities Year Ended December 31, 2022

	Without Donor Restrictions	With Donor Restrictions	Total
<b>Support and revenue:</b>			
Contributions:			
Horatio Alger Membership Programs and Induction Ceremonies	\$ 13,218,829	\$ 1,475,825	\$ 14,694,654
Scholarships and other	2,547,250	1,244,225	3,791,475
Capital campaign	32,153	19,564,133	19,596,286
Giving clubs	122,777	433,418	556,195
Other revenue	83,405	-	83,405
Loss on abrogated promises to give	-	(525,000)	(525,000)
Satisfaction of program restrictions:			
Scholarships	2,326,809	(2,326,809)	-
Induction ceremony	2,478,740	(2,478,740)	-
Satisfaction of time restrictions:			
Capital campaign	21,956,839	(21,956,839)	-
Giving clubs	1,679,626	(1,679,626)	-
<b>Total support and revenue</b>	<b>44,446,428</b>	<b>(6,249,413)</b>	<b>38,197,015</b>
<b>Expenses:</b>			
Program services:			
Membership and induction	8,142,154	-	8,142,154
Member support and meetings	4,418,547	-	4,418,547
Scholarships	4,129,875	-	4,129,875
Alumni scholars	2,135,693	-	2,135,693
National Scholars' Conference	1,963,821	-	1,963,821
National Scholars' visibility	1,515,386	-	1,515,386
Scholar services and support	896,399	-	896,399
Educational media and publications	699,791	-	699,791
Research	577,127	-	577,127
Field directors	250,589	-	250,589
<b>Total program services</b>	<b>24,729,382</b>	<b>-</b>	<b>24,729,382</b>
Supporting services:			
Management and general	2,821,130	-	2,821,130
Fundraising	1,251,138	-	1,251,138
<b>Total supporting services</b>	<b>4,072,268</b>	<b>-</b>	<b>4,072,268</b>
<b>Total expenses</b>	<b>28,801,650</b>	<b>-</b>	<b>28,801,650</b>
<b>Change in net assets before other changes</b>	<b>15,644,778</b>	<b>(6,249,413)</b>	<b>9,395,365</b>
Other changes:			
Investment loss, net	(30,836,181)	(169,507)	(31,005,688)
Change in value of beneficial interest in perpetual trust	-	(448,848)	(448,848)
Other income	256,241	-	256,241
<b>Change in net assets</b>	<b>(14,935,162)</b>	<b>(6,867,768)</b>	<b>(21,802,930)</b>
Net assets:			
Beginning	308,894,083	34,788,759	343,682,842
Ending	<b>\$ 293,958,921</b>	<b>\$ 27,920,991</b>	<b>\$ 321,879,912</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, 2022

	Supporting Services														
	Membership and Induction	Member Support and Meetings	Scholarships	Alumni Scholars	National Scholars' Conference	National Scholars' Visibility	Scholar Support Services and Support	Educational Media and Publications	Research	Field Directors	Total Program Services	Management and General	Fundraising	Total Supporting Services	Total
Scholarships and grant, net	\$ -	\$ 683,412	\$ 2,210,748	\$ 13,000	\$ -	\$ -	\$ 88,574	\$ -	\$ -	\$ -	\$ 2,995,734	\$ -	\$ -	\$ -	\$ 2,995,734
Professional fees	377,211	293,620	716,424	175,846	244,920	18,277	443,685	269,991	300,200	60,810	2,900,984	608,605	-	608,605	3,509,589
Salaries and taxes	596,493	526,927	431,465	100,594	100,022	-	156,767	192,713	142,441	56,170	2,303,592	1,051,340	760,868	1,812,208	4,115,800
Benefits	149,012	131,825	107,710	55,943	25,015	-	41,696	47,871	35,363	14,037	608,472	263,042	189,679	452,721	1,061,193
Temporary help	6,147	5,438	4,444	5,986	1,032	-	1,604	1,975	1,459	579	28,664	10,834	7,825	18,659	47,323
Bad debt	-	-	-	-	-	-	-	-	-	-	-	40,000	-	40,000	40,000
Production and entertainment	4,027,559	1,327,196	10,713	689,448	449,197	688,366	96	-	-	-	7,192,575	17,000	-	17,000	7,209,575
Public relations	107,899	56,826	177,927	104,099	47,269	489,687	8,833	-	-	29	992,569	20,567	-	20,567	1,013,136
Special event administration	323,187	157,377	-	58,726	169,429	475	-	-	-	10,403	719,597	78,812	-	78,812	798,409
Occupancy	90,426	37,778	30,690	16,687	7,128	-	11,076	13,640	10,076	4,000	221,501	68,861	54,044	122,905	344,406
Hotel	768,975	311,289	90,160	288,664	350,447	155,772	6,493	-	41,602	36,338	2,049,740	662	-	662	2,050,402
Meals	764,885	373,698	29,984	280,160	283,151	107,722	9,032	-	4	23,426	1,872,062	46,632	-	46,632	1,918,694
Other expenses	930,360	513,161	319,610	346,540	286,211	55,087	128,543	173,601	45,982	44,797	2,843,892	614,775	238,722	853,497	3,697,389
	<u>\$ 8,142,154</u>	<u>\$ 4,418,547</u>	<u>\$ 4,129,875</u>	<u>\$ 2,135,693</u>	<u>\$ 1,963,821</u>	<u>\$ 1,515,386</u>	<u>\$ 896,399</u>	<u>\$ 699,791</u>	<u>\$ 577,127</u>	<u>\$ 250,589</u>	<u>\$ 24,729,382</u>	<u>\$ 2,821,130</u>	<u>\$ 1,251,138</u>	<u>\$ 4,072,268</u>	<u>\$ 28,801,650</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, 2022

Cash flows from operating activities:	
Change in net assets	\$ (21,802,930)
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Unrealized and realized loss on investments	38,755,108
Change in discount on contributions receivable	(90)
Change in allowance on contributions receivable	(125,583)
Depreciation and amortization	108,215
Forfeitures on scholarships payable—graduated, unused balance	(481,914)
Forfeitures on scholarships payable—other	(3,571,765)
Change in allowance for scholarship forfeitures	957,388
Change in discount on scholarships payable	140,948
Change in beneficial interest in perpetual trust	448,848
Amortization of operating lease right-of-use asset	252,265
Changes in assets and liabilities	
(Increase) decrease in:	
Prepaid expenses and other assets	(171,447)
Promises to give	4,815,386
Receivables due from HAAC	7,808
Increase (decrease) in:	
Accounts payable and accrued expenses	1,435,438
Scholarships payable	(5,796,230)
Deferred compensation plan obligations	(2,143,077)
Lease liabilities	(274,471)
<b>Net cash provided by operating activities</b>	<b>12,553,897</b>
Cash flows from investing activities:	
Purchases of investments	(354,305,631)
Redemption of deferred compensation assets	2,143,077
Proceeds from sales and maturities of investments	334,453,226
Purchases of furniture, equipment and leasehold improvements	(43,065)
<b>Net cash used in investing activities</b>	<b>(17,752,393)</b>
<b>Net decrease in cash and cash equivalents</b>	<b>(5,198,496)</b>
Cash and cash equivalents:	
Beginning	36,369,140
Ending	\$ 31,170,644

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:

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

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

**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.

## 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)

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 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.

**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.

**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.

**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.

**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.

## 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)

**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.

**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. Cash held by investment advisors are considered investments.

**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.

## 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)

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 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.

See Note 3 for description of the preferred stock gift received that is reported at cost.

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, 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, 2022.

## 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)

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 requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

**Adopted accounting pronouncement:** In February 2016, the FASB issued Accounting Standards Update (ASU) 2016-02, Leases (Topic 842), to increase transparency and comparability among organizations related to their leasing arrangements. This comprehensive new standard amends and supersedes existing lease accounting guidance and is intended to increase transparency and comparability among organizations by recognizing right-of-use (ROU) lease assets and lease liabilities on the statement of financial position and requiring disclosure of key information about leasing arrangements. Lease expense continues to be recognized in a manner similar to legacy U.S. GAAP. The Association adopted the new lease standard on January 1, 2022, using the optional transition method to the modified retrospective approach. Under this transition provision, results for reporting periods beginning on January 1, 2022, are presented under Topic 842.

To reduce the burden of adoption and ongoing compliance with Topic 842, a number of practical expedients and policy elections are available under the new guidance. The Association elected the "package of practical expedients" permitted under the transition guidance which, among other things, did not require reassessment of whether contracts entered into prior to adoption are or contain leases, and allowed carryforward of the historical lease classification for existing leases. The Association has not elected to adopt the "hindsight" practical expedient and, therefore, will measure the ROU asset and lease liability using the remaining portion of the lease term at adoption on January 1, 2022.

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.

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.

## 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 lessee that is not a public business entity (PBE) is permitted to use a risk-free discount rate for its leases, determined using a period comparable with that of the lease term, as an accounting policy election for all leases. In order to ease the accounting burden of determining incremental borrowing rates under ASC 842, the Association has made this accounting policy election for all leases. The risk-free discount rates were obtained using U.S. Treasury securities as posted on the Federal Reserve website.

Adoption of Topic 842 resulted in the recording of ROU assets and lease liabilities related to the Association's operating lease and finance lease of \$1,127,959 and \$1,290,386, respectively, on January 1, 2022. The adoption of the new lease standard did not materially impact the consolidated changes in net assets or consolidated cash flows, and did not result in a cumulative-effect adjustment to the opening balance of net assets.

**Subsequent events:** The Association has evaluated subsequent events through September 5, 2023, 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, 2022:

	Giving Clubs	Awards Activities	Scholarships/ Capital Campaign	Total
Amounts due in:				
Less than one year	\$ 1,770,000	\$ 1,550,000	\$ 7,218,465	\$ 10,538,465
One to five years	2,337,355	-	10,442,044	12,779,399
Greater than five years	-	-	1,100,000	1,100,000
Gross promises to give	4,107,355	1,550,000	18,760,509	24,417,864
Less unamortized discount on promises to give	(161,488)	-	(1,069,246)	(1,230,734)
Less allowance for uncollectible promises to give	(82,147)	(31,000)	(363,419)	(476,566)
Promises to give, net	\$ 3,863,720	\$ 1,519,000	\$ 17,327,844	\$ 22,710,564

At December 31, 2022, 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
<b>Assets:</b>				
Equity mutual funds:				
Large blend	\$ 122,860,958	\$ -	\$ -	\$ 122,860,958
Total equity mutual funds	122,860,958	-	-	122,860,958
Government securities:				
U.S. Treasury securities and government securities	-	27,162,764	-	27,162,764
Total government securities	-	27,162,764	-	27,162,764
Corporate fixed income:				
Technology	-	27,872,816	-	27,872,816
Consumer cyclical	-	25,327,615	-	25,327,615
Communication services	-	22,094,868	-	22,094,868
Healthcare	-	12,273,978	-	12,273,978
Industrial	-	11,929,645	-	11,929,645
Financial	-	9,779,577	-	9,779,577
Consumer defensive	-	6,614,634	-	6,614,634
Basic materials	-	3,488,129	-	3,488,129
Real estate	-	2,543,946	-	2,543,946
Foreign	-	1,404,968	-	1,404,968
Total corporate fixed income	-	123,330,176	-	123,330,176
Common stock:				
Financial	5,624,532	-	-	5,624,532
Total common stock	5,624,532	-	-	5,624,532
Total investments at fair value	128,485,490	150,492,940	-	278,978,430
Preferred stock	-	-	-	8,653,900
Total investments presented on the statement of financial position	128,485,490	150,492,940	-	287,632,330
Money market funds in cash and cash equivalents	17,852,891	-	-	17,852,891
Deferred compensation asset	92,499	-	-	92,499
Beneficial interest in perpetual trust	-	-	1,992,140	1,992,140
Total assets at fair value	\$ 146,430,880	\$ 150,492,940	\$ 1,992,140	\$ 307,569,860
Financial liabilities:				
Deferred compensation	\$ -	\$ 92,499	\$ -	\$ 92,499

## 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 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). An external valuation valued the gift at \$8,653,900, based on the present value of expected future dividends and redemptions. The gift is therefore stated at a carrying value of \$8,653,900 as of December 31, 2022.

Investment loss, net of fees for the year ended December 31, 2022, consists of the following:

Unrealized and realized loss	\$ (38,755,108)
Interest and dividends	8,246,291
Investment fees	(496,871)
	<u>\$ (31,005,688)</u>

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

At December 31, 2022, furniture, equipment and leasehold improvements consist of the following:

Furniture and equipment	\$ 1,039,938
Leasehold improvements	338,180
	<u>1,378,118</u>
Less accumulated depreciation and amortization	966,523
	<u>\$ 411,595</u>

Depreciation and amortization expense for the year ended December 31, 2022, was \$108,215.

#### Note 5. Scholarships

The expected future payments on the awarded unconditional scholarships at December 31, 2022, are as follows:

Years ending December 31:	
2023	\$ 17,828,690
2024	5,332,051
2025	1,238,694
	<u>24,399,435</u>
Less allowance	(1,302,941)
Less present value discounts	(233,235)
	<u>\$ 22,863,259</u>



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

### Notes to Consolidated Financial Statements

#### Note 5. Scholarships (Continued)

Scholarships expense per the Statement of Activities is \$4,129,875 for the year ended December 31, 2022. This amount comprises gross scholarships expenses less forfeitures on scholarships payable of \$4,053,679. Typically the Association's forfeitures represent a smaller portion of gross scholarship expenses. However, beginning in 2022, the Association awarded most scholarships to high school juniors, whereas in prior years the Association awarded scholarships to high school seniors. Due to 2022 being the year of transition, gross scholarship expenses recorded by the Association saw a significant decrease, as the scholarships awarded to juniors are considered to be conditional.

#### 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 \$133,713 for the year ended December 31, 2022.

The Association maintains a deferred compensation plan. Assets and obligations under this plan at December 31, 2022, were \$92,499. For the year ended December 31, 2022, the Association contributed \$642,082 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, 2022, are as follows:

	December 31, 2021	Additions	Loss on investments	Releases and Rescinded Pledges	December 31, 2022
Scholarships	\$ 5,931,424	\$ 1,244,225	\$ -	\$ (2,851,809)	\$ 4,323,840
Horatio Alger Membership Programs and Induction Ceremonies	3,083,583	1,475,825	-	(2,478,740)	2,080,668
Giving clubs	5,517,378	433,418	-	(1,679,626)	4,271,170
Beneficial interest in trust	2,440,989	-	(448,848)	-	1,992,141
Capital campaign	14,322,815	19,564,133	-	(21,956,839)	11,930,109
Donor-restricted permanent endowment	3,492,570	-	(169,507)	-	3,323,063
	<u>\$ 34,788,759</u>	<u>\$ 22,717,601</u>	<u>\$ (618,355)</u>	<u>\$ (28,967,014)</u>	<u>\$ 27,920,991</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 30<sup>th</sup> 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, 2022, were \$22,660,233.

Transfers from donor restricted net assets relating to capital campaign contributions during the year ended December 31, 2022, were comprised of cash collections totaling \$25,052,939.

The Association's endowment funds consist of the following balances and activity during the year ended December 31, 2022:

	Board- Designated Endowment	Time and Donor Restricted for Board- Designated Endowment	With Donor Restrictions	Total
Net assets, December 31, 2021	\$ 302,653,375	\$ 14,322,815	\$ 3,492,570	\$ 320,468,760
Contributions	-	19,564,133	-	19,564,133
Transfers from donor restricted net assets	21,956,839	(21,956,839)	-	-
Net investment loss	(30,836,181)	-	(169,507)	(31,005,688)
Appropriation of endowment assets for expenditure	(3,091,206)	-	-	(3,091,206)
Net assets, December 31, 2022	\$ 290,682,827	\$ 11,930,109	\$ 3,323,063	\$ 305,935,999

## 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, 2022:

	Without Donor Restrictions	Time and Donor Restricted for Board- Designated Endowment	With Donor Restrictions	Total
Donor-restricted endowment funds	\$ -	\$ 11,930,109	\$ 3,323,063	\$ 15,253,172
Board-designated endowment funds	290,682,827	-	-	290,682,827
	<u>\$ 290,682,827</u>	<u>\$ 11,930,109</u>	<u>\$ 3,323,063</u>	<u>\$ 305,935,999</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, 2022, was approximately \$282,000.

Future undiscounted cash flows under Topic 842 for each of the next years and thereafter and reconciliation to the lease liability recognized on the consolidated statement of financial position as of December 31, 2022, is as follows:

Years ending December 31:	
2023	\$ 304,507
2024	313,662
2025	323,046
2026	110,368
Future minimum lease payments	<u>1,051,583</u>
Less imputed interest	<u>(35,669)</u>
Discounted long-term lease liability	<u>\$ 1,015,914</u>

Cash paid on the lease during the year ended December 31, 2022, was approximately \$296,000.

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

Operating lease asset	\$ 875,694
Operating lease liability	1,015,914
Weighted-average remaining lease term:	
Operating lease	4.33 years
Weighted-average discount rate:	
Operating lease	2.00%
FY22 rent expense	281,750

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

### Notes to Consolidated Financial Statements

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#### **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, 2022, the Association paid certain expenses on behalf of HAAC. At December 31, 2022, \$284,586 was owed to the Association and is included within other receivables on the consolidated statement of financial position. During the year ended December 31, 2022, the Association additionally provided HAAC \$187,428 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.

#### **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

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#### Note 12. Liquidity and Financial Availability (Continued)

The table below represents financial assets available for general expenditures within one year of December 31, 2022:

Cash and cash equivalents	\$ 31,170,644
Investments	287,632,330
Contributions receivable, net	22,710,564
Other receivables	284,586
	<hr/>
	341,798,124
Less:	
Board-designated net assets*	290,682,827
Donor restricted net assets	27,920,991
	<hr/>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 23,194,306</u>

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