



HALLMARKS

SUMMARY OF RESULTS FOR 2019
& BUDGET FOR 2020



Combined Leadership Horatio Alger Association Executive Committee and Horatio Alger Endowment Fund Board of Directors



MATTHEW K. ROSE
HAADA Chairman



JAMES F. DICKE II
HAADA President



GREGORY E. ABEL*
HAADA Vice President



ANTHONY WELTERS
HAADA Treasurer
HAEF Assistant Secretary



WALTER SCOTT, JR.
HAADA Chairman Emeritus
HAEF Chairman and President



V. PREM WATSA
HAADA Executive Committee
President, Horatio Alger
Association of Canada



BYRON D. TROTT
HAADA Immediate Past
Chairman



PAUL ANTHONY NOVELLY
HAADA Chairman Emeritus
HAEF Director



DAVID L. SOKOL
HAADA Chairman Emeritus
HAEF Vice President



JOSEPH NEUBAUER
HAADA Chairman Emeritus
HAEF Secretary



DENNIS R. WASHINGTON
HAADA Chairman Emeritus
HAEF Director



VALERIE MONTGOMERY RICE
HAA Member-at-Large

HAADA = Horatio Alger
Association of Distinguished
Americans Executive
Committee

HAEF = Horatio Alger
Endowment Fund Board of
Directors



GREG RENKER
HAADA Member-at-Large



JAMES M. SENEFF, JR.
HAEF Director

*Mr. Abel's appointment as the Association's new Vice President is pending approval by the Board of Directors at the meeting on October 8, 2020.

HALLMARKS OF EXCELLENCE

SUMMARY OF RESULTS FOR 2019 AND BUDGET FOR 2020

The Mission Continues

The mission, programs, and priorities of the Horatio Alger Association of Distinguished Americans are reflected each year in the Association's annual budget. In partnership with the Horatio Alger Endowment Fund and the Horatio Alger Association of Canada, the Horatio Alger Association continually seeks new and expanded ways to conduct the mission and educational programs that underscore the strong belief that limitless possibilities exist for those who attain an education and work hard in pursuit of their goals—even in the midst of a pandemic. Based on their commitment and generosity, Members, Life Partners, and Friends of Distinction commit their financial resources to expand programs and services for Members, Scholars, and Alumni to ensure the American Dream for future generations.

Through effective leadership of the Executive Committee and the Boards of Directors of the Association, the Horatio Alger Endowment Fund, and the Horatio Alger Association of Canada, the philanthropy of Members has enabled each year's annual budget to have a positive bottom line, while consistently expanding scholarship programs and services to meet the needs of Members, Alumni, and Scholars.

This report documents the 2019 year-end fiscal results and the budget for 2020. The 2020 budget includes modifications to revenues and certain expense categories that were necessary due to the cancellation of the 73rd Horatio Alger Awards. However, all Scholarship and Educational Programs remain fully funded. Funding for Scholar Support Services has also been increased to aid students needing emergency assistance because of COVID-19.

A summary of the 2019 year-end results and the budget for 2020 are as follows:

OPERATING FUND	Approved 2019 Budget	Actual 2019*	2020 Budget
Revenue	\$31,323,000	\$29,352,913	\$29,813,000
Short-Term Investment Revenue	500,000	1,954,198	250,000
Total Revenue	31,823,000	31,307,111	30,063,000
Expenses	31,270,000	31,203,863	30,040,000
REVENUE OVER EXPENSES	\$553,000	\$103,248	\$23,000

**Unaudited and presented on the modified cash basis of accounting.*

Meetings that were part of the 2019 International Membership and Board of Directors Meeting, October 2-4, 2019, Montreal, Canada



Strategic Directions Committee Meeting



Executive Committee Meeting



Horatio Alger Association of Canada Meeting



Horatio Alger Association of Distinguished Americans Board of Directors Meeting



Horatio Alger Membership Meeting



Life Partners Planning Breakfast

2019 IN REVIEW

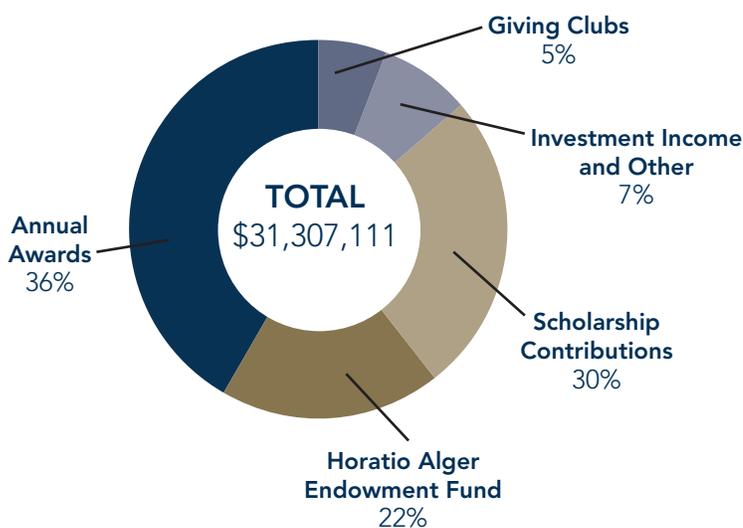
The Association created a strong philanthropic program in 1984 to assist young people in achieving the American Dream through educational opportunities ranging from certification programs at community colleges to postgraduate studies. The Board of Directors has long-established financial policies and practices to safeguard the Association's reputation as a responsible and trustworthy organization deserving of philanthropic support from its Members and Friends. These policies have led to Charity Navigator conveying its highest rating (4 stars) for the past four years to the Association because of its financial strength, low administrative and fundraising costs, transparency, and effectiveness.

2019 YEAR-END RESULTS

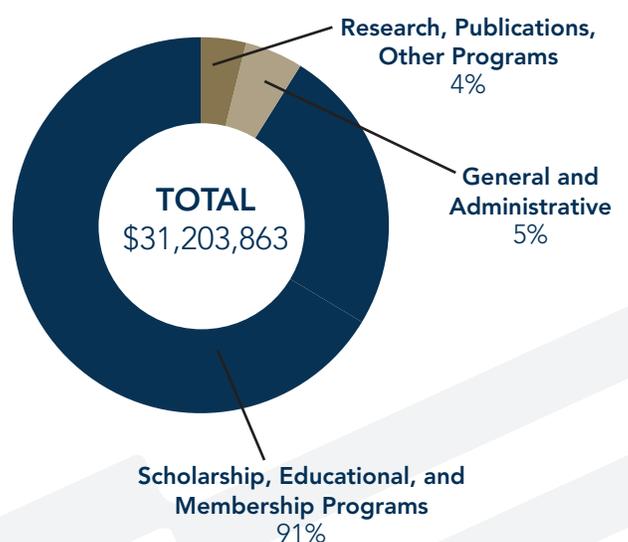
The fiscal year ending December 31, 2019, resulted in a small operating surplus. The Association presents internal financial reports on the modified cash basis of accounting, where revenues are reported in the fiscal year in which they are received in cash. The Association's audited (or external) financial statements are presented on the accrual basis, incorporating pledged (but not necessarily paid) contributions. The Executive Committee considers the modified cash method to be the most fiscally conservative approach.

In 2019, Awards revenues exceeded \$13 million, of which \$2 million was dedicated to U.S. and Canadian Scholarships and other programs. Other revenue sources are Giving Clubs, annual sponsorship of scholarships by Members and Friends of Distinction, transfers from the Horatio Alger Endowment Fund for endowed scholarship programs, and short-term investments in the operating fund (which is separate from earnings on investments held in the Horatio Alger Endowment Fund).

2019 REVENUES*



2019 EXPENSES*



*Unaudited

GOVERNANCE TRANSITIONS AND SPECIAL NOTES

In October 2019, as Byron D. Trott ('11) transitioned to Immediate Past Chairman/Chairman Emeritus, Matthew K. Rose assumed the role as Chairman of the Horatio Alger Association of Distinguished Americans and James F. Dicke II ('15) as its President, each for a two-year term. In October 2020, Gregory E. Abel ('18) will become Association Vice President.

New Board Directors elected or pending election to the Board in 2019 and 2020 are:

- Elected in 2019: Gregory E. Abel ('18), Ronald M. Bergeron, Sr. ('18), Don R. Daseke ('18), Linda D. Rabbitt ('16), and Ernest S. Rady ('18)
- Pending election in 2020: Mark E. Davis ('16), Alphonso R. Jackson ('18), Mike Jackson ('14), Clarence Otis, Jr. ('07).

New Officers elected or pending election to the Executive Committee in 2019 and 2020 are:

- Elected in 2019: Valerie Montgomery Rice ('17), Member-At-Large
- Pending election in 2020: Gregory E. Abel ('18), Vice President

New Vice Presidents elected to the Horatio Alger Association of Canada's Board in 2019 were:

- Jay S. Hennick ('19), Vice President
- David Johnston ('18), Vice President

The Horatio Alger Association of Canada Foundation was incorporated as a charitable organization by the Canadian Government on February 20, 2020. The Foundation was created to hold the Horatio Alger Association of Canada's endowment funds. It is the counterpart to the Horatio Alger Endowment Fund in the U.S.

Tom Selleck ('00) has been selected to receive the Norman Vincent Peale Award in 2021 in appreciation for his leadership during the Awards Induction Ceremony (2010–2017), his commitment to Horatio Alger Scholars, and his efforts in support of the Association's ongoing national visibility campaign.

(L to R) President V. Prem Watsa ('12), President Emeritus Dominic D'Alessandro ('05), and Vice Presidents Serge Godin ('15) and David Johnston ('18) at the 2019 Horatio Alger Association of Canada's Board of Directors Meeting.



FISCAL STRUCTURE

The Horatio Alger Association operates under two tax-exempt corporations: the Horatio Alger Association of Distinguished Americans, Inc., and the Horatio Alger Endowment Fund, Inc.:

Horatio Alger Association of Distinguished Americans, Inc.



The Operating Fund of the Horatio Alger Association of Distinguished Americans provides the day-to-day management for scholarship programs, Member programs and services, national visibility initiatives, research, Alumni and Scholar educational programs, the general administration of the organization, and fundraising efforts.

Program and educational services accounted for approximately 95 percent of expenses in 2019, with the remaining 5 percent used for administration and fundraising purposes.

The Operating Fund carries the liability for all unpaid scholarships awarded in prior years that the Association is obligated to pay (generally over a six-year period). The liability as of December 31, 2019, was \$34.1 million, which is covered by existing funds segregated for scholarships, plus pledges receivable from Members and Friends.

The operating budget for 2019 was approximately \$31 million. Sources of funding include:

- Annual Awards events
- Scholarship gifts from Members and Friends, plus transfers from the Endowment Fund for endowed programs
- Giving Clubs
- Income from short-term investments

Support for the annual Horatio Alger Awards events comprises the largest single source of revenue for the Association's Operating Fund. The 2019 Awards provided funding for the following programs and services:

- National Scholarships and National Scholars Conference
- Awards induction ceremonies
- Membership programs and meetings
- Scholar and Alumni programs
- Administration and fundraising

Horatio Alger Endowment Fund



The Horatio Alger Endowment Fund (HAEF) was established in 2011 to create a long-term source of funding for the Association's scholarship and certain other programs. HAEF is governed by a board of directors composed of:

- Walter Scott, Jr. ('97), Chairman & President
- David L. Sokol ('04), Vice President
- Joseph Neubauer ('94), Secretary
- Anthony Welters ('98), Assistant Secretary
- Tony Novelly ('00), Director
- James M. Seneff, Jr. ('10), Director
- Dennis R. Washington ('95), Director



*Walter Scott, Jr. ('97),
Chairman and President,
Horatio Alger
Endowment Fund*

Beginning with \$60 million in 2011, at year-end 2019, HAEF reached approximately \$293.3 million, including \$45.8 million in pledges and bequests. This figure also includes approximately \$21.3 million that has been transferred from the Association's operating surpluses over the years. The Board invests the funds



Horatio Alger Board Directors at the 2019 Board Meeting in Montreal, Canada.

to provide financial support for approved programs. HAEF's assets are currently invested in a range of U.S. equities and fixed income instruments. The St. Louis office of Mercer Investment Management, Inc., serves as the investment counsel for HAEF, and the Board of Directors oversees the investment strategy. The breakdown of the \$247.5 million investment portfolio as of December 31, 2019, was:

- Equities 30%
- Fixed income 56%
- Cash 14%

These percentages include designated funds where the donors stipulated certain permitted investment vehicles, such as fixed income or cash.

The Fund's Board sets a spending policy that limits the percentage of the Fund's undesignated assets that may be used annually to support scholarships and programs. Beginning in 2019, the Board-approved spending policy is 4 percent per year (a decrease from the previous level of 5 percent for several years prior to that).

Restricted gifts having specific time durations are excluded from the 4 percent calculation (e.g., the gift from T. Denny Sanford ['16] will distribute 10 percent of the gift's corpus each year during its 10-year duration from 2019 to 2028).

Uses of HAEF contributions include:

- Endowment of scholarship programs to ensure that scholarship commitments made by the Association are honored regardless of economic conditions. Members and Friends of Distinction have generously provided significant restricted and unrestricted gifts to endow National, State, Graduate, Specialized, Canadian, and Career/Technical scholarships.
- The Endowment Fund Board has also used unrestricted gifts for the purpose of increasing the number and size of National and State Scholarships. The Association's Board voted to increase the National Scholarship from \$22,000 to \$25,000, and the State Scholarship from \$7,000 to \$10,000 in 2017 in celebration of the Association's 70th anniversary. HAEF provides the increase in both scholarship programs, unless otherwise covered by donors.
- Support for a limited number of State Scholarships in those states that currently do not have sponsorship from a Member or Friend.

SOURCES OF FUNDING FOR ASSOCIATION SCHOLARSHIPS

Scholarships account for the largest expenditure for the Horatio Alger Association. In 2019, scholarship funding totaled \$18.4 million in the U.S. to over 2,100 Scholars. Five types of scholarship programs are supported by the Association:

- National Scholarships
- State Scholarships
- Specialized Scholarships (unique programs funded by individual donors)
- Graduate Scholarships
- Career & Technical Education Scholarships

Scholarships are typically funded in one of the following ways:

- Horatio Alger Association Operating Funds (Awards contributions, Giving Club support, annual scholarship gifts from Members and Friends)
- Endowment Fund (unrestricted and restricted gifts from donors, investment income, and transfers based on the HAEF Board's spending policy)

Support for Horatio Alger scholarships that will be granted during the same fiscal year is held in special scholarship accounts within the Association's Operating Fund. A common scenario is for a Member or Friend to pledge support for a particular scholarship (for scholars from a certain state, for example) over multiple years. The donor then makes annual payments to the Operating Fund that are awarded as scholarships in the same fiscal year. For more indefinite, endowed scholarship programs, donors typically direct their contributions to HAEF, and transfers are made to the Operating Fund to cover the designated scholarships as they are awarded each year. The minimum endowed scholarship program is generally \$1 million.

In some cases, Horatio Alger scholarship programs may be underwritten with support from both the Operating Fund and the HAEF. Statistics for the 2019 programs are as follows:

- National Scholarships awarded in 2019 totaled \$2.65 million with \$2.53 million from the Operating Fund and \$125,000 from HAEF.
- State/Specialized Scholarships, totaling \$13.6 million in 2019, were funded with \$7.4 million from the Operating Fund through annual gifts from Members and Friends and \$6.2 million from HAEF designated and undesignated funds.
- Career & Technical—of the \$2.1 million granted in 2019, \$1.9 million was from annual Operating Fund gifts, and \$240,000 was from HAEF restricted funds. Starting in 2020, Career & Technical scholarships will increase significantly due to a ten-year grant of \$15 million from the Suzanne and Walter Scott Foundation.

At the current level of scholarship giving, the Association will have awarded approximately \$236 million by its 75th anniversary in 2022.

RECENT EDUCATION GIFTS OF NOTE:

Recent major gifts to support the expansion of Association scholarship programs include:

- James F. Dicke II ('15) – \$1 million contribution to the Endowment Fund to establish the Janet S. Dicke Scholarship Program for students attending Trinity University (San Antonio, TX), including educational, financial, and emotional support counseling services, in addition to tuition support.
- Chandrika Tandon ('19) – \$1 million pledge to establish a five-year scholarship program for students pursuing STEM degrees at the NYU Tandon School of Engineering.
- Patrick P. Lee ('13) – \$1 million contribution to the Horatio Alger Endowment Fund to create the Patrick P. Lee Scholarship Program for students pursuing degrees in psychology, counseling, sociology, and engineering.

- Nido Qubein ('06) – facilitated the establishment of the High Point University Scholarship Program, which has a \$1 million endowment, for students pursuing degrees at High Point University.
- Dennis R. Washington ('95) – \$800,000 pledge to establish the College of Idaho Scholarship Program.
- Foster Friess ('12) – \$500,000 pledge to establish the Outriders Scholarship Program for students in Wyoming who want to pursue a career or technical program at a community college/technical institution in Wyoming.
- Jordan Zimmerman ('15) – increase of \$2 million bequest to \$5 million.
- Peter W. Stott – \$1 million unrestricted bequest to the Endowment Fund.
- Dominic D'Alessandro ('05) – \$1 million contribution to the Canadian endowment.

PROGRAM BUDGETING AT THE ASSOCIATION

The Association has long-established internal controls and monitoring procedures to ensure that it follows nonprofit best practices related to program budgeting, functional expense reporting, governance, and a host of other financial and operational procedures. These have been in place over the past two decades, in consultation with two accredited accounting and auditing firms.

BACKGROUND:

As a nonprofit membership and educational association exempt from taxes under Section 501(c)(3) of the Internal Revenue Code, the Association is required to report expenses under one of three functional categories: program, administrative, and fundraising. This reporting requirement is applicable to the audited financial statements as well as IRS Form 990 tax return.

Expenses connected to a specific program or supporting service (administration and fundraising) are directly charged to the applicable functional category, while certain other costs that benefit multiple functional categories (salaries, benefits, and occupancy, for example) are allocated among the programs and supporting services benefited, based on a reasonable and consistently applied methodology. The program category is further subdivided into key ongoing activities of the Association, including various scholarship programs, meetings, and educational activities. Detailed descriptions of key programs are included in Note 1 of the Association's audited financial statements. In addition, Part III of the IRS Form 990 provides qualitative and quantitative details of the Association's program service accomplishments.

PROGRAM EXPENSES AND ALLOCATIONS:

The ratio of program expenditures to administration and fundraising is a common metric used by public watch-dog groups to assess the effectiveness of nonprofit organizations. Charity Navigator, for example, provides its highest rating to organizations that report less than 15 percent of their overall expenditures as administrative and less than 10 percent as fundraising. Other metrics include financial strength ratios and governance.

The Association is proud of its consistent track record of expending at least 90 percent of its annual funding on programs, with a higher ratio in more recent years. This is one reason Charity Navigator has bestowed upon the Association its highest four-star rating for the past four years.



DISTINGUISHING FINANCIAL CHARACTERISTICS OF THE ASSOCIATION:

Throughout its 73-year history, the Association has remained an organization funded strictly by its Members and Friends. It does not solicit funds from the general public, nor does it solicit or accept governmental funding. For example, the 2019 Horatio Alger Awards Ceremony—the Association’s largest source of income—was funded by approximately 160 Members and persons directly associated with the Class of 2019 through the annual Awards Sponsorship Program.

TRANSPARENCY:

The Association’s Executive Committee and Board of Directors play active roles in its governance. In addition to its own internal expertise, the governing bodies use the services of external professionals to ensure that the Association follows appropriate internal controls and best practices. These professionals and their related roles in serving the Association are as follows:

- RSM, a global certified public accounting firm, audits the consolidated financial statements of the Association and Endowment Fund. RSM recently acquired Tate & Tryon, a certified public accounting firm that has consulted with the Association for many years on governance, internal controls, benchmarking, and best practices. We expect those individuals to continue in that consulting role.
- Sikich, LLP (formerly Halt, Buzas, & Powell, Ltd.), a certified public accounting firm, prepares the Association’s monthly financial statements and annual IRS Form 990. Sikich is also responsible for general accounting, payroll, scholarship disbursements, and accounts payable.

AUDIT:

The annual audit report is reviewed by the Audit Committee and its Chairman, Anthony Welters ('98).

CONCLUSION:

The combined expertise of the above organizations coupled with our internal controls and monitoring procedures help to ensure that the Association is following best practices in the industry related to functional expense reporting through the program budgeting system as well as other financial and operational matters.



*Anthony Welters ('98),
Association Treasurer and
Assistant Secretary of the
Horatio Alger Endowment Fund*

*We are very grateful to the
Association’s Members, Life
Partners, and Friends for their
commitment and generosity.
Thank you for continually
advancing the mission and
programs of the Horatio
Alger Association of
Distinguished Americans.*

The Horatio Alger Association, a 501(c)(3) educational nonprofit organization, values diversity and is committed to creating an inclusive environment for all employees. The Association is an equal opportunity employer that does not discriminate on the basis of race, color, religion, creed, sex, gender identity, sexual orientation, marital status, parental status, national origin, political affiliation, age, disability, or any other protected status. All employment decisions are based on merit and individual qualifications, performance, business needs, and job requirements. The Association is also committed to maintaining an environment that encourages and fosters appropriate conduct among all persons and respect for individual values. The Association's policies, as outlined above, extend beyond its staff to its Members, Scholars, Alumni, volunteers, associates/contractors/vendors, and affiliates.



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