

**AMERICAN LEGION AUXILIARY FOUNDATION, INC.
(AN AFFILIATE OF THE AMERICAN LEGION AUXILIARY
NATIONAL HEADQUARTERS)**

FINANCIAL STATEMENTS

SEPTEMBER 30, 2015 AND 2014



**AMERICAN LEGION AUXILIARY FOUNDATION, INC.
(AN AFFILIATE OF THE AMERICAN LEGION AUXILIARY
NATIONAL HEADQUARTERS)**

TABLE OF CONTENTS

SEPTEMBER 30, 2015 AND 2014

	Page
Independent Auditor's Report	1-2
Financial Statements:	
Statements of Financial Position	3
Statements of Activities and Changes in Net Assets	4-5
Statements of Cash Flows	6
Notes to Financial Statements	7-12



4181 E. 96th Street, Suite 180
Indianapolis, IN 46240
Phone: 317.569.4181
Toll Free: 888.922.4941
www.alerdingcpagroup.com

INDEPENDENT AUDITOR'S REPORT

Board of Directors
American Legion Auxiliary Foundation, Inc.
Indianapolis, Indiana

We have audited the accompanying financial statements of the American Legion Auxiliary Foundation, Inc. (the "Foundation"), which comprise the statements of financial position as of September 30, 2015 and 2014, and the related statements of activities and changes in net assets, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the American Legion Auxiliary Foundation, Inc. as of September 30, 2015 and 2014, and its changes in net assets and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Other Matter

As discussed in Note 1 to the financial statements, the Foundation is an affiliate of the American Legion Auxiliary National Headquarters (the "Auxiliary"), was organized by the Auxiliary, and operates exclusively for the benefit of, and to assist in carrying out, the educational, charitable, and other exempt purposes of the Auxiliary. The Foundation presents its financial statements on a consolidated basis with those of the Auxiliary, whose consolidated financial statements are presented in a separate document. The accompanying financial statements include only the accounts and disclosures related to the Foundation.

Alending CPA Group

February 6, 2016

**AMERICAN LEGION AUXILIARY FOUNDATION, INC.
(AN AFFILIATE OF THE AMERICAN LEGION AUXILIARY
NATIONAL HEADQUARTERS)**

STATEMENTS OF FINANCIAL POSITION
SEPTEMBER 30, 2015 AND 2014

	<u>ASSETS</u>	
	<u>2015</u>	<u>2014</u>
Assets:		
Cash	\$ 234,438	\$ 199,447
Investments	642,507	562,266
Other assets	<u>500</u>	<u>-0-</u>
Total assets	<u>\$ 877,445</u>	<u>\$ 761,713</u>
 <u>LIABILITIES AND NET ASSETS</u>		
Liabilities:		
Accounts payable	\$ 10,672	\$ 4,002
Due to related party	<u>56,720</u>	<u>74,451</u>
Total liabilities	<u>67,392</u>	<u>78,453</u>
Net Assets:		
Unrestricted net assets	8,371	11,944
Temporarily restricted net assets	137,629	105,558
Permanently restricted net assets	<u>664,053</u>	<u>565,758</u>
Total net assets	<u>810,053</u>	<u>683,260</u>
Total liabilities and net assets	<u>\$ 877,445</u>	<u>\$ 761,713</u>

See accompanying Notes to Financial Statements.

**AMERICAN LEGION AUXILIARY FOUNDATION, INC.
(AN AFFILIATE OF THE AMERICAN LEGION AUXILIARY
NATIONAL HEADQUARTERS)**

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
YEAR ENDED SEPTEMBER 30, 2015

	Unrestricted Funds	Temporarily Restricted Funds	Permanently Restricted Funds	Total
Revenue, Gains & Other Support:				
Contributions	\$ 122,384	\$ 121,249	\$ 98,295	\$ 341,928
Temporarily Restricted Net Assets Released From Restrictions	81,241	(81,241)	-0-	-0-
	203,625	40,008	98,295	341,928
Expenses:				
Program services:				
Personnel and related benefits	13,212	-0-	-0-	13,212
General operating expenses	285	-0-	-0-	285
Grants	81,241	-0-	-0-	81,241
Professional services and fees	8,265	-0-	-0-	8,265
Total program services	103,003	-0-	-0-	103,003
Management and general:				
Personnel and related benefits	17,117	-0-	-0-	17,117
General operating expenses	3,810	-0-	-0-	3,810
Conventions and meetings	8,561	-0-	-0-	8,561
Professional services and fees	12,287	-0-	-0-	12,287
Total management and general	41,775	-0-	-0-	41,775
Fundraising:				
Personnel and related benefits	26,312	-0-	-0-	26,312
General operating expenses	6,358	-0-	-0-	6,358
Conventions and meetings	1,388	-0-	-0-	1,388
Professional services and fees	24,789	-0-	-0-	24,789
Total fundraising	58,847	-0-	-0-	58,847
Total expenses	203,625	-0-	-0-	203,625
Change in net assets from operations	-0-	40,008	98,295	138,303
Investment Income, Net of Expenses	-0-	(11,510)	-0-	(11,510)
Change in net assets	-0-	28,498	98,295	126,793
Net Assets, Beginning of Year	11,944	105,558	565,758	683,260
Interfund Transfers	(3,573)	3,573	-0-	-0-
Net Assets, End of Year	\$ 8,371	\$ 137,629	\$ 664,053	\$ 810,053

See accompanying Notes to Financial Statements.

**AMERICAN LEGION AUXILIARY FOUNDATION, INC.
(AN AFFILIATE OF THE AMERICAN LEGION AUXILIARY
NATIONAL HEADQUARTERS)**

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
YEAR ENDED SEPTEMBER 30, 2014

	<u>Unrestricted Funds</u>	<u>Temporarily Restricted Funds</u>	<u>Permanently Restricted Funds</u>	<u>Total</u>
Revenue, Gains & Other Support:				
Contributions	\$ 91,448	\$ 162,028	\$ 104,205	\$ 357,681
Temporarily Restricted Net Assets Released From Restrictions	<u>93,612</u>	<u>(93,612)</u>	<u>-0-</u>	<u>-0-</u>
	<u>185,060</u>	<u>68,416</u>	<u>104,205</u>	<u>357,681</u>
Expenses:				
Program services:				
Personnel and related benefits	17,439	-0-	-0-	17,439
General operating expenses	136	-0-	-0-	136
Grants	<u>93,612</u>	<u>-0-</u>	<u>-0-</u>	<u>93,612</u>
Total program services	<u>111,187</u>	<u>-0-</u>	<u>-0-</u>	<u>111,187</u>
Management and general:				
Personnel and related benefits	10,082	-0-	-0-	10,082
General operating expenses	3,391	-0-	-0-	3,391
Conventions and meetings	4,397	-0-	-0-	4,397
Professional services and fees	<u>12,132</u>	<u>-0-</u>	<u>-0-</u>	<u>12,132</u>
Total management and general	<u>30,002</u>	<u>-0-</u>	<u>-0-</u>	<u>30,002</u>
Fundraising:				
Personnel and related benefits	32,558	-0-	-0-	32,558
General operating expenses	1,204	-0-	-0-	1,204
Conventions and meetings	583	-0-	-0-	583
Professional services and fees	<u>9,748</u>	<u>-0-</u>	<u>-0-</u>	<u>9,748</u>
Total fundraising	<u>44,093</u>	<u>-0-</u>	<u>-0-</u>	<u>44,093</u>
Total expenses	<u>185,282</u>	<u>-0-</u>	<u>-0-</u>	<u>185,282</u>
Change in net assets from operations	(222)	68,416	104,205	172,399
Investment Income, Net of Expenses	<u>-0-</u>	<u>27,054</u>	<u>-0-</u>	<u>27,054</u>
Change in net assets	(222)	95,470	104,205	199,453
Net Assets, Beginning of Year	<u>12,166</u>	<u>10,088</u>	<u>461,553</u>	<u>483,807</u>
Net Assets, End of Year	<u>\$ 11,944</u>	<u>\$ 105,558</u>	<u>\$ 565,758</u>	<u>\$ 683,260</u>

See accompanying Notes to Financial Statements.

**AMERICAN LEGION AUXILIARY FOUNDATION, INC.
(AN AFFILIATE OF THE AMERICAN LEGION AUXILIARY
NATIONAL HEADQUARTERS)**

STATEMENTS OF CASH FLOWS
YEARS ENDED SEPTEMBER 30, 2015 AND 2014

	<u>2015</u>	<u>2014</u>
Cash Flows From Operating Activities:		
Change in net assets	\$ 126,793	\$ 199,453
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Net realized loss on investments	6,035	1,883
Net unrealized loss (gain) on investments	15,663	(20,185)
Changes in operating assets and liabilities:		
Other assets	(500)	-0-
Accounts payable	6,670	4,002
Due to related party	<u>(17,731)</u>	<u>71,901</u>
Net cash provided by operating activities	<u>136,930</u>	<u>257,054</u>
Cash Flows From Investing Activities:		
Proceeds from sale of investments	8,752	-0-
Purchase of investments	<u>(110,691)</u>	<u>(129,049)</u>
Net cash used in investing activities	<u>(101,939)</u>	<u>(129,049)</u>
Net Increase in Cash	34,991	128,005
Cash, Beginning of Year	<u>199,447</u>	<u>71,442</u>
Cash, End of Year	<u>\$ 234,438</u>	<u>\$ 199,447</u>

See accompanying Notes to Financial Statements.

**AMERICAN LEGION AUXILIARY FOUNDATION, INC.
(AN AFFILIATE OF THE AMERICAN LEGION AUXILIARY
NATIONAL HEADQUARTERS)**

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2015 AND 2014

1. SIGNIFICANT ACCOUNTING POLICIES

Description of the Entity

The American Legion Auxiliary Foundation, Inc. (the "Foundation") was incorporated on September 27, 2007 as a not-for-profit entity under the State of Indiana Not-For-Profit Incorporation Act. The Foundation was organized by the American Legion Auxiliary National Headquarters (the "Auxiliary"), a not-for-profit entity headquartered in Indianapolis, Indiana. The Foundation operates exclusively for the benefit of the Auxiliary and assists in fundraising and offers support in carrying out the educational, charitable, and other programs sponsored by the Auxiliary.

The significant accounting policies followed by the Foundation in the preparation of its financial statements are summarized below:

Financial Reporting

The accounts of the Foundation are reported on a consolidated basis with those of the Auxiliary in a separate document. The accompanying financial statements include only the accounts and disclosures related to the Foundation. Related party transactions with the Auxiliary are reported in Note 5.

Basis of Presentation

The Foundation utilizes the principles of fund accounting in the preparation of its financial statements. Therefore, net assets and revenues, expenses, and gains and losses are classified based on the existence or absence of donor-imposed restrictions. The three fund accounts include the following:

Unrestricted Fund

Unrestricted net assets are net assets not subject to donor-imposed restrictions. The unrestricted fund is used to account for all contributions, revenues, and expenses used for the general operations of the Foundation.

Temporarily Restricted Fund

The temporarily restricted fund is used to record contributions and revenues that are received or generated that have donor restrictions that limit the use of the donated assets. When a donor restriction expires, temporarily restricted assets are classified as unrestricted net assets and reported as net assets released from restrictions in the statement of activities and changes in net assets. In addition, the temporarily restricted fund includes, in the absence of explicit donor stipulations, earnings on permanently restricted funds that have not yet been appropriated for expenditure.

**AMERICAN LEGION AUXILIARY FOUNDATION, INC.
(AN AFFILIATE OF THE AMERICAN LEGION AUXILIARY
NATIONAL HEADQUARTERS)**

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2015 AND 2014

Permanently Restricted Fund

Assets held inviolate and in perpetuity are held in the permanently restricted fund and are held for the donor-designated purposes of the endowment. The net income from these investments and all non-restricted contributions are available for release to the unrestricted fund.

Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts in the financial statements and notes to the financial statements. Actual results could differ from those estimates.

Support and Revenue Recognition

The Foundation records gifts as revenue at the date it receives either cash or an unconditional promise to give from a donor. Assets received from a donor are recorded at fair value and are recorded as unrestricted revenue unless the donor includes stipulations that limit the use of the assets, in which case the revenue is recorded as either Temporarily or Permanently Restricted revenue.

Contributions raised through direct mail campaigns by third-party vendors are reported net of the associated cost in the statements of activities and changes in net assets.

Functional Expenses

Functional expenses for Program, Management and General, and Fundraising expenses are included in the accompanying statements of activities and changes in net assets for the years ended September 30, 2015 and 2014.

Income Taxes

The Foundation is organized as a not-for-profit corporation and, accordingly, is exempt from Federal and state income taxes under Section 501(c)(3) of the Internal Revenue Code.

Management of the Foundation evaluates all significant tax positions to ensure compliance with the exempt purposes of the Foundation as required by U.S. GAAP, including consideration of any unrelated business income tax. As of September 30, 2015, Management does not believe the Foundation has taken any tax positions that are not in compliance with its exempt purpose. The Foundation's Federal and state tax returns remain open and subject to examination beginning with the tax year ended September 30, 2012.

**AMERICAN LEGION AUXILIARY FOUNDATION, INC.
(AN AFFILIATE OF THE AMERICAN LEGION AUXILIARY
NATIONAL HEADQUARTERS)**

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2015 AND 2014

Subsequent Events

Subsequent events have been evaluated through February 6, 2016, which is the date the financial statements were available for issuance.

2. INVESTMENTS AND INVESTMENT RETURN

A summary of the Foundation's investments as of September 30, 2015 and 2014 is as follows:

	<u>2015</u>		<u>2014</u>	
	<u>Cost</u>	<u>Market</u>	<u>Cost</u>	<u>Market</u>
Investments:				
Money market funds	\$ 16,375	\$ 16,375	\$ 121,681	\$ 121,681
Exchange traded funds	246,225	265,388	169,745	191,316
Mutual funds and other	<u>375,562</u>	<u>360,744</u>	<u>250,832</u>	<u>249,269</u>
Total investments	<u>\$ 638,162</u>	<u>\$ 642,507</u>	<u>\$ 542,258</u>	<u>\$ 562,266</u>

The fair market value of the Foundation's investments is measured by a Level 1 input in accordance with U.S. GAAP, defined as quoted prices in active markets for identical investments that can be accessed as of the measurement date.

Investment income for the years ended September 30, 2015 and 2014 is as follows:

	<u>2015</u>	<u>2014</u>
Interest and dividends	\$ 10,691	\$ 9,064
Investment fees	(503)	(312)
Net realized losses	(6,035)	(1,883)
Net unrealized gains (losses)	<u>(15,663)</u>	<u>20,185</u>
Total investment income	<u>\$ (11,510)</u>	<u>\$ 27,054</u>

**AMERICAN LEGION AUXILIARY FOUNDATION, INC.
(AN AFFILIATE OF THE AMERICAN LEGION AUXILIARY
NATIONAL HEADQUARTERS)**

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2015 AND 2014

3. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following purposes at September 30, 2015 and 2014:

	<u>2015</u>	<u>2014</u>
Undistributed endowment earnings	\$ -0-	\$ 18,125
Veteran Projects Fund	91,496	64,162
National and Local Veteran Creative Arts Festival(s)	<u>46,133</u>	<u>23,271</u>
	<u>\$ 137,629</u>	<u>\$ 105,558</u>

4. NET ASSETS RELEASED FROM RESTRICTIONS

Net assets released from donor restrictions from the temporarily restricted fund to the unrestricted fund by incurring expenses satisfying the restricted purposes, or by occurrence of other events specified by the donors, are as follows:

	<u>2015</u>	<u>2014</u>
Endowment distributions in support of Auxiliary operations	\$ 10,188	\$ 8,752
Veteran Projects Fund Grants	18,921	11,456
National and Local Veteran Creative Arts Festival(s)	48,382	73,404
Auxiliary mission sub-grants to ALA Departments, Districts, and Units	<u>3,750</u>	<u>-0-</u>
	<u>\$ 81,241</u>	<u>\$ 93,612</u>

5. RELATED PARTY TRANSACTIONS

During the years ended September 30, 2015 and 2014, the Foundation received contributions of \$122,384 and \$91,673 from the Auxiliary to fund certain organizational and other costs incurred by the Foundation. In addition, the Foundation granted \$10,188 and \$8,752 to the Auxiliary in 2015 and 2014, respectively, for program support, and the Foundation granted \$23,521 and \$19,156 in 2015 and 2014, respectively, to affiliated Auxiliary departments and units.

**AMERICAN LEGION AUXILIARY FOUNDATION, INC.
(AN AFFILIATE OF THE AMERICAN LEGION AUXILIARY
NATIONAL HEADQUARTERS)**

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2015 AND 2014

6. AMERICAN LEGION AUXILIARY FOUNDATION ALA MISSION
ENDOWMENT

Composition of Endowment Net Assets

The Foundation created the ALA Mission Endowment Fund (the "Mission Endowment") in 2007 to generate and maximize funds available to benefit and assist in carrying out the educational, charitable and similar programs of the Auxiliary over the long term. The Mission Endowment consists entirely of donor-designated funds and is classified as permanently restricted in the statements of financial position.

Endowment net assets at September 30, 2015 and 2014 include the following:

	<u>2015</u>	<u>2014</u>
Historic gift value	\$ 565,758	\$ 461,553
Accumulated earnings	<u>18,125</u>	<u>(177)</u>
Endowment net assets, beginning of year	<u>583,883</u>	<u>461,376</u>
Additions to endowment	98,295	104,205
Endowment distributions	(10,188)	(8,752)
Interest and dividends, net of fees	10,188	8,752
Realized losses	(6,035)	(1,883)
Unrealized gains (losses)	<u>(15,663)</u>	<u>20,185</u>
Change in endowment net assets	<u>76,597</u>	<u>122,507</u>
Endowment net assets, end of year	<u>\$ 660,480</u>	<u>\$ 583,883</u>
Historic gift value	\$ 664,053	\$ 565,758
Accumulated earnings (losses)	<u>(3,573)</u>	<u>18,125</u>
Endowment net assets, end of year	<u>\$ 660,480</u>	<u>\$ 583,883</u>

**AMERICAN LEGION AUXILIARY FOUNDATION, INC.
(AN AFFILIATE OF THE AMERICAN LEGION AUXILIARY
NATIONAL HEADQUARTERS)**

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2015 AND 2014

Governing Board's Interpretation of Relevant Law

The Foundation, incorporated in and governed by the laws of the State of Indiana, has interpreted the Indiana statute Uniform Prudent Management of Institutional Funds Act, enacted in 2007, to require the preservation of the fair value of the original gift as of the date of the gift of the donor-restricted endowment funds absent explicit donor stipulations to the contrary, and to not require the maintenance of purchasing power. As a result of this interpretation, the Organization classifies as permanently restricted net assets: (a) the original value of gifts donated to the permanent endowment; (b) the original value of subsequent gifts to the permanent endowment; and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of donor-restricted endowment funds is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Organization.

Endowment Draws

Endowment draws during the years ending September 30, 2015 and 2014 were \$10,188 and \$8,752, respectively.

The Foundation has adopted a spending policy relating to future endowment draws. The available endowment draw for each fiscal year beginning October 1 shall be limited to an amount determined by applying a 5% rate to the three-year rolling average market value for the period ending the preceding May 31. The actual endowment draw will be recommended by the American Legion Auxiliary Foundation Board to the National Finance Committee during the annual budgeting process for approval by the National Executive Committee. Should the Foundation Board deem it advisable to exceed the 5% limit, the change must be approved by the National Executive Committee.