

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

FINANCIAL STATEMENTS

SEPTEMBER 30, 2016 AND 2015



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

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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, 2016 and 2015, 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, 2016 and 2015, 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 4, 2017

**AMERICAN LEGION AUXILIARY FOUNDATION, INC.
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STATEMENTS OF FINANCIAL POSITION
SEPTEMBER 30, 2016 AND 2015

	<u>ASSETS</u>	<u>2016</u>	<u>2015</u>
Assets:			
Cash		\$ 207,397	\$ 234,438
Investments		817,121	642,507
Other assets		<u>7,447</u>	<u>500</u>
Total assets		<u>\$ 1,031,965</u>	<u>\$ 877,445</u>
 <u>LIABILITIES AND NET ASSETS</u>			
Liabilities:			
Accounts payable		\$ 3,417	\$ 10,672
Due to related party, net		<u>72,991</u>	<u>56,720</u>
Total liabilities		<u>76,408</u>	<u>67,392</u>
Net Assets:			
Unrestricted net assets		11,942	8,371
Temporarily restricted net assets		163,177	137,629
Permanently restricted net assets		<u>780,438</u>	<u>664,053</u>
Total net assets		<u>955,557</u>	<u>810,053</u>
Total liabilities and net assets		<u>\$ 1,031,965</u>	<u>\$ 877,445</u>

See accompanying Notes to Financial Statements.

**AMERICAN LEGION AUXILIARY FOUNDATION, INC.
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STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
YEAR ENDED SEPTEMBER 30, 2016

	<u>Unrestricted Funds</u>	<u>Temporarily Restricted Funds</u>	<u>Permanently Restricted Funds</u>	<u>Total</u>
Revenue, Gains & Other Support:				
Contributions	\$ -0-	\$ 107,644	\$ 116,385	\$ 224,029
In-kind contributions	151,332	-0-	-0-	151,332
	<u>151,332</u>	<u>107,644</u>	<u>116,385</u>	<u>375,361</u>
Temporarily Restricted Net Assets Released From Restrictions				
	<u>142,541</u>	<u>(142,541)</u>	<u>-0-</u>	<u>-0-</u>
Total revenue, gains and other support	<u>293,873</u>	<u>(34,897)</u>	<u>116,385</u>	<u>375,361</u>
Expenses:				
Program services:				
Personnel and related benefits	20,344	-0-	-0-	20,344
General operating expenses	506	-0-	-0-	506
Grants	142,493	-0-	-0-	142,493
Professional services and fees	11,955	-0-	-0-	11,955
Total program services	<u>175,298</u>	<u>-0-</u>	<u>-0-</u>	<u>175,298</u>
Management and general:				
Personnel and related benefits	18,820	-0-	-0-	18,820
General operating expenses	2,929	-0-	-0-	2,929
Conventions and meetings	8,865	-0-	-0-	8,865
Professional services and fees	13,352	-0-	-0-	13,352
Total management and general	<u>43,966</u>	<u>-0-</u>	<u>-0-</u>	<u>43,966</u>
Fundraising:				
Personnel and related benefits	28,899	-0-	-0-	28,899
General operating expenses	3,087	-0-	-0-	3,087
Conventions and meetings	5,827	-0-	-0-	5,827
Professional services and fees	36,798	-0-	-0-	36,798
Total fundraising	<u>74,611</u>	<u>-0-</u>	<u>-0-</u>	<u>74,611</u>
Total expenses	<u>293,875</u>	<u>-0-</u>	<u>-0-</u>	<u>293,875</u>
Change in net assets from operations	(2)	(34,897)	116,385	81,486
Investment Income, Net of Expenses	<u>-0-</u>	<u>64,018</u>	<u>-0-</u>	<u>64,018</u>
Change in net assets	(2)	29,121	116,385	145,504
Net Assets, Beginning of Year	8,371	137,629	664,053	810,053
Interfund Transfers	<u>3,573</u>	<u>(3,573)</u>	<u>-0-</u>	<u>-0-</u>
Net Assets, End of Year	<u>\$ 11,942</u>	<u>\$ 163,177</u>	<u>\$ 780,438</u>	<u>\$ 955,557</u>

See accompanying Notes to Financial Statements.

**AMERICAN LEGION AUXILIARY FOUNDATION, INC.
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STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
YEAR ENDED SEPTEMBER 30, 2015

	<u>Unrestricted Funds</u>	<u>Temporarily Restricted Funds</u>	<u>Permanently Restricted Funds</u>	<u>Total</u>
Revenue, Gains & Other Support:				
Contributions	\$ -0-	\$ 121,249	\$ 98,295	\$ 219,544
In-kind contributions	122,384	-0-	-0-	122,384
	<u>122,384</u>	<u>121,249</u>	<u>98,295</u>	<u>341,928</u>
Temporarily Restricted Net Assets Released From Restrictions				
	<u>81,241</u>	<u>(81,241)</u>	<u>-0-</u>	<u>-0-</u>
Total revenue, gains and other support	<u>203,625</u>	<u>40,008</u>	<u>98,295</u>	<u>341,928</u>
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	<u>103,003</u>	<u>-0-</u>	<u>-0-</u>	<u>103,003</u>
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	<u>41,775</u>	<u>-0-</u>	<u>-0-</u>	<u>41,775</u>
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	<u>58,847</u>	<u>-0-</u>	<u>-0-</u>	<u>58,847</u>
Total expenses	<u>203,625</u>	<u>-0-</u>	<u>-0-</u>	<u>203,625</u>
Change in net assets from operations	-0-	40,008	98,295	138,303
Investment Loss, Net of Expenses	<u>-0-</u>	<u>(11,510)</u>	<u>-0-</u>	<u>(11,510)</u>
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	<u>(3,573)</u>	<u>3,573</u>	<u>-0-</u>	<u>-0-</u>
Net Assets, End of Year	<u>\$ 8,371</u>	<u>\$ 137,629</u>	<u>\$ 664,053</u>	<u>\$ 810,053</u>

See accompanying Notes to Financial Statements.

**AMERICAN LEGION AUXILIARY FOUNDATION, INC.
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STATEMENTS OF CASH FLOWS
YEARS ENDED SEPTEMBER 30, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
Cash Flows From Operating Activities:		
Change in net assets	\$ 145,504	\$ 126,793
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Net realized loss on investments	-0-	6,035
Net unrealized (gain) loss on investments	(45,598)	15,663
Changes in operating assets and liabilities:		
Other assets	(6,947)	(500)
Accounts payable	(7,255)	6,670
Due to related party	16,271	(17,731)
Net cash provided by operating activities	<u>101,975</u>	<u>136,930</u>
Cash Flows From Investing Activities:		
Proceeds from sale of investments	-0-	8,752
Purchase of investments	<u>(129,016)</u>	<u>(110,691)</u>
Net cash used in investing activities	<u>(129,016)</u>	<u>(101,939)</u>
Net Increase in Cash	(27,041)	34,991
Cash, Beginning of Year	<u>234,438</u>	<u>199,447</u>
Cash, End of Year	<u>\$ 207,397</u>	<u>\$ 234,438</u>

See accompanying Notes to Financial Statements.

**AMERICAN LEGION AUXILIARY FOUNDATION, INC.
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NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2016 AND 2015

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.

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NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2016 AND 2015

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 are allocated among Program, Management and General, and Fundraising based on management's estimates of time spent by employees, space utilization, or other rational bases and have been included in the accompanying statements of activities and changes in net assets for the years ended September 30, 2016 and 2015.

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, 2016, 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, 2013.

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NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2016 AND 2015

Subsequent Events

Subsequent events have been evaluated through February 4, 2017, 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, 2016 and 2015 is as follows:

	<u>2016</u>		<u>2015</u>	
	<u>Cost</u>	<u>Market</u>	<u>Cost</u>	<u>Market</u>
Investments:				
Money market funds	\$ 28,847	\$ 28,847	\$ 16,375	\$ 16,375
Exchange traded funds	275,347	328,876	246,225	265,388
Mutual funds and other	<u>462,984</u>	<u>459,398</u>	<u>375,562</u>	<u>360,744</u>
Total investments	<u>\$ 767,178</u>	<u>\$ 817,121</u>	<u>\$ 638,162</u>	<u>\$ 642,507</u>

The fair market values of the Foundation's investments are measured by Level 1 inputs 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, 2016 and 2015 is as follows:

	<u>2016</u>	<u>2015</u>
Interest and dividends	\$ 19,016	\$ 10,691
Investment fees	(596)	(503)
Net realized losses	-0-	(6,035)
Net unrealized gains (losses)	<u>45,598</u>	<u>(15,663)</u>
Total investment income (loss)	<u>\$ 64,018</u>	<u>\$ (11,510)</u>

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NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2016 AND 2015

3. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following purposes at September 30, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Undistributed endowment earnings	\$ 42,016	\$ -0-
Veteran Projects Fund	81,548	91,496
National and Local Veteran Creative Arts Festival(s)	<u>39,613</u>	<u>46,133</u>
	<u>\$ 163,177</u>	<u>\$ 137,629</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>2016</u>	<u>2015</u>
Endowment distributions in support of Auxiliary operations	\$ 18,429	\$ 10,188
Veteran Projects Fund Grants	39,777	18,921
National and Local Veteran Creative Arts Festival(s)	57,335	48,382
Auxiliary mission sub-grants to ALA Departments, Districts, and Units	<u>27,000</u>	<u>3,750</u>
	<u>\$ 142,541</u>	<u>\$ 81,241</u>

5. RELATED PARTY TRANSACTIONS

During the years ended September 30, 2016 and 2015, the Foundation received contributions of \$151,332 and \$122,384 from the Auxiliary to fund certain organizational and other costs incurred by the Foundation. In addition, the Foundation granted \$91,005 and \$57,720 to the Auxiliary in 2016 and 2015, respectively, for program support, and the Foundation granted \$51,488 and \$23,521 in 2016 and 2015, respectively, to affiliated Auxiliary departments and units.

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NOTES TO FINANCIAL STATEMENTS
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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 the historic gift value is classified as permanently restricted in the statements of financial position.

Endowment net assets at September 30, 2016 and 2015 include the following:

	<u>2016</u>	<u>2015</u>
Historic gift value	\$ 664,053	\$ 565,758
Accumulated earnings (losses)	<u>(3,573)</u>	<u>18,125</u>
Endowment net assets, beginning of year	<u>660,480</u>	<u>583,883</u>
Additions to endowment	116,385	98,295
Endowment distributions	(18,429)	(10,188)
Interest and dividends, net of fees	18,420	10,188
Realized losses	-0-	(6,035)
Unrealized gains (losses)	<u>45,598</u>	<u>(15,663)</u>
Change in endowment net assets	<u>161,974</u>	<u>76,597</u>
Endowment net assets, end of year	<u>\$ 822,454</u>	<u>\$ 660,480</u>
Historic gift value	\$ 780,438	\$ 664,053
Accumulated earnings (losses)	<u>42,016</u>	<u>(3,573)</u>
Endowment net assets, end of year	<u>\$ 822,454</u>	<u>\$ 660,480</u>

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NOTES TO FINANCIAL STATEMENTS
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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, 2016 and 2015 were \$18,429 and \$10,188, 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.