



**AMERICAN LEGION AUXILIARY
NATIONAL HEADQUARTERS
AND
AMERICAN LEGION AUXILIARY
FOUNDATION, INC.**

CONSOLIDATED FINANCIAL STATEMENTS
AND
SUPPLEMENTARY INFORMATION

SEPTEMBER 30, 2017 AND 2016



**AMERICAN LEGION AUXILIARY NATIONAL HEADQUARTERS
AND
AMERICAN LEGION AUXILIARY FOUNDATION, INC.**

TABLE OF CONTENTS
SEPTEMBER 30, 2017 AND 2016

	Page
Independent Auditor's Report	1 - 2
Financial Statements:	
Consolidated Statements of Financial Position	3
Consolidated Statements of Activities and Changes in Net Assets	4 - 5
Consolidated Statements of Functional Expenses	6 - 7
Consolidated Statements of Cash Flows	8
Notes to Consolidated Financial Statements	9 - 28
Supplemental Information:	
Analysis of Deferred Revenue - PUFL	29
Consolidating Statement of Financial Position as of September 30, 2017	30
Consolidating Statement of Activities and Changes in Net Assets for the Year Ended September 30, 2017	31
Consolidating Statement of Activities and Changes in Net Assets for the Year Ended September 30, 2016	32



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

National Executive Committee
American Legion Auxiliary National Headquarters and
American Legion Auxiliary Foundation, Inc.
Indianapolis, Indiana

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of the American Legion Auxiliary National Headquarters and the American Legion Auxiliary Foundation, Inc. (collectively referred to as the "Organization"), which comprise the consolidated statements of financial position as of September 30, 2017 and 2016, and the related consolidated statements of activities and changes in net assets, functional expenses, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 the consolidated 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 consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of the American Legion Auxiliary National Headquarters and the American Legion Auxiliary Foundation, Inc. as of September 30, 2017 and 2016, and the results of its operations and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplementary information is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Attesting CIA Group

February 3, 2018

**AMERICAN LEGION AUXILIARY NATIONAL HEADQUARTERS
AND
AMERICAN LEGION AUXILIARY FOUNDATION, INC.**

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
SEPTEMBER 30, 2017 AND 2016

ASSETS

	<u>2017</u>	<u>2016</u>
Assets:		
Cash and cash equivalents	\$ 678,517	\$ 772,602
Investments	34,741,539	31,617,301
Investments - PUFL	4,039,759	3,728,969
Prepaid expenses	188,493	104,690
Furniture and equipment, net	105,763	113,626
Other assets	<u>246,190</u>	<u>171,698</u>
Total assets	<u>\$ 40,000,261</u>	<u>\$ 36,508,886</u>

LIABILITIES AND NET ASSETS

Liabilities:		
Accounts payable	\$ 782,467	\$ 1,017,235
Accrued expenses	351,416	295,653
Accrued scholarships	55,500	32,500
Deferred revenue - dues	2,338,740	2,466,689
Deferred revenue - PUFL	3,883,473	3,598,235
Deferred revenue - other	30,816	59,555
Liability for pension benefits	<u>1,101,875</u>	<u>1,302,044</u>
Total liabilities	<u>8,544,287</u>	<u>8,771,911</u>
Net Assets:		
Unrestricted net assets	30,117,576	26,897,289
Temporarily restricted net assets	980,669	819,120
Permanently restricted net assets	<u>1,595,813</u>	<u>1,459,901</u>
Total net assets before accumulated other comprehensive loss	32,694,058	29,176,310
Accumulated other comprehensive loss	<u>(1,238,084)</u>	<u>(1,439,335)</u>
Total net assets	<u>31,455,974</u>	<u>27,736,975</u>
Total liabilities and net assets	<u>\$ 40,000,261</u>	<u>\$ 36,508,886</u>

See accompanying Notes to Consolidated Financial Statements.

**AMERICAN LEGION AUXILIARY NATIONAL HEADQUARTERS
AND
AMERICAN LEGION AUXILIARY FOUNDATION, INC.**

CONSOLIDATED STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
YEAR ENDED SEPTEMBER 30, 2017

	<u>Unrestricted Funds</u>	<u>Temporarily Restricted Funds</u>	<u>Permanently Restricted Funds</u>	<u>Total</u>
Revenue, Gains & Other Support:				
Contributions	\$ 574,556	\$ 589,760	\$ 135,912	\$ 1,300,228
Federal grants and cost sharing	-0-	306,753	-0-	306,753
Membership dues	5,453,621	-0-	-0-	5,453,621
Advertising	495,084	-0-	-0-	495,084
Other	701,200	-0-	-0-	701,200
	<u>7,224,461</u>	<u>896,513</u>	<u>135,912</u>	<u>8,256,886</u>
Temporarily Restricted Net Assets Released From Restrictions	<u>927,730</u>	<u>(927,730)</u>	<u>-0-</u>	<u>-0-</u>
Total revenue, gains, and other support	<u>8,152,191</u>	<u>(31,217)</u>	<u>135,912</u>	<u>8,256,886</u>
Expenses:				
Member and department support services	4,994,599	-0-	-0-	4,994,599
Youth and education services	963,654	-0-	-0-	963,654
Veterans and military families programs	1,496,212	-0-	-0-	1,496,212
Total program services	7,454,465	-0-	-0-	7,454,465
Management and general	815,742	-0-	-0-	815,742
Fundraising	310,643	-0-	-0-	310,643
Total expenses	<u>8,580,850</u>	<u>-0-</u>	<u>-0-</u>	<u>8,580,850</u>
Change in net assets from operations	(428,659)	(31,217)	135,912	(323,964)
Investment Income, Net of Expenses	<u>3,638,246</u>	<u>203,466</u>	<u>-0-</u>	<u>3,841,712</u>
Change in net assets	3,209,587	172,249	135,912	3,517,748
Net Assets Before Accumulated Other Comprehensive Loss, Beginning of Year	<u>26,907,989</u>	<u>808,420</u>	<u>1,459,901</u>	<u>29,176,310</u>
Net Assets Before Accumulated Other Comprehensive Loss, End of Year	<u>\$ 30,117,576</u>	<u>\$ 980,669</u>	<u>\$ 1,595,813</u>	<u>\$ 32,694,058</u>

See accompanying Notes to Consolidated Financial Statements.

**AMERICAN LEGION AUXILIARY NATIONAL HEADQUARTERS
AND
AMERICAN LEGION AUXILIARY FOUNDATION, INC.**

CONSOLIDATED 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	\$ 782,703	\$ 425,845	\$ 126,563	\$ 1,335,111
Federal grants and cost sharing	-0-	839,293	-0-	839,293
Membership dues	5,619,470	-0-	-0-	5,619,470
Advertising	450,804	-0-	-0-	450,804
Other	680,155	-0-	-0-	680,155
	<u>7,533,132</u>	<u>1,265,138</u>	<u>126,563</u>	<u>8,924,833</u>
Temporarily Restricted Net Assets Released From Restrictions	<u>1,196,833</u>	<u>(1,196,833)</u>	<u>-0-</u>	<u>-0-</u>
Total revenue, gains, and other support	<u>8,729,965</u>	<u>68,305</u>	<u>126,563</u>	<u>8,924,833</u>
Expenses:				
Member and department support services	4,897,101	-0-	-0-	4,897,101
Youth and education services	826,476	-0-	-0-	826,476
Veterans and military families programs	2,194,004	-0-	-0-	2,194,004
Total program services	7,917,581	-0-	-0-	7,917,581
Management and general	698,190	-0-	-0-	698,190
Fundraising	281,200	-0-	-0-	281,200
Total expenses	<u>8,896,971</u>	<u>-0-</u>	<u>-0-</u>	<u>8,896,971</u>
Change in net assets from operations	(167,006)	68,305	126,563	27,862
Investment Income, Net of Expenses	<u>2,674,108</u>	<u>144,973</u>	<u>-0-</u>	<u>2,819,081</u>
Change in net assets	2,507,102	213,278	126,563	2,846,943
Net Assets Before Accumulated Other Comprehensive Loss, Beginning of Year	24,397,314	598,715	1,333,338	26,329,367
Interfund Transfers	<u>3,573</u>	<u>(3,573)</u>	<u>-0-</u>	<u>-0-</u>
Net Assets Before Accumulated Other Comprehensive Loss, End of Year	<u>\$ 26,907,989</u>	<u>\$ 808,420</u>	<u>\$ 1,459,901</u>	<u>\$ 29,176,310</u>

See accompanying Notes to Consolidated Financial Statements.

**AMERICAN LEGION AUXILIARY NATIONAL HEADQUARTERS
AND
AMERICAN LEGION AUXILIARY FOUNDATION, INC.**

**CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED SEPTEMBER 30, 2017
(WITH COMPARATIVE TOTALS FOR 2016)**

	Program Services	Management and General	Fundraising	2017 Totals	2016 Totals
Personnel and related benefits*	\$ 2,574,267	\$ 496,129	\$ 102,217	\$ 3,172,613	\$ 3,535,959
General operating expenses	355,400	97,445	14,488	467,333	418,636
Conventions and meetings	1,613,757	75,848	20,702	1,710,307	1,701,176
Occupancy	205,941	40,204	10,051	256,196	256,195
Professional services and fees	699,033	90,164	85,396	874,593	940,319
Printing and publications	782,998	4,615	38,324	825,937	937,944
Postage and freight	716,235	6,776	39,465	762,476	785,171
Grants and scholarships	466,936	-0-	-0-	466,936	282,577
Other	<u>39,898</u>	<u>4,561</u>	<u>-0-</u>	<u>44,459</u>	<u>38,994</u>
Total expenses	<u>\$ 7,454,465</u>	<u>\$ 815,742</u>	<u>\$ 310,643</u>	<u>\$ 8,580,850</u>	<u>\$ 8,896,971</u>

*Includes AmeriCorps National/VISTA member living allowances and related benefits of \$268,541 in 2017 and \$726,891 in 2016 relating to Federal grant awards.

**AMERICAN LEGION AUXILIARY NATIONAL HEADQUARTERS
AND
AMERICAN LEGION AUXILIARY FOUNDATION, INC.**

**CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED SEPTEMBER 30, 2016**

	Program Services	Management and General	Fundraising	2016 Totals
Personnel and related benefits*	\$ 3,018,822	\$ 401,769	\$ 115,368	\$ 3,535,959
General operating expenses	319,068	84,551	15,017	418,636
Conventions and meetings	1,632,756	60,762	7,658	1,701,176
Occupancy	210,966	35,178	10,051	256,195
Professional services and fees	758,686	100,781	80,852	940,319
Printing and publications	910,365	4,099	23,480	937,944
Postage and freight	753,050	3,347	28,774	785,171
Grants and scholarships	282,577	-0-	-0-	282,577
Other	<u>31,291</u>	<u>7,703</u>	<u>-0-</u>	<u>38,994</u>
Total expenses	<u>\$ 7,917,581</u>	<u>\$ 698,190</u>	<u>\$ 281,200</u>	<u>\$ 8,896,971</u>

*Includes AmeriCorps National/VISTA member living allowances and related benefits of \$726,891 in 2016 relating to Federal grant awards.

**AMERICAN LEGION AUXILIARY NATIONAL HEADQUARTERS
AND
AMERICAN LEGION AUXILIARY FOUNDATION, INC.**

CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED SEPTEMBER 30, 2017 AND 2016

	<u>2017</u>	<u>2016</u>
Cash Flows From Operating Activities:		
Change in net assets	\$ 3,517,748	\$ 2,846,943
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation and amortization	47,555	78,014
Gain on disposal of assets	(350)	(215)
Net realized gain on investments	(846,819)	(64,770)
Net realized gain on investments - PUFL	(104,973)	-0-
Net unrealized gain on investments	(2,217,067)	(2,046,477)
Net unrealized gain on investments - PUFL	(287,272)	(286,479)
Net periodic pension expense	1,082	8,851
Changes in operating assets and liabilities:		
Prepaid expenses	(83,803)	(23,092)
Other assets	(74,492)	55,594
Accounts payable	(234,768)	289,881
Accrued expenses and scholarships	78,763	(117,103)
Deferred revenue - dues	(127,949)	(194,277)
Deferred revenue - PUFL	285,238	173,284
Deferred revenue - other	(28,739)	13,498
Liability for pension benefits	-0-	(35,000)
Net cash provided by (used in) operating activities	<u>(75,846)</u>	<u>698,652</u>
Cash Flows From Investing Activities:		
Fixed assets purchased	(39,692)	(31,385)
Proceeds from sale of assets	350	215
Purchase of investments	(2,900,356)	(2,305,191)
Proceeds from sale of investments	2,840,004	1,478,095
Purchase of investments - PUFL	(99,490)	(96,600)
Proceeds from sale of investments - PUFL	180,945	268,011
Net cash used in investing activities	<u>(18,239)</u>	<u>(686,855)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(94,085)	11,797
Cash and Cash Equivalents, Beginning of Year	<u>772,602</u>	<u>760,805</u>
Cash and Cash Equivalents, End of Year	<u>\$ 678,517</u>	<u>\$ 772,602</u>

See accompanying Notes to Consolidated Financial Statements.

**AMERICAN LEGION AUXILIARY NATIONAL HEADQUARTERS
AND
AMERICAN LEGION AUXILIARY FOUNDATION, INC.**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2017 AND 2016

1. SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation and Description of Entities

The accompanying consolidated financial statements include the accounts of the American Legion Auxiliary National Headquarters (the "Auxiliary") and the American Legion Auxiliary Foundation, Inc. (the "Foundation"), collectively referred to as the "Organization". All significant intercompany transactions and balances have been eliminated in consolidation.

The Auxiliary is a national membership veterans' service organization headquartered in Indianapolis, Indiana. The Auxiliary was founded in 1919 in conjunction with the establishment of The American Legion by the United States Congress and was incorporated as a not-for-profit organization on November 11, 1932 under the laws of the State of Indiana. Members of the Auxiliary are women who served, or whose relatives served, in the United States Armed Forces during times of declared war and conflict. The mission of the Auxiliary is to honor, advocate for, and enhance the lives of U.S. veterans, military, and their families, and to promote patriotism, national security, and good citizenship. The Auxiliary enacts its mission through scholarship, educational, mentoring, and outreach programs, and by administering and supporting various projects that benefit veterans and military families at home and abroad.

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 Auxiliary exclusively for the benefit of the Auxiliary and assists in fundraising and offers support in carrying out educational, charitable, and other programs sponsored by the Auxiliary. Accordingly, as required by accounting principles generally accepted in the United States of America ("U.S. GAAP"), the Foundation's accounts and related disclosures are consolidated herein with those of the Auxiliary.

The accompanying consolidated financial statements only include the accounts of the Auxiliary Headquarters and the Foundation and do not include the accounts of other independent affiliated Auxiliary locations including departments (state-level organizations) and units (community-level organizations).

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

Basis of Presentation

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

**AMERICAN LEGION AUXILIARY NATIONAL HEADQUARTERS
AND
AMERICAN LEGION AUXILIARY FOUNDATION, INC.**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2017 AND 2016

The three fund accounts include the following:

Unrestricted Fund

The 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 Organization.

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 net assets are classified as unrestricted net assets and are 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 restrictions, earnings on permanently restricted funds that have not yet been appropriated for expenditure.

Permanently Restricted Fund

Assets held inviolate and in perpetuity are held in the permanently restricted fund and include certain funds restricted for scholarships and other restricted purposes. 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 consolidated financial statements and notes to the consolidated financial statements. Actual results could differ from those estimates. Principal estimates made in the preparation of the consolidated financial statements include the allocation of functional expenses and assumptions employed in the determination of pension expense.

Cash and Cash Equivalents

Cash and cash equivalents represent cash invested in checking and money market accounts. All liquid investments with original maturity dates of three months or less are classified as cash equivalents.

Investments and Investment Return

The Organization's investments are valued at fair market value and have a readily determinable fair value. Investment return includes dividends, interest, and realized and unrealized gains and losses on investments carried at fair value.

**AMERICAN LEGION AUXILIARY NATIONAL HEADQUARTERS
AND
AMERICAN LEGION AUXILIARY FOUNDATION, INC.**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2017 AND 2016

Investment return that is initially restricted by donor stipulation and for which the restriction will be satisfied in the same year is first recorded as temporarily restricted and then released from restriction. Other investment return is reflected in the statements of activities as unrestricted, temporarily restricted, or permanently restricted based upon the existence and nature of any donor or legally imposed restrictions.

Furniture and Equipment and Depreciation

Furniture, equipment, and leasehold improvements purchased and expenditures which substantially increase the useful lives of existing assets are recorded at cost. Cost of repairs and maintenance are expensed as incurred. Furniture, equipment, and leasehold improvements are depreciated over the estimated useful lives, which range from 5 to 10 years, using the straight-line method of depreciation.

Support and Revenue Recognition

The Organization 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. When a donor restriction expires, temporarily restricted net assets are reclassified as unrestricted net assets and reported as "Net assets released from restrictions" in the consolidated statement of activities and changes in net assets.

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

Functional Expenses

Expenses are allocated among various Programs, Management and General, and Fundraising based on management's estimates of time spent by employees, space utilization, or other rational bases.

Dues Income

Dues are recognized as income in the applicable membership period. Membership dues are paid annually based on a calendar year-end.

**AMERICAN LEGION AUXILIARY NATIONAL HEADQUARTERS
AND
AMERICAN LEGION AUXILIARY FOUNDATION, INC.**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2017 AND 2016

Income Taxes

The Auxiliary and the Foundation are organized as not-for-profit corporations and, accordingly, are exempt from Federal and state income taxes under sections 501(c)(19) and 501(c)(3) of the Internal Revenue Code, respectively.

Management of the Organization evaluates all significant tax positions to ensure compliance with the exempt purpose of the Organization as required by U.S. GAAP, including consideration of any unrelated business income tax. As of September 30, 2017, Management does not believe the Organization has taken any tax positions that are not in compliance with its exempt purpose. The Organization's Federal and state tax returns remain open and subject to examination beginning with the tax year ended September 30, 2014.

Subsequent Events

Subsequent events have been evaluated through February 3, 2018, which is the date the consolidated financial statements were available for issuance.

2. FAIR VALUE MEASUREMENTS

U.S. GAAP defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. U.S. GAAP also establishes a fair value hierarchy, which requires the Organization to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The following three levels are defined by U.S. GAAP as a means of measuring fair value:

Level 1

Quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.

Level 2

Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities, quoted prices for identical or similar assets or liabilities in markets that are not active, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities. The Organization has no Level 2 investments at September 30, 2017 and 2016.

**AMERICAN LEGION AUXILIARY NATIONAL HEADQUARTERS
AND
AMERICAN LEGION AUXILIARY FOUNDATION, INC.**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2017 AND 2016

Level 3

Unobservable inputs reflecting the entity's own assumptions about the assumptions that market participants would use in pricing an asset or liability that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

Assets measured at fair value at September 30, 2017 include the following:

	<u>Level 1</u>	<u>Level 3</u>	<u>Total</u>
Cash and cash equivalents	\$ 678,517	\$ -0-	\$ 678,517
Investments	34,308,765	432,774	34,741,539
Investments - PUFL	<u>4,039,759</u>	<u>-0-</u>	<u>4,039,759</u>
	<u>\$ 39,027,041</u>	<u>\$ 432,774</u>	<u>\$ 39,459,815</u>

Assets measured at fair value at September 30, 2016 include the following:

	<u>Level 1</u>	<u>Level 3</u>	<u>Total</u>
Cash and cash equivalents	\$ 772,602	\$ -0-	\$ 772,602
Investments	30,862,533	754,768	31,617,301
Investments - PUFL	<u>3,728,969</u>	<u>-0-</u>	<u>3,728,969</u>
	<u>\$ 35,364,104</u>	<u>\$ 754,768</u>	<u>\$ 36,118,872</u>

The following schedule summarizes the changes in assets measured using Level 3 inputs during the year ending September 30, 2017:

	Fair Value Measurement Using Significant Unobservable Inputs (Level 3)		
	<u>Hedge Fund</u>	<u>Partnerships</u>	<u>Total</u>
Beginning Balance, 9/30/16	\$ 238,567	\$ 516,201	\$ 754,768
Withdrawals	(233,040)	(105,651)	(338,691)
Realized gains (losses)	19,142	(23,295)	(4,153)
Unrealized gains (losses)	<u>(15,862)</u>	<u>36,712</u>	<u>20,850</u>
Ending Balance, 9/30/17	<u>\$ 8,807</u>	<u>\$ 423,967</u>	<u>\$ 432,774</u>

**AMERICAN LEGION AUXILIARY NATIONAL HEADQUARTERS
AND
AMERICAN LEGION AUXILIARY FOUNDATION, INC.**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2017 AND 2016

The following schedule summarizes the changes in assets measured using Level 3 inputs during the year ending September 30, 2016:

	Fair Value Measurement Using Significant Unobservable Inputs (Level 3)		
	<u>Hedge Fund</u>	<u>Partnerships</u>	<u>Total</u>
Beginning Balance, 9/30/15	\$ 1,388,481	\$ 541,406	\$ 1,929,887
Withdrawals	(1,098,750)	(25,364)	(1,124,114)
Realized gains (losses)	70,561	(5,791)	64,770
Unrealized gains (losses)	<u>(121,725)</u>	<u>5,950</u>	<u>(115,775)</u>
Ending Balance, 9/30/16	<u>\$ 238,567</u>	<u>\$ 516,201</u>	<u>\$ 754,768</u>

3. INVESTMENTS AND INVESTMENT RETURN

A summary of the Organization's investments and investment returns as of September 30, 2017 and 2016 and for the years then ended is as follows:

	<u>2017</u>		<u>2016</u>	
	<u>Cost</u>	<u>Market</u>	<u>Cost</u>	<u>Market</u>
Investments:				
Money market funds	\$ 3,171,689	\$ 3,171,689	\$ 1,757,163	\$ 1,757,163
Certificates of deposit	-0-	-0-	1,012,061	1,012,061
Exchange traded funds	6,999,501	11,161,951	6,284,688	9,355,018
Mutual funds and other	<u>16,965,864</u>	<u>20,407,899</u>	<u>17,175,971</u>	<u>19,493,059</u>
Total investments	<u>\$ 27,137,054</u>	<u>\$ 34,741,539</u>	<u>\$ 26,229,883</u>	<u>\$ 31,617,301</u>

**AMERICAN LEGION AUXILIARY NATIONAL HEADQUARTERS
AND
AMERICAN LEGION AUXILIARY FOUNDATION, INC.**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2017 AND 2016

The following schedule summarizes the investment income (loss) and its classification in the statements of activities and changes in net assets for the years ended September 30, 2017 and 2016:

	2017						Total
	General Fund	Other Unrestricted Funds	Total Unrestricted	Temporarily Restricted Funds	Auxiliary Total	Foundation Total	
Dividends and interest (net of expenses of \$34,289)	\$ 631,304	\$ 99,241	\$ 730,545	\$ 23,947	\$ 754,492	\$ 23,334	\$ 777,826
Net realized gains (losses) on investments	850,847	4,555	855,402	(5,693)	849,709	(2,890)	846,819
Net unrealized gains (losses) on investments	<u>1,808,800</u>	<u>243,499</u>	<u>2,052,299</u>	<u>87,188</u>	<u>2,139,487</u>	<u>77,580</u>	<u>2,217,067</u>
Total investment income	<u>\$ 3,290,951</u>	<u>\$ 347,295</u>	<u>\$ 3,638,246</u>	<u>\$ 105,442</u>	<u>\$ 3,743,688</u>	<u>\$ 98,024</u>	<u>\$ 3,841,712</u>

	2016						Total
	General Fund	Other Unrestricted Funds	Total Unrestricted	Temporarily Restricted Funds	Auxiliary Total	Foundation Total	
Dividends and interest (net of expenses of \$33,077)	\$ 622,767	\$ 44,336	\$ 667,103	\$ 22,311	\$ 689,414	\$ 18,420	\$ 707,834
Net realized gains (losses) on investments	64,770	-0-	64,770	-0-	64,770	-0-	64,770
Net unrealized gains (losses) on investments	<u>1,825,496</u>	<u>116,739</u>	<u>1,942,235</u>	<u>58,644</u>	<u>2,000,879</u>	<u>45,598</u>	<u>2,046,477</u>
Total investment income	<u>\$ 2,513,033</u>	<u>\$ 161,075</u>	<u>\$ 2,674,108</u>	<u>\$ 80,955</u>	<u>\$ 2,755,063</u>	<u>\$ 64,018</u>	<u>\$ 2,819,081</u>

4. FURNITURE AND EQUIPMENT

The Organization's furniture and equipment for the years ended September 30, 2017 and 2016 are as follows:

	<u>2017</u>	<u>2016</u>
Furniture, office equipment and information technology	\$ 1,506,875	\$ 1,498,268
Leasehold improvements	38,039	38,039
Software in progress	<u>19,685</u>	<u>-0-</u>
	1,564,599	1,536,307
Accumulated depreciation and amortization	<u>(1,458,836)</u>	<u>(1,422,681)</u>
	<u>\$ 105,763</u>	<u>\$ 113,626</u>

**AMERICAN LEGION AUXILIARY NATIONAL HEADQUARTERS
AND
AMERICAN LEGION AUXILIARY FOUNDATION, INC.**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2017 AND 2016

5. UNRESTRICTED NET ASSETS

Unrestricted net assets are internally designated for the following purposes at September 30, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Auxiliary Unrestricted Net Assets:		
General operations	\$ 25,346,526	\$ 25,194,753
NEC designated reserves	1,946,500	480,000
Auxiliary Emergency Fund	534,239	432,368
Spirit of Youth Fund	266,822	204,230
National President's Endowment Fund (NEC designated)	1,889,708	456,875
Other	<u>121,840</u>	<u>117,121</u>
	30,105,635	26,885,347
Foundation Unrestricted Net Assets:		
General operations	<u>11,941</u>	<u>11,942</u>
Total consolidated unrestricted net assets	<u>\$ 30,117,576</u>	<u>\$ 26,897,289</u>

6. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following purposes at September 30, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Auxiliary Temporarily Restricted Net Assets:		
Undistributed endowment earnings	\$ 183,440	\$ 134,498
Spirit of Youth Fund	324,016	306,738
Emergency Fund grants	127,454	150,848
Other	<u>55,047</u>	<u>63,859</u>
	689,957	655,943
Foundation Temporarily Restricted Net Assets:		
Undistributed endowment earnings	116,706	42,016
Veteran Projects Fund	124,281	81,548
National and Local Veteran Creative Arts Festival(s)	<u>49,725</u>	<u>39,613</u>
	290,712	163,177
Total consolidated temporarily restricted net assets	<u>\$ 980,669</u>	<u>\$ 819,120</u>

**AMERICAN LEGION AUXILIARY NATIONAL HEADQUARTERS
AND
AMERICAN LEGION AUXILIARY FOUNDATION, INC.**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2017 AND 2016

7. 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>2017</u>	<u>2016</u>
Purpose restrictions accomplished:		
Auxiliary:		
Veteran services capacity building (CNCS)	\$ 306,753	\$ 839,293
Emergency Fund grants and related expenses	275,620	161,190
Spirit of Youth Fund scholarships and related expenses, net of forfeitures	56,099	39,368
National President's Endowment Fund scholarships and related expenses, net of forfeitures	56,500	-0-
ALA Girls Nation expenses	18,420	10,190
Other	65,116	4,251
Foundation:		
Endowment distributions in support of Auxiliary operations	23,058	18,429
Veteran Projects Fund Grants	6,558	39,777
National and Local Veteran Creative Arts Festival(s)	61,606	57,335
Auxiliary mission sub-grants to ALA National and ALA Departments, Districts, and Units	58,000	27,000
	<u>\$ 927,730</u>	<u>\$ 1,196,833</u>

8. PAID-UP-FOR-LIFE (PUFL) TRUST

In February 1981, the National Executive Committee approved the establishment of a life membership plan to be available to any member. In November 1981, the assets of the Paid-Up-For-Life ("PUFL") Plan, formerly known as the Very-Important-Member ("VIM") Plan, were segregated into a trust account from which funds equal to the annual dues of life members will be withdrawn each year. The trust agreement provides that the Auxiliary has the right to withdraw part or all of the assets of the trust account and to modify or terminate the trust agreement at its discretion. Investment income from the PUFL Membership trust is recorded as a component of deferred revenue and is not reflected in the consolidated statement of activities and changes in net assets.

**AMERICAN LEGION AUXILIARY NATIONAL HEADQUARTERS
AND
AMERICAN LEGION AUXILIARY FOUNDATION, INC.**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2017 AND 2016

The financial position of the PUFL Membership trust is as follows:

	<u>2017</u>	<u>2016</u>
Assets:		
Cash	\$ 125,150	\$ 142,358
Investments - PUFL	4,039,759	3,728,969
Other	<u>15,247</u>	<u>29,213</u>
Total assets	<u>\$ 4,180,156</u>	<u>\$ 3,900,540</u>
Liabilities:		
Due to General Operating Fund	\$ 296,683	\$ 302,305
Deferred revenue - PUFL	<u>3,883,473</u>	<u>3,598,235</u>
	<u>\$ 4,180,156</u>	<u>\$ 3,900,540</u>

The cost and market value of investments in the PUFL Membership trust as of September 30, 2017 and 2016 are as follows:

	<u>2017</u>		<u>2016</u>	
	<u>Cost</u>	<u>Market</u>	<u>Cost</u>	<u>Market</u>
Investments:				
Money market funds	\$ 82,204	\$ 82,204	\$ 162,071	\$ 162,071
Exchange traded funds	1,207,588	1,834,985	1,350,351	1,796,408
Mutual funds and other	<u>2,020,405</u>	<u>2,122,570</u>	<u>1,774,257</u>	<u>1,770,490</u>
Total investments	<u>\$ 3,310,197</u>	<u>\$ 4,039,759</u>	<u>\$ 3,286,679</u>	<u>\$ 3,728,969</u>

The following schedule summarizes the PUFL Membership trust investment income for the years ended September 30, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Dividends and interest (net of expenses)	\$ 80,565	\$ 78,589
Net realized gains on investments	104,973	-0-
Net unrealized gains on investments	<u>287,272</u>	<u>286,479</u>
Total investment income	<u>\$ 472,810</u>	<u>\$ 365,068</u>

**AMERICAN LEGION AUXILIARY NATIONAL HEADQUARTERS
AND
AMERICAN LEGION AUXILIARY FOUNDATION, INC.**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2017 AND 2016

9. PENSION PLAN

Prior to 2008, the Auxiliary participated in a defined benefit pension plan covering substantially all of its employees. The plan was frozen on June 30, 2008. Participating employees will continue to vest in the plan; however, benefit payments will be based on the years of service and salary level as of June 30, 2008. The Auxiliary's funding policy is to make the minimum annual contribution that is required by applicable regulations, plus such amounts as the Auxiliary may determine to be appropriate from time to time.

Significant balances, costs, and assumptions are as follows:

	<u>2017</u>	<u>2016</u>
Projected benefit obligation	\$ (3,502,753)	\$ (3,708,812)
Fair value of plan assets	<u>2,400,878</u>	<u>2,406,768</u>
Funded status	<u>\$ (1,101,875)</u>	<u>\$ (1,302,044)</u>
Accumulated benefit obligation	<u>\$ (3,502,753)</u>	<u>\$ (3,708,812)</u>

Based on actuarial calculations, and in accordance with the provisions of the Employee Retirement Income Security Act ("ERISA"), there are no payments currently required to be made to the plan.

Amounts recognized in the consolidated financial statements are as follows:

	<u>2017</u>	<u>2016</u>
Liability for pension benefits	\$ 1,101,875	\$ 1,302,044
Unrecognized losses (Note 16)	(1,205,501)	(1,401,458)
Unamortized prior service cost (Note 16)	(32,583)	(37,877)
Net periodic pension cost	1,082	8,851
Employer contributions	-0-	35,000
Benefits paid	182,156	144,717

Weighted-average assumptions used to determine benefit obligations are as follows:

	<u>2017</u>	<u>2016</u>
Weighted-average assumptions:		
Discount rate	3.54%	3.23%
Rate of compensation increase	N/A	N/A

**AMERICAN LEGION AUXILIARY NATIONAL HEADQUARTERS
AND
AMERICAN LEGION AUXILIARY FOUNDATION, INC.**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2017 AND 2016

Weighted-average assumptions used to determine benefit costs are as follows:

	<u>2017</u>	<u>2016</u>
Weighted-average assumptions:		
Discount rate	3.54%	3.23%
Expected return on plan assets	7.00%	7.00%
Rate of compensation increase	N/A	N/A

The Auxiliary has estimated the long-term rate on plan assets based primarily on historical returns, adjusted for changes in target portfolio allocations, and recent changes in long-term interest rates based on publicly available information.

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid as of September 30:

2018	\$ 208,738
2019	209,189
2020	205,300
2021	201,117
2022	215,556
2023-2027	<u>1,005,194</u>
	<u>\$ 2,045,094</u>

Plan assets are held by a bank-administered trust fund, which invests the plan assets in accordance with provisions of the plan agreement. The plan agreements permit investment in equity and debt securities based on certain target allocation percentages.

Asset allocation is primarily based on a strategy to provide stable earnings while still permitting the plans to recognize potentially higher returns through a limited investment in equity securities. Plan assets are re-balanced quarterly. The most recent target asset allocation percentages and the actual plan assets by category at September 30, 2017 and 2016 were as follows:

	<u>Target</u>	<u>2017</u>	<u>2016</u>
Equity securities	40 - 60%	32%	47%
Debt securities	40 - 60%	64%	50%
Other	0 - 20%	4%	3%

The market values of the investments are measured by a Level 1 input in accordance with U.S. GAAP.

**AMERICAN LEGION AUXILIARY NATIONAL HEADQUARTERS
AND
AMERICAN LEGION AUXILIARY FOUNDATION, INC.**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2017 AND 2016

10. PROFIT SHARING PLAN

The Auxiliary established a 401(k) Profit Sharing Plan subsequent to the freezing of the pension plan in 2008 (Note 9). The plan covers all eligible employees meeting certain age and term-of-employment provisions. Contributions are made by the Auxiliary at the discretion of the National Finance and National Executive Committees. Participants become fully vested in employer contributions after five (5) years of service. The Auxiliary contributed \$103,816 and \$63,943 in 2017 and 2016, respectively.

11. OPERATING LEASES

The Auxiliary leases its National Headquarters' office under an agreement that calls for monthly lease payments ranging from \$19,751 to \$20,042 through January 2019 plus the Auxiliary's proportionate share of operating costs. Total lease expense for the National Headquarters' Office was \$222,596 and \$222,595 in 2017 and 2016, respectively.

The Auxiliary also leases certain office equipment under a term in excess of one year. The lease requires minimum monthly lease payments of \$1,663 through July 2019. Lease expense for this lease and other short-term cancelable leases was \$18,698 and \$21,180 in 2017 and 2016, respectively.

Future minimum lease payments under the terms of all noncancelable operating leases at September 30, 2017 are as follows:

Year Ending <u>September 30,</u>	
2018	\$ 259,294
2019	<u>95,134</u>
	<u>\$ 354,428</u>

12. RELATED PARTY TRANSACTIONS

The Auxiliary and The American Legion National Headquarters (the "Legion") are related parties that are not financially interrelated organizations. The Legion is a national veterans' organization created by an Act of Congress to provide various programs to support veterans, their families, and children and youth. Many of the Auxiliary's programs mirror and/or supplement the efforts of the Legion in supporting these groups. Accordingly, there are shared resources between the two organizations.

**AMERICAN LEGION AUXILIARY NATIONAL HEADQUARTERS
AND
AMERICAN LEGION AUXILIARY FOUNDATION, INC.**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2017 AND 2016

Activities between the Auxiliary and the Legion for the years ended September 30, 2017 and 2016 are summarized below:

	<u>2017</u>	<u>2016</u>
Disbursements to Legion:		
Conferences and convention	\$ 78,654	\$ 63,955
Legal services	7,500	7,500
National emblem sales	10,865	17,567
Contributions to the Legion and its affiliates	2,500	2,500
Other	9,180	10,384
	<u>\$ 108,699</u>	<u>\$ 101,906</u>
Receipts:		
National emblem sales	<u>\$ 60,715</u>	<u>\$ 59,158</u>

13. NATIONAL PRESIDENT'S SCHOLARSHIP ENDOWMENT

Composition of Endowment Net Assets

The Auxiliary created the National President's Scholarship Endowment Fund (the "Endowment") in 2008 to provide funding for scholarships awarded by the Auxiliary. The endowment consists of quasi endowment funds set aside by the National Executive Committee ("NEC") and donor-designated funds. Contributions to the NEC-designated and donor-designated portions of the endowment are classified as unrestricted and permanently restricted, respectively, in the consolidated statements of financial position, and the components are tracked separately for the purpose of recording investment income.

**AMERICAN LEGION AUXILIARY NATIONAL HEADQUARTERS
AND
AMERICAN LEGION AUXILIARY FOUNDATION, INC.**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2017 AND 2016

Endowment net assets at September 30, 2017 include the following:

	NEC <u>Designated</u>	Donor <u>Designated</u>	<u>Total</u>
Historic gift value	\$ 343,290	\$ 679,463	\$ 1,022,753
Accumulated earnings	<u>113,585</u>	<u>134,498</u>	<u>248,083</u>
Endowment net assets, beginning of year	<u>456,875</u>	<u>813,961</u>	<u>1,270,836</u>
Additions to endowment	1,250,000	20,121	1,270,121
Transfer from reserves	-0-	18,500	18,500
Scholarships paid, net of forfeitures	-0-	(75,000)	(75,000)
Interest and dividends, net of fees	41,034	23,947	64,981
Realized losses	12,425	(5,693)	6,732
Unrealized gains	<u>129,374</u>	<u>87,188</u>	<u>216,562</u>
Change in endowment net assets	<u>1,432,833</u>	<u>69,063</u>	<u>1,501,896</u>
Endowment net assets, end of year	<u>\$ 1,889,708</u>	<u>\$ 883,024</u>	<u>\$ 2,772,732</u>
Historic gift value	\$ 1,593,290	\$ 699,584	\$ 2,292,874
Accumulated earnings	<u>296,418</u>	<u>183,440</u>	<u>479,858</u>
Endowment net assets, end of year	<u>\$ 1,889,708</u>	<u>\$ 883,024</u>	<u>\$ 2,772,732</u>

**AMERICAN LEGION AUXILIARY NATIONAL HEADQUARTERS
AND
AMERICAN LEGION AUXILIARY FOUNDATION, INC.**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2017 AND 2016

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

	NEC <u>Designated</u>	Donor <u>Designated</u>	<u>Total</u>
Historic gift value	\$ 343,290	\$ 669,285	\$ 1,012,575
Accumulated earnings	<u>112,102</u>	<u>53,544</u>	<u>165,646</u>
Endowment net assets, beginning of year	<u>455,392</u>	<u>722,829</u>	<u>1,178,221</u>
Additions to endowment	-0-	10,178	10,178
Scholarships paid, net of forfeitures	(45,000)	-0-	(45,000)
Interest and dividends, net of fees	12,070	22,311	34,381
Unrealized gains	<u>34,413</u>	<u>58,644</u>	<u>93,057</u>
Change in endowment net assets	<u>1,483</u>	<u>91,133</u>	<u>92,616</u>
Endowment net assets, end of year	<u>\$ 456,875</u>	<u>\$ 813,962</u>	<u>\$ 1,270,837</u>
Historic gift value	\$ 343,290	\$ 679,463	\$ 1,022,753
Accumulated earnings	<u>113,585</u>	<u>134,498</u>	<u>248,083</u>
Endowment net assets, end of year	<u>\$ 456,875</u>	<u>\$ 813,961</u>	<u>\$ 1,270,836</u>

Governing Board's Interpretation of Relevant Law

The Auxiliary, 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.

**AMERICAN LEGION AUXILIARY NATIONAL HEADQUARTERS
AND
AMERICAN LEGION AUXILIARY FOUNDATION, INC.**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2017 AND 2016

Endowment Draws

Endowment draws, net of forfeitures, of \$75,000 and \$45,000 were made during the years ended September 30, 2017 and 2016, respectively, to fund scholarships.

The Auxiliary 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 National Finance Committee to the National Executive Committee for its approval during the annual budgeting process. Should the National Finance Committee deem it advisable to exceed the 5% limit, the change must be approved by the National Executive Committee.

The NEC-designated portion of the endowment may be added to or expended by the National Executive Committee at their discretion. At the recommendation of the National Finance Committee, and by approval of the National Executive Committee, the endowment spending policy may be suspended in any given year. However, it is the intent of the Auxiliary that the endowment fund shall be maintained in perpetuity.

Investment Policy for the Endowment

Purpose

The primary goal of the Endowment's investment policy is to provide a sustainable level of income to support the Auxiliary's national scholarships awarded from this fund while also striving to preserve the inflation adjusted purchasing power of the fund.

Investment Objectives

The objectives of this policy are to invest funds in a method that will generate a return of at least 4.5% over the Consumer Price Index. This model is based on an investment horizon of greater than ten years. Within this model, the parameters of the asset allocation should be as follows:

	<u>Target</u>
Equities	55%
Fixed Income	28%
Cash and Equivalent	2%
Alternative Investments	15%

**AMERICAN LEGION AUXILIARY NATIONAL HEADQUARTERS
AND
AMERICAN LEGION AUXILIARY FOUNDATION, INC.**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2017 AND 2016

Investment Plan

The plan is to be reviewed by the Finance Committee and their advisors at least semi-annually at a time set by the Finance Committee.

14. 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 contributions are classified as permanently restricted in the consolidated statements of financial position.

Endowment net assets at September 30, 2017 and 2016 include the following:

	<u>2017</u>	<u>2016</u>
Historic gift value	\$ 780,438	\$ 664,053
Accumulated earnings (losses)	<u>42,016</u>	<u>(3,573)</u>
Endowment net assets, beginning of year	<u>822,454</u>	<u>660,480</u>
Additions to endowment	115,791	116,385
Endowment distributions	(23,058)	(18,429)
Interest and dividends, net of fees	23,058	18,420
Realized losses	(2,890)	-0-
Unrealized gains	<u>77,580</u>	<u>45,598</u>
Change in endowment net assets	<u>190,481</u>	<u>161,974</u>
Endowment net assets, end of year	<u>\$ 1,012,935</u>	<u>\$ 822,454</u>
Historic gift value	\$ 896,229	\$ 780,438
Accumulated earnings	<u>116,706</u>	<u>42,016</u>
Endowment net assets, end of year	<u>\$ 1,012,935</u>	<u>\$ 822,454</u>

**AMERICAN LEGION AUXILIARY NATIONAL HEADQUARTERS
AND
AMERICAN LEGION AUXILIARY FOUNDATION, INC.**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2017 AND 2016

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, 2017 and 2016 were \$23,058 and \$18,429, 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.

15. CONCENTRATIONS

The Organization maintains cash in bank deposit accounts which, at times, may exceed Federally insured limits. The Organization has not experienced any losses in such accounts. The Organization believes it is not exposed to any significant credit risk on cash and cash equivalents.

**AMERICAN LEGION AUXILIARY NATIONAL HEADQUARTERS
AND
AMERICAN LEGION AUXILIARY FOUNDATION, INC.**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2017 AND 2016

16. COMPREHENSIVE INCOME

Comprehensive income for the years ended September 30, 2017 and 2016 includes the following:

	<u>2017</u>	<u>2016</u>
Change in net assets	<u>\$ 3,517,748</u>	<u>\$ 2,846,943</u>
Other comprehensive income:		
Unrecognized losses, beginning of year	1,401,458	1,074,715
Unrecognized losses, end of year	<u>1,205,501</u>	<u>1,401,458</u>
Change in unrecognized losses	<u>195,957</u>	<u>(326,743)</u>
Unamortized prior service cost, beginning of year	37,877	43,171
Unamortized prior service cost, end of year	<u>32,583</u>	<u>37,877</u>
Change in unamortized prior service cost	<u>5,294</u>	<u>5,294</u>
	<u>201,251</u>	<u>(321,449)</u>
Comprehensive income	<u>\$ 3,718,999</u>	<u>\$ 2,525,494</u>

17. STRATEGIC PLAN

In 2014, the National Executive Committee adopted the vision and five goals of a 5-year strategic plan to help ensure that by the end of the Auxiliary's 100th anniversary in 2019-2020, the Auxiliary is effectively serving its mission in every community. The American Legion Auxiliary 5-Year Centennial Strategic Plan is the map with 19 strategies to achieve the five primary goals so the Auxiliary can meet the needs of its veterans and military families in the community for another 100 years. The national strategic plan was developed by over 100 members and depends on the organization at all levels achieving the five following strategic goals by 2020: a) Enhance Membership Strength; b) Create an Internal Culture of Good Will; c) Develop Leadership at All Levels; d) Strengthen Departments and Units; and e) With The American Legion Build Brand Loyalty.

Departments are at various stages of developing and implementing statewide plans customized to achieving the five goals. With overwhelming member support, the National Executive Committee budgeted \$730,000 in 2018 to resource the Centennial Strategic Plan, recognizing the critical need to invest in the future growth of the Auxiliary.

SUPPLEMENTARY INFORMATION

**AMERICAN LEGION AUXILIARY NATIONAL HEADQUARTERS
AND
AMERICAN LEGION AUXILIARY FOUNDATION, INC.**

ANALYSIS OF DEFERRED REVENUE – PUFL
YEARS ENDED SEPTEMBER 30, 2017 AND 2016

	<u>2017</u>	<u>2016</u>
Increases:		
Membership dues	\$ 163,232	\$ 171,024
Investment income	472,810	365,068
	<u>636,042</u>	<u>536,092</u>
Decreases:		
Distributions to departments	298,704	305,326
Administrative expense	52,100	57,482
	<u>350,804</u>	<u>362,808</u>
Net Increase	285,238	173,284
Deferred Revenue, Beginning of Year	<u>3,598,235</u>	<u>3,424,951</u>
Deferred Revenue, End of Year	<u>\$ 3,883,473</u>	<u>\$ 3,598,235</u>

See Independent Auditor's Report on pages 1-2.

**AMERICAN LEGION AUXILIARY NATIONAL HEADQUARTERS
AND
AMERICAN LEGION AUXILIARY FOUNDATION, INC.**

CONSOLIDATING STATEMENT OF FINANCIAL POSITION
SEPTEMBER 30, 2017

ASSETS

	<u>Auxiliary</u>	<u>Foundation</u>	<u>Eliminations</u>	<u>Total</u>
Assets:				
Cash and cash equivalents	\$ 413,383	\$ 265,134	\$ -0-	\$ 678,517
Investments	33,723,516	1,018,023	-0-	34,741,539
Investments - PUFL	4,039,759	-0-	-0-	4,039,759
Prepaid expenses	188,493	-0-	-0-	188,493
Furniture and equipment, net	105,763	-0-	-0-	105,763
Other assets	<u>316,970</u>	<u>6,386</u>	<u>(77,166)</u>	<u>246,190</u>
Total assets	<u>\$ 38,787,884</u>	<u>\$ 1,289,543</u>	<u>\$ (77,166)</u>	<u>\$ 40,000,261</u>

LIABILITIES AND NET ASSETS

Liabilities:				
Accounts payable	\$ 768,972	\$ 90,661	\$ (77,166)	\$ 782,467
Accrued expenses	351,416	-0-	-0-	351,416
Accrued scholarships	55,500	-0-	-0-	55,500
Deferred revenue - dues	2,338,740	-0-	-0-	2,338,740
Deferred revenue - PUFL	3,883,473	-0-	-0-	3,883,473
Deferred revenue - other	30,816	-0-	-0-	30,816
Liability for pension benefits	<u>1,101,875</u>	<u>-0-</u>	<u>-0-</u>	<u>1,101,875</u>
Total liabilities	<u>8,530,792</u>	<u>90,661</u>	<u>(77,166)</u>	<u>8,544,287</u>
Net Assets:				
Unrestricted net assets	30,105,635	11,941	-0-	30,117,576
Temporarily restricted net assets	689,957	290,712	-0-	980,669
Permanently restricted net assets	<u>699,584</u>	<u>896,229</u>	<u>-0-</u>	<u>1,595,813</u>
Total net assets before accumulated other comprehensive loss	31,495,176	1,198,882	-0-	32,694,058
Accumulated other comprehensive loss	<u>(1,238,084)</u>	<u>-0-</u>	<u>-0-</u>	<u>(1,238,084)</u>
Total net assets	<u>30,257,092</u>	<u>1,198,882</u>	<u>-0-</u>	<u>31,455,974</u>
Total liabilities and net assets	<u>\$ 38,787,884</u>	<u>\$ 1,289,543</u>	<u>\$ (77,166)</u>	<u>\$ 40,000,261</u>

See Independent Auditor's Report on pages 1-2.

**AMERICAN LEGION AUXILIARY NATIONAL HEADQUARTERS
AND
AMERICAN LEGION AUXILIARY FOUNDATION, INC.**

**CONSOLIDATING STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
YEAR ENDED SEPTEMBER 30, 2017**

	Auxiliary			Foundation			Eliminations	Total
	Unrestricted Funds	Temporarily Restricted Funds	Permanently Restricted Funds	Auxiliary Total	Unrestricted Funds	Temporarily Restricted Funds		
Revenue, Gains & Other Support:								
Contributions	\$ 687,421	\$ 411,027	\$ 20,121	\$ 1,118,569	\$ 178,733	\$ 115,791	\$ (276,020)	\$ 1,300,228
Federal grants and cost sharing	-	306,753	-	306,753	-	-	-	306,753
Membership dues	5,453,621	-	-	5,453,621	-	-	-	5,453,621
Advertising	495,084	-	-	495,084	-	-	-	495,084
Other	701,200	-	-	701,200	-	-	-	701,200
	<u>7,337,326</u>	<u>717,780</u>	<u>20,121</u>	<u>8,075,227</u>	<u>178,733</u>	<u>115,791</u>	<u>(276,020)</u>	<u>8,256,886</u>
Net assets released from restrictions	<u>778,508</u>	<u>(778,508)</u>	<u>-</u>	<u>-</u>	<u>(149,222)</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>8,115,834</u>	<u>(60,728)</u>	<u>20,121</u>	<u>8,075,227</u>	<u>29,511</u>	<u>115,791</u>	<u>(276,020)</u>	<u>8,256,886</u>
Expenses:								
Member and department support services	4,986,703	-	-	4,986,703	-	-	-	4,994,589
Youth and education services	930,137	-	-	930,137	-	-	(48,059)	963,654
Veterans and military families programs	1,463,047	-	-	1,463,047	-	-	(54,107)	1,496,212
Total program services	7,379,887	-	-	7,379,887	-	-	(102,166)	7,454,465
Management and general	933,066	-	-	933,066	-	-	(163,154)	815,742
Fundraising	220,839	-	-	220,839	-	-	-	310,643
Total expenses	<u>8,533,792</u>	<u>-</u>	<u>-</u>	<u>8,533,792</u>	<u>-</u>	<u>-</u>	<u>(265,320)</u>	<u>8,580,850</u>
Change in net assets from operations	<u>(417,958)</u>	<u>(60,728)</u>	<u>20,121</u>	<u>(458,565)</u>	<u>(1)</u>	<u>115,791</u>	<u>(10,700)</u>	<u>(323,964)</u>
Investment income, Net of Expenses	<u>3,638,246</u>	<u>105,442</u>	<u>-</u>	<u>3,743,688</u>	<u>98,024</u>	<u>-</u>	<u>-</u>	<u>3,841,712</u>
Change in net assets	<u>3,220,288</u>	<u>44,714</u>	<u>20,121</u>	<u>3,285,123</u>	<u>(1)</u>	<u>115,791</u>	<u>(10,700)</u>	<u>3,517,748</u>
Net Assets Before Accumulated Other Comprehensive Loss, Beginning of Year	<u>26,885,947</u>	<u>645,243</u>	<u>679,463</u>	<u>28,210,653</u>	<u>163,177</u>	<u>780,438</u>	<u>10,700</u>	<u>29,176,310</u>
Net Assets Before Accumulated Other Comprehensive Loss, End of Year	<u>\$ 30,105,635</u>	<u>\$ 689,957</u>	<u>\$ 699,584</u>	<u>\$ 31,495,176</u>	<u>\$ 11,941</u>	<u>\$ 896,229</u>	<u>\$ -</u>	<u>\$ 32,694,058</u>

See Independent Auditor's Report on pages 1-2.



AGREED-UPON PROCEDURES
APPLIED TO

**AMERICAN LEGION AUXILIARY
NATIONAL HEADQUARTERS**

SEPTEMBER 30, 2017



AMERICAN LEGION AUXILIARY NATIONAL HEADQUARTERS

TABLE OF CONTENTS

	Page
Independent Accountant's Report on Applying Agreed-Upon Procedures	1
Exhibit I – Procedures Performed	2
Exhibit II – Results and Findings	3



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

INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

Audit Committee
American Legion Auxiliary National Headquarters
Indianapolis, Indiana

We have performed the procedures enumerated in Exhibit I, which were agreed to by the Audit Committee of the American Legion Auxiliary National Headquarters (the "Auxiliary") solely to assist the Auxiliary in ascertaining whether Federal grant awards received during the year ended September 30, 2017 were administered in accordance with the applicable compliance requirements as outlined in our engagement letter dated September 6, 2017. The Auxiliary's management is responsible for ensuring all compliance requirements related to Federal awards are met. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants.

The sufficiency of these procedures is solely the responsibility of those parties specified in this report. Consequently, we make no representation regarding the sufficiency of the procedures described in Exhibit I either for the purpose for which this report has been requested or for any other purpose.

We were not engaged to and did not conduct an examination of the Auxiliary's financial statements or all transactional detail related thereto, the objective of which would be the expression of an opinion on the financial statements and transactional detail of the Auxiliary. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of management of the Auxiliary and is not intended to be and should not be used by anyone other than these specified parties.

Alerding CPA Group

February 3, 2018

AMERICAN LEGION AUXILIARY NATIONAL HEADQUARTERS

EXHIBIT I – PROCEDURES PERFORMED

The procedures performed included those procedures which we deemed necessary to test funds expended for all Federal awards received had we conducted a Single Audit under Governmental Auditing Standards. The Auxiliary's Federal expenditures for the year ended September 30, 2017 are included in Exhibit II, and our findings will not be submitted to the Federal Audit Clearinghouse due to the total Federal expenditures being below the \$750,000 threshold.

Our procedures included testing of internal controls over financial reporting and compliance with the provisions of laws, regulations, contracts, and award agreements in accordance with *Governmental Auditing Standards* ("GAS"), issued by the Comptroller General of the United States. Our procedures also included testing of internal control over compliance related to major programs and compliance with Federal statutes, regulations, and the terms and conditions of federal awards that could have a direct and material effect on each major program in accordance with the Single Audit Act Amendments of 1996, Title 2 U.S. Code of Federal Regulations ("CFR") Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards ("Uniform Guidance").

Our procedures were conducted in accordance with the standards for financial audits contained in GAS, issued by the Comptroller General of the United States; the Single Audit Act Amendments of 1996; and the provisions of the Uniform Guidance, and included tests of accounting records, a determination of major program(s) in accordance with the Uniform Guidance, and other procedures we considered necessary to satisfy our objective.

As required by the Uniform Guidance, we performed tests of controls over compliance to evaluate the effectiveness of the design and operation of controls that we considered relevant to preventing or detecting material noncompliance with compliance requirements applicable to each major Federal award program. However, our tests were less in scope than would be necessary to render an opinion on those controls and, accordingly, no opinion is expressed herein.

Our procedures included tests of the Auxiliary's compliance with provisions of applicable laws, regulations, contracts, and agreements, including grant agreements. However, the objective of those procedures was not to provide an opinion on overall compliance, and we do not express such an opinion.

The Uniform Guidance requires that we plan and perform the engagement to obtain reasonable assurance about whether the auditee has complied with applicable Federal statutes, regulations, and the terms and conditions of Federal awards applicable to major programs. Our procedures consisted of tests of transactions and other applicable procedures described in the *OMB Compliance Supplement* for the types of compliance requirements that could have a direct and material effect on each of the Auxiliary's major programs.

**AMERICAN LEGION AUXILIARY
NATIONAL HEADQUARTERS**

EXHIBIT II RESULTS AND FINDINGS

We performed the procedures described in Exhibit I on the Auxiliary's Federal awards for the year ended September 30, 2017. The Auxiliary had one Federal program during this period, VISTA State, which we identified as the major program. Our testing did not identify any errors or omissions in the administration of the Federal award, and there were no material weaknesses or significant deficiencies in the internal control over financial reporting or instances of noncompliance. In addition, there were no material weaknesses or significant deficiencies in internal control over the VISTA State program.

As noted in Exhibit I, our findings will not be submitted to the Federal Audit Clearinghouse due to the total Federal expenditures being below \$750,000. The Federal expenditures for the year ended September 30, 2017 were as follows:

<u>Federal Grantor/ Pass-through Grantor/ Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Pass Through Entity ID Number</u>	<u>Federal Expenditures</u>
U.S. Department of Health and Human Services:			
Corporation for National and Community Service:			
VISTA State	94.013	13-046-W52318	\$ <u>171,012</u>
Total Expenditures of Federal Awards			\$ <u>171,012</u>