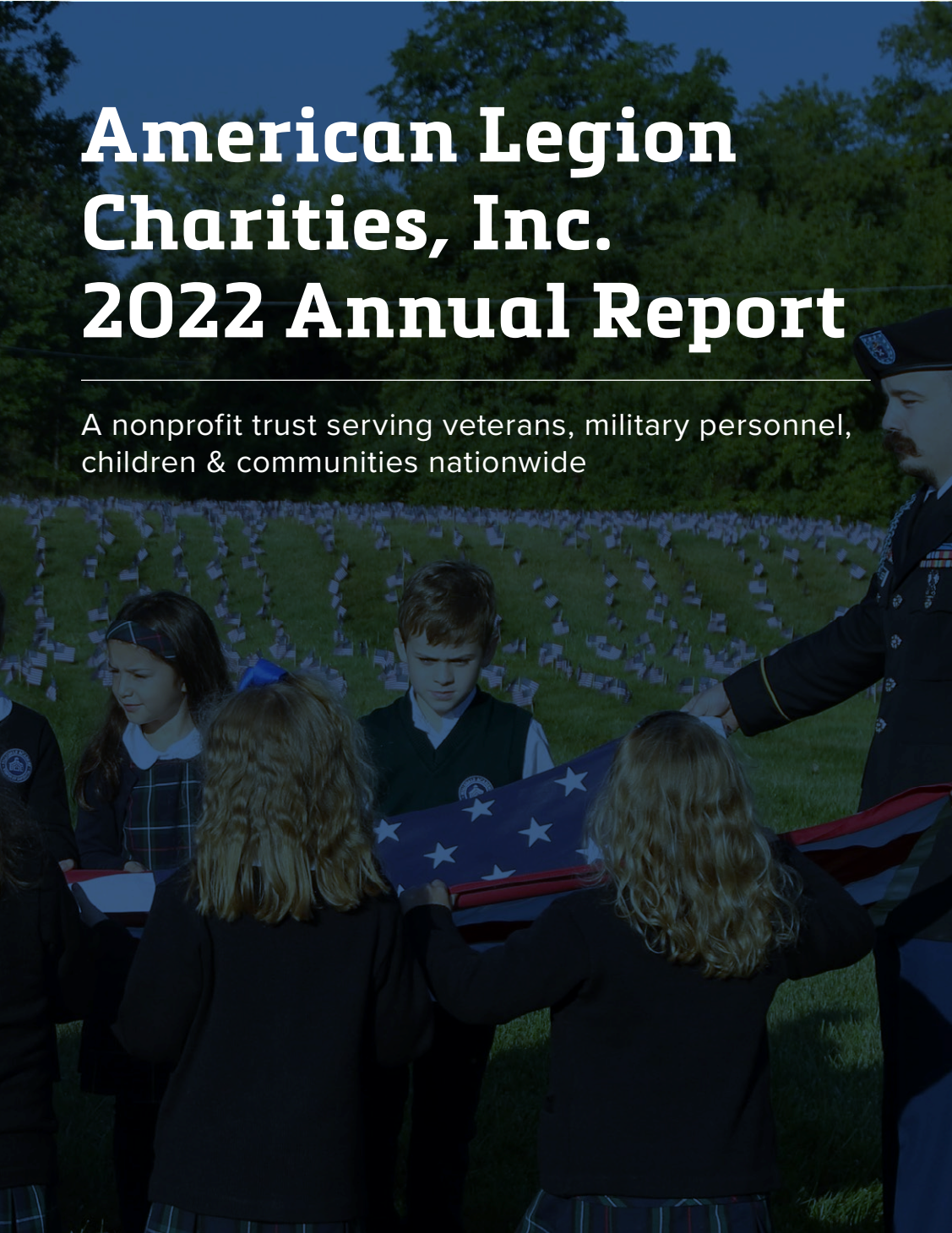




THE AMERICAN LEGION
Veterans Strengthening America

American Legion Charities, Inc. 2022 Annual Report

A nonprofit trust serving veterans, military personnel,
children & communities nationwide



Preamble to The American Legion Constitution

FOR GOD AND COUNTRY

WE ASSOCIATE OURSELVES TOGETHER

FOR THE FOLLOWING PURPOSES:

To uphold and defend the Constitution of the United States of America;

To maintain law and order;

To foster and perpetuate a one hundred percent Americanism;

To preserve the memories and incidents of our associations in all wars;

To inculcate a sense of individual obligation to the community, state and nation;

To combat the autocracy of both the classes and the masses;

To make right the master of might;

To promote peace and goodwill on earth;

To safeguard and transmit to posterity the principles of justice, freedom and democracy;

To consecrate and sanctify our comradeship by our devotion to mutual helpfulness.

American Legion Charities



The American Legion Family, with more than 3 million members, serves communities in every corner of the nation and around the world. The largest organization of veterans and military-connected families in the United States, it also stands as one of the nation's biggest and most influential volunteer networks and supporters of people in need.

The American Legion has spent over a century building its identity around four pillars of service: veterans, defense, Americanism and youth. The organization has worked tirelessly to strengthen the nation by leading the charge for a GI Bill of Rights, health care and disability benefits for veterans, fighting for a strong and capable military, educating the public about our nation's flag and creating opportunities for children.

American Legion programs provide assistance and guidance for young people facing challenges beyond their control, such as abuse, neglect and disease. Legion programs also develop future leaders and build character through Boys State, Boys Nation, oratorical competition, American Legion Baseball, Junior Shooting Sports, Youth Cadet Law Enforcement programs and more.

The American Legion Family is made up of the wartime veterans of The American Legion, the American Legion Auxiliary (spouses and female descendants of wartime veterans), Sons of The American Legion (male descendants of wartime veterans) and the American Legion Riders (a motorcycle-oriented group for members of all three organizations).

American Legion Charities was launched as a 501(c)(3) nonprofit trust in 2010 to allow American Legion Family members and friends to make tax-deductible contributions to the organization and its many services or choose a specific program to support. Donors can select the pillar that best suits them, or all the pillars, depending on their wishes.

The following pages illustrate just a fraction of the programs and services funded by American Legion Charities, followed by an audited financial statement of the trust.

To learn more or to donate by phone, call **1-800-433-3318** or visit www.legion.org/donate/contact online.



Photo by Julia Rendleman

American Legion Veterans & Children Foundation

“The American Legion’s Temporary Financial Assistance grant establishes hope in someone who has contacted and spoken to everyone for any kind of help ... We are extremely thankful and ... couldn’t have been blessed more by getting into The American Legion and look forward to our future within the organization.”

U.S. Marine Corps veteran Walter Culberson, whose family received a Temporary Financial Assistance grant to pay utilities until he got a new job in April 2020

The American Legion Veterans & Children Foundation provides essential, life-changing support for military and veteran parents with children at home, who are facing unforeseen financial hardships. The foundation also funds expert, free-of-charge assistance for disabled veterans and families working to understand and receive government benefits they are due. The foundation’s parent is the 1925-established American Legion Endowment Fund, a distinct 501(c)(3) non-profit corporation, which has provided tens of millions of dollars in emergency help to qualified, struggling military and veteran families, and has supported tens of thousands of American Legion service officers, who work free of charge for disabled veterans, over the years. More than \$800,000 in American Legion Temporary Financial Assistance grants are commonly disbursed each year. More than 3,000 trained American Legion service officers are also continuously helping more than 700,000 veterans with their disability benefits, education, careers and health-care needs.



Photo by Hilary Ott

National Emergency Fund

“When the carport left, it pulled about 70 to 80% of our rubber roof off, which let the water in the house. The grant we got from The American Legion helped replace our roof and a lot of the other stuff inside.”

Sons of The American Legion member Scott Huizenga of St. James, Fla., one of more than 75 recipients of National Emergency Fund grants in the aftermath of Hurricane Ian

The American Legion’s National Emergency Fund directs immediate cash grants to American Legion Family members – and Legion posts – where lives have been turned upside-down due to natural disasters. The fund, created in response to Hurricane Hugo in 1989, has provided more than \$8 million in direct financial assistance – up to \$3,000 for qualified American Legion Family members, and up to \$10,000 for posts over the decades, including more than \$261,000 in 2022 grants. By providing this emergency funding, the NEF has prevented damaged posts from closing and enabled individual members to recover from catastrophes.

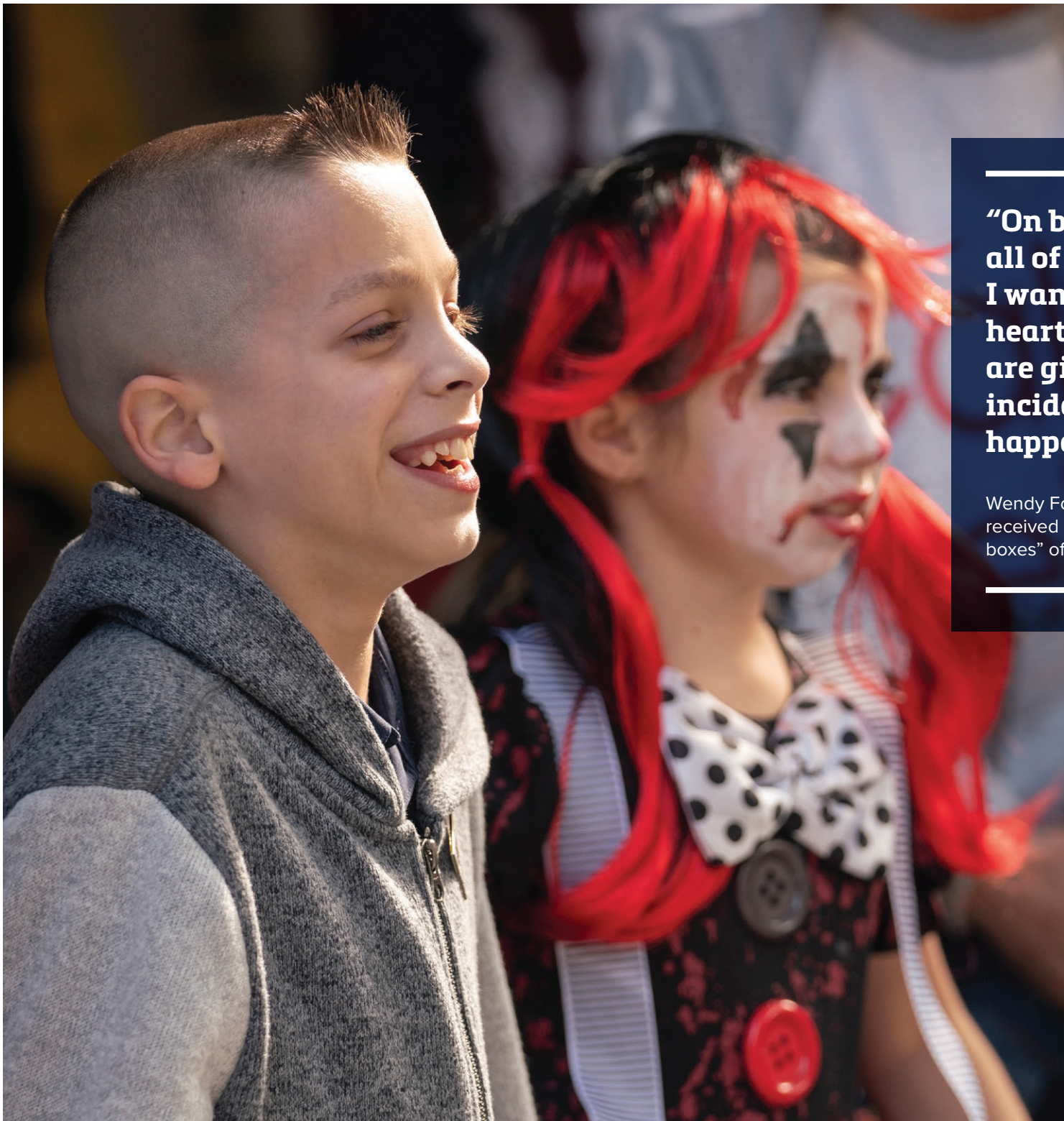


Photo by Ben Mikesell

Child Welfare Foundation

“On behalf of those families, their children and all of us here at the National Autism Association, I want to say thank you from the bottom of my heart for helping us to keep our kids safe. We are giving families tools to help prevent those incidences (of wandering away from safety) from happening.”

Wendy Fournier, president of the National Autism Association, after the group received a \$30,000 2021 Child Welfare Foundation grant to provide families “safety boxes” of tools to protect autism-affected children

Created by The American Legion in 1954 as a distinct 501(c)(3), the **Child Welfare Foundation** awards grants to nonprofit organizations nationwide that contribute to the physical, mental, emotional and spiritual needs of children and youth. The foundation also improves the lives of children in multiple ways, including support for youth activities and programs sponsored by The American Legion.



Photo by Angelo Merendino

Operation Comfort Warriors

“(Donors) know that 100% will go to the troops. That’s why they stick with it. Money is going to stay with OCW. And as long as we are serving active-duty soldiers and veterans, we will have OCW. That’s what The American Legion is about.”

American Legion Past National Commander James E. Koutz, tireless champion of the program that has purchased millions in comfort items, recreational equipment, event tickets and experiences for recovering military personnel and veterans over the years

Operation Comfort Warriors was established in 2007 to provide relief for active-duty military personnel recovering from wounds and illnesses at Department of Defense health-care facilities and transition units. OCW purchases and delivers items not normally provided by the federal government, such as art and sports therapy equipment, recreational opportunities and entertainment for recovering warriors and their families. The program also serves veterans receiving treatment at Department of Veterans Affairs facilities.



Photo by Maddie McGarvey

Legacy Scholarship Fund

“I would like to thank all of the veterans and the people who have donated to The American Legion and everyone who has donated to support children like me who are trying to receive their college education and essentially enjoy the freedom that our parents’ service has provided to us.”

Ohio State University student and Legacy Scholarship recipient Emma Furlan, whose father is a 100% service-connected disabled veteran

The American Legion Legacy Scholarship Fund, established in 2006, awards college funding for youth whose parents have died on active duty since 9/11, or who have received VA disability ratings of 50% or greater. Each needs-based scholarship provides up to \$20,000 in aid for undergraduate or post-graduate college education.



Photo by Nick George

Be the One

“One person at a time. It’s each one of us taking the time to do that. That’s what Be the One is all about to me. Just make a difference for that one person, and you make a difference for their whole family and their community. It’s not just one person. We’re helping everybody.”

American Legion Past National Commander Denise Rohan, following a January 2023 2.2-mile Be the One march in Wisconsin to raise awareness about veteran suicide and destigmatize asking for help

Be the One The American Legion’s Be the One initiative calls on each member of the organization to reach out to at least one other who served and may be at risk. The program has raised awareness at the community, state and national levels. The organization’s unique ability to help others, veteran-to-veteran, has become a prominent plank in VA’s platform of assistance, including the passage of a National VA Buddy Check Week to provide individual outreach. One key to the program is to de-stigmatize the pursuit and use of available help.



INDEPENDENT AUDITOR'S REPORT

Members of the Board of Directors of the
The American Legion Charities
Indianapolis, Indiana

Report on the Audit of the Financial Statements

Opinion

We have audited the consolidated financial statements of The American Legion Charities (the "Charities"), which comprise the consolidated statements of financial position as of December 31, 2022 and 2021, and the related consolidated statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Charities as of December 31, 2022 and 2021, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Charities and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

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

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Charities' ability to continue as a going concern for one year from the date the consolidated financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Charities' internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Charities' ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

**THE AMERICAN LEGION CHARITIES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**

December 31, 2022 and 2021

	<u>2022</u>	<u>2021</u>
ASSETS		
Cash and cash equivalents	\$ 1,892,801	\$ 991,878
Accounts receivable	1,374	-
Contributions receivable	8,567	-
Interest receivable	38,475	37,178
Prepaid deposits fundraising	-	183,118
Investments	<u>5,096,134</u>	<u>5,666,741</u>
	<u>\$ 7,037,351</u>	<u>\$ 6,878,915</u>
LIABILITIES		
Grants payable	\$ 764,041	\$ 62,500
Accounts payable	138,450	297,944
Other liabilities	67,500	-
Notes payable	<u>8,500,000</u>	<u>-</u>
	9,469,991	360,444
NET ASSETS		
Without donor restriction		
Undesignated	(7,480,611)	1,069,136
Designated by Board for quasi endowment	<u>1,370,457</u>	<u>1,597,351</u>
	(6,110,154)	2,666,487
With donor restriction	<u>3,677,514</u>	<u>3,851,984</u>
Total net assets	<u>(2,432,640)</u>	<u>6,518,471</u>
	<u>\$ 7,037,351</u>	<u>\$ 6,878,915</u>

See accompanying notes to consolidated financial statements.

THE AMERICAN LEGION CHARITIES
CONSOLIDATED STATEMENTS OF ACTIVITIES

Years ended December 31, 2022

	Without Donor Restriction	With Donor Restriction	Total
Revenue, gains and other support			
Contributions	\$ 19,285,971	\$ 2,327,048	\$ 21,613,019
Other	300,124	-	300,124
Interest and dividends, net of fees	21,259	82,637	103,896
Net realized gains (losses) on investments	<u>10,239</u>	<u>(18,037)</u>	<u>(7,798)</u>
Total revenues, gains, and other support	19,617,593	2,391,648	22,009,241
Net assets released from restriction	<u>2,159,102</u>	<u>(2,159,102)</u>	<u>-</u>
	21,776,695	232,546	22,009,241
Expenses			
Program services	2,159,103	-	2,159,103
Fundraising	28,116,956	-	28,116,956
Management and general	<u>18,885</u>	<u>-</u>	<u>18,885</u>
	<u>30,294,944</u>	<u>-</u>	<u>30,294,944</u>
Change in net assets from operations	(8,518,249)	232,546	(8,285,703)
Net unrealized gains (losses) on investments	<u>(258,392)</u>	<u>(407,016)</u>	<u>(665,408)</u>
Change in net assets	(8,776,641)	(174,470)	(8,951,111)
Net assets, beginning of year	<u>2,666,487</u>	<u>3,851,984</u>	<u>6,518,471</u>
Net assets, end of year	<u>\$ (6,110,154)</u>	<u>\$ 3,677,514</u>	<u>\$ (2,432,640)</u>

See accompanying notes to consolidated financial statements.

THE AMERICAN LEGION CHARITIES
CONSOLIDATED STATEMENTS OF ACTIVITIES

Years ended December 31, 2021

	Without Donor Restriction	With Donor Restriction	Total
Revenue, gains and other support			
Contributions	\$ 1,562,906	\$ 508,779	\$ 2,071,685
Other	-	-	-
Interest and dividends, net of fees	21,934	88,641	110,575
Net realized gains (losses) on investments	<u>5,329</u>	<u>16,875</u>	<u>22,204</u>
Total revenues, gains, and other support	1,590,169	614,295	2,204,464
Net assets released from restriction	<u>691,064</u>	<u>(691,064)</u>	<u>-</u>
	2,281,233	(76,769)	2,204,464
Expenses			
Program services	1,950,379	-	1,950,379
Fundraising	13,637	-	13,637
Management and general	<u>27,447</u>	<u>-</u>	<u>27,447</u>
	<u>1,991,463</u>	<u>-</u>	<u>1,991,463</u>
Change in net assets from operations	289,770	(76,769)	213,001
Net unrealized gains (losses) on investments	<u>67,335</u>	<u>(177,186)</u>	<u>(109,851)</u>
Change in net assets	357,105	(253,955)	103,150
Net assets, beginning of year	<u>2,309,382</u>	<u>4,105,939</u>	<u>6,415,321</u>
Net assets, end of year	<u>\$ 2,666,487</u>	<u>\$ 3,851,984</u>	<u>\$ 6,518,471</u>

See accompanying notes to consolidated financial statements.

THE AMERICAN LEGION CHARITIES

CONSOLIDATED STATEMENTS OF FUNCTIONAL EXPENSES

Years ended December 31, 2022 and 2021

	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>2022 Total</u>
<u>2022</u>				
Scholarships, Grants, and Awards	\$ 1,889,661	\$ -	\$ -	\$ 1,889,661
Printing & Postage	-	-	27,634,315	27,634,315
Special Projects and Programs	269,442	-	-	269,442
Bank Fees	-	-	240,171	240,171
Insurance	-	3,204	-	3,204
Outside Services and Fees	-	15,681	242,470	258,151
	<u>\$ 2,159,103</u>	<u>\$ 18,885</u>	<u>\$ 28,116,956</u>	<u>\$ 30,294,944</u>
	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>2021 Total</u>
<u>2021</u>				
Scholarships, Grants, and Awards	\$ 1,631,099	\$ -	\$ -	\$ 1,631,099
Special Projects and Programs	319,280	-	-	319,280
Bank Fees	-	-	10,997	10,997
Insurance	-	-	2,640	2,640
Outside Services and Fees	-	27,448	-	27,448
	<u>\$ 1,950,379</u>	<u>\$ 27,448</u>	<u>\$ 13,637</u>	<u>\$ 1,991,464</u>

THE AMERICAN LEGION CHARITIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended December 31, 2022 and 2021

	<u>2022</u>	<u>2021</u>
Cash flows from operating activities		
Change in net assets	\$ (8,951,111)	\$ 103,150
Adjustments to reconcile change in net assets to net cash from operating activities		
Realized (gain) loss on sale of investments	7,798	(22,204)
Unrealized loss on investments	665,408	109,851
Changes in assets and liabilities:		
Accounts receivable	(10,086)	-
Contributions receivable	(8,567)	432,872
Interest receivable	(1,297)	9,941
Prepaid deposits fundraising	183,118	(183,118)
Grants payable	701,541	61,630
Accounts payable	8,349,218	297,944
Other liabilities	67,500	-
Net cash from operating activities	<u>1,003,522</u>	<u>810,066</u>
Cash flows from investing activities		
Purchase of investments	(1,986,917)	(3,294,016)
Sales of investments	1,884,318	3,167,252
Net cash from investing activities	<u>(102,599)</u>	<u>(126,764)</u>
Net increase (decrease) in cash and cash equivalents	900,923	683,302
Cash and cash equivalents, beginning of year	<u>991,878</u>	<u>308,576</u>
Cash and cash equivalents, end of year	<u>\$ 1,892,801</u>	<u>\$ 991,878</u>
Supplemental cash flows information:		
Investment maturities	\$ 419,439	\$ -
Non-cash transactions:		
Notes payable as a result of vendor payment reductions	\$ 8,500,000	\$ -

See accompanying notes to consolidated financial statements.

THE AMERICAN LEGION CHARITIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2022 and 2021

NOTE 1 - NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Organization: The American Legion Charities Trust ("Trust") is a tax-exempt trust established to solicit funds from individuals, organizations and corporations and to disburse said funds as may be directed to various American Legion National Headquarters ("Legion") programs and charities. The American Legion Charities, Inc. is a tax exempt 501(c)(3) corporation organized for the purpose of promoting the common good and general welfare of the people of the United States of American by raising money for the programs of The Legion and its departments and posts.

The Legion is a national veterans organization which was declared to be a corporate body by an Act of the United States Congress on September 16, 1919.

Principles of Consolidation: The consolidated financial statements include the accounts of the American Legion Charities Trust and the American Legion Charities, Inc. (collectively, "Charities"). All material interorganizational accounts and transactions have been eliminated in consolidation. The consolidated financial statements of the Charities does not include the activity or accounts of the Legion.

Income Taxes: The Charities are exempt from federal income taxes. The Charities isn't considered to be a private foundation. The Charities is subject to income tax on unrelated business income. In 2022 and 2021, the Charities incurred no tax expense.

Current accounting standards require the Charities to disclose the amount of potential benefit or obligation to be realized as a result of an examination performed by a taxing authority. For the years ended December 31, 2022 and 2021, management has determined that the Charities does not have any tax positions that result in any uncertainties regarding the possible impact on the Charities' financial statements. The Charities does not expect the total amount of unrecognized tax benefits to significantly change in the next 12 months. The Charities recognizes interest and/or penalties related to income tax matters in income tax expense. The Charities did not have any amounts accrued for interest and penalties at December 31, 2022 and 2021.

Basis of Accounting: The financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America ("GAAP").

Use of Estimates in Preparation of Financial Statements: The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues, expenses, gains, losses and other changes in net assets during the reported period. Actual results could differ from those estimates.

Financial Statement Presentation: The financial statements have been prepared in accordance with GAAP, which requires, among other things, that the financial statements report the net assets, revenues, gains and losses classified based on the existence or absence of donor or grantor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Net Assets Without Donor Restrictions - Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions. The governing board has designated, from net assets without donor restrictions, board-designated quasi endowments.

Net Assets with Donor Restrictions - Net assets subject to donor- (or certain grantor-) imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both. Contributions for which the restrictions are met in the same period in which the contribution is received are also recorded as net assets with donor restrictions and released from restrictions.

Cash and Cash Equivalents: Cash and cash equivalents include cash on hand and less than 90-day deposit balances with banks. The Charities maintains all of its cash deposits in banks and brokerage firms. This may result in a concentration of credit risk in the case of a severe regional financial failure. The maximum amount at risk is the excess of the deposit liabilities reported by the banks over the amounts that would have been covered by federal insurance. The Federal Deposit Insurance Corporation ("FDIC") insures deposits up to \$250,000 per financial institution.

Contributions Receivable and Allowance for Uncollectible Accounts: The Charities collects donations from members, posts, and departments. Losses are charged off to the reserve when management deems further collection efforts will not produce additional recoveries. Management estimated that no allowance was necessary for the year ended December 31, 2022. There were no contributions receivable for the year ended December 31, 2021.

Investments: Investments are carried at fair value. The fair values of investments are based on quoted market prices, where available. If quoted market prices are not available, fair values are based on quoted market prices of comparable instruments. Realized and unrealized gains and losses are reflected in the consolidated statements of activities. Premiums or discounts on investments are generally recognized at the time of disposal or maturity.

Prepaid Deposits Fundraising: Prepaid deposits fundraising includes prepaid expenses related to direct mail fundraising. These costs were recognized in 2022.

Support and Revenue: The Legion reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

In 2022, the majority of the fundraising for the Legion shifted from the American Legion National Headquarters to the American Legion Charities. As a result most of the contribution revenue and related fundraising expenses are reported on the American Legion Charities for the year ended December 31, 2022 and moving forward.

Revenue and Revenue Recognition: Revenue is recognized when earned. Contributions are recognized when cash, securities or other assets, an unconditional promise to give, or notification of a beneficial interest is received. Conditional promises to give are not recognized until the conditions on which they depend have been substantially met.

Expense Allocation: Expenses have been classified as program services, management and general, and fund raising based on actual direct expenditures.

Fair Value of Financial Instruments: The carrying amount of all financial instruments of the Charities, which include cash and cash equivalents, accounts receivable, and investments, approximate fair value.

Subsequent Events: Management has performed an analysis of the activities and transactions subsequent to December 31, 2022, to determine the need for any adjustments or disclosures to the financial statements for the year ended December 31, 2022. Management has performed their analysis through August 1, 2023, the date the financial statements were available to be issued.

NOTE 2 - FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value is defined as the price that would be received for an asset or paid to transfer a liability (an exit price) in the Charities' principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date.

GAAP establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. GAAP describes three levels of inputs that may be used to measure fair value:

Level 1: Quoted prices for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

Level 2: Significant other observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

Level 3: Significant unobservable inputs that reflect a reporting entity's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

In many cases, a valuation technique used to measure fair value includes inputs from multiple levels of the fair value hierarchy. The lowest level of significant input determines the placement of the entire fair value measurement in the hierarchy.

The fair value of money markets and common stock are based on quoted prices in active markets (Level 1 inputs). The fair value of U.S. government obligations, corporate bonds, and state and municipal bonds are based on quoted market prices of similar securities with similar due dates using the market approach (Level 2 inputs).

Assets and Liabilities Measured on a Recurring Basis: Assets and liabilities measured at fair value on a recurring basis are summarized below at December 31:

	Fair Value Measurements Using / December 31, 2022		
	Quoted Prices in Active markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:			
Money market accounts	80,113	-	-
U.S. Government obligations	-	305,514	-
State and municipal bonds	-	1,634,036	-
Corporate bonds	-	2,573,738	-
Common Stock	502,733	-	-
	<u>\$ 582,846</u>	<u>\$ 4,513,288</u>	<u>\$ -</u>

	Fair Value Measurements Using / December 31, 2021		
	Quoted Prices in Active markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:			
Money market accounts	686,279	-	-
U.S. Government obligations	-	142,346	-
State and municipal bonds	-	1,886,033	-
Corporate bonds	-	2,330,290	-
Common Stock	621,793	-	-
	<u>\$ 1,308,072</u>	<u>\$ 4,358,669</u>	<u>\$ -</u>

NOTE 3 - NOTES PAYABLE

On January 1, 2022, the Legion entered into a structured payables arrangement with a supplier that extended the due date for each invoice for a period of up to 2 years without any interest accruing. At December 31, 2022, the outstanding balance was \$8,500,000. Terms of the arrangement require no payments in 2023 and the full balance being paid monthly throughout 2024.

NOTE 4 - NET ASSETS WITH DONOR RESTRICTIONS

At December 31, 2022 and 2021 the restricted purposes are as follows:

	2022	2021
Benevolent Fund	\$ 72,027	\$ 64,610
Endowment Fund	-	20,005
Operation Comfort Warrior	3,624,769	3,821,756
Be The One Campaign	35,097	-
Others	(54,379)	(54,387)
	<u>\$ 3,677,514</u>	<u>\$ 3,851,984</u>

NOTE 5 - NET ASSETS WITH DONOR RESTRICTIONS RELEASED FROM RESTRICTION

Net assets with donor restrictions were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors.

	2022	2021
American Legion Legacy Scholarship Fund	\$ 79,652	\$ 10,206
National Emergency Fund	391,503	11,479
Endowment Fund	648,316	14,010
Operation Comfort Warrior	241,241	316,750
Child Welfare Foundation	468,603	22,334
Other	329,787	316,285
	<u>\$ 2,159,102</u>	<u>\$ 691,064</u>

NOTE 6 - ENDOWMENT COMPOSITION

The Charities endowments include one board-designated quasi endowment fund as well as donor restricted endowment funds which are comprised of one fund, the American Legion Charities Trust fund. In accordance with GAAP, net assets associated with endowment funds, including funds designated by the National Executive Committee to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law: The National Executive Committee has interpreted the State of Indiana's Prudent Management of Institutional Funds Act ("SPMIFA") as requiring the preservation of the fair value of the original gift as of the gift date of the donor restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Charities classifies as with donor restrictions 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) net accumulations to the permanent endowment made in accordance with the governing documents of the Charities. The remaining portion of the donor restricted endowment fund that is not classified with donor restricted net assets is classified as with donor restricted net assets until those amounts are appropriated for expenditure by the Charities in a manner consistent with the standard of prudence prescribed by SPMIFA. In accordance with SPMIFA, the Charities considers the following factors in making a determination to appropriate or accumulate donor restricted endowment funds:

- (1) The duration and preservation of the fund
- (2) The purposes of the Charities and the donor restricted endowment fund
- (3) General economic conditions
- (4) The possible effect of inflation and deflation
- (5) The expected total return from income and the appreciation of investments
- (6) Other resources of the Charities
- (7) The investment policies of the Charities

Endowment net asset composition by type of fund as of December 31, 2022:

	Without Donor Restriction	With Donor Restriction	Total
Endowment Funds	1,370,457	-	1,370,457
Total Funds	<u>\$ 1,370,457</u>	<u>\$ -</u>	<u>\$ 1,370,457</u>

Endowment net asset composition by type of fund as of December 31, 2021:

	Without Donor Restriction	With Donor Restriction	Total
Endowment Funds	1,597,351	-	1,597,351
Total Funds	<u>\$ 1,597,351</u>	<u>\$ -</u>	<u>\$ 1,597,351</u>

Changes in endowment net assets for the year ended December 31, 2022:

	Without Donor Restriction	With Donor Restriction	Total
Net assets, beginning of year			
Investment gain:	\$ 1,597,351	\$ -	\$ 1,597,351
Investment income, net of fees	21,259	-	21,259
Net appreciation (realized and unrealized)	(248,153)	-	(248,153)
Total investment loss	(226,894)	-	(226,894)
New Gifts			
Appropriation of endowment assets for expenditure	-	-	-
Total Funds	\$ 1,370,457	\$ -	\$ 1,370,457

Changes in endowment net assets for the year ended December 31, 2021:

	Without Donor Restriction	With Donor Restriction	Total
Net assets, beginning of year			
Investment gain:	\$ 1,496,506	\$ -	\$ 1,496,506
Investment income, net of fees	27,263	-	27,263
Net depreciation (realized and unrealized)	67,335	-	67,335
Total investment loss	94,598	-	94,598
New Gifts	6,247	-	6,247
Appropriation of endowment assets for expenditure	-	-	-
Total Funds	\$ 1,597,351	\$ -	\$ 1,597,351

Return Objectives and Risk Parameters: The Charities has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Charities must hold in perpetuity or for a donor-specified period(s). Under this policy, as approved by the National Executive Committee, the endowment assets are invested in a manner that is intended to produce income while assuming a low level of investment risk.

Strategies Employed for Achieving Objectives: To satisfy its long-term rate-of-return objectives, the Charities relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Charities targets fixed income securities to achieve its long-term return objectives within prudent risk constraints.

Spending Policy and How the Investment Objectives Relate to Spending Policy: Realized and unrealized gains/losses are added to the principal of the American Legion Charities Trust Fund and distributions are limited to cumulative interest, net of fees. Endowment fund principal, unless otherwise directed by the donor, shall not be disbursed except for emergency situations. In order to make a principal disbursement, a majority vote by the National Executive Committee will be required.

NOTE 7 - LIQUIDITY AND AVAILABILITY

The Charities financial assets available within one year of the statement of financial position date for general expenditure are as follows:

	2022	2021
Financial assets at year-end:		
Cash and cash equivalents	\$ 1,892,801	\$ 991,878
Accounts receivable	1,374	-
Contributions receivable	8,567	-
Interest receivable	38,475	37,178
Investments	5,096,134	5,666,741
Total financial	7,037,351	6,695,797
Less those not available for general expenditures within one year:		
Donor purpose restrictions	(3,677,514)	(3,851,984)
Board-designated - quasi endowment	(1,370,457)	(1,597,351)
	(5,047,971)	(5,449,335)
Financial assets available to meet general expenditures within one year	\$ 1,989,380	\$ 1,246,462

As part of the Charities liquidity management, the Charities invests its financial assets to be available as its general expenditures, liabilities, and other obligations come due. Although the Charities doesn't intend to spend from its board-designated endowment funds other than amounts appropriated for general expenditure as part of its annual budget approval and appropriation process, amounts from its board-designated endowment could be made available if necessary.

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