

**THE AMERICAN LEGION, DEPARTMENT OF OHIO, INC.
DELAWARE, OHIO**

**FINANCIAL REPORT
(AUDIT)**

JUNE 30, 2021 and 2020

THE AMERICAN LEGION, DEPARTMENT OF OHIO, INC.

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Independent Auditors' Report

To the Board of Directors
The American Legion, Department of Ohio, Inc.
Delaware, Ohio

We have audited the accompanying financial statements of The American Legion, Department of Ohio, Inc. (an Ohio nonprofit organization) which comprise the statements of financial position as of June 30, 2021 and 2020, and the related statements of activities and changes in net assets, functional expenses and cash flows for the year ended June 30, 2021 and the eleven months ended June 30, 2020, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Basis for Qualified Opinion

As explained in Note 1 to the financial statements, the financial position and activities of the American Legion Department of Ohio Charities, Inc. (Charities), a related party by common control, has not been included in these financial statements. Accounting principles generally accepted in the United States of America require that an entity consolidate any entity in which it has a controlling financial interest. The effects of not consolidating Charities on the accompanying financial statements have not been determined.

Opinion

In our opinion, except for the effects of not consolidating The American Legion Department of Ohio Charities, Inc., as described in the Basis for Qualified Opinion paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of The American Legion, Department of Ohio, Inc. as of June 30, 2021 and 2020, and the changes in its net assets and its cash flows for the year ended June 30, 2021 and the eleven months ended June 30, 2020, in accordance with accounting principles generally accepted in the United States of America.

Meloney + Novotny LLC

Delaware, Ohio

_____, 2022

THE AMERICAN LEGION, DEPARTMENT OF OHIO, INC.

STATEMENTS OF FINANCIAL POSITION

June 30, 2021 and 2020

<u>ASSETS</u>	<u>2021</u>	<u>2020</u>
CURRENT ASSETS		
Cash and cash equivalents	\$ 2,312,965	\$ 2,388,269
Cash held for others	120,618	87,951
Accounts and contribution receivable	400,100	318,162
Prepaid expenses and other current assets	<u>21,039</u>	<u>18,869</u>
Total current assets	2,854,722	2,813,251
OTHER ASSETS		
Investments	6,085,895	4,579,115
Long-term contribution receivable	400,000	-
PROPERTY AND EQUIPMENT, NET		
	<u>1,160,060</u>	<u>1,250,123</u>
	<u>\$ 10,500,677</u>	<u>\$ 8,642,489</u>
<u>LIABILITIES AND NET ASSETS</u>		
CURRENT LIABILITIES		
Accounts payable, trade	\$ 216,040	\$ 40,134
Accounts payable, related parties	-	32,299
Accrued expenses	59,380	39,924
Cash held for others	120,618	87,951
Deferred revenue	<u>38,100</u>	<u>145,426</u>
Total current liabilities	434,138	345,734
LONG-TERM LIABILITIES		
Accrued conference expenses	20,000	20,000
Life members dues obligations	<u>292,300</u>	<u>307,200</u>
Total long-term liabilities	<u>312,300</u>	<u>327,200</u>
Total liabilities	746,438	672,934
NET ASSETS		
Without donor restrictions:		
Undesignated	5,956,785	4,830,844
Board designated	<u>1,738,270</u>	<u>1,770,238</u>
Total without donor restrictions	7,695,055	6,601,082
With donor restrictions	<u>2,059,184</u>	<u>1,368,473</u>
Total net assets	<u>9,754,239</u>	<u>7,969,555</u>
	<u>\$ 10,500,677</u>	<u>\$ 8,642,489</u>

The accompanying notes are an integral part of the financial statements.

THE AMERICAN LEGION, DEPARTMENT OF OHIO, INC.

STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS

Year Ended June 30, 2021 and Eleven Months Ended June 30, 2020

	2021		2020			
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
SUPPORT AND REVENUE						
Net realized/unrealized gain on marketable securities, net of related fees	\$ 912,371	\$ 211,845	\$ 1,124,216	\$ 74,907	\$ (36,401)	\$ 38,506
Membership dues	954,133	-	954,133	966,448	-	966,448
State of Ohio appropriation	-	800,000	800,000	-	-	-
Enrollment fees	259,915	-	259,915	318	-	318
Contributions	94,516	120,099	214,615	123,439	161,128	284,567
Interest and dividends	97,586	-	97,586	97,723	17,834	115,557
Legionnaire insurance program	80,303	-	80,303	88,782	-	88,782
Service and royalty fees	65,162	-	65,162	50,600	-	50,600
Activities	23,810	-	23,810	30,960	-	30,960
Merchandise and marketing	13,528	-	13,528	19,936	-	19,936
Grants	3,000	-	3,000	1,005	-	1,005
Loss on disposal of property and equipment	(11,786)	-	(11,786)	-	-	-
Other	5,566	-	5,566	-	-	-
Net assets released from restriction	441,233	(441,233)	-	594,094	(594,094)	-
Total support and revenue	2,939,337	690,711	3,630,048	2,048,212	(451,533)	1,596,679
EXPENSES						
Program	1,251,048	-	1,251,048	1,174,904	-	1,174,904
Management and general	580,010	-	580,010	470,591	-	470,591
Fundraising	14,306	-	14,306	12,068	-	12,068
Total expenses	1,845,364	-	1,845,364	1,657,563	-	1,657,563
Change in net assets	1,093,973	690,711	1,784,684	390,649	(451,533)	(60,884)
NET ASSETS						
Beginning of year	6,601,082	1,368,473	7,969,555	6,210,433	1,820,006	8,030,439
End of year	\$ 7,695,055	\$ 2,059,184	\$ 9,754,239	\$ 6,601,082	\$ 1,368,473	\$ 7,969,555

The accompanying notes are an integral part of these financial statements.

THE AMERICAN LEGION, DEPARTMENT OF OHIO, INC.

STATEMENT OF FUNCTIONAL EXPENSES

Year Ended June 30, 2021

	<u>Program</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
Compensation, benefits, and related taxes	\$ 486,284	\$ 368,724	\$ 9,218	\$ 864,226
Meetings, conferences and conventions	183,928	20,437	-	204,365
Gifts for Yanks and other VA program donations	119,870	-	-	119,870
“Ohio Legion News” printing and postage	116,706	-	-	116,706
Professional fees	-	90,716	-	90,716
Depreciation	56,360	19,569	2,348	78,277
Travel and transportation	63,970	6,574	-	70,544
Office expense	27,921	22,628	-	50,549
Scholarships	45,670	-	-	45,670
Other awards	38,475	-	-	38,475
Office equipment leases	25,651	8,907	1,069	35,627
Program supplies	33,630	-	-	33,630
Utilities	22,797	7,916	950	31,663
Repairs and maintenance	17,308	6,010	721	24,039
Information technology	-	23,713	-	23,713
Baseball and bowling tournament	12,206	-	-	12,206
Insurance	-	3,493	-	3,493
Bank fees	-	271	-	271
Other	272	1,052	-	1,324
	<u>\$ 1,251,048</u>	<u>\$ 580,010</u>	<u>\$ 14,306</u>	<u>\$ 1,845,364</u>

The accompanying notes are an integral part of these financial statements.

THE AMERICAN LEGION, DEPARTMENT OF OHIO, INC.

STATEMENT OF FUNCTIONAL EXPENSES

Eleven Months Ended June 30, 2020

	<u>Program</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
Compensation, benefits, and related taxes	\$ 429,298	\$ 289,899	\$ 7,071	\$ 726,268
Gifts for Yanks and other VA program donations	141,303	-	-	141,303
“Ohio Legion News” printing and postage	126,135	-	-	126,135
Program supplies	111,135	-	-	111,135
Meetings, conferences and conventions	95,363	10,596	-	105,959
Professional fees	-	80,285	-	80,285
Travel and transportation	65,698	7,300	-	72,998
Depreciation	50,529	17,545	2,105	70,179
Baseball and bowling tournament	54,591	-	-	54,591
Office equipment leases	25,890	8,990	1,079	35,959
Utilities	22,879	7,944	953	31,776
Repairs and maintenance	20,625	7,161	860	28,646
Scholarships	25,000	-	-	25,000
Information technology	-	22,857	-	22,857
Office expense	6,458	5,173	-	11,631
Bank fees	-	6,068	-	6,068
Insurance	-	5,273	-	5,273
Other	-	1,500	-	1,500
	<u>\$ 1,174,904</u>	<u>\$ 470,591</u>	<u>\$ 12,068</u>	<u>\$ 1,657,563</u>

The accompanying notes are an integral part of these financial statements.

THE AMERICAN LEGION, DEPARTMENT OF OHIO, INC.

STATEMENT OF CASH FLOWS

Year Ended June 30, 2021 and Eleven Months Ended June 30, 2020

	<u>2021</u>	<u>2020</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 1,784,684	\$ (60,884)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation expense	78,277	70,179
Net unrealized gain on marketable securities	(1,172,510)	(52,626)
Loss on disposal of property and equipment	11,786	-
(Increase) decrease in operating assets:		
Accounts receivable	(481,938)	488,356
Prepaid expenses	(2,170)	(13,105)
Increase (decrease) in operating liabilities:		
Accounts payable	143,607	(89,122)
Accrued expenses	19,456	(5,655)
Deferred revenue	(107,326)	43,062
Life members dues obligation	<u>(14,900)</u>	<u>(84,400)</u>
Net cash provided by operating activities	<u>258,966</u>	<u>295,805</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Payments for the purchase of marketable securities	(334,270)	-
Proceeds from the sale of marketable securities	-	1,169,066
Payments for the purchase of property and equipment	<u>-</u>	<u>(16,065)</u>
Net cash provided by (used in) investing activities	<u>(334,270)</u>	<u>1,153,001</u>
Net change in cash and cash equivalents	(75,304)	1,448,806
CASH AND CASH EQUIVALENTS, beginning of the year	<u>2,388,269</u>	<u>939,463</u>
CASH AND CASH EQUIVALENTS, end of the year	\$ <u>2,312,965</u>	\$ <u>2,388,269</u>

The accompanying notes are an integral part of these financial statements.

THE AMERICAN LEGION, DEPARTMENT OF OHIO, INC.

NOTES TO THE FINANCIAL STATEMENTS

Note 1. Organization

The American Legion, Department of Ohio, Inc. (“the Department”) is a 501(c)(19) Veteran Service Organization. Membership is open to current and former members of the Armed Forces of the United States at any time during the period from April 6, 1917, through November 11, 1918; or, any time after December 7, 1941; or, a government associated with the United States during a period of time previously referred to and was a Citizen of the United States when the individual entered that service; and, was honorably discharged or separated from that service or continues to serve honorably during or after that period of time. Males of all ages whose parents or grandparents were eligible for membership are eligible for membership in Sons of the American Legion (SAL). For God and Country, the members associate themselves 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 incidences 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 a devotion to mutual helpfulness.

The American Legion, Buckeye Boys State, Inc. (“BBS, Inc.”) was established in 1936, to promote patriotism and to teach state government organization to high school students. Its primary activity is to conduct the Buckeye Boys State program (“BBS”), an annual mock government exercise for boys. The eight-day program is sponsored by the Department, and has been hosted at Miami University in Oxford, Ohio since 2017. Candidates for the program, who must have completed their junior year in high school and have at least a semester remaining before graduation, are selected by various local posts of the Department. The posts raise funds and provide full financial support for each of their selected participants. The financial position and activity of BBS, Inc. is included in these financial statements.

The American Legion Department of Ohio Charities, Inc. (“Charities”), a not-for-profit entity under 501(c)(3) of the Internal Revenue Code, was established by the Department Executive Committee (DEC) for the purpose of collecting charitable contributions under the bingo laws of the State of Ohio. The financial position and activities of Charities, a related party by common control, has not been included in these financial statements. The opinion has been qualified with respect to this matter.

Note 2. Summary of Significant Accounting Policies

A. Basis of Accounting

The Department prepares its financial statements on an accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America (“GAAP”), except for not consolidating the financial information of Charities.

Prior to fiscal year 2020, the Department’s fiscal year end was July 31. Effective August 1, 2019, the Department changed its fiscal year to end on June 30 in order to correspond to the

THE AMERICAN LEGION, DEPARTMENT OF OHIO, INC.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Note 2. Summary of Significant Accounting Policies (continued)

membership cycle which also ends on June 30. As a result, the prior year financial statements cover an eleven-month period.

B. Financial Statement Presentation

The Department reports information regarding its financial position according to two classes of net assets: net assets without donor restriction and net assets with donor restriction. Revenues are reported as increases in net assets without donor restriction unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in net assets without donor restriction. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in net assets without donor restrictions unless their use is restricted by explicit donor stipulation or by law. Expirations of donor restrictions on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as reclassifications between the applicable classes of net assets. The Department has adopted a policy to classify donor restricted contributions as without donor restrictions to the extent that donor restrictions were met in the year the contribution was received.

Net Assets Without Donor Restriction

Net assets that are not subject to or no longer subject to donor-imposed stipulations. Net Assets Without Donor Restriction include net assets that the Board has designated for use for other than current operations.

Net Assets with Donor Restriction

Net assets whose use is limited by donor-imposed time and/or purpose restrictions. Certain 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 restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity.

C. Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, cash in banks, money market funds and certificates of deposit maturing within three months of the end of the fiscal year.

D. Cash Held for Others

The Department receives resources in certain transactions where it is acting as an intermediary for the resource providers. The resources are then delivered to third-party recipients and service providers.

THE AMERICAN LEGION, DEPARTMENT OF OHIO, INC.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Note 2. Summary of Significant Accounting Policies (continued)

E. Use of Estimates

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 statement. Actual results could differ from those estimates.

F. Accounts and Contribution Receivable

Accounts receivable represent amounts due to the Department at year-end from related parties. Contribution receivable represents the biennial subsidy from the State of Ohio for veterans' services.

Receivables are presented net of an allowance for doubtful accounts. Management determines the allowance for doubtful accounts by regularly evaluating individual receivables, using historical experience, and reviewing subsequent collections. Receivables are written off when deemed uncollectible. Recoveries of receivables previously written off are recorded as income when received. As of June 30, 2021 and 2020, management has determined that all receivables are collectible. Therefore, no allowance for doubtful accounts has been recorded.

G. Property and Equipment

Property and equipment are carried at cost, less accumulated depreciation. Depreciation is provided on the straight-line method, over the estimated useful lives of the related assets, ranging from 5 to 40 years. Maintenance and repairs are charged to operations when incurred. Renewals and betterments of a nature considered to materially extend the useful lives of the assets are capitalized. When assets are retired or otherwise disposed of, the asset and related accumulated depreciation are removed from the accounts and the resulting gain or loss is reflected in revenue and support.

H. Endowments

Endowment funds are subject to the restrictions of gift instruments, which require that the principal be invested in perpetuity.

The Department's investment policy attempts to provide a predictable stream of funding to programs supported by operations. Endowment assets include those assets of donor-restricted funds that the Department must hold in perpetuity. Assets are invested in a manner that is intended to produce results that meet or exceed the respective benchmark while assuming a moderate level of investment risk. Actual returns in any given year may vary from this amount.

To satisfy its long-term rate-of-return objectives, the Department 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 Department targets a diversified asset allocation to achieve its long-term return objectives with prudent risk constraints.

THE AMERICAN LEGION, DEPARTMENT OF OHIO, INC.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Note 2. Summary of Significant Accounting Policies (continued)

The Board of Trustees has interpreted Uniform Prudent Management of Institutional Funds Act (UPMIFA) as seeking over the long-term, the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds, absent explicit donor stipulation to the contrary. As a result of this interpretation, the Department classifies as net assets with donor restrictions (a) the original value of gifts donated to the permanent endowment, (b) the original value of any 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.

In accordance with UPMIFA, the Department considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the fund
- The Department's purpose of the donor-restricted endowment fund
- General economic conditions
- The possible effect of inflation and deflation
- The expected total return from income and the appreciation of investments
- Other resources of the Department
- The Department's investment policies

I. Revenue Recognition

Exchange transactions – Program revenues are recognized when control of the promised goods or services is transferred to the Department's customers in an amount that reflects the consideration the Department expects to be entitled to in exchange for those goods or services. Such transactions generally fall into one of the following categories:

Membership Dues

A portion of each member's annual dues are allocated to the local Post to which the member belongs, as well as the Department, and the National organization. The Department's share is \$9 per regular member and \$2 per SAL member. Memberships are for one-year periods and must be renewed annually. The performance obligations of the Department include a quarterly magazine-style newsletter, "Ohio Legion News", the opportunity to participate in the annual State convention and other activities and programming offered by the Department. The Department recognizes nonrefundable membership dues ratably over the membership period, which is the fiscal year. Any cash received prior to year-end for future periods is deferred and recognized when earned over the membership period and is reported as deferred revenue in the statement of financial position. Deferred membership dues totaled \$0 and \$16,416 at June 30, 2021 and 2020, respectively.

Activities and Events

Revenue for Department activities and events is recognized when the activity or event is held. Consequently, payments received by June 30 for activities or events held in the subsequent year are recorded as deferred revenue.

THE AMERICAN LEGION, DEPARTMENT OF OHIO, INC.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Note 2. Summary of Significant Accounting Policies (continued)

The Buckeye Boys State educational and leadership program is held annually in June. The event for June 2020 was cancelled due to the COVID-19 pandemic with some Posts opting to leave fees paid on deposit with the Department for a future BBS. Deferred revenue for this event totaled \$38,100 and \$129,010 at June 30, 2021 and 2020, respectively.

Merchandise Sales

The Department sells emblems and other merchandise to members. Revenues are recognized at the date of sale, as this is the point in time the Department has determined to have satisfied its performance obligation.

Nonexchange transactions – no goods or services are received directly in exchange for the resources provided.

Contributions – Contributions are recognized as revenue in the period the cash, other assets, or unconditional promises to give are received. Conditional promises to give are not recognized until the conditions on which they depend are met. Contributions that are expected to be received in future years are recorded at their present value. Contributions are considered to be unrestricted unless they are subject to donor restrictions or are required to be used or are expected to be received in future years. The Department had no outstanding conditional promises to give at June 30, 2021 and 2020.

State of Ohio Funding

The Department receives an annual subsidy from the State of Ohio for veterans' services. The appropriation is included in the State's biennial budget, and is available upon request, in semiannual payments. The Department recognizes revenue in the period in which the appropriation is made.

Service and Royalty Fees

The American Legion National Headquarters participates in several affinity marketing programs, including the Legionnaire insurance program, and allocates a share of the proceeds it receives to the various State Department organizations. Revenue for these allocations is recognized in the period received.

J. Federal Income Taxes

The Department is a not-for-profit corporation under Section 501(c)(19) of the Internal Revenue Code. In the course of pursuing its stated purpose, certain activities may, from time to time, be considered to generate unrelated business income, taxable by the Internal Revenue Service. In the event such taxable income exists, a provision is made in the financial statements. The Department had no unrelated business income as of June 30, 2021 and 2020.

GAAP requires the Department to evaluate the level of uncertainty related to whether tax positions taken will be sustained upon examination. Any positions taken that do not meet the more-likely-than-not threshold must be quantified and recorded as a liability for

THE AMERICAN LEGION, DEPARTMENT OF OHIO, INC.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Note 2. Summary of Significant Accounting Policies (continued)

unrecognized tax benefits in the accompanying statement of financial position along with any associated interest and penalties that would be payable to the taxing authorities upon examination. Management believes that none of the tax positions taken would materially impact the financial statements and no such liabilities have been recorded.

- K. Expense Allocation – Directly identifiable expenses are charged to programs. Expenses related to more than one function are charged to programs and management and general based upon estimates of time spent by function. Management and general expenses also include those expenses that are not directly identifiable with any other specific function but provide for the overall support and direction of the Department.

Note 3. Risks and Uncertainties

Uninsured Risk – Cash Deposits

The Department maintains its cash and cash equivalent balances in financial institutions located in central Ohio. Deposits are insured by the Federal Deposit Insurance Corporation (“FDIC”) up to a coverage limit of \$250,000. As a result, the Department may have balances that exceed the insured limit. Cash exceeded FDIC limits by \$1,011,397 and \$692,900 at June 30, 2021 and 2020, respectively.

State of Ohio Funding

The Department receives approximately twenty percent of annual cash receipts through an annual subsidy from the State of Ohio for veterans’ services. A substantial reduction in these subsidies would have a significant impact on the Department’s ability to provide service.

Market and Custodial Credit Risk

As of June 30, 2021 and 2020, the Department’s investment portfolios consist of common stocks, exchange traded funds and mutual funds. Such investments are exposed to various risks, such as interest rate, market, and credit. Due to the level of risk associated with such investments and the level of uncertainty related to changes in the value of such investments, it is at least reasonably possible that changes in risks in the near term would materially affect investment balances and the amounts reported in the financial statements.

Note 4. Fair Value Measurements

Financial Accounting Standards Board Accounting Standards Update (FASB ASU) 2011-04, *Fair Value Measurements and Disclosures* (Topic 820), establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy under Topic 820 are described as:

THE AMERICAN LEGION, DEPARTMENT OF OHIO, INC.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Note 4. Fair Value Measurements (continued)

Level 1 Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Department has the ability to access.

Level 2 Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs. All of the Department's financial instruments measured at fair value consist of assets which are valued using Level 1 inputs as of June 30, 2021 and 2020.

Note 5. Investments

Investment Portfolios

The Department has five investment portfolios that are maintained through a third-party brokerage. The portfolios are listed as follows:

General Portfolio – Contains amounts designated by the Department Executive Committee (DEC) for Emergency Relief and the Special Reserve. Principal and investment earnings of the portion designated for Emergency Relief can be used at the discretion of the DEC. Principal and investment earnings of the portfolio attributable to the Special Reserve represent funds designated by the DEC for the Gifts for Yanks program.

Reserve Portfolio – Contains amounts designated by the DEC for the Department Reserve. Investment earnings are available for general operations. The principal is used at the discretion of the DEC.

Life Membership Portfolio – Contains all funds for the Life Membership program. All earnings and gains are reinvested and distributions are made annually to pay National, Department and Post dues for life members (see Note 12). The timing of the distributions is determined by the fiscal officer in accordance with the DEC.

THE AMERICAN LEGION, DEPARTMENT OF OHIO, INC.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Note 5. Investments (continued)

Rehab Portfolio – Contains amounts designated by the DEC for rehabilitation activities. Principal and investment earnings are to be used to meet the non-recurring needs of the Department’s Service Division and the satellite offices.

Scholarship Portfolio – The principal of this portfolio is to remain intact and increased by capital gains and stock dividends. Investment earnings (interest and cash dividends) are to be distributed as scholarships in accordance with established guidelines.

Investments are composed of the following as of June 30, 2021 and 2020:

	<u>2021</u>	<u>2020</u>
Bond funds	\$ 93,453	\$ 94,385
Common stocks	5,142,070	3,841,081
Exchange traded funds	<u>850,372</u>	<u>643,649</u>
	<u>\$ 6,085,895</u>	<u>\$ 4,579,115</u>

Note 6. Property and Equipment

Property and equipment are comprised of the following as of June 30, 2021 and 2020:

	<u>2021</u>	<u>2020</u>
Land	\$ 145,289	\$ 145,289
Building and improvements	2,067,116	2,067,116
Office furniture and equipment	334,171	334,171
Vehicles	<u>52,337</u>	<u>71,450</u>
	2,598,913	2,618,026
Less accumulated depreciation	<u>(1,438,853)</u>	<u>(1,367,903)</u>
	<u>\$ 1,160,060</u>	<u>\$ 1,250,123</u>

Note 7. Accrued Conference Expenses

The Department has bid to host the National Convention in a future year that is yet to be determined. This balance represents seed money towards hosting a National Conference that is required to be set aside upon bidding.

THE AMERICAN LEGION, DEPARTMENT OF OHIO, INC.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Note 8. Commitments

The Department leases certain office equipment pursuant to operating leases that expire through March 2024. Total rent expense pursuant to the leases was \$35,627 and \$35,959 for year ended June 30, 2021 and the eleven-months ended June 30, 2020, respectively. Future obligations under operating leases are as follows: 2022 - \$35,701; 2023 - \$35,701 and 2024 - \$26,092.

Note 9. Life Member Dues

The Department offered life memberships to its members through the mid-1990's. A life member paid a fee based on the annual dues at the time of purchase multiplied by a factor representing the member's life expectancy. The fees generated from these purchases are invested in the life membership portfolio (see Note 1), which consists of marketable securities and money-market funds. The investments enable the Department to pay the annual dues of life members without using Department operating funds.

The Department maintains a liability account, recorded as "Life Members Dues Obligation" on the statement of financial position, that provides an estimate of its future dues obligation. The estimate is based on the present value of future National dues discounted at 5%. The estimate is adjusted annually based on the dues owed for the year by remaining life members, payments made by the Department to cover life membership fees that have been exhausted, and any increases to annual dues.

Note 10. Net Assets

Board designated net assets are net assets without donor restriction whose use has been designated by the DEC for a specific purpose. Each category of board designated net assets has its own net assets balance. Board designated net assets consist of the following as of June 30, 2021 and 2020:

	<u>2021</u>	<u>2020</u>
Special Reserve – Gifts for Yanks	\$ 729,154	\$ 761,122
Life Membership	590,000	590,000
Disaster Emergency Relief	306,700	306,700
National Convention	64,292	64,292
Department Convention	47,755	47,755
Boys State Hall of Fame	277	277
Past Commander	92	92
Total	\$ <u>1,738,270</u>	\$ <u>1,770,238</u>

THE AMERICAN LEGION, DEPARTMENT OF OHIO, INC.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Note 10. Net Assets (continued)

The net assets with donor restrictions of the Department are contributions with donor-imposed stipulations. These stipulations are removed from net assets with donor restrictions when the Department expends the donated funds for the purpose specified. Net asset restrictions consist of the following as of June 30, 2021 and 2020:

	<u>2021</u>	<u>2020</u>
Restricted for time:		
State of Ohio allocation	\$ 800,000	\$ 308,190
Restricted for purpose:		
Scholarship	465,930	289,127
Durward I. Bernhard Estate Fund	400,000	400,000
Special Olympics	251,227	228,455
Alumni Association	49,202	49,202
Family Support Network	44,669	45,343
Carmen L. Scott Scholarship	20,200	20,200
Commander's Project	13,179	13,179
Homeless Vets Task Force	11,177	11,177
Buckeye Legion College	3,600	3,600
Total	<u>\$ 2,059,184</u>	<u>\$ 1,368,473</u>

A portion of net assets with donor restrictions is restricted as to use in perpetuity. The Department records these permanent endowment gifts at historic dollar value. Distributions from endowment funds are spent in compliance with the donor's restrictions applicable to the funds being distributed.

The Department has the following donor restricted endowment funds as of June 30, 2021 and 2020:

Durward I. Bernhard Estate Fund - \$400,000

The purpose of the fund is to provide financial assistance to qualified students attending colleges, universities, vocational schools and other institutions of higher learning. Interest and dividend earnings on the fund are reported to the Scholarship Screening Committee (the committee) annually. The committee then determines the total amount of scholarships to be awarded each year so as to preserve the original principal of the fund. A scholarship of not less than \$1,000, known as the Durward I. Bernhard Scholarship, must be awarded annually to a resident of Belmont County, Ohio. Other scholarships may be awarded to recipients who meet eligibility requirements established by the committee within the total amount established for the year.

Carmen L. Scott Scholarship - \$20,200

THE AMERICAN LEGION, DEPARTMENT OF OHIO, INC.
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Note 10. Net Assets (continued)

The purpose of the fund is to provide a scholarship annually to a BBS, Inc. counselor. Each year, interest earnings on the fund are reported to the Director of BBS, Inc. In conjunction with the officers of the BBS, Inc. and Carmen L. Scott, the Director selects a BBS, Inc. counselor to receive the scholarship. The amount of each annual scholarship is determined in an amount that preserves the original principal of the fund.

Changes in endowment net assets for the year ended June 30, 2021 and the eleven months ended June 30, 2020:

	<u>Original Gift Restrictions</u>	<u>Accumulated Gains</u>	<u>Total With Donor Restrictions</u>
Endowment assets, August 1, 2019	\$ 420,200	\$ 565,311	\$ 985,511
Investment return:			
Investment income	-	12,953	12,953
Net appreciation (realized and unrealized)	<u>-</u>	<u>(353)</u>	<u>(353)</u>
Total investment return	-	12,600	12,600
Appropriation of endowment assets for expenditure	<u>-</u>	<u>(30,000)</u>	<u>(30,000)</u>
Endowment assets, June 30, 2020	420,000	547,911	968,111
Investment return:			
Investment income	-	9,882	9,882
Net appreciation (realized and unrealized)	<u>-</u>	<u>173,591</u>	<u>173,591</u>
Total investment return	-	183,473	183,473
Appropriation of endowment assets for expenditure	<u>-</u>	<u>(37,080)</u>	<u>(37,080)</u>
Endowment assets, June 30, 2021	\$ <u>420,200</u>	\$ <u>694,304</u>	\$ <u>1,114,504</u>

From time to time, the fair value of assets associated with the individual donor-restricted endowment funds may fall below the level that the donor requires the Department to retain as a perpetual fund balance. These deficiencies can result from unfavorable market fluctuations that occur shortly after the investment of new permanently restricted contributions and continued appropriation for certain programs deemed prudent by the DEC. There were no funds with deficiencies as of June 30, 2021 and 2020.

THE AMERICAN LEGION, DEPARTMENT OF OHIO, INC.
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Note 11. Donated Services and Facilities

A substantial number of unpaid volunteers have made significant contributions of their time to the Department. Office space in five locations has been donated to the Department, along with telephone service and utilities. No amounts have been recognized for these donations.

Note 12. Membership Dues

The Department receives dues from its members to provide funds used to meet the Department's objectives. Members pay \$27.50 annually to their Posts, which remit the dues to the Department for processing. Dues allocated to the National Headquarters of \$18.50 are not recorded as revenue but accrued as a payable to the National office. The Department allocates its \$9.00 portion of dues as follows:

<u>Program</u>	
Administrative and operating expenses	\$ 7.35
Ohio Legion News	1.20
National Convention Delegates Allowance	.30
Department Convention Corporation	<u>.15</u>
Total	\$ <u>9.00</u>

Note 13. Retirement Plan

The Department offers a defined contribution retirement plan (the "Plan") to eligible employees. Participants may elect to contribute a portion of their wages up to statutory limitations. Employees are considered eligible to participate in the Plan upon hire, regardless of age. The Department makes matching contributions amounting to 100% of the first 5% of employee contributions. The Department contributed \$25,291 for the year ended June 30, 2021 and \$13,044 for the eleven months ended June 30, 2020.

Note 14. Liquidity and Availability of Financial Assets

The following reflects The Department's financial assets as of June 30, 2021 and 2020 reduced by amounts not available for general expenditures within one year due to donor-imposed restrictions or board designations. Amounts not available include amounts set aside by the DEC as reserves that could be drawn upon if the board approves that action.

THE AMERICAN LEGION, DEPARTMENT OF OHIO, INC.
 NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Note 14. Liquidity and Availability of Financial Assets (continued)

	<u>2021</u>	<u>2020</u>
Cash and cash equivalents	\$ 2,312,965	\$ 2,388,269
Accounts and contributions receivable	400,100	318,162
Investments	<u>6,085,895</u>	<u>4,579,115</u>
Total financial assets	8,798,960	7,285,546
Less those not available for general expenditures within one year:		
Donor-imposed restrictions	2,059,184	1,368,473
Board designations	<u>1,738,270</u>	<u>1,770,238</u>
Financial assets available to meet cash needs for expenditures within one year	\$ <u>5,001,506</u>	\$ <u>4,146,835</u>

The Department also continuously receives membership dues, contributions, grants, and other program revenue to provide financial assets to pay its expenditures.

Note 15. Subsequent Events

Subsequent events have been evaluated through _____, 2022 which is the date the financial statement was available to be issued.