

VFW National Home for Children

Financial Report
June 30, 2016

VFW National Home for Children

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Independent Auditor's Report

To the Board of Trustees
VFW National Home for Children

We have audited the accompanying financial statements of VFW National Home for Children (the "National Home"), which comprise the balance sheet as of June 30, 2016 and the related statements of public support, revenue, expenses, and changes in net assets, cash flows, and functional expenses for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of VFW National Home for Children as of June 30, 2016 and the changes in its net assets, cash flows, and functional expenses for the year then ended in accordance with accounting principles generally accepted in the United States of America.

To the Board of Trustees
VFW National Home for Children

Report on Summarized Comparative Information

We have previously audited VFW National Home for Children's 2015 financial statements and we expressed an unmodified audit opinion on those audited financial statements in our report dated October 5, 2015. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2015 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Plante & Morse, PLLC

October 6, 2016

VFW National Home for Children

Balance Sheet June 30, 2016 (with summarized totals for June 30, 2015)

	June 30, 2016	June 30, 2015
Assets		
Current Assets		
Cash and cash equivalents	\$ 156,953	\$ 209,501
Investments (Note 2)	9,475,676	10,616,009
Receivables	127,975	126,715
Inventory	26,702	22,126
Prepaid expenses and other assets	35,280	59,384
Total current assets	9,822,586	11,033,735
Property and Equipment - Net (Note 3)	6,303,012	6,503,335
Beneficial Interest in Perpetual Trusts (Note 2)	1,736,299	1,894,398
Total assets	\$ 17,861,897	\$ 19,431,468
Liabilities and Net Assets		
Liabilities		
Accounts payable	\$ 54,456	\$ 90,018
Accrued liabilities and other:		
Accrued compensation	281,756	264,644
Other accrued liabilities	57,497	61,408
Total liabilities	393,709	416,070
Net Assets		
Unrestricted - Designated for future operations	10,009,302	11,283,779
Temporarily restricted net assets (Note 5)	3,701,554	3,833,241
Permanently restricted net assets (Note 5 and 6)	3,757,332	3,898,378
Total net assets	17,468,188	19,015,398
Total liabilities and net assets	\$ 17,861,897	\$ 19,431,468

VFW National Home for Children

Statement of Public Support, Revenue, Expenses, and Changes in Net Assets Year Ended June 30, 2016 (with summarized totals for the year ended June 30, 2015)

	Year Ended	
	June 30, 2016	June 30, 2015
Public Support and Revenue		
Estate and bequests	\$ 687,234	\$ 614,052
Poppies (Note 4)	110,770	116,900
Contributions	1,741,271	1,651,855
Life membership dues	71,585	62,090
Net realized and unrealized gains and losses on investments	(500,779)	(361,642)
Investment income	353,568	417,260
Investment income from beneficial interests in perpetual trusts	123,036	116,574
Miscellaneous and other	123,539	132,610
Net assets released from restrictions	1,217,696	1,017,738
Total public support and revenue	3,927,920	3,767,437
Expenses		
Direct care	1,163,499	1,594,197
Indirect care	933,100	932,689
Facilities management	1,520,277	1,389,138
Administration	193,256	181,486
Fiscal services	521,765	569,038
Fundraising	870,500	605,373
Total expenses	5,202,397	5,271,921
Decrease in Unrestricted Net Assets	(1,274,477)	(1,504,484)
Changes in Temporarily Restricted Net Assets		
Contributions	1,069,012	1,223,549
Investment income	4,747	5,388
Investment income from beneficial interests in perpetual trusts	12,250	12,557
Net assets released from restrictions	(1,217,696)	(1,017,738)
(Decrease) Increase in Temporarily Restricted Net Assets	(131,687)	223,756
Changes in Permanently Restricted Net Assets		
Contributions	17,053	185,069
Change in value of beneficial interests in perpetual trusts	(158,099)	(126,294)
(Decrease) Increase in Permanently Restricted Net Assets	(141,046)	58,775
Decrease in Net Assets	(1,547,210)	(1,221,953)
Net Assets - Beginning of year	19,015,398	20,237,351
Net Assets - End of year	\$ 17,468,188	\$ 19,015,398

VFW National Home for Children

Statement of Cash Flows Year Ended June 30, 2016 (with summarized totals for June 30, 2015)

	<u>June 30, 2016</u>	<u>June 30, 2015</u>
Cash Flows from Operating Activities		
Decrease in net assets	\$ (1,547,210)	\$ (1,221,953)
Adjustments to reconcile decrease in net assets to net cash from operating activities:		
Depreciation	617,402	597,801
Net realized and unrealized loss on investments	500,779	361,642
Loss on sale of fixed assets	-	2,088
Change in value of beneficial interests in perpetual trusts	158,099	126,294
(Increase) decrease in assets:		
Receivables	(1,260)	4,508
Inventory	(4,576)	(4,421)
Prepaid expenses	24,104	(27,758)
(Decrease) increase in liabilities:		
Accounts payable	(35,562)	7,740
Accrued liabilities and other	13,201	42,153
Net cash used in operating activities	<u>(275,023)</u>	<u>(111,906)</u>
Cash Flows from Investing Activities		
Purchases of investments	(2,494,568)	(3,858,029)
Proceeds from sale of investments	3,134,122	4,183,846
Purchase of equipment	<u>(417,079)</u>	<u>(407,262)</u>
Net cash provided by (used in) investing activities	<u>222,475</u>	<u>(81,445)</u>
Net Decrease in Cash and Cash Equivalents	(52,548)	(193,351)
Cash and Cash Equivalents - Beginning of year	<u>209,501</u>	<u>402,852</u>
Cash and Cash Equivalents - End of year	<u>\$ 156,953</u>	<u>\$ 209,501</u>

Noncash Activity - The National Home received \$0 and \$17,150 in donated property and equipment during the years ended June 30, 2016 and 2015, respectively.

VFW National Home for Children

Statement of Functional Expenses Year Ended June 30, 2016 (with summarized totals for the year ended June 30, 2015)

	Direct Care	Indirect Care	Facilities Management	Administration	Fiscal Services	Fundraising	Totals	
							2016	2015
Salaries	\$ 572,931	\$ 439,360	\$ 326,824	\$ 103,397	\$ 177,285	\$ 135,476	\$ 1,755,273	\$ 1,795,683
Payroll taxes	42,832	32,558	24,385	7,576	13,717	10,138	131,206	132,331
Pension	15,398	14,682	9,135	6,975	7,954	4,753	58,897	57,569
Other employee benefits	130,181	141,761	92,958	17,193	41,238	40,638	463,969	504,653
Total salaries and related expenses	761,342	628,361	453,302	135,141	240,194	191,005	2,409,345	2,490,236
Children's expenses:								
Activities	-	45,714	-	-	-	-	45,714	47,091
Employment	-	6,642	-	-	-	-	6,642	4,529
Travel	1,284	-	-	-	-	-	1,284	1,603
Scholarship	42,566	-	-	-	-	-	42,566	21,751
Medical	9,143	-	-	-	-	-	9,143	3,822
Psychological services	16,441	-	-	-	-	-	16,441	10,557
Groceries	67,070	-	-	-	-	-	67,070	59,332
Total children's expenses	136,504	52,356	-	-	-	-	188,860	148,685
Natural parent expenses:								
Travel	6,500	-	-	-	-	-	6,500	6,370
Trust	5,437	-	-	-	-	-	5,437	3,967
Total natural parent expenses	11,937	-	-	-	-	-	11,937	10,337
Professional fees	-	-	-	-	56,323	-	56,323	59,547
Purchased services	99,296	5,921	311,810	9,264	37,557	15,680	479,528	773,407
Insurance	23,942	35,030	82,907	1,999	7,919	2,063	153,860	162,246
Supplies	1,195	35,448	206,023	7,776	10,300	943	261,685	243,104
Postage	-	-	-	-	26,497	-	26,497	24,449
Fundraising	-	-	-	-	-	648,275	648,275	344,944
Utilities and telephone	31,577	38,062	106,246	2,597	9,424	1,796	189,702	255,929
Trustee travel	-	-	-	27,959	-	-	27,959	28,341
Employee travel	5,090	-	-	3,431	-	3,715	12,236	13,557
Cost of souvenirs	-	-	-	-	49,088	-	49,088	25,848
Information/Technology	-	-	-	-	43,463	-	43,463	68,167
Advertising/Promotion	-	-	-	-	10,475	3,615	14,090	8,082
Special events	-	-	-	-	5,829	-	5,829	10,998
Employee education	3,093	859	1,278	150	-	938	6,318	6,243
Subtotal	164,193	115,320	708,264	53,176	256,875	677,025	1,974,853	2,024,862
Total expenses before depreciation	1,073,976	796,037	1,161,566	188,317	497,069	868,030	4,584,995	4,674,120
Depreciation of plant and equipment	89,523	137,063	358,711	4,939	24,696	2,470	617,402	597,801
Total functional expenses	\$ 1,163,499	\$ 933,100	\$ 1,520,277	\$ 193,256	\$ 521,765	\$ 870,500	\$ 5,202,397	\$ 5,271,921

VFW National Home for Children

Notes to Financial Statements June 30, 2016

Note I - Nature of Business and Significant Accounting Policies

The Veterans of Foreign Wars National Home for Children (the "National Home") provides children, youth, and families of members of the VFW, VFW Auxiliary, and Veterans and Active-Duty Military opportunities for growth and development in a nurturing community and, by doing so, serves as a living memorial for all veterans. The National Home is located in Eaton Rapids, Michigan.

Summarized Financial Information - The financial statements include certain prior year summarized comparative information in total, but not by expense function. The notes to financial statements also do not present comparative information. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the National Home's financial statements for the year ended June 30, 2015, from which the summarized information was derived.

Cash and Cash Equivalents - Cash and cash equivalents consist of cash on hand and all highly liquid investments purchased with an original maturity of three months or less.

Investments - Investments consist primarily of mutual funds and equity securities and are stated at fair value based on quoted market prices. Investment income or loss (including realized and unrealized gains and losses on investment, interest, and dividends) is included in the statement of public support, revenue, expenses, and changes in net assets.

Accounts Receivable - Accounts receivable consist of amounts due from various organizations. Accounts receivable are stated at net amounts. An allowance for doubtful accounts is established based on a specific assessment of all amounts that remain unpaid following normal payment periods. All amounts deemed to be uncollectible are charged against the allowance for doubtful accounts in the period that the determination is made. The National Home has determined no allowance for uncollectibility is necessary at June 30, 2016.

Inventory - Inventories are comprised of souvenirs and are recorded at cost on a last-in, first-out (LIFO) basis.

Property and Equipment - Property and equipment are carried at cost except donated real estate and equipment, which are stated at estimated fair market value at the date of receipt. Depreciation on property and equipment is calculated on the straight-line method over the estimated useful lives of the assets. Repairs and maintenance costs are expensed as incurred.

VFW National Home for Children

Notes to Financial Statements June 30, 2016

Note 1 - Nature of Business and Significant Accounting Policies (Continued)

Beneficial Interests - The National Home is a beneficiary of irrevocable trusts. According to the trusts, the National Home is to receive its share of the investment income annually. The value of the National Home's interests in the trusts is recorded at fair value.

The National Home also has beneficial interests in oil, gas, and mineral rights. The National Home is not able to determine the fair values of these interests. The income from these rights is recorded as contribution income when received.

Contributions and Bequests - Contributions and bequests are recorded as revenue when the unconditional promise is received by the National Home. Contributions and bequests are reported as restricted support if 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 classified as unrestricted net assets and reported in the statement of public support, revenue, expenses, and changes in net assets as net assets released from restrictions. Contributions without donor-imposed restrictions and contributions with donor-imposed time or purpose restrictions that are met in the same period as the gift are both reported as unrestricted support.

Donated Services - The National Home receives volunteer service not recordable under accounting principles generally accepted in the United States of America. A substantial number of volunteers have donated time in the National Home's fundraising campaigns and determination of the allocation of the funds raised. The value of volunteer services is not disclosed as no objective basis is available to measure the value of such services.

Temporarily Restricted Net Assets - Temporarily restricted net assets reflect funds contributed to the National Home related to maintenance of the home, education, scholarships, various activities, and special events.

Permanently Restricted Net Assets - Permanently restricted net assets reflect donor-imposed restrictions stipulating that the investment principal be maintained permanently, but permit the National Home to use the income derived from the investments, which can be used for general operations and various programs.

VFW National Home for Children

Notes to Financial Statements June 30, 2016

Note 1 - Nature of Business and Significant Accounting Policies (Continued)

Functional Expense and Joint Costs Allocation - Expenses identified as applying to a specific program or support service are recorded in the appropriate service area as incurred. Expenses not directly attributable to a program or support service are allocated between service areas based upon predetermined percentage rates set by the National Home's management. Fundraising expenses consist primarily of the direct costs of fundraising. During the year ended June 30, 2016, it was determined that there were no joint direct mail costs to be allocated to direct care. Although the methods of allocation used are considered appropriate, other methods could be used that would produce different amounts.

Pension Plan - The defined contribution pension plan covers substantially all employees of the National Home. The National Home is required to contribute a 4.0 percent matching contribution for eligible employees who contributed to the plan. Pension expense for fiscal year 2016 amounted to \$58,898.

Tax Status - The National Home is a not-for-profit, voluntary health and welfare organization, exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code except for income, if any, derived from sources unrelated to its exempt function.

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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 revenue and expenses during the reporting period. Actual results could differ from those estimates.

Risk and Uncertainties - The National Home invests in various investment securities. Investment securities are exposed to various risks, such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect those amounts reported in the statement of public support, revenue, expenses, and changes in net assets.

VFW National Home for Children

Notes to Financial Statements June 30, 2016

Note 1 - Nature of Business and Significant Accounting Policies (Continued)

Upcoming Accounting Change - In May 2014, the Financial Accounting Standards Board issued Accounting Standards Update No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, which will supersede the current revenue recognition requirements in Topic 605, *Revenue Recognition*. The ASU is based on the principle that revenue is recognized to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The ASU also requires additional disclosure about the nature, amount, timing, and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments and assets recognized from costs incurred to obtain or fulfill a contract. The new guidance will be effective for the National Home's year ending June 30, 2020. The ASU permits application of the new revenue recognition guidance to be applied using one of two retrospective application methods. The National Home has not yet determined which application method it will use or the potential effects of the new standard on the financial statements, if any.

Upcoming Accounting Change - The Financial Accounting Standards Board (FASB) issued Accounting Standards Update No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities* in August 2016. ASU No. 2016-14 requires significant changes to the financial reporting model of organizations who follow FASB not-for-profit rules, including changing from three classes of net assets to two classes, net assets with donor restrictions and net assets without donor restrictions. The ASU will also require changes in the way certain information is aggregated and reported by the National Home, including required disclosures about the liquidity and availability of resources. The new standard is effective for the National Home's year ending June 30, 2019, and thereafter, must be applied on a retrospective basis. The National Home is currently evaluating the impact this standard will have on the financial statements.

Subsequent Events - The financial statements and related disclosures include evaluation of events up through and including October 6, 2016, which is the date the financial statements were available to be issued.

Note 2 - Fair Value Measurements

Accounting standards require certain assets and liabilities be reported at fair value in the financial statements and provide a framework for establishing that fair value. The framework for determining fair value is based on a hierarchy that prioritizes the inputs and valuation techniques used to measure fair value.

Note 2 - Fair Value Measurements (Continued)

The following table presents information about the National Home's assets measured at fair value on a recurring basis at June 30, 2016 and the valuation techniques used by the National Home to determine those fair values.

Fair values determined by Level 1 inputs use quoted prices in active markets for identical assets that the National Home has the ability to access.

Fair values determined by Level 2 inputs use other inputs that are observable, either directly or indirectly. These Level 2 inputs include quoted prices for similar assets in active markets and other inputs such as interest rates and yield curves that are observable at commonly quoted intervals.

Level 3 inputs are unobservable inputs, including inputs that are available in situations where there is little, if any, market activity for the related asset. These Level 3 fair value measurements are based primarily on management's own estimates using pricing models, discounted cash flow methodologies, or similar techniques taking into account the characteristics of the asset.

In instances whereby inputs used to measure fair value fall into different levels in the above fair value hierarchy, fair value measurements in their entirety are categorized based on the lowest level input that is significant to the valuation. The National Home's assessment of the significance of particular inputs to these fair value measurements requires judgment and considers factors specific to each asset.

VFW National Home for Children

Notes to Financial Statements June 30, 2016

Note 2 - Fair Value Measurements (Continued)

Assets Measured at Fair Value on a Recurring Basis at June 30, 2016

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance at June 30, 2016
Assets				
Investments:				
Mutual funds:				
U.S. equities	\$ 2,463,676	\$ -	\$ -	\$ 2,463,676
International equity	1,544,535	-	-	1,544,535
Global equity	426,405	-	-	426,405
Bonds	3,307,012	-	-	3,307,012
Hedged equities	748,578	-	-	748,578
Real assets	464,308	-	-	464,308
Stocks:	-	-	-	-
U.S. equities	350,600	-	-	350,600
Real assets	170,562	-	-	170,562
Total investments	9,475,676	-	-	9,475,676
Beneficial interests in perpetual trusts	-	-	1,736,299	1,736,299
Total assets measured at fair value	<u>\$ 9,475,676</u>	<u>\$ -</u>	<u>\$ 1,736,299</u>	<u>\$ 11,211,975</u>

Beneficial Interests in Perpetual Trusts - The National Home is the beneficiary of investments held by third parties, which are considered Level 3 assets.

	Fair Value at June 30, 2016	Valuation Technique	Significant Unobservable Inputs Used
Assets - Beneficial interests in perpetual trusts	\$ 1,736,299	Fair value of the interest in underlying assets	Values of underlying assets

Changes in Level 3 assets measured at fair value on a recurring basis for the year ended June 30, 2016 are as follows:

	Beneficial Interest in Perpetual Trusts
Balance at July 1, 2015	\$ 1,894,398
Unrealized losses	(158,099)
Balance at June 30, 2016	<u>\$ 1,736,299</u>

VFW National Home for Children

Notes to Financial Statements June 30, 2016

Note 2 - Fair Value Measurements (Continued)

Unrealized loss of \$158,099 for the year ended June 30, 2016 is reported in change in fair value of beneficial interests in perpetual trusts in the statement of public support, revenue, and changes in net assets.

Note 3 - Property and Equipment

Property and equipment consist of the following at June 30, 2016:

	Amount	Depreciable Life - Years
Land	\$ 46,727	-
Buildings	15,698,693	7-40
Machinery and equipment	3,441,382	2-10
Transportation equipment	771,226	5
Furniture and fixtures	760,553	3-5
Construction in progress	36,584	-
Total cost	20,755,165	
Less accumulated depreciation	<u>(14,452,153)</u>	
Net carrying amount	<u>\$ 6,303,012</u>	

Depreciation expense was \$617,402 for the year ended June 30, 2016.

Note 4 - Affiliated Organizations

The National Home is a separate and autonomous organization from the Veterans of Foreign Wars. The Veterans of Foreign Wars provided public support from the sale of poppies amounting to \$110,770 for the year ended June 30, 2016.

VFW National Home for Children

Notes to Financial Statements June 30, 2016

Note 5 - Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are available for the following purposes at June 30, 2016:

House repairs, equipment, and maintenance	\$ 1,294,914
Education and scholarships	1,090,299
Activities and special events	<u>1,316,341</u>
Total temporarily restricted net assets	<u>\$ 3,701,554</u>

Permanently restricted net assets are restricted investments to be held in perpetuity, the income of which is expendable to benefit the National Home. Permanently restricted net assets at June 30, 2016 are as follows:

Amy Ross Fund	\$ 1,720,989
Charles Wagner	24,611
Minnesota Post #1215 Fund	17,560
Carlton Jacobson Fund	50,000
Delores and Walter Peterson Fund	170,086
2010-11 Commanders & Presidents Fund	<u>37,788</u>
Total donor-restricted endowment funds	2,021,033
Beneficial interests in perpetual trusts	<u>1,736,299</u>
Total permanently restricted net assets	<u>\$ 3,757,332</u>

Note 6 - Donor-restricted Endowments

The National Home's endowment includes donor-restricted endowment funds. Net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions. The income on donor-restricted net assets is to be used for general operating purposes for the National Home's day-to-day activities.

VFW National Home for Children

Notes to Financial Statements June 30, 2016

Note 6 - Donor-restricted Endowments (Continued)

Interpretation of Relevant Law

The board of trustees and the management staff of the National Home have interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) 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 National Home 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 the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as unrestricted net assets unless otherwise specified by the donor. In accordance with UPMIFA, the National Home exercises the standards of ordinary business care and prudence when determining the amount of earnings and gains to appropriate for expenditure or to accumulate within the endowment fund. The National Home considers the following factors in exercising this standard of care:

- (1) The long-term and short-term needs of the National Home in carrying out its charitable purpose
- (2) The present and anticipated financial requirements of the National Home
- (3) The expected total return on investments
- (4) Price level trends
- (5) General economic conditions

Endowment Net Asset Composition by Type of Fund as of June 30, 2016

	Permanently Restricted
Donor-restricted endowment funds	\$ 2,021,033

VFW National Home for Children

Notes to Financial Statements June 30, 2016

Note 6 - Donor-restricted Endowments (Continued)

Changes in Endowment Net Assets for the Fiscal Year Ended June 30, 2016

	<u>Unrestricted</u>	<u>Permanently Restricted</u>
Endowment net assets - Beginning of year	\$ -	\$ 2,003,980
Investment income	92,820	-
Net realized and unrealized gain	18,544	-
Total investment return	111,364	-
Contributions	-	17,053
Appropriation of endowment assets for expenditure	(111,364)	-
Endowment net assets - End of year	<u>\$ -</u>	<u>\$ 2,021,033</u>

Return Objectives and Risk Parameters

The National Home has adopted investment 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 National Home must hold in perpetuity. Under this policy, as approved by the board of trustees, the endowment assets are invested in a manner that is intended to produce results that exceed the results of the S&P 500 index while assuming a moderate level of investment risk. Actual returns in any given year may vary from this amount.

Strategies Employed for Achieving Objectives

The National Home targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

Spending Policy and How the Investment Objectives Relate to the Spending Policy

The National Home has a practice of maintaining the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return.

Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the National Home to retain as a fund of perpetual duration. There were no deficiencies of this nature at June 30, 2016.