

THE FRESH AIR FUND

Financial Statements

Years ended September 30, 2014 and 2013
with Report of Independent Auditors

M A R K S P A N E T H

ACCOUNTANTS & ADVISORS

The Fresh Air Fund

Financial Statements

Years Ended September 30, 2014 and 2013

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
The Fresh Air Fund

We have audited the accompanying financial statements of The Fresh Air Fund (the "Fund"), which comprise the statements of financial position as of September 30, 2014 and 2013, and the related statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United State 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.

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Fresh Air Fund. as of September 30, 2014 and 2013, 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.

Marks Paneth LLP

New York, NY
January 7, 2015



The Fresh Air Fund

Statements of Financial Position

	September 30,	
	2014	2013
Assets		
Cash and cash equivalents	\$ 4,187,792	\$ 5,252,437
Accounts, grants and other receivables	338,372	283,148
Pledges receivable	-	255,000
Prepaid expenses	1,654,763	1,455,320
Investments	103,959,394	96,335,154
Land	2,747,632	2,747,632
Buildings and equipment, net	23,336,439	24,402,927
Beneficial interests in perpetual trusts	2,415,197	2,341,719
Other assets	391,511	391,511
Total assets	<u>\$ 139,031,100</u>	<u>\$ 133,464,848</u>
Liabilities and Net Assets		
Liabilities		
Accounts payable and accrued liabilities	<u>\$ 556,642</u>	<u>\$ 576,303</u>
Commitments and contingencies	-	-
Net assets		
Unrestricted-		
Operations	54,418	54,418
Board designated endowment	97,863,131	91,113,237
Land, buildings and equipment	<u>26,084,071</u>	<u>27,150,559</u>
Total unrestricted	124,001,620	118,318,214
Temporarily restricted	562,882	955,353
Permanently restricted	<u>13,909,956</u>	<u>13,614,978</u>
Total net assets	<u>138,474,458</u>	<u>132,888,545</u>
Total liabilities and net assets	<u>\$ 139,031,100</u>	<u>\$ 133,464,848</u>

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

The Fresh Air Fund
Statement of Activities
Year Ended September 30, 2014

	Unrestricted Net Assets			Temporarily Restricted Net Assets	Permanently Restricted Net Assets	Total	
	Operations	Board Designated Endowment	Land, Buildings and Equipment				Total Unrestricted
Support, revenue and reclassifications							
Support:							
Public Support:							
Received directly:							
Contributions	\$ 7,307,840	\$ -	\$ -	\$ 7,307,840	\$ 253,600	\$ 8,500	\$ 7,569,940
Legacies and bequests	-	145,824	-	145,824	-	213,000	358,824
Off-Season Camping	1,016,775	-	-	1,016,775	-	-	1,016,775
Special events, net of direct benefit cost to donors of \$679,677	1,435,408	-	-	1,435,408	-	-	1,435,408
Government Support:							
Summer Food Program	332,045	-	-	332,045	-	-	332,045
Total support	10,092,068	145,824	-	10,237,892	253,600	221,500	10,712,992
Revenue:							
Total investment return, net of investment advisory fees of \$354,106	351,011	12,205,326	-	12,556,337	-	-	12,556,337
Gain on beneficial interests in perpetual trusts	-	-	-	-	-	73,478	73,478
Total revenue	351,011	12,205,326	-	12,556,337	-	73,478	12,629,815
Reclassifications:							
Satisfaction of donor imposed restrictions	396,071	250,000	-	646,071	(646,071)	-	-
Total support, revenue and reclassifications	10,839,150	12,601,150	-	23,440,300	(392,471)	294,978	23,342,807
Expenses							
Program services:							
Host Family activities	3,915,010	-	137,523	4,052,533	-	-	4,052,533
Fresh Air Camping activities	6,997,676	-	1,284,741	8,282,417	-	-	8,282,417
Total program services	10,912,686	-	1,422,264	12,334,950	-	-	12,334,950
Supporting services:							
Fund-raising	3,737,533	-	59,385	3,796,918	-	-	3,796,918
Office services and administration	1,072,342	-	38,548	1,110,890	-	-	1,110,890
Total supporting services	4,809,875	-	97,933	4,907,808	-	-	4,907,808
Total expenses	15,722,561	-	1,520,197	17,242,758	-	-	17,242,758
Intra-net asset transfers	4,883,411	(5,337,120)	453,709	-	-	-	-
Pension changes other than net periodic costs	-	(514,136)	-	(514,136)	-	-	(514,136)
Change in net assets	-	6,749,894	(1,066,488)	5,683,406	(392,471)	294,978	5,585,913
Net Assets, beginning of year	54,418	91,113,237	27,150,559	118,318,214	955,353	13,614,978	132,888,545
Net Assets, end of year	\$ 54,418	\$ 97,863,131	\$ 26,084,071	\$ 124,001,620	\$ 562,882	\$ 13,909,956	\$ 138,474,458

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

The Fresh Air Fund
Statement of Activities
Year Ended September 30, 2013

	Unrestricted Net Assets			Temporarily Restricted Net Assets	Permanently Restricted Net Assets	Total	
	Operations	Board Designated Endowment	Land, Buildings and Equipment				Total Unrestricted
Support, revenue and reclassifications							
Support:							
Public Support:							
Received directly:							
Contributions	\$ 7,140,127	\$ -	\$ -	\$ 7,140,127	\$ 394,883	\$ 6,281	\$ 7,541,291
Legacies and bequests	-	2,286,551	-	2,286,551	-	-	2,286,551
Off-Season Camping	1,004,834	-	-	1,004,834	-	-	1,004,834
Special events, net of direct benefit cost to donors of \$696,044	1,327,543	-	-	1,327,543	-	-	1,327,543
Government Support:							
Summer Food Program	278,831	-	-	278,831	-	-	278,831
Total support	9,751,335	2,286,551	-	12,037,886	394,883	6,281	12,439,050
Revenue:							
Total investment return, net of investment advisory fees of \$298,084	344,881	10,440,341	-	10,785,222	-	-	10,785,222
Gain on disposition of asset	-	-	1,363	1,363	-	-	1,363
Gain on beneficial interests in perpetual trusts	-	-	-	-	-	78,833	78,833
Total revenue	344,881	10,440,341	1,363	10,786,585	-	78,833	10,865,418
Reclassifications:							
Satisfaction of donor imposed restrictions	209,948	251,500	-	461,448	(461,448)	-	-
Total support, revenue and reclassifications	10,306,164	12,978,392	1,363	23,285,919	(66,565)	85,114	23,304,468
Expenses							
Program services:							
Host Family activities	4,066,530	-	138,220	4,204,750	-	-	4,204,750
Fresh Air Camping activities	6,631,266	-	1,244,802	7,876,068	-	-	7,876,068
Total program services	10,697,796	-	1,383,022	12,080,818	-	-	12,080,818
Supporting services:							
Fund-raising	3,561,316	-	59,686	3,621,002	-	-	3,621,002
Office services and administration	1,144,270	-	38,744	1,183,014	-	-	1,183,014
Total supporting services	4,705,586	-	98,430	4,804,016	-	-	4,804,016
Total expenses	15,403,382	-	1,481,452	16,884,834	-	-	16,884,834
Intra-net asset transfers	5,097,218	(5,521,702)	423,484	(1,000)	-	1,000	-
Pension changes other than net periodic costs	-	1,854,668	-	1,854,668	-	-	1,854,668
Change in net assets	-	9,311,358	(1,056,605)	8,254,753	(66,565)	86,114	8,274,302
Net Assets, beginning of year	54,418	81,801,879	28,207,164	110,063,461	1,021,918	13,528,864	124,614,243
Net Assets, end of year	\$ 54,418	\$ 91,113,237	\$ 27,150,559	\$ 118,318,214	\$ 955,353	\$ 13,614,978	\$ 132,888,545

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

The Fresh Air Fund
Statement of Functional Expenses
Year Ended September 30, 2014

	Program Services			Supporting Services			Direct Benefit to Donors	Total Expenses
	Host Family Activities	Fresh Air Camping Activities	Total Program Expenses	Fund- Raising	Office Services and Administration	Total Supporting Services Expenses		
Staff salaries and benefits	\$ 1,762,202	\$ 4,159,235	\$ 5,921,437	\$ 897,218	\$ 894,341	\$ 1,791,559	\$ 3,193	\$ 7,716,189
Communication	140,757	128,972	269,729	2,085,676	17,727	2,103,403	55,926	2,429,058
Insurance	259,120	147,749	406,869	-	6,382	6,382	-	413,251
Professional fees	185,832	87,195	273,027	616,094	408,106	1,024,200	12,125	1,309,352
Occupancy (repairs, maintenance, rent)	368,965	784,955	1,153,920	106,147	90,454	196,601	-	1,350,521
Transportation	451,634	237,470	689,104	1,510	-	1,510	-	690,614
Food	2,897	1,161,968	1,164,865	3,447	-	3,447	-	1,168,312
Volunteer expense	481,193	2,176	483,369	5,707	-	5,707	-	489,076
Program supplies and equipment	235,731	258,568	494,299	6,943	-	6,943	-	501,242
Contracted services	-	2,497	2,497	3,829	-	3,829	607,992	614,318
Other	26,679	26,891	53,570	10,962	9,438	20,400	441	74,411
Total functional expenses before depreciation	3,915,010	6,997,676	10,912,686	3,737,533	1,426,448	5,163,981	679,677	16,756,344
Depreciation	137,523	1,284,741	1,422,264	59,385	38,548	97,933	-	1,520,197
Total functional expenses	4,052,533	8,282,417	12,334,950	3,796,918	1,464,996	5,261,914	679,677	18,276,541
Less cost of direct benefit to donors	-	-	-	-	-	-	(679,677)	(679,677)
Less cost of investment advisory fees	-	-	-	-	(354,106)	(354,106)	-	(354,106)
Total expenses reported by function in the statement of activities	\$ 4,052,533	\$ 8,282,417	\$ 12,334,950	\$ 3,796,918	\$ 1,110,890	\$ 4,907,808	\$ -	\$ 17,242,758

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

The Fresh Air Fund
Statement of Functional Expenses
Year Ended September 30, 2013

	Program Services			Supporting Services			Direct Benefit to Donors	Total Expenses
	Host Family Activities	Fresh Air Camping Activities	Total Program Expenses	Fund- Raising	Office Services and Administration	Total Supporting Services Expenses		
Staff salaries and benefits	\$ 1,831,405	\$ 3,933,259	\$ 5,764,664	\$ 872,231	\$ 967,362	\$ 1,839,593	\$ 3,769	\$ 7,608,026
Communication	174,330	126,746	301,076	2,003,330	16,894	2,020,224	63,652	2,384,952
Insurance	251,971	143,495	395,466	-	6,077	6,077	-	401,543
Professional fees	158,247	76,963	235,210	578,703	352,084	930,787	27,550	1,193,547
Occupancy (repairs, maintenance, rent)	312,803	659,409	972,212	71,494	88,346	159,840	-	1,132,052
Transportation	485,059	221,814	706,873	495	-	495	-	707,368
Food	4,627	1,153,135	1,157,762	3,088	-	3,088	-	1,160,850
Volunteer expense	626,692	4,132	630,824	6,306	-	6,306	-	637,130
Program supplies and equipment	188,215	285,898	474,113	7,772	-	7,772	-	481,885
Contracted services	-	1,248	1,248	5,390	-	5,390	600,543	607,181
Other	33,181	25,167	58,348	12,507	11,591	24,098	530	82,976
Total functional expenses before depreciation	4,066,530	6,631,266	10,697,796	3,561,316	1,442,354	5,003,670	696,044	16,397,510
Depreciation	138,220	1,244,802	1,383,022	59,686	38,744	98,430	-	1,481,452
Total functional expenses	4,204,750	7,876,068	12,080,818	3,621,002	1,481,098	5,102,100	696,044	17,878,962
Less cost of direct benefit to donors	-	-	-	-	-	-	(696,044)	(696,044)
Less cost of investment advisory fees	-	-	-	-	(298,084)	(298,084)	-	(298,084)
Total expenses reported by function in the statement of activities	\$ 4,204,750	\$ 7,876,068	\$ 12,080,818	\$ 3,621,002	\$ 1,183,014	\$ 4,804,016	\$ -	\$ 16,884,834

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

The Fresh Air Fund
Statements of Cash Flows

	Years ended September 30,	
	2014	2013
Cash flows from operating activities		
Increase in net assets	\$ 5,585,913	\$ 8,274,302
Adjustments to reconcile change in net assets to net cash used in operating activities		
Pension changes nonperiodic pension costs	514,136	(1,854,668)
Depreciation expense	1,520,197	1,481,452
Gain on disposition of vehicle	-	(1,363)
Contributions permanently restricted	(221,500)	(6,281)
Pledge discount amortization	-	(11,905)
Net realized and unrealized gain in investment portfolio	(12,559,432)	(10,738,425)
Increase in value of beneficial interests in perpetual trusts	(73,478)	(78,833)
Change in operating assets and liabilities		
Decrease in receivables	199,776	338,080
Increase in prepaid expenses	(199,443)	(1,061,752)
(Decrease) Increase in accounts payable and accrued liabilities	(533,797)	615,216
Net cash used in operating activities	(5,767,628)	(3,044,177)
Cash flows from investing activities		
Purchases of investments	(10,492,676)	(15,544,794)
Sales of investments	15,427,868	20,986,353
Proceeds from insurable loss	-	13,798
Purchases of buildings and equipment	(453,709)	(437,282)
Net cash provided by investing activities	4,481,483	5,018,075
Cash flows from financing activities		
Contributions permanently restricted	221,500	6,281
Net cash provided by financing activities	221,500	6,281
Net change in cash and cash equivalents	(1,064,645)	1,980,179
Cash and cash equivalents, beginning of year	5,252,437	3,272,258
Cash and cash equivalents, end of year	\$ 4,187,792	\$ 5,252,437

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

The Fresh Air Fund

Notes to Financial Statements

September 30, 2014 and 2013

1. Organization and Nature of Activities

The Fresh Air Fund (the “Fund”), an independent, not-for-profit agency, has provided free summer experiences to more than 1.7 million New York City children from low-income communities since 1877. Approximately 9,000 disadvantaged New York City children enjoy free Fresh Air Fund programs annually. Thousands of children visit volunteer host families in rural and suburban areas across 13 states from North Carolina to Maine and Canada. Thousands more attend five Fresh Air camps on a site in Fishkill, New York and participate in year-round educational programs at camp and in New York City.

Tax Status

The Fund is a not-for-profit voluntary organization exempt from income taxes under Section 501(c)(3) of the U.S. Internal Revenue Code (the “Code”) and, accordingly, is not subject to federal income taxes under Section 501(a) of the Code. As a not-for-profit organization, the Fund is exempt from New York State and New York City income and sales taxes. The Fund has been classified as an organization, which is not a private foundation and has been designated as a publicly supported organization under Section 509(a)(1) of the Code and qualifies for the maximum charitable contribution deduction for donors.

Description of Program Services

Host Family Activities

Host Family activities consist of organizing and directing committees to recruit families to serve as hosts in Friendly Towns and coordinating the children’s stay with their host families. The program involves escorting and transporting children to and from their homes in New York City for vacation out of the City at no cost to the children’s families.

Fresh Air Camping Activities

Fresh Air Camping activities consist of sending approximately 3,000 children from their homes in New York City to the Fund’s camps in Fishkill, New York. The summer program provides direction, leadership, food, medical care and recreation for two or more weeks at no cost to the children’s families. Included within this program is the Fund’s Career Awareness Camp, which serves approximately 300 children. The camp program fosters critical career-related qualities such as responsibility, cooperation and leadership. Additionally, the Fund’s year-round camping program serves 2,000 disadvantaged teenagers each year.

The Fresh Air Fund

Notes to Financial Statements (continued)

1. Organization and Nature of Activities (continued)

Fund-Raising Services

Fund-raising services relate to the activities of the development department in raising general and specific contributions.

Office Services and Administration

Office services and administration include finance, administration and general support activities. Certain administrative costs that relate to specific programs have been allocated to such programs.

Direct Benefit to Donor Costs

Direct benefit to donor costs are costs incurred in connection with special events related to items benefiting attendees of such events, such as meals and entertainment.

2. Summary of Significant Accounting and Financial Reporting Policies

Basis of Presentation

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 ("U.S. GAAP").

Net Assets

To adhere to restrictions placed on the resources available to the organization, the Fund follows the principles of fund accounting. This is the procedure by which resources are classified for accounting and reporting purposes into funds established according to their nature and purpose.

Net assets are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Fund are classified and reported as follows:

Unrestricted Net Assets: Net assets of the Fund that are neither permanently restricted nor temporarily restricted by donor-imposed stipulations. These include operations, the Board-designated endowment, and the land, buildings and equipment funds. The Board of Directors has a policy of putting certain legacies and bequests and contributions in the Board-designated endowment fund. Annual transfers from this fund to the operating fund are based on the average of the most recent 12 quarters of the market values of Board-designated endowment investments. In addition, transfers to the land, buildings and equipment fund are made for capital additions, net of current year depreciation expense. The land, buildings and equipment fund reflects the net asset value of land, buildings and equipment.

The Fresh Air Fund

Notes to Financial Statements (continued)

2. Summary of Significant Accounting and Financial Reporting Policies (continued)

Temporarily Restricted Net Assets: Net assets of the Fund resulting from contributions and other inflows of assets whose use by the Fund is limited by donor-imposed stipulations that either expire by the passage of time or can be fulfilled and removed by actions of the Fund pursuant to restricted stipulations. When a prior year donor restriction expires, the restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as satisfaction of donor-imposed restrictions. The Fund reports program-related restricted contributions whose stipulations were met in the same year as unrestricted contributions.

Permanently Restricted Net Assets: Net assets of the Fund resulting from contributions and other inflows of assets whose use by the Fund is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of the Fund. Income earned on the assets may be expended by the Fund for donor-restricted program purposes.

Revenue Recognition

The Fund records as revenue contributions, when they are received unconditionally at their fair value, including: cash, promises to give, certain contributed services and merchandise and gifts of long-lived and other assets. Conditional contributions are recognized as revenue when the conditions on which they depend on have been substantially met. The Fund's grants are cost reimbursement type grants and are considered conditional contributions for applying revenue recognition policies.

Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. As of September 30, 2014 and 2013, the Fund determined that no allowance for doubtful accounts should be provided for accounts, grants and other receivables, and pledges and legacies receivable. Such estimate is based on a combination of factors, such as management's assessment of the aged basis of its contributors and government funding sources, creditworthiness of contributors, current economic conditions and historical experience.

Cash and Cash Equivalents

The Fund includes in cash and cash equivalents financial instruments which are highly liquid and have maturity dates of three months or less from the date of purchase. The carrying amounts reported in the statements of financial position approximate fair value.

Legacies and Bequests

The Fund is the beneficiary of legacies and bequests under various wills. The Fund's share of such bequests is recorded when the Fund has an irrevocable right to the bequest and the proceeds are measurable.

The Fresh Air Fund

Notes to Financial Statements (continued)

2. Summary of Significant Accounting and Financial Reporting Policies (continued)

Investments

The Fund carries its domestic securities investments at fair value based on quoted market prices. The fair value of beneficial interests in perpetual trusts is approximated by the Fund's share of the fair value of the assets held by the trust. Realized and unrealized gains and losses on investments are reflected in the accompanying statements of activities.

Interests in limited partnerships and offshore limited liability companies are stated at fair value as estimated in an unquoted market. Individual investment holdings within these investments include primarily market-traded securities, as well as other nonmarketable securities. Fair values of these investments are determined by the investment managers or general partners. Values may be based on historical cost, appraisals, or other estimates that require varying degrees of judgment. Generally, fair value reflects net contributions to the investee and an ownership share of realized and unrealized investment income and expenses. Because of the inherent uncertainty of these investments, values of limited partnerships and limited liability companies' investments may differ significantly from values that would have been used had a ready market for the investments existed. The financial statements of the investees are audited annually by independent auditors.

The Fund's endowment investment policy is to invest primarily in a mix of equities, mutual funds and limited partnerships based on an asset allocation to satisfy its overall endowment financial and investment objectives, such as to preserve the principal, protect against inflation, receive stable returns and achieve long-term growth. The Fund 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). Annual spending from the endowment funds is more fully described in Note 7.

Fair Value – Fair value measurements are based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. In order to increase consistency and comparability in fair value measurements, a fair value hierarchy prioritizes observable and unobservable inputs used to measure fair value into three levels, as described in Note 6.

Pension Plans

U.S. GAAP requires an employer to: (a) recognize in its statement of financial position an asset for a plan's overfunded status or a liability for a plan's underfunded status; (b) measure a plan's assets and its obligations that determine its funded status as of the end of the employer's fiscal year; and (c) recognize changes in the funded status of a defined benefit plan in the year in which the changes occur. The measurement date for the Fund's defined benefit plan corresponds to the fiscal year end and therefore the Fund is in compliance with the measurement date provisions of U.S. GAAP.

The Fresh Air Fund

Notes to Financial Statements (continued)

2. Summary of Significant Accounting and Financial Reporting Policies (continued)

Land, Buildings and Equipment

The Fund capitalizes land, buildings and equipment at their cost, or appraised value on the date of contribution, provided their cost or value is at least \$500 and they have estimated useful lives of greater than one year. The Fund capitalizes all costs incurred in connection with construction/renovation of camping facilities. Depreciation is provided (other than land) on a straight-line basis over the estimated useful lives of the related assets. Such lives range from five to 30 years.

Donated Materials, Investments and Services

Donated materials, investments and services are reflected as contributions in the accompanying financial statements at their fair values at the date of receipt. Donated services are recognized as revenue if the services received create or enhance non-financial assets, require specified skills provided by individuals possessing those skills and typically need to be purchased if not provided by donation.

The Fund recorded both support and expenses of \$197,250 and \$140,017, for the years ended September 30, 2014 and 2013, respectively, of contributions-in-kind, primarily legal services and public service announcements. In addition, a substantial number of volunteers donated significant amounts of their time to the Fund's program services. No amounts have been reflected in the accompanying financial statements for these donated services as such services do not meet the criteria for recognition under U.S. GAAP.

Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the statements of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of certain 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 period. Actual results could differ from those estimates.

3. Pledges Receivable

Pledges receivable as of September 30, 2014 and 2013 were \$0 and \$255,000, respectively.

The Fresh Air Fund

Notes to Financial Statements (continued)

4. Investments

The Fund maintains its domestic securities investments with a third-party custodian and under the direction of an investment manager with discretion to invest in products not limited to domestic equities. The manager's guideline, among others, is to invest more than 50% of the domestic securities portfolio in equities.

The Fund invests in certain investments, including limited partnerships, that create indirect exposure to the Fund through short sales of securities, and trading in futures and forward contracts, options, swaps, and other derivatives products. Derivatives are tools used to maintain asset mix or adjust portfolio risk exposure. Each of these financial instruments contains varying degrees of risk whereby changes in the fair value of the securities underlying the financial instruments or the cost of satisfying obligations may exceed the amount recognized in the statements of financial position of the investees.

Investments consist of the following as of September 30:

	2014		2013	
	Cost	Fair Value	Cost	Fair Value
Domestic securities	\$ 1,220,743	\$ 7,560,299	\$ 1,220,743	\$ 6,706,240
Mutual funds:				
Fixed income	4,320,023	4,175,116	9,119,821	8,865,224
Total mutual funds	4,320,023	4,175,116	9,119,821	8,865,224
Limited partnerships:				
Fixed income	4,219,899	8,722,785	4,574,612	8,536,635
Equities	34,448,926	68,357,296	26,779,553	55,973,463
Natural resources	6,479,417	4,013,929	6,502,389	5,065,559
Real estate	5,363,363	4,641,692	5,834,959	5,038,718
Distressed/Other	4,672,648	5,389,395	5,040,996	5,770,096
Total limited partnerships	55,184,253	91,125,097	48,732,509	80,384,471
Cash pending investment	1,098,882	1,098,882	379,219	379,219
	\$ 61,823,901	\$ 103,959,394	\$ 59,452,292	\$ 96,335,154

Investments are subject to market volatility that could change their carrying values substantially in the near term.

The Fund also has beneficial interests in certain perpetual trusts administered by third parties (valued at approximately \$2,415,000 and \$2,342,000 at September 30, 2014 and 2013, respectively) that are reflected as such in the accompanying statements of financial position. The underlying assets of the perpetual trusts are invested in mutual funds, publicly traded securities, and other investable assets as determined by the third-party custodians.

The Fresh Air Fund

Notes to Financial Statements (continued)

4. Investments (continued)

Investment return consists of the following for the years ended September 30:

	<u>2014</u>	<u>2013</u>
Investment return:		
Interest and dividends	\$ 351,011	\$ 344,881
Net realized and unrealized gain	<u>12,559,432</u>	<u>10,738,425</u>
	<u>\$ 12,910,443</u>	<u>\$ 11,083,306</u>

5. Buildings and Equipment

As of September 30, 2014 and 2013, buildings and equipment consist of the following:

	<u>2014</u>	<u>2013</u>
Office condominium	\$ 8,574,451	\$ 8,574,451
Camping facilities and equipment	37,591,395	37,216,908
Automobiles and trucks	922,200	897,531
Office furniture, equipment, etc.	<u>1,888,141</u>	<u>1,833,588</u>
Total depreciable assets	48,976,187	48,522,478
Less accumulated depreciation	<u>(25,639,748)</u>	<u>(24,119,551)</u>
	<u>\$ 23,336,439</u>	<u>\$ 24,402,927</u>

During the year ended September 30, 2013, the Fund removed from its property list a vehicle with a carrying value of \$17,762 and with accumulated depreciation of \$5,327 due to an insurable loss.

6. Fair Value Measurements

In determining fair value, the Fund utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs, to the extent possible in its assessment of fair value. The fair value hierarchy defines three levels as follows:

Level 1: Valuations based on quoted prices (unadjusted) in an active market that are accessible at the measurement date for identical assets or liabilities. The fair value hierarchy gives the highest priority to Level 1 inputs.

Level 2: Valuations based on observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in inactive markets; or model-derived valuations in which all significant inputs are observable or can be derived principally from or corroborated with observable market data.

Level 3: Valuations based on unobservable inputs are used when little or no market data is available. The fair value hierarchy gives lowest priority to Level 3 inputs.

The Fresh Air Fund

Notes to Financial Statements (continued)

6. Fair Value Measurements (continued)

Financial assets carried at fair value at **September 30, 2014**, are classified in the table below as follows:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Domestic securities	\$ 7,449,348	\$ 110,951	\$ -	\$ 7,560,299
Mutual funds:				
Fixed income	4,175,116	-	-	4,175,116
Total mutual funds	4,175,116	-	-	4,175,116
Limited partnerships:				
Fixed income	-	8,722,785	-	8,722,785
Equities	-	53,722,997	14,634,299	68,357,296
Natural resources	-	759,566	3,254,363	4,013,929
Real estate	-	-	4,641,692	4,641,692
Distressed/Other	-	-	5,389,395	5,389,395
Total limited partnerships	-	63,205,348	27,919,749	91,125,097
Cash pending investment	1,098,882	-	-	1,098,882
	<u>\$ 12,723,346</u>	<u>\$ 63,316,299</u>	<u>\$ 27,919,749</u>	<u>\$ 103,959,394</u>

Financial assets carried at fair value at **September 30, 2013**, are classified in the table below as follows:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Domestic securities	\$ 6,495,552	\$ 210,688	\$ -	\$ 6,706,240
Mutual funds:				
Fixed income	8,865,224	-	-	8,865,224
Total mutual funds	8,865,224	-	-	8,865,224
Limited partnerships:				
Fixed income	-	8,536,635	-	8,536,635
Equities	-	53,002,173	2,971,290	55,973,463
Natural resources	-	1,175,750	3,889,809	5,065,559
Real estate	-	-	5,038,718	5,038,718
Distressed/Other	-	-	5,770,096	5,770,096
Total limited partnerships	-	62,714,558	17,669,913	80,384,471
Cash pending investment	379,219	-	-	379,219
	<u>\$ 15,739,995</u>	<u>\$ 62,925,246</u>	<u>\$ 17,669,913</u>	<u>\$ 96,335,154</u>

Investments in cash, mutual funds, and corporate equities are valued using market prices in active markets (Level 1). Level 1 instrument valuations are obtained from real-time quotes for transactions in active exchange markets involving identical assets. Investments in bonds, closed-end equities mutual funds and certain limited partnerships are valued using quoted prices in inactive markets (Level 2). Level 2 instruments valuations are obtained from similar assets or model-derived valuations in which all significant inputs are observable or can be derived principally from or corroborated with observable market data.

The Fresh Air Fund

Notes to Financial Statements (continued)

6. Fair Value Measurements (continued)

Limited partnership interests are stated at fair value in an unquoted market. Fair value of these limited partnership interests are based on net asset value per share which are provided by the limited partnerships. Values may be based on historical cost, appraisals, obtainable prices for similar assets, or other estimates. Because of the inherent uncertainty of valuation of the Fund's investments in these partnerships, values for those investments may differ significantly from values that would have been used had a ready market for the investments existed. The financial statements of the investees are audited annually by independent auditors. The Fund can redeem certain of its limited partnership interests in the short-term with required notice being given as stipulated in the partnership agreements and there are no current lock-up provisions on these investments. Based on this, it was determined that certain limited partnership interests can be considered as Level 2 financial assets as of September 30, 2014 in accordance with ASU 2009-12 (ASC 820), which is described in Note 2.

The reconciliation for the year ended **September 30, 2014**, of the investments measured at estimated fair value classified as Level 3 is as follows:

	<u>Level 3</u>
Balance at September 30, 2013	\$ 17,669,913
Purchases	9,087,887
Redemptions	(2,735,723)
Realized and unrealized gain	3,897,672
Balance at September 30, 2014	<u>\$ 27,919,749</u>

The reconciliation for the year ended **September 30, 2013**, of the investments measured at estimated fair value classified as Level 3 is as follows:

	<u>Level 3</u>
Balance at September 30, 2012	\$ 18,478,441
Purchases	3,448,151
Redemptions	(4,347,655)
Realized and unrealized gain	90,976
Balance at September 30, 2013	<u>\$ 17,669,913</u>

The Fresh Air Fund

Notes to Financial Statements (continued)

7. Permanent and Board-Designated Endowment Funds

The Fund recognizes the New York Prudent Management of Institutional Funds Act (“NYPMIFA”). NYPMIFA created a rebuttable presumption of imprudence if an organization appropriates more than 7% of a donor-restricted permanent endowment fund’s fair value (averaged over a period of not less than the preceding five years) in any year. Any unappropriated earnings that would otherwise be considered unrestricted by the donor will be reflected as temporarily restricted until appropriated. The Investment Committee of the Fund’s Board of Directors, under authority of the Executive Committee, has appropriated all earnings as of and prior to September 30, 2014, whether deemed spent or not, as unrestricted.

Each year a portion of the return on the endowment funds may be used to fund general operating expenditures. The amount of that spending portion will be reviewed annually and the distribution recommended by the Executive Committee will be approved by the Board of Directors.

The Fund’s long-term spending policy rate is 5% of a moving 12-quarter average for the board-designated portion and, in compliance with NYPMIFA, up to 7% of a moving 20-quarter average for the permanently-restricted portion of the investment portfolio market value. The amount appropriated is allocated to the Board-designated endowment and to the permanently restricted funds as needed.

As of September 30, 2014 and 2013, permanently restricted net assets consist of the following:

	2014	2013
Funds for Camping Activities	\$ 3,691,246	\$ 3,473,246
Funds for Host Family Activities	3,318,208	3,318,208
Funds for general purpose	6,900,502	6,823,524
Total permanently restricted net assets	<u>\$ 13,909,956</u>	<u>\$ 13,614,978</u>

In accordance with U.S. GAAP, organizations are required to disclose any deterioration of the fair value of assets associated with donor-restricted endowment funds that fall below the level the donor requires the organization to retain in perpetuity. From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor requires the Fund to retain as a gift of perpetual duration. In accordance with the Fund’s policy noted above, deficiencies of this nature are reported in either restricted or unrestricted net assets. These deficiencies, if any, result from unfavorable market fluctuations that occur in the economy as a whole, whereby the fair market value of the donor restricted endowment fund is below the amount that is required to be retained permanently. As of September 30, 2014 and 2013, this condition did not exist at the Fund.

The Fresh Air Fund

Notes to Financial Statements (continued)

7. Permanent and Board-Designated Endowment Funds (continued)

The Fund's endowment net assets as of **September 30, 2014**, consist of the following:

	<u>Unrestricted</u>	Permanently <u>Restricted</u>	<u>Total</u>
Donor restricted endowment funds	\$ 4,428,920	\$ 13,909,956	\$ 18,338,876
Board-designated endowment funds	93,434,211	-	93,434,211
Endowment net assets, end of year	<u>\$ 97,863,131</u>	<u>\$ 13,909,956</u>	<u>\$ 111,773,087</u>

The Fund's endowment net assets as of **September 30, 2013**, consist of the following:

	<u>Unrestricted</u>	Permanently <u>Restricted</u>	<u>Total</u>
Donor restricted endowment funds	\$ 4,060,985	\$ 13,614,978	\$ 17,675,963
Board-designated endowment funds	87,052,252	-	87,052,252
Endowment net assets, end of year	<u>\$ 91,113,237</u>	<u>\$ 13,614,978</u>	<u>\$ 104,728,215</u>

The unrestricted portion of the donor restricted endowment funds represents the accumulated unrealized gains earned by the original gifts.

Changes in endowment net assets for the year ended **September 30, 2014**, are as follows:

	<u>Unrestricted</u>	Permanently <u>Restricted</u>	<u>Total</u>
Investment activity:			
Interest and dividends	\$ 351,011	\$ -	\$ 351,011
Unrealized gain on investments	5,252,631	73,478	5,326,109
Realized gain on investments	6,952,695	-	6,952,695
Total investment activity	<u>12,556,337</u>	<u>73,478</u>	<u>12,629,815</u>
Contributions	145,824	221,500	367,324
Amount appropriated for expenditure	<u>(6,202,267)</u>	<u>-</u>	<u>(6,202,267)</u>
	<u>(6,056,443)</u>	<u>221,500</u>	<u>(5,834,943)</u>
Change in endowment net assets	6,499,894	294,978	6,794,872
Endowment net assets, beginning of year	91,113,237	13,614,978	104,728,215
Reclassifications	<u>250,000</u>	<u>-</u>	<u>250,000</u>
Endowment net assets, end of year	<u>\$ 97,863,131</u>	<u>\$ 13,909,956</u>	<u>\$ 111,773,087</u>

The Fresh Air Fund

Notes to Financial Statements (continued)

7. Permanent and Board-Designated Endowment Funds (continued)

Changes in endowment net assets for year ended **September 30, 2013**, are as follows:

Investment activity:	<u>Unrestricted</u>	Permanently <u>Restricted</u>	<u>Total</u>
Interest and dividends	\$ 344,881	\$ -	\$ 344,881
Unrealized gain on investments	5,580,405	78,833	5,659,238
Realized gain on investments	4,859,936	-	4,859,936
Total investment activity	<u>10,785,222</u>	<u>78,833</u>	<u>10,864,055</u>
Contributions	2,286,551	6,281	2,292,832
Amount appropriated for expenditure	(4,010,915)	-	(4,010,915)
	<u>(1,724,364)</u>	<u>6,281</u>	<u>(1,718,083)</u>
Change in endowment net assets	9,060,858	85,114	9,145,972
Endowment net assets, beginning of year	81,801,879	13,528,864	95,330,743
Reclassifications	250,500	1,000	251,500
Endowment net assets, end of year	<u>\$ 91,113,237</u>	<u>\$ 13,614,978</u>	<u>\$ 104,728,215</u>

Endowment net assets of \$111,773,087 and \$104,728,215 are included in investments, cash and cash equivalents, other assets and beneficial interests in perpetual trusts in the statements of financial position as of September 30, 2014 and 2013, respectively.

8. Temporarily Restricted Net Assets

As of September 30, 2014 and 2013, temporarily restricted net assets are available for the following purposes upon passage of time or fulfillment of donor-imposed stipulations:

	<u>2014</u>	<u>2013</u>
Land, building and equipment and time-restricted	\$ -	\$ 250,000
Purpose-restricted assets	288,871	351,342
Time-restricted assets	274,011	354,011
	<u>\$ 562,882</u>	<u>\$ 955,353</u>

Temporarily restricted net assets were released from restrictions during the years ended September 30, 2014 and 2013 upon passage of time or fulfillment of purposes as follows:

	<u>2014</u>	<u>2013</u>
Purpose-restricted assets	\$ 316,071	\$ 184,948
Time-restricted assets	330,000	276,500
	<u>\$ 646,071</u>	<u>\$ 461,448</u>

The Fresh Air Fund

Notes to Financial Statements (continued)

9. Pension Plans

The Fund sponsors a noncontributory defined benefit pension plan (the “Plan”) which provides retirement and death benefits for substantially all full-time employees based on years of service and compensation level. The Plan’s assets are invested in equity mutual funds and guaranteed insurance contracts. Effective February 1, 2011, the Plan was amended to update the accrued benefits as of that date to a percentage of the current five-year average salary multiplied by years of service.

The following tables present the Plan’s related disclosures under U.S. GAAP. The Plan’s actuary performed the computations required for financial statement disclosure as of September 30, 2014 and 2013. Employee data as of October 1, 2013 and 2012 was projected forward to the September 30, 2014 and 2013 measurement dates, respectively.

The following table provides a reconciliation of the changes in the Plan’s benefit obligations and a statement of the funded status of the Plan as of September 30, 2014 and 2013:

	2014	2013
Change in benefit obligation:		
Benefit obligation - beginning of year	\$ 11,061,119	\$ 11,080,653
Service cost	286,149	317,229
Interest cost	567,456	541,729
Actuarial loss/(gain)	997,545	(606,851)
Benefits paid	(369,718)	(271,641)
Benefit obligation - end of year	\$ 12,542,551	\$ 11,061,119
Change in plan assets:		
Fair value of plan assets - beginning of year	\$ 12,052,513	\$ 9,923,728
Actual return	1,344,242	1,880,426
Employer contribution	658,841	520,000
Benefits paid	(369,718)	(271,641)
Fair value of plan assets - end of year	\$ 13,685,878	\$ 12,052,513
Funded status	\$ 1,143,327	\$ 991,394
Accumulated benefit obligation	\$ 11,886,041	\$ 10,569,760

The amounts reflected in the funded status in the above table are included in prepaid expenses in the accompanying statements of financial position.

The Fresh Air Fund

Notes to Financial Statements (continued)

9. Pension Plans (continued)

The following table provides the components of net periodic benefit cost for the Plan for the years ended September 30, 2014 and 2013:

	2014	2013
Service cost	\$ 286,149	\$ 317,229
Interest cost	567,456	541,729
Expected return on plan assets	(972,518)	(803,080)
Amortization of prior service cost	111,685	111,685
Amortization of accumulated loss	-	58,786
Net periodic (benefit) cost	\$ (7,228)	\$ 226,349

Amounts that have not been recognized as components of net periodic benefits costs but included in unrestricted net assets to date as the effect of adoption of U.S. GAAP revisions are as follows:

	2014	2013
Net actuarial loss	\$ 886,801	\$ 260,980
Prior service cost	1,018,229	1,129,914
Net amounts recognized in unrestricted net assets	\$ 1,905,030	\$ 1,390,894

Other changes in plan assets and benefit obligations recognized in the unrestricted net assets for the years ended September 30, 2014 and 2013 are as follows:

	2014	2013
Net (loss)/gain	\$ (625,821)	\$ 1,684,197
Amortization of net loss from earlier periods	-	58,786
Amortization of prior service cost	111,685	111,685
Net amount recognized in change in unrestricted net assets	\$ (514,136)	\$ 1,854,668

The net periodic costs for the years ended September 30, 2014 and 2013 include reclassifications of amounts previously recognized as changes in unrestricted net assets and are as follows:

	2014	2013
Amortization of loss	\$ -	\$ 58,786
Prior service cost	\$ 111,685	\$ 111,685

The Fresh Air Fund

Notes to Financial Statements (continued)

9. Pension Plans (continued)

As of September 30, 2014 and 2013, the weighted average assumptions used to determine benefit obligations are as follows:

	2014	2013
Discount rate	4.75%	5.25%
Rate of compensation increase	3.00%	3.00%

The weighted average assumptions used to determine net periodic benefit cost for the years ended September 30, 2014 and 2013 consist of the following:

	2014	2013
Discount rate	5.25%	5.00%
Expected return on plan assets	8.00%	8.00%
Rate of compensation increase	3.00%	3.00%

The weighted average asset allocation of the Plan at September 30, 2014 and 2013 is as follows:

	2014	2013
Equity mutual funds	64.6%	58.8%
Guaranteed-rate insurance contracts	35.4%	41.2%

The Fund's investment policy for the Plan is to maintain the investments in the equity mutual funds and the guaranteed insurance contracts existing at September 30, 2014 and to invest future contributions in the equity mutual funds. The expected long-term rate of return on plan assets of 8.00% was selected based on historical returns on invested assets and expectations for future returns. While the returns on the guaranteed insurance contract have declined, it is expected that the investment of the future contributions in equity securities will allow the Plan to achieve the 8.00% expected long-term rate of return.

The following benefits which reflect expected future service, as appropriate, are expected to be paid:

Year ending September 30:		
2015	\$	484,859
2016		591,390
2017		598,991
2018		587,967
2019		575,499
2020 - 2024		3,858,792

The Fund expects to contribute approximately \$600,000 to the Plan for the year ending September 30, 2015.

The Fresh Air Fund

Notes to Financial Statements (continued)

9. Pension Plans (continued)

Pension plan assets carried at fair value at **September 30, 2014**, are classified in the table below as follows:

	<u>Level 1</u>	<u>Level 3</u>	<u>Total</u>
Equity mutual funds	\$ 8,840,935	\$ -	\$ 8,840,935
Guaranteed-rate insurance contracts	-	4,844,943	4,844,943
	\$ 8,840,935	\$ 4,844,943	\$ 13,685,878

Pension plan assets carried at fair value at **September 30, 2013**, are classified in the table below as follows:

	<u>Level 1</u>	<u>Level 3</u>	<u>Total</u>
Equity mutual funds	\$ 7,090,080	\$ -	\$ 7,090,080
Guaranteed-rate insurance contracts	-	4,962,433	4,962,433
	\$ 7,090,080	\$ 4,962,433	\$ 12,052,513

The reconciliation for the years ended September 30, 2014 and 2013 of the investments measured at estimated fair value classified as Level 3 follows:

	<u>2014</u>	<u>2013</u>
Balance at beginning of year	\$ 4,962,433	\$ 4,966,667
Realized and unrealized gain	256,148	271,395
Withdrawals for benefits and expenses	(373,638)	(275,629)
Balance at end of year	\$ 4,844,943	\$ 4,962,433

Pension plan investments in equity mutual funds are valued using market prices in active markets (Level 1). Level 1 instrument valuations are obtained from real-time quotes for transactions in active exchange markets involving identical assets. Investments in fixed dollar guaranteed-rate insurance contracts are valued by the asset custodians, New York Life Investment Management, using prices in inactive markets (Level 3). Level 3 valuations based on unobservable inputs are used when little or no market data is available.

The Fund also sponsors a defined contribution plan. The Fund makes contributions to the plan in the amount of 4% of eligible compensation for all employees with one or more years of credited service. Employees may also make voluntary before-tax contributions to the plan. The Fund contributed \$142,146 and \$136,630 for the years ended September 30, 2014 and 2013, respectively.

10. Supplemental Retirement Plan

The Fund created a Supplemental Executive Retirement Plan (“SERP”) for the Executive Director during the 2013 fiscal year. The Fund has recorded as a benefit cost the vested benefits, which amounted to \$167,442 for the years ended September 30, 2014 and 2013,

The Fresh Air Fund

Notes to Financial Statements (continued)

11. Commitments and Contingencies

The Fund has commitments totaling \$35,500,000 as part of the Fund's investments in limited partnerships with various investment managers. The Fund has remitted \$23,013,276 in satisfaction of these obligations as of September 30, 2014.

There are various lawsuits and threatened actions against the Fund, arising out of accidents to children and other matters, some of which claim substantial amounts of damages on behalf of the children or their guardians. In the opinion of the Fund's management, these lawsuits are either without merit, or are covered by insurance, and will not result in any material adverse effect on the financial position or changes in net assets of the Fund as of September 30, 2014.

In accordance with Accounting Standards Codification ("ASC") Topic 740, "Income Taxes", which provides standards for establishing and classifying any tax provisions for uncertain tax positions, The Fund has determined that there are no material uncertain tax positions that require recognition or disclosure in the financial statements. Periods ending September 30, 2011 and subsequent remain subject to examination by applicable taxing authorities.

12. Concentrations

Cash and cash equivalents that potentially subject the Fund to a concentration of credit risk include cash accounts with banks that exceed the Federal Deposit Insurance Corporation ("FDIC") insurance limits. Interest and noninterest bearing accounts are insured up to \$250,000 per depositor. As of September 30, 2014 and 2013 there was approximately \$2.1 million and \$2.2 million, respectively of cash and cash equivalents held by the banks that exceeded FDIC limits. Such excess includes outstanding checks.

13. Subsequent Events

Management has evaluated events subsequent to the date of the statement of financial position through January 7, 2015, the date the financial statements were available to be issued. No events have occurred subsequent to the statement of financial position date through January 7, 2015 that would require adjustment or disclosure in the financial statements.

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