

National Law Enforcement Officers Memorial Fund, Inc.

Financial Report
December 31, 2008

McGladrey & Pullen
Certified Public Accountants

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McGladrey & Pullen

Certified Public Accountants

Independent Auditor's Report

To the Board of Directors
National Law Enforcement Officers Memorial Fund, Inc.
Washington, D.C.

We have audited the accompanying balance sheet of the National Law Enforcement Officers Memorial Fund, Inc. (the Fund) as of December 31, 2008, and the related statements of activities, functional expenses, and cash flows for the year then ended. These financial statements are the responsibility of the Fund's management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the National Law Enforcement Officers Memorial Fund, Inc. as of December 31, 2008, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

McGladrey & Pullen, LLP

Vienna, Virginia
August 12, 2009

National Law Enforcement Officers Memorial Fund, Inc.

Balance Sheet
December 31, 2008

Assets

Cash	\$	1,467,622
Investments		8,901,614
Interest Receivable		49,666
Promises To Give, net		12,541,934
Prepaid Expenses		125,739
Inventory		544,920
Property And Equipment, net		468,474
Memorial Development Costs		13,484,216
Museum		
Development costs		12,982,329
Collections		346,901
Deposits		28,873
		<u>28,873</u>
	\$	<u>50,942,288</u>

Liabilities And Net Assets

Liabilities		
Accounts payable and accrued expenses	\$	<u>949,115</u>
Commitments (Note 8)		
Net Assets		
Unrestricted:		
Undesignated		16,207,772
Designated for memorial maintenance		3,491,097
Designated for museum		4,268,154
Memorial development costs		<u>13,484,216</u>
		37,451,239
Temporarily restricted		<u>12,541,934</u>
		<u>49,993,173</u>
	\$	<u>50,942,288</u>

See Notes To Financial Statements.

National Law Enforcement Officers Memorial Fund, Inc.

Statement Of Activities
Year Ended December 31, 2008

	Unrestricted	Temporarily Restricted	Total
Support and revenue:			
Contributions	\$ 10,009,981	\$ 6,105,584	\$ 16,115,565
List rental	161,586	-	161,586
Net sales of merchandise	645,197	-	645,197
Investment loss, net	(1,684,619)	-	(1,684,619)
Other	37,958	-	37,958
Net assets released from restriction	4,912,274	(4,912,274)	-
Total support and revenue	14,082,377	1,193,310	15,275,687
Expenses:			
Program:			
Societal Program Materials	3,446,749	-	3,446,749
Memorial Operations	1,999,711	-	1,999,711
Public Awareness	1,402,670	-	1,402,670
Visitors Center	952,202	-	952,202
	7,801,332	-	7,801,332
Supporting:			
Fundraising	4,299,168	-	4,299,168
Management and general	1,036,406	-	1,036,406
	5,335,574	-	5,335,574
Total expenses	13,136,906	-	13,136,906
Change in net assets before provision for doubtful promises to give	945,471	1,193,310	2,138,781
Provision for doubtful promises to give	-	189,550	189,550
Change in net assets	945,471	1,003,760	1,949,231
Net assets:			
Beginning	36,505,768	11,538,174	48,043,942
Ending	\$ 37,451,239	\$ 12,541,934	\$ 49,993,173

See Notes To Financial Statements.

National Law Enforcement Officers Memorial Fund, Inc.

Statement Of Functional Expenses
Year Ended December 31, 2008

	Program Services					Supporting Services			
	Societal Program Materials	Memorial Operations	Public Awareness	Visitors Center	Total Program Services	Fundraising	Management And General	Total Supporting Services	Total
Salaries and benefits	\$ 317,386	\$ 1,042,242	\$ 721,555	\$ 249,120	\$ 2,330,303	\$ 641,460	\$ 208,682	\$ 850,142	\$ 3,180,445
Postage	664,550	9,472	8,906	38,024	720,952	1,635,764	5,308	1,641,072	2,362,024
Printing and graphics	1,237,524	23,610	48,603	99,452	1,409,189	346,161	10,694	356,855	1,766,044
Consulting	171,590	202,408	124,274	41,233	539,505	451,264	192,283	643,547	1,183,052
Mailing services	552,065	-	6,464	6,529	565,058	209,961	-	209,961	775,019
Envelopes	290,950	-	-	-	290,950	270,452	-	270,452	561,402
Computer services	70,868	16,932	40,393	23,543	151,736	210,379	99,091	309,470	461,206
List rental	88,757	75,252	52,098	-	216,107	233,591	-	233,591	449,698
Special events	-	333,693	2,052	220	335,965	50,821	603	51,424	387,389
Accounting and bookkeeping	32,431	73,794	72,969	24,323	203,517	66,343	40,784	107,127	310,644
Caging	-	-	-	-	-	-	263,672	263,672	263,672
Rent	-	-	-	209,041	209,041	-	17,278	17,278	226,319
Travel	3,700	39,173	90,596	6,206	139,675	27,200	24,336	51,536	191,211
Other	-	3,130	6,170	19,718	29,018	67,667	74,066	141,733	170,751
Depreciation	-	18,188	4,655	81,328	104,171	31,045	10,638	41,683	145,854
Office supplies	6,457	28,440	10,721	33,439	79,057	3,666	11,055	14,721	93,778
Media advertising	-	-	83,389	-	83,389	-	-	-	83,389
Public relations	-	9,358	70,283	-	79,641	-	-	-	79,641
Delivery	-	15,987	12,468	28,014	56,469	9,844	4,802	14,646	71,115
Bank charges	-	-	-	27,569	27,569	-	35,199	35,199	62,768
Telephone	4,702	15,467	11,963	12,244	44,376	12,722	4,299	17,021	61,397
Insurance	3,814	22,170	8,582	4,236	38,802	7,628	3,351	10,979	49,781
Repairs and maintenance	-	31,181	-	3,073	34,254	3,398	2,513	5,911	40,165
Utilities	1,955	6,353	4,398	20,610	33,316	3,909	2,871	6,780	40,096
Equipment rental	-	12,229	8,466	8,554	29,249	7,526	3,282	10,808	40,057
Publications and dues	-	3,433	3,634	1,734	8,801	7,967	7,887	15,854	24,655
Exhibits and trade shows	-	17,199	3,098	-	20,297	400	-	400	20,697
Photography	-	-	1,422	13,082	14,504	-	3,478	3,478	17,982
Promotional items	-	-	5,511	-	5,511	-	3,873	3,873	9,384
Storage	-	-	-	910	910	-	6,361	6,361	7,271
Total expenses	\$ 3,446,749	\$ 1,999,711	\$ 1,402,670	\$ 952,202	\$ 7,801,332	\$ 4,299,168	\$ 1,036,406	\$ 5,335,574	\$ 13,136,906

See Notes To Financial Statements.

National Law Enforcement Officers Memorial Fund, Inc.

Statement Of Cash Flows
Year Ended December 31, 2008

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Cash Flows From Operating Activities	
Change in net assets	\$ 1,949,231
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation	145,854
Realized and unrealized loss on investments, net	2,004,176
Decrease in discount to net present value for promises to give	(256,341)
Provision for doubtful promises to give	189,550
Changes in assets and liabilities:	
(Increase) decrease in:	
Interest receivable	1,094
Promises to give	(1,067,343)
Prepaid expenses	6,816
Inventory	(165,712)
Deposits	(11,194)
Decrease in accounts payable and accrued expenses	(161,442)
Net cash provided by operating activities	<u>2,634,689</u>
Cash Flows From Investing Activities	
Purchase of property and equipment	(234,284)
Purchase of investments	(7,044,647)
Proceeds from sale of investments	7,202,048
Payment of memorial development costs	(59,974)
Payment of museum development costs	(1,910,342)
Net cash used in investing activities	<u>(2,047,199)</u>
Net increase in cash	587,490
Cash	
Beginning	<u>880,132</u>
Ending	<u>\$ 1,467,622</u>

See Notes To Financial Statements.

National Law Enforcement Officers Memorial Fund, Inc.

Notes To Financial Statements

Note 1. Nature Of Activities And Significant Accounting Policies

Nature of activities: The National Law Enforcement Officers Memorial Fund, Inc. (the Fund) is a not-for-profit charitable organization incorporated on June 29, 1984, under the provisions of the District of Columbia Not-for-Profit Corporation Act. The Fund was founded to construct and maintain a permanent national memorial to those law enforcement officers who have been slain in the line of duty and to educate the general population as to the officers' and their families' sacrifices.

The memorial was dedicated in October 1991 and is being conveyed to the United States Department of the Interior. The Fund's ongoing rights and responsibilities will be outlined in a Memorandum of Conveyance with the United States Department of the Interior and will include maintaining funds to assist with major repairs and improvements, adding names of fallen officers to the memorial periodically, and participating in ceremonies to honor these officers. The Fund will also continue to be involved in the education and promotion of this memorial to the general public. In addition, a Visitors Center was opened near the memorial site in May 1993 and is operated by the Fund.

A summary of the Fund's significant accounting policies follows:

Basis of accounting: The accompanying financial statements are presented in accordance with the accrual basis of accounting, whereby, revenue is recognized when earned and expenses are recognized when incurred.

Basis of presentation: The financial statement presentation follows the recommendations of the Financial Accounting Standards Board in its Statement of Financial Accounting Standards (SFAS) No. 117, *Financial Statements of Not-for-Profit Organizations*. Under SFAS No. 117, the Fund is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. The Fund had no permanently restricted net assets at December 31, 2008.

Financial risk: The Fund maintains its cash in bank deposit accounts, which, at times, may exceed federally insured limits. The Fund has not experienced any losses in such accounts. The Fund believes it is not exposed to any significant financial risk on cash.

The Fund invests in professionally managed portfolios that contain corporate stock, mutual funds, fixed income securities, government securities and alternative investments. 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 could materially affect investment balances and the amounts reported in the financial statements.

Investments: Investments are reflected at fair market value. To adjust the carrying value of these investments, the difference between cost and fair market value is charged or credited to current operations.

Unconditional promises to give: Unconditional promises to give are recognized as revenue or gains in the period acknowledged. Conditional promises to give are recognized when the conditions on which they depend are substantially met.

Unconditional promises to give are carried at present value less an estimate made for doubtful promises based on a review of all outstanding promises on a monthly basis. Management determines the allowance for doubtful promises by using the historical experience applied to an aging of promises. Promises are written off when deemed uncollectible. Based on management's evaluation of the collection of promises, a provision for doubtful promises was established for \$189,550 as of December 31, 2008.

National Law Enforcement Officers Memorial Fund, Inc.

Notes To Financial Statements

Note 1. Nature Of Activities And Significant Accounting Policies (Continued)

Inventory: Inventory, consisting of memorial memorabilia, is stated at the lower of cost or market. Cost is determined using the first-in, first-out method. Management establishes a reserve for any inventory deemed to be nonsaleable. There was no allowance for obsolescence, based on management's evaluation of the salability of inventory at December 31, 2008.

Memorial development costs: Direct costs and certain allocations of costs of designing and constructing the national memorial are capitalized as incurred.

Museum development costs: Direct costs and certain allocations of costs of designing a future museum are capitalized as incurred. Costs incurred through December 31, 2008, are to pursue the architectural and exhibit design phase.

Museum collection: Museum collection costs include costs incurred to acquire and conserve artifacts, to develop the museum collection, and to further collecting activities. The museum's collection is not currently on display. When ready for display, a determination will be made as to whether these items are inexhaustible or exhaustible. Exhaustible items will be subject to amortization on a straight-line basis over the exhibit's estimated useful life. Museum collections are capitalized at cost if purchased and at fair value if contributed.

Property and equipment: Betterments, renewals, and extraordinary repairs that extend the life of the asset, usually greater than \$300, are capitalized; other repairs and maintenance charges are expensed as incurred. Furniture, equipment, and leasehold improvements are stated net of depreciation. Depreciation and amortization are determined using the straight-line method over the estimated useful lives of five years for furniture and equipment, and the lesser of ten years or the remaining term of the lease for leasehold improvements.

Valuation of long-lived assets: The Fund accounts for the valuation of long-lived assets under SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*. SFAS No. 144 requires that long-lived assets and certain identifiable intangible assets be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of long-lived assets is measured by a comparison of the carrying amount of the asset to future undiscounted net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the estimated fair value of the assets. Assets to be disposed of are reportable at the lower of carrying amount or fair value, less costs to sell. The Fund had no impairments of long-lived assets during the year ended December 31, 2008.

Support and revenue: Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions.

All donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Temporarily restricted net assets are reported as unrestricted net assets if the restrictions are met in the same period received.

Merchandise sales are recognized upon purchase by the customer.

National Law Enforcement Officers Memorial Fund, Inc.

Notes To Financial Statements

Note 1. Nature Of Activities And Significant Accounting Policies (Continued)

Functional allocation of expenses: The costs of providing the various programs and other activities have been summarized on a functional basis in the accompanying statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Advertising expense: The Fund expenses all advertising costs as incurred. Amounts charged to expense for the year ended December 31, 2008, was \$83,389.

Income taxes: The Fund is generally exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. In addition, the Fund qualifies for charitable contribution deductions and has been classified as an organization that is not a private foundation. Business income, which is not related to exempt purposes, less applicable deductions, is subject to federal and state corporate income taxes. The Fund had no net unrelated business income for the year ended December 31, 2008.

Classification of expenses: The Fund categorizes expenses as follows:

Societal Program Materials and Memorial Operations – all expenses to further the Fund's purpose of honoring those people who have lost their lives in the line of duty during their service in the law enforcement profession, through educating the general population as to the officers' and their families' sacrifices for the local community and the nation as a whole.

Public Awareness – all expenses associated with general public relations and publicity.

Visitors Center – all expenses associated with operating and maintaining the Visitors Center.

Fundraising – all expenses associated with the purpose of raising funds.

Management and General – all other operating expenses incurred for the memorial in the accomplishment of its tax-exempt purpose.

Use of estimates: The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Recently issued accounting pronouncements: On August 6, 2008, FASB issued the Staff Position No. FAS 117-1 (FSP), which provides guidance on the net asset classification of donor-restricted endowment funds for a not-for-profit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA). UPMIFA is a model act approved by the Uniform Law Commission (ULC, formerly known as the National Conference of Commissioners on Uniform State Laws) that serves as a guideline for states to use in enacting legislation. This FSP also improves disclosures about an organization's endowment funds (both donor-restricted endowment funds and board designated endowment funds), whether or not the organization is subject to UPMIFA. The Fund has added the required disclosures in Note 5 of the financial statements.

National Law Enforcement Officers Memorial Fund, Inc.

Notes To Financial Statements

Note 1. Nature Of Activities And Significant Accounting Policies (Continued)

Effective January 1, 2008, the Fund adopted SFAS No. 157, *Fair Value Measurements*, issued by FASB. SFAS No. 157 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date and sets out a fair value hierarchy. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and lowest priority to unobservable inputs (Level 3). Inputs are broadly defined under SFAS No. 157 as assumptions market participants would use in pricing an asset or liability. The Fund has added the required disclosures in Note 7 of the financial statements.

In June 2006, FASB issued FASB Interpretation No. 48 (FIN 48), *Accounting for Uncertainty in Income Taxes – an interpretation of FASB Statement 109*. FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with SFAS No. 109, *Accounting for Income Taxes*. FIN 48 prescribes a comprehensive model for recognizing, measuring, presenting and disclosing in the financial statements tax positions taken or expected to be taken on a tax return, including positions that the organization is exempt from income taxes or not subject to income taxes on unrelated business income. If there are changes in net assets as a result of the application of FIN 48, these will be accounted for as an adjustment to the opening balance of net assets. Additional disclosures about the amounts of such liabilities will also be required. The Fund presently discloses or recognizes income tax positions based on management's estimate of whether it is reasonably possible or probable, respectively, that a liability has been incurred for unrecognized income tax benefits by applying SFAS No. 5, *Accounting for Contingencies*. The Fund has elected to defer the application of FIN 48 in accordance with FASB Staff Position (FSP) FIN 48-3. This FSP defers the effective date of FIN 48 for nonpublic enterprises, such as the Fund, included within its scope to the annual financial statements for fiscal years beginning after December 15, 2008. The Fund will be required to adopt FIN 48 in its 2009 annual financial statements. Management has assessed the impact of FIN 48 on its financial position and change in net assets and has determined the adoption of FIN 48 will not have a material effect on its financial statements.

Note 2. Promises To Give

Promises to give in one year or more are measured using the present value of future cash flows based on a discount rate of 2.95%.

Promises to give at December 31, 2008, consist of the following:

Promises to give – restricted	\$ 12,346,098
Promises to give – unrestricted	195,836
	<u>\$ 12,541,934</u>

Promises to give in less than one year	\$ 7,824,709
Promises to give in one to five years	5,463,421
	<u>13,288,130</u>
Less allowance for doubtful promises to give	189,550
Less discount to net present value	556,646
	<u>\$ 12,541,934</u>

National Law Enforcement Officers Memorial Fund, Inc.

Notes To Financial Statements

Note 3. Investments

Investments at December 31, 2008, consist of the following:

Fixed income and U.S. government securities	\$ 5,417,469
Corporate stock	2,237,087
Mutual funds	612,174
Money market funds	152,210
TEI limited partnership fund	482,674
	<u>\$ 8,901,614</u>

Investment loss for the year ended December 31, 2008, consists of the following:

Realized and unrealized gains on investments, net	\$ (2,004,176)
Interest and dividends	362,638
Investment fees	(43,081)
	<u>\$ (1,684,619)</u>

Note 4. Property And Equipment

Property and equipment and accumulated depreciation at December 31, 2008, and depreciation expense for the year ended December 31, 2008, are as follows:

	Estimated Useful Lives	Cost	Accumulated Depreciation	Net	Depreciation
Visitors Center and exhibits	5 years	\$ 985,227	\$ 713,816	\$ 271,411	\$ 93,756
Furniture and equipment	5 years	413,902	353,161	60,741	35,819
Leasehold improvements	10 years	205,368	69,046	136,322	16,279
		<u>\$ 1,604,497</u>	<u>\$ 1,136,023</u>	<u>\$ 468,474</u>	<u>\$ 145,854</u>

Note 5. Board Designated Endowment Funds

The Board of Directors has designated endowment funds for Memorial Maintenance and Museum Building.

The Memorial Maintenance endowment fund is to maintain the National Law Enforcement Officers Memorial. The asset allocation of the investments are designed to have a moderate risk. The primary investment objective is to balance current income and growth and achieve returns of 3% above the inflation rate. The Fund appropriates in its annual budget approximately 4% of the average market value of the endowment assets.

The Museum Building Fund is to provide construction funding for the National Law Enforcement Officers Museum. The asset allocation of investments is designed to have a low risk. The primary investment objective is to preserve principal with a secondary objective of modest appreciation as an inflationary hedge and achieve returns of 1.5% above the inflation rate. The Fund appropriates in its annual budget amounts sufficient to fund the Museum construction.

National Law Enforcement Officers Memorial Fund, Inc.

Notes To Financial Statements

Note 5. Board Designated Endowment Funds (Continued)

The following table summarizes the change in board designated and other non-endowed funds:

	Memorial Maintenance	Museum	Total
Endowment net assets, beginning of year	\$ 4,562,436	\$ 5,013,820	\$ 9,576,256
Investment return:			
Investment income, net of fees	119,256	143,972	263,228
Net realized and unrealized losses	(1,190,595)	(424,638)	(1,615,233)
Total investment return	(1,071,339)	(280,666)	(1,352,005)
Appropriation of endowment for expenditure	-	(465,000)	(465,000)
Endowment net assets, end of year	<u>\$ 3,491,097</u>	<u>\$ 4,268,154</u>	7,759,251
Non-endowed funds			<u>1,142,363</u>
Total investments			<u>\$ 8,901,614</u>

Interpretation of Relevant Law

The Board of Directors of the Fund has interpreted the DC enacted version of the Uniform Prudent Management of Institutional Funds Act (DCMIFA) 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 Fund 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 director 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 temporarily restricted net assets until those amounts are appropriated for expenditure by the Fund in a manner consistent with the standard of prudence prescribed by DCMIFA. In accordance with DCMIFA, the Fund considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

1. The duration and preservation of the fund.
2. The purposes of the Fund and the donor-restricted endowment fund.
3. General economic conditions.
4. The possible effects of inflation and deflation.

National Law Enforcement Officers Memorial Fund, Inc.

Notes To Financial Statements

Note 5. Board Designated Endowment Funds (Continued)

Return Objective and Risk Parameters

The Fund's objective is to earn a respectable, long-term, risk-adjusted total rate of return to support the designated programs. We recognize and accept that pursuing a respectable rate of return involves risk and potential volatility. The generation of current income will be a secondary consideration. The Fund targets a diversified asset allocation that places a greater emphasis on equity securities investments to achieve its long-term return objectives within prudent risk constraints. The Fund has established a policy portfolio, or normal asset allocation. While the policy portfolio can be adjusted from time to time, it is designed to serve for long-term horizons based upon long-term expected returns. The Fund has a preference for simple investment structures which will have lower cost, easier oversight, and less complexity for internal financial management and auditing.

Spending Policy

The Fund will appropriate for expenditure in its annual budget a maximum of 100% of the earnings. There may be times when the Fund may opt not to take the maximum spending rate but rather to reinvest some of the annual return.

As of December 31, 2008, the Fund has no permanently restricted endowment funds.

Note 6. Temporarily Restricted Net Assets

Temporarily restricted net assets include donor-restricted promises to give from various organizations, which are available for museum development costs upon receipt. Temporarily restricted net assets were \$12,541,934 at December 31, 2008.

Note 7. Fair Value Measurement

During the year ended December 31, 2008, the Fund adopted SFAS No. 157, *Fair Value Measurements*. SFAS No. 157 establishes a single authoritative definition of fair value, sets out a framework for measuring fair value, and requires additional disclosures about fair value measurements. SFAS No. 157 applies to all assets and liabilities that are being measured and reported on a fair value basis. SFAS No. 157 requires new disclosure that establishes a framework for measuring fair value in GAAP and expands disclosure about fair value measurements. SFAS No. 157 enables the reader of the financial statements to assess the inputs used to develop those measurements by establishing a hierarchy for ranking the quality and reliability of the information used to determine fair values. SFAS No. 157 requires that assets and liabilities carried at fair value be classified and disclosed in one of the following three categories:

Level 1: Quoted market prices in active markets for identical assets or liabilities

Level 2: Observable market-based inputs or unobservable inputs that are corroborated by market data

Level 3: Unobservable inputs that are not corroborated by market data

In determining the appropriate levels, the Fund performs a detailed analysis of the assets and liabilities that are subject to SFAS No. 157. At each reporting period, all assets and liabilities for which the fair value measurement is based on significant unobservable inputs are classified as Level 3.

National Law Enforcement Officers Memorial Fund, Inc.

Notes To Financial Statements

Note 7. Fair Value Measurement (Continued)

The table below presents the balances of assets and liabilities measured at fair value on a recurring basis by level within the hierarchy:

	Total	Level 1	Level 2	Level 3
Fixed income and U.S. government securities	\$ 5,417,469	\$ -	\$ 5,417,469	\$ -
Corporate stock	2,237,087	2,237,087	-	-
Mutual funds	612,174	612,174	-	-
Money market fund	152,210	152,210	-	-
TEI limited partnership fund	482,674	-	482,674	-
	<u>\$ 8,901,614</u>	<u>\$ 3,001,471</u>	<u>\$ 5,900,143</u>	<u>\$ -</u>

The fair value of mutual funds, corporate stocks and money market funds is determined based on quoted market prices, when available, or market prices provided by recognized broker dealers; thus, they are categorized as Level 1. The fair value of fixed income, U.S. government obligations and the TEI limited partnership fund is determined based on inputs other than quoted prices. This includes the use of models or other valuation methodologies, which are corroborated by other market data, in order to determine their fair value.

Note 8. Commitments

Direct mail contract: The Fund participates in a contract with an outside third party, expiring December 31, 2011, to distribute substantially all of the Fund's educational materials to the public, which describes the purpose of the Fund, and how the general public can participate in honoring the law enforcement community. The educational mailings also provide space for a fundraising appeal. All work is performed on a "time and materials" basis.

Office leases: The Fund has two noncancelable operating lease agreements for office space. One is a seven-year term with a six-year extension signed in 2009, ending November 30, 2009. The second was executed in March 2008 for a five-year term, ending February 28, 2013. In addition to base rent, the Fund is responsible for annual increases, as specified in the lease agreements, and its proportionate share of any increases in operating expenses over the initial lease year. Total rent expense for the year ended December 31, 2008, was \$226,319.

Future minimum lease payments due under these lease agreements are as follows:

Years Ending December 31,	
2009	\$ 366,435
2010	144,643
2011	148,993
2012	153,465
2013	25,841
	<u>\$ 839,377</u>

National Law Enforcement Officers Memorial Fund, Inc.

Notes To Financial Statements

Note 8. Commitments (Continued)

Museum contract: The Fund has an agreement of \$1,779,818 for developing the design development/bid solicitation packages for the future museum. Total cumulative expenditures incurred at December 31, 2008, were \$1,042,554.

Employment agreement: The Fund entered into an employment contract with the Chairman/Executive Director, which expires March 31, 2013. If the Fund terminates the Chairman/Executive Director without cause, the Fund is required to pay the Chairman/Executive Director base salary of two weeks for every year employed with the Fund.

Note 9. Allocation Of Joint Costs

For the year ended December 31, 2008, the Fund incurred joint costs of \$4,361,322 for informational materials and activities that included fundraising appeals. Of those costs, \$1,264,783 was allocated to program expenses and \$3,096,539 was allocated to fundraising expenses.

Note 10. Related Party Transactions

The Treasurer of the Fund is a Partner in the firm that provides monthly accounting, tax and consulting services to the Fund. Fees and other expenses paid to this firm were \$372,017 for the year ended December 31, 2008.

Note 11. Employee Retirement Plans

403(b) Plan – The Fund has established a Section 403(b) tax-deferred annuity plan (the Plan) covering all employees. The Plan participants are 100% vested immediately after entering the Plan. Employees may participate in the Plan after completing two full years of service. The Plan requires that the Fund make an annual contribution amounting to 6% of each participant's annual compensation. The Fund is also required to make a matching contribution equal to the first 4% contributed by the employee. Total contributions to the Plan for the year ended December 31, 2008, were \$98,021.

Supplemental Employee Pension Plan – The Fund has a qualified supplemental employee Section 457(b) deferred compensation plan for all eligible employees. The Fund makes no contributions to the Plan.