

**National Law Enforcement Officers
Memorial Fund, Inc. and Affiliate**

Consolidated Financial Statements

December 31, 2017

Independent Auditors' Report

Board of Directors

National Law Enforcement Officers Memorial Fund, Inc.

We have audited the accompanying consolidated financial statements of the National Law Enforcement Officers Memorial Fund, Inc. and Affiliate, which comprise the consolidated statement of financial position as of December 31, 2017, and the related consolidated statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 consolidated 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 consolidated financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the National Law Enforcement Officers Memorial Fund, Inc. and Affiliate as of December 31, 2017, and the consolidated changes in their net assets and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

PKF O'Connor Davies, LLP
May 4, 2018

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National Law Enforcement Officers Memorial Fund, Inc. and Affiliate

Consolidated Statement of Financial Position December 31, 2017

ASSETS

Cash	\$ 2,350,071
Investments	9,720,698
Promises to give, net	11,860,765
Receivables	87,209
Inventory, net	358,444
Other assets	485,935
Property and equipment, net	143,427
Memorial, net	16,152,041
Museum exhibit collections	1,863,687
Museum development costs	82,880,217
Assets limited as to use	<u>52,304,027</u>
	<u>\$ 178,206,521</u>

LIABILITIES AND NET ASSETS

Liabilities	
Accounts payable and accrued expenses	\$ 2,489,433
Deferred compensation	194,114
Deferred rent	301,614
Interest payable	3,917,134
Bonds payable	<u>94,371,627</u>
Total Liabilities	<u>101,273,922</u>
Net Assets	
Unrestricted	
Undesignated	41,862,807
Designated for memorial maintenance	3,321,863
Memorial development costs	<u>16,152,041</u>
	61,336,711
Temporarily restricted	<u>15,595,888</u>
Total Net Assets	<u>76,932,599</u>
	<u>\$ 178,206,521</u>

See notes to consolidated financial statements

National Law Enforcement Officers Memorial Fund, Inc. and Affiliate

Consolidated Statement of Activities
Year Ended December 31, 2017

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
REVENUE AND SUPPORT			
Contributions	\$ 20,078,726	\$ 4,021,013	\$ 24,099,739
In-kind contributions	205,942	58,000	263,942
Merchandise sales, net	606,105	-	606,105
Grants	592,487	-	592,487
List rental	109,090	-	109,090
Investment return	1,144,364	-	1,144,364
Special events and activities	449,933	-	449,933
Other	12,088	-	12,088
Net assets released from restrictions	<u>489,564</u>	<u>(489,564)</u>	<u>-</u>
Total Revenue and Support	<u>23,688,299</u>	<u>3,589,449</u>	<u>27,277,748</u>
EXPENSES			
Program Services			
Public awareness	1,194,521	-	1,194,521
Societal materials	5,014,825	-	5,014,825
Memorial operations	2,138,903	-	2,138,903
Visitors center	4,591,351	-	4,591,351
Supporting Services			
Fundraising	7,443,321	-	7,443,321
Management and general	<u>2,237,015</u>	<u>-</u>	<u>2,237,015</u>
Total Expenses	<u>22,619,936</u>	<u>-</u>	<u>22,619,936</u>
Excess of Revenue and Support Over Expenses	<u>1,068,363</u>	<u>3,589,449</u>	<u>4,657,812</u>
NONOPERATING CHANGES TO NET ASSETS			
Bad debt expense	<u>-</u>	<u>(44,860)</u>	<u>(44,860)</u>
Change in Net Assets	1,068,363	3,544,589	4,612,952
NET ASSETS			
Beginning of year	<u>60,268,348</u>	<u>12,051,299</u>	<u>72,319,647</u>
End of year	<u>\$ 61,336,711</u>	<u>\$ 15,595,888</u>	<u>\$ 76,932,599</u>

See notes to consolidated financial statements

National Law Enforcement Officers Memorial Fund, Inc. and Affiliate

Consolidated Statement of Functional Expenses
Year Ended December 31, 2017

	Program Services				Total Program Services	Supporting Services			Total Expenses
	Public Awareness	Societal Materials	Memorial Operations	Visitors Center		Fundraising	Management and General	Supporting Services	
Salaries	\$ 471,406	\$ 608,790	\$ 744,487	\$ 790,282	\$ 2,614,965	\$ 532,691	\$ 219,963	\$ 752,654	\$ 3,367,619
Temporary help	-	-	-	2,775	2,775	8,110	345	8,455	11,230
Payroll taxes	34,269	44,256	54,121	57,448	190,094	38,724	15,961	54,685	244,779
Employee benefits	80,633	92,574	127,343	135,176	435,726	103,915	36,762	140,677	576,403
Mailing services	-	1,975,084	-	245	1,975,329	2,676,119	164,008	2,840,127	4,815,456
Postage	4,580	1,455,819	7,259	45,722	1,513,380	1,855,005	115,270	1,970,275	3,483,655
Media advertising	207,100	-	2,030	46,598	255,728	7,500	-	7,500	263,228
Special events	1,378	-	792,373	64,551	858,302	42,611	1,972	44,583	902,885
Dollar bills and coins	-	401,722	-	-	401,722	803,445	50,215	853,660	1,255,382
Consulting	23,376	30,252	36,918	2,360,934	2,451,480	680,331	22,936	703,267	3,154,747
Rent	38,823	50,137	61,313	323,835	474,108	71,150	18,302	89,452	563,560
Computing services	84,780	75,819	564	175,039	336,202	87,381	168,575	255,956	592,158
Accounting and legal	64,645	83,484	40,182	108,372	296,683	73,049	123,078	196,127	492,810
Capital campaign	-	-	-	-	-	55,090	-	55,090	55,090
Grants, memorial	-	-	-	-	-	-	280,000	280,000	280,000
Caging	-	-	-	-	-	-	621,114	621,114	621,114
List rental	-	140,013	-	-	140,013	236,126	14,251	250,377	390,390
Travel and meetings	84,728	4,439	23,142	63,475	175,784	7,371	42,462	49,833	225,617
Bank charges	-	-	-	33,607	33,607	-	147,021	147,021	180,628
Depreciation and amortization	125	-	70,849	2,519	73,493	602	41,897	42,499	115,992
Telephone	13,307	17,173	21,063	26,335	77,878	15,850	13,327	29,177	107,055
Printing and graphics	7,068	8,598	7,478	77,511	100,655	43,593	9,756	53,349	154,004
Office supplies	5,299	13,910	19,618	40,412	79,239	1,263	7,126	8,389	87,628
Meals and entertainment	1,268	-	5,128	7,518	13,914	24,489	33,931	58,420	72,334
Repairs and maintenance	-	-	87,480	895	88,375	-	2,380	2,380	90,755
Public relations	36,100	-	-	103,608	139,708	-	-	-	139,708
Exhibits and trade shows	3,560	-	6,749	25,115	35,424	2,954	-	2,954	38,378
Insurance	8,846	11,424	13,970	14,829	49,069	9,995	4,200	14,195	63,264
Promotional items	2,196	-	1,390	7,118	10,704	6,395	12,937	19,332	30,036
Federal and state registrations	-	-	-	-	-	-	29,612	29,612	29,612
Photography	10,617	-	10	16,009	26,636	21,200	-	21,200	47,836
Delivery	4,235	38	6,659	12,914	23,846	5,771	1,649	7,420	31,266
Other	-	-	35	1,272	1,307	2,083	1,367	3,450	4,757
Administrative	-	-	-	1,800	1,800	-	15,425	15,425	17,225
Publications and dues	2,114	-	706	3,006	5,826	11,718	5,184	16,902	22,728
Equipment rental	1,707	-	3,127	3,955	8,789	9,117	2,051	11,168	19,957
Utilities	1,001	1,293	1,581	9,945	13,820	1,131	4,074	5,205	19,025
Security system	-	-	2,578	11,326	13,904	-	3,429	3,429	17,333
Seminars and training	1,360	-	750	1,595	3,705	8,336	3,349	11,685	15,390
Storage	-	-	-	3,798	3,798	85	2,943	3,028	6,826
Licenses and fees	-	-	-	11,812	11,812	121	143	264	12,076
Total Expenses	\$ 1,194,521	\$ 5,014,825	\$ 2,138,903	\$ 4,591,351	\$ 12,939,600	\$ 7,443,321	\$ 2,237,015	\$ 9,680,336	\$ 22,619,936

See notes to consolidated financial statements

National Law Enforcement Officers Memorial Fund, Inc. and Affiliate

Consolidated Statement of Cash Flows
Year Ended December 31, 2017

CASH FLOWS FROM OPERATING ACTIVITIES

Change in net assets	\$ 4,612,952
Adjustments to reconcile change in net assets to net cash from operating activities	
Depreciation and amortization	115,992
Realized and unrealized gain on investments, net	(856,868)
Decrease in discount to net present value for promises to give	(21,012)
Bad debt expense	44,860
Deferred rent	(83,483)
Changes in operating assets and liabilities	
Promises to give	(3,893,436)
Receivables	(3,193)
Inventory	57,390
Other assets	114,001
Accounts payable and accrued expenses	147,590
Deferred compensation	(25,823)
Deferred revenue	<u>(82,953)</u>
Net Cash from Operating Activities	<u>126,017</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Purchase of investments	(4,907,753)
Proceeds from sale of investments	6,277,237
Purchase of property and equipment	(20,777)
Payment of memorial development costs	(235,773)
Payment of museum development and collection costs	<u>(36,705,554)</u>
Net Cash from Investing Activities	<u>(35,592,620)</u>

CASH FLOWS FROM FINANCING ACTIVITIES

Change in assets limited as to use	36,516,858
Issuance of bonds payable	22,500,000
Debt issue costs	(423,936)
Redemption payment of bond principal	<u>(23,205,000)</u>
Net Cash from Financing Activities	<u>35,387,922</u>
Net Change in Cash	(78,681)

CASH

Beginning of year	<u>2,428,752</u>
End of year	<u>\$ 2,350,071</u>

SUPPLEMENTAL CASH FLOW INFORMATION

Capitalized bond amortization costs for museum development costs	\$ 448,171
Capitalized interest payable for museum development costs	3,917,134
Cash paid for interest (capitalized for museum development costs)	7,953,329
Interest earned on tax-exempt borrowing (capitalized for museum development costs)	392,824
Collection of in-kind pledge receivable (capitalized for museum exhibit collection)	300,000

See notes to consolidated financial statements

National Law Enforcement Officers Memorial Fund, Inc. and Affiliate

Notes to Consolidated Financial Statements
December 31, 2017

1. Organization

The National Law Enforcement Officers Memorial Fund, Inc. and Affiliate consists of National Law Enforcement Officers Memorial Fund, Inc. (the "Fund") and the Thin Blue Line Community Bike Rides (the "TBLCBR"), collectively, the Organization.

The Fund was incorporated on June 29, 1984, under the provisions of the District of Columbia Not-for-Profit Corporation Act. The Fund is dedicated to honoring and remembering the service and sacrifice of the law enforcement officers in the United States. The Fund constructed, on federal land and maintains under federal law, a permanent national memorial (the "Memorial") to those law enforcement officers and educates the general population as to the officers' and their families' sacrifices. The Fund continues to be involved in the education and promotion of this Memorial to the general public. A Visitors Center was opened near the Memorial site in May 1993 and is operated by the Fund.

In February 2016, construction commenced on the National Law Enforcement Officers Museum (the "Museum") adjacent to the Memorial in Washington, D.C., which is scheduled to open in the fall 2018. The building is legally authorized to be built on federal land with the Fund owning, operating and maintaining the Museum after completion of construction. The Museum will tell the story of American law enforcement through exhibits, collections, research and education. In January 2016 the Fund obtained financing for the construction of the Museum from the issuance of \$103,130,000 District of Columbia, National Center for Law Enforcement Issue, revenue bonds. (See Note 8).

TBLCBR was formed in December 2009 and began operations during the year ended December 31, 2011. The primary purpose of TBLCBR is to undertake activities that educate and generate support from the general public with respect to public service, the sacrifice of law enforcement officers and the promotion of law enforcement safety; and, to take all other appropriate action in furtherance of such purposes.

2. Summary of Significant Accounting Policies

Basis of Presentation

The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP").

Use of Estimates

The preparation of consolidated financial statements in accordance with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Accordingly actual results could differ from those estimates.

National Law Enforcement Officers Memorial Fund, Inc. and Affiliate

Notes to Consolidated Financial Statements
December 31, 2017

2. Summary of Significant Accounting Policies *(continued)*

Net Asset Presentation

The Organization's consolidated financial statements distinguish between unrestricted, temporarily restricted and permanently restricted net assets. Net assets consist of the following:

Unrestricted – Net assets that are not subject to donor-imposed stipulations and that may be expended for any purpose in achieving the primary objective of the Organization.

Temporarily Restricted – Net assets that are subject to donor-imposed stipulations that will be met either by passage of time or by actions of the Organization. As the restrictions are satisfied, temporarily restricted net assets are reclassified to unrestricted net assets and are reported in the accompanying consolidated statement of activities as net assets released from restrictions.

Permanently Restricted – Net assets that are subject to donor-imposed stipulations that do not expire by passage of time. At December 31, 2017, the Organization had no permanently restricted net assets.

Principles of Consolidation

The consolidated financial statements include the accounts of the Fund and TBLCBR. All significant intercompany balances and transaction have been eliminated in consolidation.

Fair Value Measurements

The Fund follows U.S. GAAP guidance on Fair Value Measurements which defines fair value and establishes a fair value hierarchy organized into three levels based upon the input assumptions used in pricing assets. Level 1 inputs have the highest reliability and are related to assets with unadjusted quoted prices in active markets. Level 2 inputs relate to assets with other than quoted prices in active markets which may include quoted prices for similar assets or liabilities or other inputs which can be corroborated by observable market data. Level 3 inputs are unobservable inputs and are used to the extent that observable inputs do not exist.

Pursuant to U.S. GAAP guidance, alternative investments where fair value is measured at Net Asset Value ("NAV") are not categorized in the fair value hierarchy.

National Law Enforcement Officers Memorial Fund, Inc. and Affiliate

Notes to Consolidated Financial Statements
December 31, 2017

2. Summary of Significant Accounting Policies (continued)

Investments Valuation and Income Recognition

Investments are reported on the basis of quoted market prices as reported on the last business day of the year on securities exchanges throughout the world for mutual funds, stocks and bonds. NAV reported by each alternative investment fund is used as a practical expedient to estimate the fair value of the Fund's interest therein. Money market accounts and certificates of deposit are valued at the amounts deposited plus accrued interest, and are not measured at fair value. Purchases and sales of investments are recorded on a trade date basis. Realized and unrealized gains and losses on investments are calculated based on cost and are reflected in the consolidated statement of activities. Dividend income is recorded on the ex-dividend date and interest income is recorded on an accrual basis.

Investments Risks and Uncertainties

Alternative investments consist of non-traditional, not readily marketable investments, some of which may be structured as offshore limited partnerships, venture capital funds, hedge funds, private equity funds and common trust funds. The underlying investments of such funds, whether invested in stock or other securities, are generally not currently traded in a public market and typically are subject to restrictions on resale. Values determined by investment managers and general partners of underlying securities that are thinly traded or not traded in an active market may be based on historical cost, appraisals, a review of the investees' financial results, financial condition and prospects, together with comparisons to similar companies for which quoted market prices are available or other estimates that require varying degrees of judgment.

Receivables and Allowance for Doubtful Accounts

Receivables are carried at original invoice amounts less an estimate made for doubtful receivables. An allowance for doubtful accounts is established for receivables where there exists doubt as to whether an amount will be fully collected. The determination of this allowance is an estimate based on the Fund's historical experience, review of account balances and expectations relative to collections. Management determined all receivables to be collectible and there was no allowance for doubtful accounts at December 31, 2017.

Inventory

Merchandise inventory consists of memorial memorabilia and is stated at the lower of cost or net realizable value. Cost is determined using the first-in, first-out method. Management establishes a reserve for inventory deemed to be obsolete. The allowance for obsolescence, based on management's evaluation of the salability of inventory at December 31, 2017, was \$16,546.

National Law Enforcement Officers Memorial Fund, Inc. and Affiliate

Notes to Consolidated Financial Statements
December 31, 2017

2. Summary of Significant Accounting Policies *(continued)*

Contributions

Contributions and unconditional promises to give are recognized as revenue when signed pledges are made and are classified 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 restricted 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 consolidated 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 reporting period.

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. The discounts on those amounts are computed using rates applicable to the years in which the promises are received and consider market and credit risk as applicable. Amortization of the discounts are included in contribution revenue in the consolidated statement of activities. Management determines the allowance for doubtful promises to give 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, the allowance for doubtful promises was \$36,200 at December 31, 2017.

In-Kind Contributions

Donated services are reported in the financial statements at fair value if those services create or enhance non-financial assets or require specialized skills provided by individuals possessing those skills and that would typically be purchased if not provided by donation. Donated materials are reported at fair value at the date of the donation.

Property and Equipment

Property and equipment are stated at cost less accumulated depreciation and amortization. The Organization capitalizes all purchases of property and equipment greater than \$1,000. Depreciation is recognized using the straight-line method over the estimated useful lives.

Repairs and maintenance that do not improve or extend the life of the respective asset are charged to expense as incurred. At the time property and equipment are retired or disposed of, property and equipment and related accumulated depreciation and amortization accounts are relieved of the applicable amounts, and any gain or loss is credited or charged to current operations.

National Law Enforcement Officers Memorial Fund, Inc. and Affiliate

Notes to Consolidated Financial Statements
December 31, 2017

2. Summary of Significant Accounting Policies *(continued)*

Property and Equipment (continued)

Property and equipment are reviewed for impairment if the use of the asset significantly changes or another indicator of possible impairment is noted. If the carrying amount for the asset is not recoverable, the value is written down to the asset's fair value. There were no asset impairments for the year ended December 31, 2017.

Memorial

Direct costs and certain allocations of costs of designing and constructing the national Memorial and related improvements were capitalized as incurred. The Memorial is considered a work of art/national treasure and is not depreciated. Costs for restoration or preservation are capitalized and depreciated in accordance with their useful life, which includes re-engraving of names, wall cleaning, tree beds, light replacement and perimeter security.

Museum Exhibit Collections

Museum exhibit collections include costs incurred to acquire and conserve artifacts, to develop the Museum collection, and to further collecting activities. Collections are capitalized at cost if the items are purchased or at their fair value on the date of donation if the items were contributed. Collection items are depreciated over their estimated useful lives unless they have cultural, aesthetic, or historical value that is worth preserving perpetually, and the Fund is protecting and preserving the service potential of the collection item. 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 depreciation on a straight-line basis over the exhibit's estimated useful life.

Museum Development Costs

Museum development costs include all costs associated with the construction and financing of the Museum. Upon substantial completion, the cost of each project phase will be depreciated over its estimated life on a straight-line basis.

Assets Limited as to Use

Limited use assets consist of assets set aside under terms of a loan agreement, under control of the trustee, to be used for Museum development costs and debt service. Interest income earned on such assets totaled \$392,824 in 2017 and is off-set against capitalized bond interest costs.

National Law Enforcement Officers Memorial Fund, Inc. and Affiliate

Notes to Consolidated Financial Statements
December 31, 2017

2. Summary of Significant Accounting Policies *(continued)*

Debt Issuance Costs

Debt issuance costs are reported on the consolidated statement of financial position as a direct reduction from the face amount of the debt. Costs incurred in connection with debt issuance are amortized over the term of the debt using the straight-line method (which approximates the effective interest method) and are being capitalized to Museum development costs. The accumulated amortization of bond issuance costs was \$668,937 at December 31, 2017.

Costs of Borrowing

Interest costs incurred on borrowed funds during the period of construction of the Museum are capitalized as a component of Museum development costs and totaled \$7,513,986 for the year ended December 31, 2017.

Merchandise Sales

The Fund sells merchandise in the Visitors Center store and through e-commerce. Merchandise sales are recognized as income upon purchase at the visitor center and upon shipment when purchased through e-commerce. Merchandise sales are reflected net of cost of goods sold in the consolidated statement of activities. Cost of goods sold for the year ended December 31, 2017 amounted to \$863,311.

Revenue from Grants

Revenue from grants is recorded as earned pursuant to the terms of the agreements.

Special Events

Revenues and expenses incurred relative to special events and activities are recognized upon occurrence of the respective event or activity.

Functional Allocation of Expenses

The costs of providing the program and other activities of the Organization have been summarized on a functional basis in the consolidated statement of activities. Accordingly, certain expenses have been allocated among the programs and supporting services benefited.

The Organization categorized expenses as follows:

Public Awareness: All expenses associated with general public relations and publicity.

National Law Enforcement Officers Memorial Fund, Inc. and Affiliate

Notes to Consolidated Financial Statements
December 31, 2017

2. Summary of Significant Accounting Policies *(continued)*

Functional Allocation of Expenses (continued)

Societal Materials and Memorial Operations: All expenses to further the Organization'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.

Visitors Center: All expenses associated with operating and maintaining the Visitors Center. Also included in this category are all expenses related to the development of the Museum which are not subject to capitalization. During the year ended December 31, 2017, \$2,360,934 in fees were paid for the development of public awareness and marketing for the Museum.

Fundraising: All expenses associated with the purpose of raising funds.

Management and general: All other operating expenses incurred by the Organization for the accomplishment of its tax-exempt purpose.

Advertising Costs

Advertising costs are expensed as incurred. Advertising costs were \$263,228 in 2017.

Accounting for Uncertainty in Income Taxes

The Fund and TBLCBR are generally exempt from federal income taxes under the provisions of Section 501(c)(3) of the Internal Revenue Code. In addition, the Fund and TBLCBR qualify for charitable contribution deductions and have been classified as organizations that are not private foundations. Income which is not related to exempt purposes, less applicable deductions, is subject to federal and state corporate income taxes. The Fund and TBLCBR have no tax liability for unrelated business income for the year ended December 31, 2017.

The Fund and TBLCBR recognize the effect of income tax positions only if those positions are more likely than not to be sustained. Management has determined that the Fund and TBLCBR had no uncertain tax positions that would require financial statement recognition or disclosure. The Fund and TBLCBR are no longer subject to examination by the applicable taxing jurisdictions for years prior to 2014.

Subsequent Events Evaluation by Management

Management has evaluated subsequent events for disclosure and/or recognition in the consolidated financial statements through the date that the consolidated financial statements were available to be issued, which date is May 4, 2018.

National Law Enforcement Officers Memorial Fund, Inc. and Affiliate

Notes to Consolidated Financial Statements
December 31, 2017

3. Concentrations of Credit Risk

Financial instruments that potentially subject the Organization to concentrations of credit and market risk consist principally of cash on deposit with financial institutions, which from time to time may exceed the Federal Deposit Insurance Corporation ("FDIC") limit. Cash held with banks in excess of FDIC limits totaled \$2,089,838 at December 31, 2017.

The investment portfolio is diversified by type of investments and industry concentrations so that no individual investment, investment advisor, investment manager or group of investments represents a significant concentration of credit risk.

At December 31, 2017, promises to give included promises to give from three different donors of \$5,500,000, \$2,250,000 and \$1,589,408, or approximately 75% of outstanding promises to give. These promises consist of both cash and in-kind contributions and are restricted for use in support of the Museum. The promises are due at various dates as development of the Museum progresses.

4. Promises to Give

Promises to give consist of the following at December 31, 2017:

Promise to give - restricted, net	\$ 9,610,765
Promise to give - unrestricted, net	<u>2,250,000</u>
	<u>\$ 11,860,765</u>
Promises to give in less than one year	\$ 9,871,935
Promises to give in one to five years	<u>2,051,814</u>
	11,923,749
Less allowance for doubtful promises to give	36,200
Less discount to net present value	<u>26,784</u>
	<u>\$ 11,860,765</u>

Promises to give in one year or more are measured using the present value of future cash flows based on a discount rate ranging from 0.71% to 1.13%.

National Law Enforcement Officers Memorial Fund, Inc.

Notes to Consolidated Financial Statements
December 31, 2017

5. Fair Value Measurements

The following are major categories of investments and assets limited as to use measured at fair value as of December 31, 2017 categorized by the fair value hierarchy for those assets measured at fair value:

	Level 1	Level 2	Total
Assets:			
Investments			
Domestic and international common stock	\$ 3,275,897	\$ -	\$ 3,275,897
Mutual funds	2,941,674	-	2,941,674
Government and agency securities	-	1,036,711	1,036,711
Corporate bonds	-	938,022	938,022
Subtotal	\$ 6,217,571	\$ 1,974,733	8,192,304
Private equity fund (1) (a)			391,067
Total Investments at Fair Value			8,583,371
Certificates of deposit			197,190
Money market accounts			940,137
Total Investments			\$ 9,720,698
Assets Limited as to Use			
Flexible repurchase agreement (b)	\$ -	\$ 47,128,532	\$ 47,128,532
Money market accounts			5,175,495
Total Assets Limited as to Use			\$ 52,304,027
Deferred Compensation*			
Equity mutual fund	\$ 194,114	\$ -	\$ 194,114
Liabilities:			
Deferred Compensation**	\$ -	\$ 194,114	\$ 194,114

(1) As discussed in Note 2, investments that are measured using the practical expedient are not classified within the fair value hierarchy. The fair value amounts presented in the total column of this table are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the consolidated statement of financial position.

(a) CPG Carlyle Commitments Master Fund, LLC's (the "Master Fund") investment objective is to seek attractive long-term capital appreciation. The Master Fund seeks to achieve its investment objective by investing predominately (under normal circumstances, generally less than 80% of its assets) in multiple alternative investment funds, co-investments and direct investments sponsored by The Carlyle L.P. Group and its affiliates, with an emphasis on private equity funds. Investments have no redemption provisions, are issued in private placement transactions and are restricted to resale. There are no unfunded commitments at December 31, 2017.

National Law Enforcement Officers Memorial Fund, Inc. and Affiliate

Notes to Consolidated Financial Statements
December 31, 2017

5. Fair Value Measurements *(continued)*

(b) Represents a Flexible Repurchase Agreement (“Flex Repo”) between Deutsche Bank Securities, Inc. and the Fund with the trustee as the holder of the collateral. The agreement allows Deutsche Bank Securities, Inc. to sell U.S. Government and agency securities to the trustee, pay a stated interest rate, and repurchase the securities on notification by the trustee. The Flex Repo allows withdrawals at any time, without cost or penalty, for any purpose stated in the indenture. Withdrawals are permitted on a flexible basis and are always at par and there is no need to “mark to market”. Three funds are included in the agreement: The Project Fund with a pricing rate of 0.62% per annum, the Capitalized Interest Account with a pricing rate of 0.745% per annum and the Reserve Fund with a pricing rate of .093% per annum. Frequency of repurchases are to be no more than two times per calendar month. The final repurchase date per the Flex Repo is July 1, 2019.

* Assets related to the deferred compensation plan are included in other assets in the consolidated statement of financial position. See Note 13.

** Deferred compensation liability is based on the value of the deferred compensation plan assets that are observable inputs, but the liability is not publically traded and is therefore classified as level 2.

The composition of investment return as reported in the consolidated statement of activities for the year ended December 31, 2017 is as follows:

Interest and dividends	\$ 354,146
Realized gains	357,981
Unrealized gains	498,887
Investment fees	<u>(66,650)</u>
Total Return on Investment	<u>\$ 1,144,364</u>

6. Property and Equipment

Property and equipment consisted of the following as of December 31, 2017:

	Estimated Useful Lives	Cost	Accumulated Amortization and Depreciation	Net	Amortization and Depreciation Expense
Visitor center and exhibits	5 years	\$ 1,196,397	\$ 1,179,670	\$ 16,727	\$ 2,101
Furniture and equipment	5 years	689,155	683,889	5,266	1,810
Leasehold improvements	10 years	665,976	544,542	121,434	41,626
		<u>\$ 2,551,528</u>	<u>\$ 2,408,101</u>	<u>\$ 143,427</u>	<u>\$ 45,537</u>

National Law Enforcement Officers Memorial Fund, Inc. and Affiliate

Notes to Consolidated Financial Statements
December 31, 2017

7. Memorial

Memorial consisted of the following as of December 31, 2017:

	Estimated Useful Lives	Cost	Accumulated Amortization and Depreciation	Net	Amortization and Depreciation Expense
Memorial	-	\$ 14,837,484	\$ -	\$ 14,837,484	\$ -
Re-engraving	25 years	1,073,493	307,607	765,886	42,940
Tree beds	25 years	287,426	85,077	202,349	11,497
Wall cleaning	25 years	292,752	66,446	226,306	11,710
Light replacement	25 years	94,745	15,268	79,477	1,991
Perimeter security	25 years	57,912	17,373	40,539	2,317
		<u>\$ 16,643,812</u>	<u>\$ 491,771</u>	<u>\$ 16,152,041</u>	<u>\$ 70,455</u>

8. Bonds Payable and Debt Issuance Costs

In January 2016, the District of Columbia issued revenue bonds and lent the proceeds to the Fund through a loan agreement for the construction of the Museum. The financial covenants of the loan agreement do not commence until the Museum is operational. The bonds consist of the following:

Senior Revenue Bonds Series 2016A

\$ 5,675,000	7.00% Term Bonds due July 1, 2031	Priced to Yield 7.25%
\$ 2,825,000	7.25% Term Bonds due July 1, 2036	Priced to Yield 7.5%
\$ 39,630,000	7.75% Term Bonds due July 1, 2049	Priced to Yield 8.00%

Senior Revenue Bonds Series 2016B

\$ 22,935,000	5.75% Term Bonds due July 1, 2025	Priced to Yield 5.75%
\$ 7,065,000	6.375% Term Bonds due July 1, 2027	Priced to Yield 6.375%

Subordinate Revenue Bonds Series 2016C

\$ 25,000,000	10.00% Term Bonds due July 1, 2049	Priced to Yield 10.00%
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As part of the loan agreement, the Fund has access to draw-down Corporate Subordinate Bonds, The National Law Enforcement Officers Memorial Fund, Inc. Subordinate Taxable Bonds, Series 2016, (the "Corporate Subordinate Bonds") through an indenture of trust bearing interest at 10% per annum. Draw downs on the Corporate Subordinate Bonds must be used to redeem outstanding Series C Bonds. During 2017, \$22,500,000 was drawn on the Corporate Subordinate Bonds and used to repay Series C Bonds.

National Law Enforcement Officers Memorial Fund, Inc. and Affiliate

Notes to Consolidated Financial Statements
December 31, 2017

8. Bonds Payable and Debt Issuance Costs *(continued)*

The Series A Bonds have a coupon rate ranging from 7.25% to 8.00% per annum. Interest on the Series A Bonds is payable semi-annually on January 1 and July 1 of each year beginning July 1, 2016. Principal maturities on the Series A Bonds are to be payable annually commencing on July 1, 2031 with a final maturity of July 1, 2049. During the year ended December 31, 2017, interest paid to bondholders of the Series A Bonds amounted to \$3,673,388.

The Series B Bonds have a coupon rate ranging from 5.75% to 6.375% per annum. Interest on the Series B Bonds is payable semi-annually on January 1 and July 1 of each year beginning July 1, 2016. The Series B Bonds are subject to redemption, in an amount equal to Capital Campaign Receipts deposited into certain trust accounts as defined by the bond agreement; provided that any such redemption must be, by lot, in an authorized denomination. Such redemptions are required on each January 1, April 1, July 1, and October 1, beginning April 1, 2016 until the Series B maturity date of July 1, 2027. Based on the requirements of the bond agreement, \$705,000 of Series B Bonds were redeemed during the year ended December 31, 2017. Expected redemptions of Series B Bonds is not reasonably estimable and the remaining balance due has been presented at their maturity dates of July 1, 2025 and July 1, 2027. During the year ended December 31, 2017, interest paid to bondholders of the Series B Bonds amounted to \$1,757,441.

The Series C Bonds have a coupon rate of 10.00% per annum. Interest on the Series C Bonds is payable semi-annually on January 1 and July 1 of each year beginning July 1, 2016. Principal maturities on the Series C Bonds are payable in various increments from July 1, 2025 through on July 1, 2049. During the year ended December 31, 2017, interest paid to bondholders of the Series C Bonds amounted to \$2,112,500.

The Corporate Subordinate Bonds have a coupon rate of 10.00% per annum. Interest on the Corporate Subordinate Bonds is payable semi-annually on January 1 and July 1 of each year beginning July 1, 2017. The Corporate Subordinate Bonds are subject to mandatory sinking fund redemption, in part, at the redemption price on July 1 of each year commencing in 2025 through 2049. During the year ended December 31, 2017, interest paid to bondholders of the Corporate Subordinate Bonds amounted to \$410,000.

The Fund has the option to redeem Series A Bonds in whole, or in part at any time, on and after July 1, 2021. The Fund has the option to redeem Series B and Series C Bonds in whole, or in part at any time.

The bond agreement requires the establishment of certain restricted accounts which are reported on the accompanying consolidated statement of financial position as Assets Limited as to Use.

Commencing January 1, 2020, the Fund is required to fund a Renewal and Replacement Reserve Fund by making monthly installments in the amount of \$9,167 until the Renewal and Replacement Reserve Fund totals \$2,000,000.

National Law Enforcement Officers Memorial Fund, Inc.

Notes to Consolidated Financial Statements
December 31, 2017

8. Bonds Payable and Debt Issuance Costs *(continued)*

At December 31, 2017, debt and debt issuance costs are as follows:

Series 2016A	\$ 48,130,000
Series 2016B	29,030,000
Series 2016C	2,500,000
Corporate Bonds	<u>22,500,000</u>
	102,160,000
Less unamortized debt issuance costs	<u>(7,788,373)</u>
Total long-term debt	<u>\$ 94,371,627</u>

Subsequent Event

Subsequent to year end, \$1,060,000 of Series B Bonds and \$100,000 of Series C Bonds were redeemed based upon the aforementioned terms of the bond agreement. In addition, \$100,000 of the Corporate Subordinate Bonds were drawn down and the funds were used to redeem Series C Bonds.

9. Board Designated Endowment Fund

General

The Board designated Memorial Maintenance endowment fund was established to maintain the Memorial.

Changes in the Board designated fund were as follows during 2017:

Endowment net assets, beginning of year	<u>\$ 3,128,438</u>
Investment return:	
Interest and dividends	93,704
Unrealized gains	359,638
Investment fees	<u>(26,648)</u>
Total Investment Return	426,694
Appropriation of endowment for expenditure	<u>(233,269)</u>
Endowment net assets, end of year	3,321,863
Non-endowed funds	<u>6,398,835</u>
Total Investments	<u>\$ 9,720,698</u>

National Law Enforcement Officers Memorial Fund, Inc. and Affiliate

Notes to Consolidated Financial Statements
December 31, 2017

9. Board Designated Endowment Fund (continued)

Return Objectives 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. The Fund recognizes and accepts 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 asset allocations 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 percent above the inflation rate. The Fund has a preference for simple investment structures that will have lower cost, easier oversight, and less complexity for internal financial management and auditing.

Spending Policy and Related Objectives

The Fund will appropriate for expenditure in its annual budget a maximum of 100 percent of the earnings. The Fund appropriates in its annual budget approximately 4 percent of the average market value of the endowment assets. There may be times when the Fund may opt not to take the maximum spending rate, but to rather reinvest some of the annual return. At times, the Fund may spend funds from the principal of the board designated endowment funds for Memorial Maintenance.

10. Temporarily Restricted Net Assets

Temporarily restricted net assets activity for the year ended December 31, 2017 are as follows:

	Balance December 31, 2016	Additions	Releases*	Balance December 31, 2017
Time Restricted				
Museum	\$ 8,254,930	\$ 4,079,013	\$ (509,424)	\$ 11,824,519
Other promises to give	36,245	-	-	36,245
Purpose restricted				
Memorial Maintenance -				
Department of Interior	1,749,197	-	-	1,749,197
In-kind contributions	1,148,739	-	-	1,148,739
Police Week	25,000	-	(25,000)	-
Museum Celebration event	50,000	-	-	50,000
Museum - program development	787,188	-	-	787,188
	<u>\$ 12,051,299</u>	<u>\$ 4,079,013</u>	<u>\$ (534,424)</u>	<u>\$ 15,595,888</u>

* Includes \$44,860 in bad debt expense related to uncollectible receivable balances.

National Law Enforcement Officers Memorial Fund, Inc. and Affiliate

Notes to Consolidated Financial Statements
December 31, 2017

11. Commitments and Contingencies

Direct Mail Contract

The Fund participates in a contract with an outside third party, expiring on December 31, 2019, 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 Lease

The Fund has two non-cancelable operating lease agreements. The first is for retail space which expires on December 31, 2018. The second is for office space and began on April 1, 2010, for a ten-year term, ending on November 30, 2020. 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. The Fund was given the benefit of a tenant improvement allowance of \$444,015, which is being amortized over the life of the lease, as well as a nine-month period of free rent at the beginning of the lease. A deferred rent liability of \$301,614 is reflected in the consolidated statement of financial position in relation to the tenant improvement allowance, rental abatement and escalating lease payments. Total rent expense for the year ended December 31, 2017 totaled \$563,560.

Future minimum lease payments at December 31, 2017 are payable as follows:

2018	\$ 435,451
2019	445,076
2020	<u>410,205</u>
	<u>\$ 1,290,732</u>

Museum Construction Contract

The Fund has a construction contract relating to the Museum which is an estimated commitment of \$53,781,980. At December 31, 2017, \$16,547,577 of the contract commitment had not yet been incurred.

Employment Contract

The Fund entered into an employment contract with the CEO, which expires on December 31, 2018 and is automatically renewable for one additional year unless either the Fund or the CEO provides written notice to the other at least 30 days prior to the expiration date. If the Fund does not renew the contract through December 31, 2019, it shall pay the CEO a severance of 52 weeks of base salary plus payment for the cost of 12 months of post-termination coverage under the Consolidated Omnibus Budget Reconciliation Act ("COBRA") if coverage is elected. The aforementioned terms are applicable through December 31, 2019. If the CEO decides not to renew the contract for the year ended December 31, 2019, he will not be entitled to severance pay.

National Law Enforcement Officers Memorial Fund, Inc. and Affiliate

Notes to Consolidated Financial Statements
December 31, 2017

11. Commitments and Contingencies (*continued*)

Grants

The Fund participates in federally-assisted grant programs, which may be subject to financial and compliance audits by the federal agency or their representatives. As such, there exists a contingent liability for potential questioned costs that may result from such audits. Management does not anticipate any significant adjustments as a result of such audits. For the year ended December 31, 2017, no financial and compliance audit was required.

12. Allocation of Joint Costs

The Fund allocated joint costs incurred associated with information mailings that contain an appeal for funds between the public awareness program and fundraising expense categories on the accompanying consolidated statement of activities. For the year ended December 31, 2017, the Fund incurred joint costs of \$9,662,527, of which \$4,039,233 was allocated to societal materials expenses and \$5,623,294 to fundraising expenses.

13. Employee Retirement Plans

The Fund has established a Section 403(b) tax-deferred annuity plan (the "Plan") covering all employees. Employees who are 21 years of age and scheduled to work at least 1,000 hours per year can enter and contribute to the Plan. The Plan participants are 100 percent vested immediately after entering the Plan. Employees are eligible for employer contributions after completing two full years of service. The Plan will match up to a maximum of 4% of gross salary and may provide an additional discretionary contribution up to 6% of each participant's annual compensation. Total contributions to the Plan for the year ended December 31, 2017 were \$129,606.

The Fund has a qualified supplemental employee Section 457(b) deferred compensation plan for one eligible employee. The balance in the mutual fund is set aside by the Fund with the intent to utilize these funds to satisfy its deferred compensation obligation to the participating employee. Total contributions to the plan for the year ended December 31, 2017 were \$18,000.

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