

# **National Law Enforcement Officers Memorial Fund, Inc.**

Financial Report  
December 31, 2010

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## 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, 2010, 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, 2010, 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 29, 2011

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

**Balance Sheet**  
**December 31, 2010**

**Assets**

Cash And Cash Equivalents	\$ 1,628,238
Investments	12,575,697
Interest Receivable	18,158
Promises To Give, net	8,308,557
Grant Receivable	360,479
Prepaid Expenses	43,255
Inventory	496,020
Property And Equipment, net	940,179
Memorial Development Costs, net	15,484,787
Museum	
Development costs	15,570,760
Collections	1,357,119
Deposits	36,904
	<u>\$ 56,820,153</u>

**Liabilities And Net Assets**

Liabilities	
Accounts payable and accrued expenses	\$ 1,234,305
Deferred rent	705,918
<b>Total liabilities</b>	<u>1,940,223</u>

Commitments And Contingencies (Notes 9 and 13)

Net Assets

Unrestricted	
Undesignated	18,415,621
Designated for Memorial Maintenance	4,326,993
Designated for Museum	4,421,280
Memorial development costs	15,484,787
	<u>42,648,681</u>
Temporarily restricted	12,231,249
	<u>54,879,930</u>
	<u>\$ 56,820,153</u>

See Notes To Financial Statements.

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

**Statement Of Activities  
Year Ended December 31, 2010**

	Unrestricted	Temporarily Restricted	Total
<b>Support and revenue:</b>			
Contributions	\$ 11,748,159	\$ 1,167,873	\$ 12,916,032
In-kind contributions	36,084	1,188,020	1,224,104
Investment income, net	862,937	-	862,937
Federal grant	500,000	-	500,000
Net sales of merchandise	473,643	-	473,643
Other	114,923	-	114,923
List rental	95,603	-	95,603
Net assets released from restriction	1,484,415	(1,484,415)	-
<b>Total support and revenue</b>	<b>15,315,764</b>	<b>871,478</b>	<b>16,187,242</b>
<b>Expenses:</b>			
Program services:			
Societal Program Materials	3,691,793	-	3,691,793
Memorial Operations	1,456,060	-	1,456,060
Visitors Center	1,736,769	-	1,736,769
Public Awareness	995,712	-	995,712
	<u>7,880,334</u>	<u>-</u>	<u>7,880,334</u>
Supporting services:			
Fundraising	4,200,258	-	4,200,258
Management and general	846,078	-	846,078
	<u>5,046,336</u>	<u>-</u>	<u>5,046,336</u>
<b>Total expenses</b>	<b>12,926,670</b>	<b>-</b>	<b>12,926,670</b>
<b>Change in net assets before provision for doubtful promises to give</b>	<b>2,389,094</b>	<b>871,478</b>	<b>3,260,572</b>
Provision for doubtful promises to give	-	1,333,600	1,333,600
<b>Change in net assets</b>	<b>2,389,094</b>	<b>(462,122)</b>	<b>1,926,972</b>
Net assets:			
Beginning	40,259,587	12,693,371	52,952,958
Ending	<u>\$ 42,648,681</u>	<u>\$ 12,231,249</u>	<u>\$ 54,879,930</u>

See Notes To Financial Statements.

National Law Enforcement Officers Memorial Fund, Inc.

Statement Of Functional Expenses  
Year Ended December 31, 2010

	Program Services					Supporting Services			Total
	Societal Program Materials	Memorial Operations	Visitors Center	Public Awareness	Program Services	Fundraising	Management And General	Supporting Services	
Salaries	\$ 398,726	\$ 487,601	\$ 635,012	\$ 308,748	\$ 1,830,087	\$ 348,885	\$ 143,788	\$ 492,673	\$ 2,322,760
Employee benefits	61,968	90,327	117,986	57,196	327,497	64,869	27,548	92,417	419,914
Payroll taxes	18,609	48,661	26,566	33,267	127,103	30,659	11,687	42,346	169,449
Temporary help	-	-	4,800	-	4,800	7,164	5,625	12,789	17,589
Postage	1,195,530	3,009	2,666	1,414	1,202,619	1,258,593	2,034	1,260,627	2,463,246
Printing and graphics	1,277,821	22,150	5,012	9,030	1,314,013	911,767	3,124	914,891	2,228,904
Consulting	241,304	39,785	122,442	116,215	519,746	322,367	20,640	343,007	862,753
Special events	-	336,355	15,283	156,268	507,906	185,859	7,436	193,295	701,201
Mailing services	181,596	-	-	-	181,596	369,244	-	369,244	550,840
Rent	51,830	63,383	274,285	40,133	429,631	73,198	18,691	91,889	521,520
Computing services	66,723	3,333	49,500	24,070	143,626	331,129	26,775	357,904	501,530
Accounting and legal	57,306	30,055	74,391	44,375	206,127	50,144	28,128	78,272	284,399
List rental	110,361	-	-	-	110,361	127,717	-	127,717	238,078
Caging	-	-	-	-	-	-	236,210	236,210	236,210
Depreciation	-	41,395	156,605	14,256	212,256	23,396	6,830	30,226	242,482
Travel	8,052	25,080	28,027	55,045	116,204	16,405	32,171	48,576	164,780
Grants - Memorial	-	150,000	-	-	150,000	-	-	-	150,000
Bank charges	-	-	33,955	-	33,955	-	68,629	68,629	102,584
Office supplies	5,431	7,066	44,667	4,218	61,382	12,628	8,109	20,737	82,119
Meals and entertainment	-	11,038	11,050	611	22,699	23,820	22,879	46,699	69,398
Administrative	-	-	6,000	-	6,000	-	57,260	57,260	63,260
Delivery	346	8,536	32,715	5,358	46,955	8,436	7,246	15,682	62,637
Telephone	6,687	8,631	12,071	5,247	32,636	7,488	16,563	24,051	56,687
Insurance	7,811	12,302	15,934	6,049	42,096	6,835	7,654	14,489	56,585
Media advertising	-	-	-	50,347	50,347	-	-	-	50,347
Equipment rental	-	7,868	15,237	4,982	28,087	5,630	8,527	14,157	42,244
Public relations	-	3,050	-	27,298	30,348	1,805	-	1,805	32,153
Repairs and maintenance	-	17,937	7,555	-	25,492	-	6,422	6,422	31,914
Federal and state registrations	-	-	-	-	-	-	26,280	26,280	26,280
Capital campaign	-	-	-	23,184	23,184	-	-	-	23,184
Utilities	1,672	2,044	12,800	1,295	17,811	1,463	370	1,833	19,644
Promotional items	-	4,873	2,128	526	7,527	4,275	7,588	11,863	19,390
Security system	-	2,256	8,594	-	10,850	-	7,766	7,766	18,616
Publications and dues	-	2,317	3,787	1,912	8,016	4,092	6,080	10,172	18,188
Photography	-	13,364	233	2,149	15,746	97	86	183	15,929
Seminars and training	-	-	8,836	1,787	10,623	1,839	2,063	3,902	14,525
Exhibits and trade shows	-	13,542	81	674	14,297	-	-	-	14,297
Storage	-	-	2,983	-	2,983	-	11,246	11,246	14,229
Other	-	102	187	58	347	359	9,504	9,863	10,210
Licenses and fees	-	-	5,381	-	5,381	95	1,119	1,214	6,595
<b>Total expenses</b>	<b>\$ 3,691,793</b>	<b>\$ 1,456,060</b>	<b>\$ 1,736,769</b>	<b>\$ 995,712</b>	<b>\$ 7,880,334</b>	<b>\$ 4,200,258</b>	<b>\$ 846,078</b>	<b>\$ 5,046,336</b>	<b>\$ 12,926,670</b>

See Notes To Financial Statements.

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

**Statement Of Cash Flows**  
**Year Ended December 31, 2010**

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Cash Flows From Operating Activities	
Change in net assets	\$ 1,926,972
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation	242,482
Realized and unrealized gain on investments, net	(662,143)
Decrease in discount to net present value for promises to give	(309,831)
Provision for doubtful promises to give	1,333,600
Deferred rent	705,918
Donated collections	(1,006,815)
Changes in assets and liabilities:	
(Increase) decrease in:	
Receivables	54,741
Promises to give	1,399,872
Grant receivable	(360,479)
Prepaid expenses	141,813
Inventory	148,838
Deposits	31,589
Increase (decrease) in:	
Accounts payable and accrued expenses	(21,687)
<b>Net cash provided by operating activities</b>	<u>3,624,870</u>
Cash Flows From Investing Activities	
Purchase of property and equipment	(734,388)
Purchase of investments	(9,931,738)
Proceeds from sale of investments	10,082,227
Payment of memorial development costs	(1,638,406)
Payment of museum development costs	(997,322)
<b>Net cash used in investing activities</b>	<u>(3,219,627)</u>
<b>Net increase in cash and cash equivalents</b>	405,243
Cash And Cash Equivalents	
Beginning	<u>1,222,995</u>
Ending	<u>\$ 1,628,238</u>

See Notes To Financial Statements.

## National Law Enforcement Officers Memorial Fund, Inc.

### Notes To Financial Statements

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#### 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 is dedicated to honoring and remembering the service and sacrifice of the law enforcement officers in the United States. The Fund constructed and maintains 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.

The Fund is building a National Law Enforcement Officers Museum (the Museum) adjacent to the Memorial in Washington, D.C., which is scheduled to open in 2014. The Museum will tell the story of American law enforcement through exhibits, collections, research and education.

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 Fund follows the Not-for-Profit Topic of the Financial Accounting Standards Board (FASB) Accounting Standards Codification (the Codification). Under this topic, 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, 2010.

Cash and cash equivalents: For the purpose of reporting cash flows, the Fund considers all sweep accounts to be cash equivalents.

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 common stock, mutual funds, fixed income government securities, and corporate bonds 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 change in 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, the allowance for doubtful promises was \$1,523,150 at December 31, 2010.



## National Law Enforcement Officers Memorial Fund, Inc.

### Notes To Financial Statements

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#### 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 non-saleable. There was no allowance for obsolescence, based on management's evaluation of the salability of inventory at December 31, 2010.

Memorial development costs: Direct costs and certain allocations of costs of designing and constructing the national memorial are capitalized as incurred. The costs of building the Memorial are considered a work of art/national treasure and are 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 development costs: Direct costs and certain allocations of costs of designing a future museum are capitalized as incurred. Costs incurred through December 31, 2010, are to pursue the architectural and exhibit design phase and also include utility relocation costs.

Museum collections: 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 \$500, 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. Amortization expense is included in total depreciation expense.

Valuation of long-lived assets: The Fund accounts for the valuation of long-lived assets under the Impairment or Disposal of Long-Lived Assets Topic of the Codification. This topic 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 reported at the lower of the carrying amount or fair value, less costs to sell. The Fund had no impairments of long-lived assets during the year ended December 31, 2010.

Deferred rent: The Fund has a lease agreement for rental space in Washington, D.C. Under the terms of the lease agreement, the Fund occupied its office space for nine months free of charge during the initial rental period. The benefits that the Fund received from the free months and rent increases in future years are being allocated on a straight-line basis over the term of the lease as an offset against each period's occupancy expenditures. In addition, a landlord improvement allowance was provided for leasehold improvements. This benefit is being recognized on a straight-line basis over the life of the lease agreement.

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

**Notes To Financial Statements**

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

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.

Federal grant revenue consists of one grant from a federal agency, the Department of the Interior. The grant for \$500,000 was recognized to the extent qualified expenses were incurred.

Merchandise sales are recognized upon purchase by the customer.

In-kind contributions are recorded at their fair market value when received, the majority of which includes museum collections, donated property, and legal services.

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, 2010, was \$50,347.

Income taxes: The Fund is generally exempt from federal income taxes under the provisions of Section 501(c)(3) of the Internal Revenue Code. In addition, the Fund qualifies for charitable contributions deductions and has been classified as an organization that is not a private foundation. Income which is not related to exempt purposes, less applicable deductions, is subject to federal and state corporate income taxes. There was no tax liability for unrelated business income for the year ended December 31, 2010.

The Fund complies with the Accounting for Uncertainty in Income Taxes Topic of the Codification, which addresses the determination of whether tax benefits claimed or expected to be claimed on a tax return should be recorded in the financial statements. Under this guidance, the Fund may recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained upon examination by taxing authorities, based upon the technical merits of the position. The tax benefits recognized in the financial statements from such a position are measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement. The guidance on accounting for uncertainty in income taxes also addresses de-recognition, classification, interest and penalties on income taxes, and accounting in interim periods. Management has evaluated the Fund's tax positions and has concluded that the Fund has taken no uncertain tax positions that require adjustment to the financial statements to comply with provisions of this guideline.

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.

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

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

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

**Notes To Financial Statements**

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

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

*Management and General* – all other operating expenses incurred for the Fund 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 revenue and expenses during the reporting period. Actual results could differ from those estimates.

Recently adopted accounting pronouncements: In January 2010, the Financial Accounting Standards Board (FASB) released Accounting Standards Update No. 2010-06 (ASU 2010-06), which provides accounting guidance that requires new fair value measurement classification disclosures and clarifies existing disclosures. The guidance requires: (i) separate disclosures of significant transfers between Levels 1 and 2 and reasons for transfers; (ii) disclosure, on a gross basis, of purchases, sales, issuances and net settlements within Level 3 measurements; (iii) disclosures by class of assets and liabilities; and (iv) a description of the evaluation techniques and inputs used to measure fair value for both recurring and non-recurring fair value measurements. The guidance is effective for interim and annual reporting periods beginning after December 15, 2009, except for the disaggregation of the Level 3 activity, which is effective for interim and annual periods beginning after December 15, 2010. The Fund adopted ASU 2010-06 during the year ended December 31, 2010.

Subsequent events: The Fund evaluated subsequent events through August 29, 2011, which is the date the financial statements were available to be issued.

**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 3.3%.

Promises to give at December 31, 2010, consist of the following:

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Promises to give – restricted	\$ 8,179,497
Promises to give – unrestricted	129,060
	<u>\$ 8,308,557</u>
<hr/>	
Promises to give in less than one year	\$ 3,563,692
Promises to give in one to five years	6,504,688
Thereafter	40,000
	10,108,380
Less allowance for doubtful promises to give	1,523,150
Less discount to net present value	276,673
	<u>\$ 8,308,557</u>

At December 31, 2010, promises to give included three individual pledges in the amount of \$2,583,516; \$1,196,825; and \$1,000,000. 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. The remaining promises individually, other than these three, are less than 10% of total promises to give at December 31, 2010.

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

**Notes To Financial Statements**

**Note 3. Investments**

Investments at December 31, 2010, consist of the following:

Fixed income	\$ 4,830,038
Common stock	4,431,235
Publicly traded mutual funds	1,733,225
Alternative investments	793,093
Money market funds*	788,106
	<u>\$ 12,575,697</u>

\*Money market funds are held at cost and are not subject to fair value disclosures.

Investment income for the year ended December 31, 2010, consists of the following:

Realized and unrealized gain on investments, net	\$ 662,143
Interest and dividends	259,340
Investment fees	(58,546)
	<u>\$ 862,937</u>

**Note 4. Property And Equipment**

Property and equipment and accumulated depreciation at December 31, 2010, and depreciation expense for the year ended December 31, 2010, are as follows:

	Estimated Useful Lives	Cost	Accumulated Depreciation	Net	Depreciation
Visitors Center and exhibits	5 years	\$ 1,174,355	\$ 931,477	\$ 242,878	\$ 120,644
Furniture and equipment	5 years	635,351	423,966	211,385	44,739
Leasehold improvements	10 years	649,983	164,067	485,916	60,656
		<u>\$ 2,459,689</u>	<u>\$ 1,519,510</u>	<u>\$ 940,179</u>	<u>\$ 226,039</u>

**Note 5. Memorial Development Costs**

The Memorial development costs and its improvements, additions and accumulated depreciation at December 31, 2010, and depreciation for the year ended December 31, 2010, are as follows:

	Estimated Useful Lives	Cost	Accumulated Depreciation	Net	Depreciation
Memorial	—	\$ 13,923,056	\$ -	\$ 13,923,056	\$ -
Re-engraving	25 years	1,071,664	7,144	1,064,520	7,144
Tree beds	25 years	241,416	6,438	234,978	6,438
Light replacement	25 years	94,745	1,328	93,417	1,328
Perimeter security	25 years	57,912	1,158	56,754	1,158
Wall cleaning	25 years	112,437	375	112,062	375
		<u>\$ 15,501,230</u>	<u>\$ 16,443</u>	<u>\$ 15,484,787</u>	<u>\$ 16,443</u>

## National Law Enforcement Officers Memorial Fund, Inc.

### Notes To Financial Statements

#### Note 6. 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 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% 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 to achieve returns of 1.5% above the inflation rate. The Fund appropriates in its annual budget amounts sufficient to fund the Museum construction.

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

	Memorial Maintenance	Museum	Total
Endowment net assets, beginning of year	\$ 4,559,823	\$ 4,274,963	\$ 8,834,786
Investment return:			
Investment income, net of fees	62,093	109,360	171,453
Net realized and unrealized gains	330,109	75,687	405,796
Total investment return	392,202	185,047	577,249
Additions	736,000	927,112	1,663,112
Appropriation of endowment for expenditure	(1,361,032)	(965,842)	(2,326,874)
Endowment net assets, end of year	\$ 4,326,993	\$ 4,421,280	8,748,273
Non-endowed funds			3,827,424
Total investments			\$ 12,575,697

Interpretation of relevant law: 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. The accounting standard issued in response to the act 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.

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 that will have lower cost, easier oversight, and less complexity for internal financial management and auditing.

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

**Notes To Financial Statements**

**Note 6. Board Designated Endowment Funds (Continued)**

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 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 and Museum Building.

At December 31, 2010, the Fund had no permanently restricted endowment funds.

**Note 7. Temporarily Restricted Net Assets**

Temporarily restricted net assets include donor-restricted funds, which are only available for program activities or general support designated for future years. Temporarily restricted net assets were released from restrictions during the year ended December 31, 2010, due to the time restriction ending or the purpose restriction being accomplished.

Temporarily restricted net assets at December 31, 2010, are available for the following programs:

	Balance December 31, 2009	Additions	Released	Transfers	Balance December 31, 2010
Time restricted:					
Museum	\$ 10,692,703	\$ 1,243,263	\$ (2,556,469)	\$ (1,200,000)	\$ 8,179,497
Unrestricted promises to give	39,495	105,815	(16,250)	-	129,060
Purpose restricted:					
Memorial Maintenance –					
Department of Interior	1,749,197	-	-	-	1,749,197
Museum – program development	211,976	-	(245,296)	1,200,000	1,166,680
In-kind contributions	-	1,006,815	-	-	1,006,815
	<u>\$ 12,693,371</u>	<u>\$ 2,355,893</u>	<u>\$ (2,818,015)</u>	<u>\$ -</u>	<u>\$ 12,231,249</u>

**Note 8. Fair Value Measurements**

The Fair Value Measurements Topic of the Codification requires disclosures of financial position in periods subsequent to initial recognition, whether the measurements are made on a recurring basis or a non-recurring basis, establishes a framework for measuring fair value in accordance with generally accepted accounting principles (GAAP), and expands disclosure about fair market value measurements. This enables the reader of the financial statements to assess the inputs used to develop those measurements by establishing a hierarchy for ranking quality and reliability of the information used to determine fair value. The provision applies to all assets and liabilities that are being measured and reported on a fair value basis and are 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 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 the Codification. 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 8. Fair Value Measurements (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:				
Government securities	\$ 2,787,556	\$ -	\$ 2,787,556	\$ -
Corporate bonds	1,399,460	1,399,460	-	-
Corporate step-up notes	513,294	-	513,294	-
Certificate of deposit	129,728	-	129,728	-
	<u>4,830,038</u>	<u>1,399,460</u>	<u>3,430,578</u>	<u>-</u>
Common stock:				
Domestic	3,650,654	3,650,654	-	-
International	780,581	780,581	-	-
	<u>4,431,235</u>	<u>4,431,235</u>	<u>-</u>	<u>-</u>
Publicly traded mutual funds:				
Equity	738,096	738,096	-	-
International	263,342	263,342	-	-
Real estate	3,075	3,075	-	-
Fixed income	728,712	728,712	-	-
	<u>1,733,225</u>	<u>1,733,225</u>	<u>-</u>	<u>-</u>
Alternative investments:				
Endowment TEI Fund LP	581,048	-	-	581,048
ML Systematic Momentum LLC	212,045	-	212,045	-
	<u>793,093</u>	<u>-</u>	<u>212,045</u>	<u>581,048</u>
	<u>\$ 11,787,591</u>	<u>\$ 7,563,920</u>	<u>\$ 3,642,623</u>	<u>\$ 581,048</u>

The fair value of mutual funds, corporate bonds and common stocks 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 government securities, step-up notes and the certificate of deposit 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. Thus they are categorized as Level 2. The ML Systematic Momentum limited liability corporation alternative investment is classified as a Level 2 instrument, as the value is based on observable data such as ongoing redemption and/or subscription activity, including the ability of the Fund to redeem amounts at net asset value (NAV) per share within a period of ten days as of the last day of each month.

The value of the Endowment TEI limited partnership fund is classified as a Level 3 instrument, as the market value is based on unobservable inputs that are not corroborated by market data. The underlying investments in the partnership fund include investments that are actively traded on public exchanges.

## National Law Enforcement Officers Memorial Fund, Inc.

### Notes To Financial Statements

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#### Note 8. Fair Value Measurements (Continued)

The following table represents a reconciliation of the balance sheet amounts for financial instruments measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the year ended December 31, 2010:

Balance at December 31, 2009	\$ 544,434
Unrealized gains	36,614
Balance at December 31, 2010	<u>\$ 581,048</u>

The net investment gain in the table above is reflected in the accompanying statement of activities.

The following presents further information regarding the composition of the Fund's investments at December 31, 2010:

Endowment TEI Fund LP: This fund seeks to achieve a consistent return stream. The portfolio can be separated into three distinct blocks: Equity, Low Volatility, and Real Assets. The portfolio is globally based. Shares may be redeemed. Certain investments within the fund have limitations on liquidity, which may result in limitations on redemptions including, but not limited to, early redemption fees. Certain investments within the fund have withdrawal rights ranging from monthly to annually after a maximum of a two-year lock-up period from the date of the initial investment.

ML Systematic Momentum LLC: The investment objective of the Fund is to achieve superior risk adjusted rates of return through a "single strategy-type" fund of funds approach focusing on, but not limited to, trend-following managed futures strategies. The investments include, but are not limited to, futures for commodities, domestic and foreign currencies, and forward contracts including derivatives, currencies, interest rates and commodities, such as agriculture and energy. Shares are redeemable at NAV within a period of ten days as of the last day of each month.

#### Note 9. Commitments

Direct mail contract: The Fund participates in a contract with an outside third party, expiring on December 31, 2017, 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 non-cancelable operating lease agreements for office space. One is for a five-year term ending on February 28, 2013. The second 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 \$705,918 is recorded on the balance sheet in relation to the tenant improvement allowance, rental abatement and escalating lease payments. Total rent expense for the year ended December 31, 2010, was \$521,520.



## National Law Enforcement Officers Memorial Fund, Inc.

### Notes To Financial Statements

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#### Note 9. Commitments (Continued)

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

Years Ending December 31,	
2011	\$ 506,631
2012	519,121
2013	402,730
2014	386,140
2015	398,872
2016 and thereafter	2,096,060
	<u>\$ 4,309,554</u>

Museum contract: The Fund has an agreement of \$2,849,998 for relocation of utilities for the future Museum. During the year ended December 31, 2010, there were no expenditures incurred.

#### Note 10. Allocation Of Joint Costs

For the year ended December 31, 2010, the Fund incurred joint costs of \$3,857,224 for informational materials and activities that included fundraising appeals. Of those costs, \$1,272,884 was allocated to program expenses and \$2,584,340 was allocated to fundraising expenses.

#### Note 11. 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 \$365,566 for the year ended December 31, 2010.

#### Note 12. 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 who are 21 years of age and scheduled to work at least 1,000 hours per year can contribute to 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, 2010, were \$159,358.

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.

#### Note 13. Contingencies

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 an audit. Management does not anticipate any significant adjustments as a result of such an audit. For the year ended December 31, 2010, no financial and compliance audit was required.