

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

Financial Statements

December 31, 2016

## Independent Auditors' Report

### Board of Directors National Law Enforcement Officers Memorial Fund, Inc.

We have audited the accompanying financial statements of the National Law Enforcement Officers Memorial Fund, Inc., which comprise the statement of financial position as of December 31, 2016, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

#### ***Management's Responsibility for the Financial Statements***

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

#### ***Auditors' Responsibility***

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

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

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

#### ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the National Law Enforcement Officers Memorial Fund, Inc. as of December 31, 2016, and the changes in its net assets and its 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 25, 2017

## National Law Enforcement Officers Memorial Fund, Inc.

### Statement of Financial Position December 31, 2016

#### ASSETS

Cash	\$ 2,428,752
Investments	10,233,314
Promises to give, net	8,291,177
Receivables	84,016
Inventory, net	415,834
Other assets	599,936
Property and equipment, net	168,187
Memorial, net	15,986,723
Museum exhibit collections	1,523,387
Museum development costs	45,358,313
Assets limited as to use	<u>89,275,883</u>
	<u>\$ 174,365,522</u>

#### LIABILITIES AND NET ASSETS

Liabilities	
Accounts payable and accrued expenses	\$ 2,341,843
Deferred compensation	219,937
Deferred rent	385,097
Deferred revenue	82,953
Interest payable	3,963,653
Bonds payable	<u>95,052,392</u>
Total Liabilities	<u>102,045,875</u>
Net Assets	
Unrestricted	
Undesignated	41,153,188
Designated for memorial maintenance	3,128,438
Memorial development costs	<u>15,986,722</u>
	60,268,348
Temporarily restricted	<u>12,051,299</u>
Total Net Assets	<u>72,319,647</u>
	<u>\$ 174,365,522</u>

See notes to financial statements

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

Statement of Activities  
Year Ended December 31, 2016

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
<b>REVENUE AND SUPPORT</b>			
Contributions	\$ 22,582,392	\$ 145,482	\$ 22,727,874
In-kind contributions	642,116	478,908	1,121,024
Merchandise sales, net	606,178	-	606,178
Grants	569,352	-	569,352
List rental	110,406	-	110,406
Investment return	367,222	-	367,222
Special events and activities	240,540	-	240,540
Other	5,940	-	5,940
Net assets released from restrictions	<u>613,268</u>	<u>(613,268)</u>	<u>-</u>
Total Revenue and Support	<u>25,737,414</u>	<u>11,122</u>	<u>25,748,536</u>
<b>EXPENSES</b>			
Program Services			
Public awareness	1,630,335	-	1,630,335
Societal materials	4,729,872	-	4,729,872
Memorial operations	2,203,649	-	2,203,649
Visitors center	2,308,665	-	2,308,665
Supporting Services			
Fundraising	7,782,970	-	7,782,970
Management and general	<u>1,122,900</u>	<u>-</u>	<u>1,122,900</u>
Total Expenses	<u>19,778,391</u>	<u>-</u>	<u>19,778,391</u>
Excess of Revenue and Support Over Expenses	<u>5,959,023</u>	<u>11,122</u>	<u>5,970,145</u>
<b>NONOPERATING CHANGES TO NET ASSETS</b>			
Bad debt expense	<u>-</u>	<u>(1,864,698)</u>	<u>(1,864,698)</u>
Change in Net Assets	5,959,023	(1,853,576)	4,105,447
<b>NET ASSETS</b>			
Beginning of year	<u>54,309,325</u>	<u>13,904,875</u>	<u>68,214,200</u>
End of year	<u>\$ 60,268,348</u>	<u>\$ 12,051,299</u>	<u>\$ 72,319,647</u>

See notes to financial statements

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

Statement of Functional Expenses  
Year Ended December 31, 2016

	Program Services				Total Program Services	Supporting Services			Total Expenses
	Public Awareness	Societal Materials	Memorial Operations	Visitors Center		Fundraising	Management and General	Total Supporting Services	
Salaries	\$ 415,522	\$ 536,617	\$ 656,226	\$ 696,591	\$ 2,304,956	\$ 476,969	\$ 193,514	\$ 670,483	\$ 2,975,439
Temporary help	-	-	5,950	3,485	9,435	3,879	15,200	19,079	28,514
Payroll taxes	32,834	42,402	51,853	55,042	182,131	37,477	15,464	52,941	235,072
Employee benefits	73,478	84,297	119,124	127,080	403,979	104,352	37,393	141,745	545,724
Mailing services	-	1,842,860	-	-	1,842,860	2,912,255	-	2,912,255	4,755,115
Postage	3,634	1,238,003	4,438	94,615	1,340,690	1,843,214	1,665	1,844,879	3,185,569
Media advertising	648,871	-	-	2,330	651,201	-	-	-	651,201
Special events	423	-	596,968	53,773	651,164	78,719	6,769	85,488	736,652
Dollar bills and coins	-	459,540	-	-	459,540	933,006	-	933,006	1,392,546
Consulting	38,324	167,060	43,152	417,450	665,986	636,933	15,225	652,158	1,318,144
Rent	37,358	48,245	58,999	319,839	464,441	73,683	19,177	92,860	557,301
Computing services	100,137	73,321	588	35,596	209,642	166,865	163,942	330,807	540,449
Accounting and legal	52,882	68,293	41,337	88,652	251,164	59,757	128,223	187,980	439,144
Grants, memorial	-	-	320,000	-	320,000	-	-	-	320,000
Caging	-	-	-	-	-	-	213,620	213,620	213,620
List rental	-	113,700	-	49	113,749	275,851	-	275,851	389,600
Travel and meetings	79,521	1,718	31,095	42,263	154,597	13,046	39,813	52,859	207,456
Bank charges	-	-	-	28,477	28,477	-	123,934	123,934	152,411
Depreciation and amortization	5,099	-	77,654	793	83,546	8,067	21,203	29,270	112,816
Telephone	13,741	17,745	21,700	27,372	80,558	16,164	7,725	23,889	104,447
Printing and graphics	1,397	6,698	15,848	130,270	154,213	46,850	5,448	52,298	206,511
Office supplies	8,256	18,938	24,467	51,962	103,623	748	7,508	8,256	111,879
Meals and entertainment	2,526	-	7,883	4,908	15,317	13,689	29,107	42,796	58,113
Repairs and maintenance	-	-	56,695	331	57,026	-	1,690	1,690	58,716
Public relations	87,196	-	-	-	87,196	-	-	-	87,196
Exhibits and trade shows	1,356	-	21,791	10,420	33,567	5,236	-	5,236	38,803
Insurance	7,587	9,798	11,982	12,719	42,086	8,574	3,533	12,107	54,193
Promotional items	1,000	-	3,331	22,997	27,328	6,809	1,365	8,174	35,502
Federal and state registrations	-	-	-	-	-	-	37,588	37,588	37,588
Photography	8,690	-	1,614	11,674	21,978	33,500	-	33,500	55,478
Delivery	4,210	-	6,779	12,655	23,644	4,842	2,068	6,910	30,554
Other	258	-	2,055	3,226	5,539	717	3,755	4,472	10,011
Administrative	-	-	-	-	-	-	12,384	12,384	12,384
Publications and dues	-	-	677	2,801	3,478	11,586	6,958	18,544	22,022
Equipment rental	2,282	-	3,604	3,826	9,712	2,579	3,266	5,845	15,557
Utilities	493	637	779	9,309	11,218	557	707	1,264	12,482
Security system	-	-	14,473	11,208	25,681	-	-	-	25,681
Seminars and training	3,260	-	2,249	1,658	7,167	6,946	1,200	8,146	15,313
Storage	-	-	338	-	338	-	3,031	3,031	3,369
Licenses and fees	-	-	-	25,294	25,294	100	425	525	25,819
<b>Total Expenses</b>	<b>\$ 1,630,335</b>	<b>\$ 4,729,872</b>	<b>\$ 2,203,649</b>	<b>\$ 2,308,665</b>	<b>\$ 10,872,521</b>	<b>\$ 7,782,970</b>	<b>\$ 1,122,900</b>	<b>\$ 8,905,870</b>	<b>\$ 19,778,391</b>

See notes to financial statements

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

Statement of Cash Flows  
Year Ended December 31, 2016

**CASH FLOWS FROM OPERATING ACTIVITIES**

Change in net assets	\$ 4,105,447
Adjustments to reconcile change in net assets to net cash from operating activities	
Depreciation and amortization	112,816
Realized and unrealized gain on investments, net	(154,525)
Decrease in discount to net present value for promises to give	(57,982)
Net decrease in provision for doubtful promises to give	(264,124)
Bad debt expense	1,864,698
Deferred rent	(78,566)
Changes in operating assets and liabilities	
Promises to give	198,816
Receivables	362,547
Inventory	(28,930)
Other assets	(20,598)
Accounts payable and accrued expenses	(222,057)
Deferred compensation	43,633
Deferred revenue	82,953
Net Cash from Operating Activities	<u>5,944,128</u>

**CASH FLOWS FROM INVESTING ACTIVITIES**

Purchase of investments	(8,341,038)
Proceeds from sale of investments	9,355,121
Payment of memorial development costs	(125,081)
Payment of museum development and collection costs	<u>(13,674,692)</u>
Net Cash from Investing Activities	<u>(12,785,690)</u>

**CASH FLOWS FROM FINANCING ACTIVITIES**

Change in assets limited as to use	(89,275,883)
Issuance of bonds payable	103,130,000
Debt issue costs	(6,104,897)
Redemption payment of bond principal	<u>(265,000)</u>
Net Cash from Financing Activities	<u>7,484,220</u>
Net Change in Cash	642,658

**CASH**

Beginning of year	<u>1,786,094</u>
End of year	<u>\$ 2,428,752</u>

**SUPPLEMENTAL CASH FLOW INFORMATION**

Capitalized bond amortization costs for museum development costs	\$ 220,766
Capitalized interest payable for museum development costs	3,963,653
Cash paid for interest (capitalized for museum development costs)	3,401,022
Interest earned on tax-exempt borrowing (capitalized for museum development costs)	517,906

See notes to financial statements

# National Law Enforcement Officers Memorial Fund, Inc.

Notes to Financial Statements  
December 31, 2016

## 1. Organization and Tax Status

The National Law Enforcement Officers Memorial Fund, Inc. (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).

## 2. Summary of Significant Accounting Policies

### ***Basis of Presentation***

The accompanying 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 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 financial statements and the reported amounts of revenue and expenses during the reporting period. Accordingly actual results could differ from those estimates.

### ***Net Asset Presentation***

The Fund's 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 Fund.

## National Law Enforcement Officers Memorial Fund, Inc.

Notes to Financial Statements  
December 31, 2016

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

#### ***Net Assets Presentation (continued)***

*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 Fund. As the restrictions are satisfied, temporarily restricted net assets are reclassified to unrestricted net assets and are reported in the accompanying 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, 2016, the Fund had no permanently restricted net assets.

#### ***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.

During 2016, the Fund adopted new U.S. GAAP guidance which removed the requirements to categorize within the fair value hierarchy alternative investments where fair value is measured using the Net Asset Value (“NAV”) per share as a practical expedient. Adoption of this guidance was applied retrospectively and had no effect on the carrying value of such investments.

#### ***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. 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 statement of activities. Dividend income is recorded on the ex-dividend date and interest income is recorded on an accrual basis.



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

Notes to Financial Statements  
December 31, 2016

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

#### ***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.

#### ***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.

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 and changes in allowance for doubtful accounts are included in contribution revenue on the 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 \$101,131 at December 31, 2016.

#### ***Allowance for Doubtful Accounts***

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, 2016.

#### ***Inventory***

Merchandise inventory consists of memorial memorabilia and is stated at the lower of cost or market. Cost is determined using the first-in, first-out method. Management establishes a reserve for inventory deemed to be non-saleable. The allowance for obsolescence, based on management's evaluation of the salability of inventory at December 31, 2016, was \$16,546.

## National Law Enforcement Officers Memorial Fund, Inc.

Notes to Financial Statements  
December 31, 2016

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

#### ***Property and Equipment***

Property and equipment are stated at cost less accumulated depreciation and amortization. The Fund 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.

Property and equipment assets 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, 2016.

#### ***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.

## National Law Enforcement Officers Memorial Fund, Inc.

Notes to Financial Statements  
December 31, 2016

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

#### ***Museum Development Costs***

Museum development costs includes 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 totaling \$517,906 is off-set against capitalized bond interest costs.

#### ***Debt Issuance Costs***

The Fund follows new U.S. GAAP guidance for the presentation of debt issuance costs and related amortization. Debt issuance costs are reported on the 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 and are being capitalized to Museum development costs. The accumulated amortization of bond issuance costs was \$220,766 at December 31, 2016.

#### ***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 \$7,364,675 for the year ended December 31, 2016.

#### ***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.

#### ***Merchandise Sales***

The Fund sells merchandise in the visitor's 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. Deferred revenue of \$82,953 at December 31, 2016 consists of payments received for merchandise sold but not shipped. Merchandise sales are reflected net of cost of goods sold in the statement of activities. Cost of goods sold for the year ended December 31, 2016 amounted to \$528,933.

## National Law Enforcement Officers Memorial Fund, Inc.

Notes to Financial Statements  
December 31, 2016

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

#### ***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 Fund have been summarized on a functional basis in the statement of activities. Accordingly, certain expenses have been allocated among the programs and supporting services benefited.

The Fund categorized expenses as follows:

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

*Societal 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.

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

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

#### ***Advertising Costs***

Advertising costs are expensed as incurred. Advertising costs were \$651,201 in 2016.

#### ***Accounting for Uncertainty in Income Taxes***

The Fund recognizes the effect of income tax positions only if those positions are more likely than not to be sustained. Management has determined that the Fund had no uncertain tax positions that would require financial statement recognition or disclosure. The Fund is no longer subject to examination by the applicable taxing jurisdictions for years prior to 2013.

## National Law Enforcement Officers Memorial Fund, Inc.

Notes to Financial Statements  
December 31, 2016

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

#### ***Subsequent Events Evaluation by Management***

Management has evaluated subsequent events for disclosure and/or recognition in the financial statements through the date that the financial statements were available to be issued, which date is May 25, 2017.

### 3. Concentrations of Credit Risk

Financial instruments that potentially subject the Fund 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 \$2,168,585 at December 31, 2016.

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, 2016, promises to give included promises to give from two different donors of \$5,500,000 and \$1,589,408, or approximately 86% 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, 2016:

Promises to give - restricted	\$ 8,192,432
Promises to give - unrestricted	<u>98,745</u>
	<u>\$ 8,291,177</u>
Promises to give in less than one year	\$ 4,755,996
Promises to give in one to five years	<u>3,684,108</u>
	8,440,104
Less allowance for doubtful promises to give	101,131
Less discount to net present value	<u>47,796</u>
	<u>\$ 8,291,177</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 1.10%.

## National Law Enforcement Officers Memorial Fund, Inc.

Notes to Financial Statements  
December 31, 2016

### 5. Fair Value of Investments

The following are major categories of investments and assets limited as to use measured at fair value as of December 31, 2016 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	\$ 3,470,813	\$ -	\$ 3,470,813
Fixed income securities and mutual funds	1,938,821	-	1,938,821
Government bonds	-	771,365	771,365
Corporate bonds	-	537,960	537,960
Preferred stocks	304,144	-	304,144
Subtotal	<u>\$ 5,713,778</u>	<u>\$ 1,309,325</u>	7,023,103
Private equity fund (1) (a)			343,444
Total Investments at Fair Value			7,366,547
Certificates of deposit			1,744,426
Money market funds			1,122,341
Total Investments			<u>\$ 10,233,314</u>
Assets Limited as to Use			
Flexible repurchase agreement (b)	<u>\$ -</u>	<u>\$ 79,683,191</u>	\$ 79,683,191
Money market funds			9,592,692
Total Assets Limited as to Use			<u>\$ 89,275,883</u>
Deferred Compensation *			
Equity mutual funds	<u>\$ 203,597</u>	<u>\$ -</u>	\$ 203,597
Money market funds			16,340
Total Deferred Compensation			<u>\$ 219,937</u>
Liabilities:			
Deferred Compensation **	<u>\$ -</u>	<u>\$ 219,937</u>	<u>\$ 219,937</u>

- (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 statement of financial position.

## National Law Enforcement Officers Memorial Fund, Inc.

Notes to Financial Statements  
December 31, 2016

### 5. Fair Value of Investments (*continued*)

- (a) CPG Carlyle Fund, LLC invests substantially all of its assets in CPG Carlyle Master Fund, LLC (the "Master Fund"). The types of private equity investments funds that the Master Fund may make include primary, secondary and direct investments/co-investments. Co-investments represent opportunities to invest in specific portfolio companies that are typically made alongside an investment fund. Primary investments are investments in newly established private equity funds and secondary investments are investments in existing private equity funds that are acquired in privately negotiated transactions.
- (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 statement of financial position.
- \*\* Deferred compensation liability is based on the value of the deferred compensation plan assets that are observable inputs, but the liability is not publicly traded and is therefore classified as level 2.

The composition of investment return as reported in the statement of activities for the year ended December 31, 2016 is as follows:

Interest and dividends	\$ 274,326
Realized gains	595
Unrealized gains	153,930
Investment fees	<u>(61,629)</u>
Total Return on Investments	<u>\$ 367,222</u>

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

Notes to Financial Statements  
December 31, 2016

**6. Property and Equipment**

Property and equipment consisted of the following as of December 31, 2016:

	Estimated Useful Lives	Cost	Accumulated Amortization and Depreciation	Net	Amortization and Depreciation
Visitor center and exhibits	5 years	\$ 1,177,669	\$ 1,177,569	\$ 100	\$ 201
Furniture and equipment	5 years	687,105	682,078	5,027	2,531
Leasehold improvements	10 years	665,976	502,916	163,060	41,627
		<u>\$ 2,530,750</u>	<u>\$ 2,362,563</u>	<u>\$ 168,187</u>	<u>\$ 44,359</u>

**7. Memorial**

Memorial consisted of the following as of December 31, 2016:

	Estimated Useful Lives	Cost	Accumulated Amortization and Depreciation	Net	Amortization and Depreciation
Memorial	-	\$ 14,601,711	\$ -	\$ 14,601,711	\$ -
Re-engraving	25 years	1,073,493	264,667	808,826	42,940
Tree beds	25 years	287,426	73,580	213,846	11,497
Wall cleaning	25 years	292,752	54,736	238,016	9,712
Light replacement	25 years	94,745	13,277	81,468	1,992
Perimeter security	25 years	57,912	15,056	42,856	2,315
		<u>\$ 16,408,039</u>	<u>\$ 421,316</u>	<u>\$ 15,986,723</u>	<u>\$ 68,456</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 7.50%
\$ 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	6.37% Term Bonds due July 1, 2027	Priced to Yield 6.37%

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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## National Law Enforcement Officers Memorial Fund, Inc.

Notes to Financial Statements  
December 31, 2016

### 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 is to be payable annually commencing on July 1, 2031 with a final maturity of July 1, 2049.

The Series B Bonds have a coupon rate ranging from 5.75% to 6.37% 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, \$265,000 of Series B Bonds were redeemed during the year ended December 31, 2016. Expected redemptions of Series B Bonds is not reasonably estimable and the balance due has been presented at their maturity dates of July 1, 2025 and July 1, 2027.

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 is payable in various increments from July 1, 2025 through on July 1, 2049.

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 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.

At December 31, 2016, debt and debt issuance costs are as follows:

Series 2016A	\$ 48,130,000
Series 2016B	29,735,000
Series 2016C	<u>25,000,000</u>
	102,865,000
Less unamortized debt issuance costs	<u>(7,812,608)</u>
Total long-term debt	<u>\$ 95,052,392</u>

## National Law Enforcement Officers Memorial Fund, Inc.

Notes to Financial Statements  
December 31, 2016

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

#### ***Subsequent Event***

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, 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. Subsequent to year end, \$11,700,000 of Corporate Subordinate Bonds were drawn down and \$9,450,000 of the drawn down 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 2016:

Endowment net assets, beginning of year	\$ 4,327,307
Investment return:	
Interest and dividends	102,518
Unrealized gains	69,770
Investment fees	<u>(25,366)</u>
Total Investment Return	146,922
Appropriation of endowment for expenditure	<u>(1,345,791)</u>
Endowment net assets, end of year	3,128,438
Non-endowed funds	<u>7,104,876</u>
Total Investments	<u>\$ 10,233,314</u>

#### ***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.

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

Notes to Financial Statements  
December 31, 2016

**9. Board Designated Endowment Fund (continued)**

***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**

At December 31, 2016, temporarily restricted net assets were available for the following purposes:

	Balance December 31, 2015	Additions	Releases*	Balance December 31, 2016
Time Restricted				
Museum	\$ 9,996,340	\$ 599,390	\$ (2,340,800)	\$ 8,254,930
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
Chairman's Dinner	20,000	-	(20,000)	-
Museum - program development	904,354	-	(117,166)	787,188
	<u>\$ 13,904,875</u>	<u>\$ 624,390</u>	<u>\$ (2,477,966)</u>	<u>\$ 12,051,299</u>

\* Includes \$1,864,698 in bad debt expense related to uncollectible receivable balances.

**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.

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

Notes to Financial Statements  
December 31, 2016

**11. Commitments and Contingencies (continued)**

***Office Lease***

The Fund has two non-cancelable operating lease agreements for office space, one of which ended on December 31, 2016. 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 \$385,097 is reflected in the 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, 2016 totaled \$557,301.

Future minimum lease payments at December 31, 2016 are payable as follows:

2017	\$	426,036
2018		435,451
2019		445,076
2020		410,205
	\$	<u>1,716,768</u>

***Museum Construction Contract***

The Fund has several construction contracts relating to the Museum which have an estimated combined commitment of \$56,489,261. At December 31, 2016, \$45,697,685 of such contract commitments had not yet been incurred.

***Employment Contract***

The Fund entered into an employment contract with the President and CEO, which expires on December 31, 2017. If the Fund terminates the President and CEO without cause, the Fund is required to pay the President and CEO base salary of two weeks for every year employed.

***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, 2016, no financial and compliance audit was required.

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

Notes to Financial Statements  
December 31, 2016

**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 statement of activities. For the year ended December 31, 2016, the Fund incurred joint costs of \$10,154,539, of which \$3,865,688 was allocated to societal materials expenses and \$6,288,851 to fundraising expenses.

**13. Employee Retirement Plans**

The Fund has established a Section 403(b) tax-deferred annuity plan (the "Plan") covering all employees. The Plan participants are 100 percent 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, 2016, were \$121,466.

The Fund has a qualified supplemental employee Section 457(b) deferred compensation plan for all eligible employees. Total contributions to the Plan for the year ended December 31, 2016, were \$29,008.

\* \* \* \* \*