

National Law Enforcement Officers Memorial Fund, Inc. and Affiliate

Consolidated Financial Report
December 31, 2014

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Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of National Law Enforcement Officers Memorial Fund, Inc. and Affiliate (the Organization) which comprise the consolidated balance sheet as of December 31, 2014, 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.

Auditor's 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 from 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 auditor's 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 financial position of National Law Enforcement Officers Memorial Fund, Inc. and its Affiliate as of December 31, 2014, and the 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.

McGladrey LLP

McLean, Virginia
July 20, 2015

National Law Enforcement Officers Memorial Fund, Inc. and Affiliate

Consolidated Balance Sheet

December 31, 2014

Assets

Cash	\$ 1,567,898
Investments	11,495,242
Promises to Give, net	9,569,282
Receivables, net	348,192
Inventory	496,149
Property and Equipment, net	260,014
Memorial, net	15,772,412
Museum	
Development costs	28,228,178
Collections	1,518,759
Other Assets	<u>729,366</u>
	<u><u>\$ 69,985,492</u></u>

Liabilities and Net Assets

Liabilities

Accounts payable and accrued expenses	\$ 2,220,429
Deferred compensation	156,484
Deferred rent	<u>528,820</u>
Total liabilities	<u><u>2,905,733</u></u>

Commitments and Contingencies (Notes 9, 12 And 13)

Net Assets

Unrestricted	
Undesignated	33,115,236
Designated for memorial maintenance	4,590,539
Memorial development costs	<u>15,772,412</u>
	<u>53,478,187</u>
Temporarily restricted	<u>13,601,572</u>
	<u><u>67,079,759</u></u>
	<u><u>\$ 69,985,492</u></u>

See Notes to Consolidated Financial Statements.

National Law Enforcement Officers Memorial Fund, Inc. and Affiliate

**Consolidated Statement of Activities
Year Ended December 31, 2014**

	Unrestricted	Temporarily Restricted	Total
Support and Revenue			
Contributions	\$ 14,013,953	\$ 253,523	\$ 14,267,476
In-kind contributions	2,332,495	-	2,332,495
Investment income, net	265,778	-	265,778
Net sales of merchandise	557,382	-	557,382
List rental	217,591	-	217,591
Federal grants	183,708	-	183,708
Special events – TBL	94,117	-	94,117
Other	14,415	-	14,415
Net assets released from restriction	884,392	(884,392)	-
Total support and revenue	18,563,831	(630,869)	17,932,962
Expenses			
Program services:			
Public Awareness	3,172,531	-	3,172,531
Societal Materials	3,938,353	-	3,938,353
Memorial Operations	2,219,399	-	2,219,399
Visitors Center	2,181,121	-	2,181,121
	11,511,404	-	11,511,404
Supporting services:			
Fundraising	4,957,631	-	4,957,631
Management and general	966,367	-	966,367
	5,923,998	-	5,923,998
Total expenses	17,435,402	-	17,435,402
Change in net assets before change in provision for doubtful promises to give	1,128,429	(630,869)	497,560
Loss on Change in Provision for Doubtful Promises to Give	-	131,086	131,086
Change in net assets	1,128,429	(761,955)	366,474
Net Assets			
Beginning	52,349,758	14,363,527	66,713,285
Ending	\$ 53,478,187	\$ 13,601,572	\$ 67,079,759

See Notes to Consolidated Financial Statements.

National Law Enforcement Officers Memorial Fund, Inc. and Affiliate

Consolidated Statement of Functional Expenses
Year Ended December 31, 2014

	Program Services					Supporting Services				Total
	Public Awareness	Societal Materials	Memorial Operations	Visitors Center	Total	Fundraising	Management and General	Total		
					Program Services			Supporting Services		
Salaries	\$ 410,270	\$ 529,835	\$ 647,934	\$ 687,789	\$ 2,275,828	\$ 463,606	\$ 191,069	\$ 654,675	\$ 2,930,503	
Employee benefits	71,968	82,319	113,658	120,649	388,594	81,324	48,641	129,965	518,559	
Payroll taxes	41,554	24,439	60,974	23,319	150,286	38,637	14,654	53,291	203,577	
Temporary help	-	-	-	2,561	2,561	7,760	16,859	24,619	27,180	
Postage	33,802	1,219,541	3,444	110,077	1,366,864	1,585,041	1,015	1,586,056	2,952,920	
Mailing services	-	1,445,544	-	71,364	1,516,908	1,051,979	-	1,051,979	2,568,887	
Media advertising	2,277,435	-	-	-	2,277,435	-	-	-	2,277,435	
Consulting	49,197	89,325	71,956	420,044	630,522	402,688	42,824	445,512	1,076,034	
Dollar bills and coins	-	271,220	-	-	271,220	603,683	-	603,683	874,903	
Special events	6,097	-	552,978	51,569	610,644	91,182	1,090	92,272	702,916	
Rent	37,350	48,235	58,985	318,084	462,654	69,155	17,394	86,549	549,203	
Computing services	54,720	71,330	2,945	46,229	175,224	256,721	37,147	293,868	469,092	
Accounting and legal	48,043	62,044	36,583	80,540	227,210	54,289	77,007	131,296	358,506	
Grants, memorial	-	-	312,123	-	312,123	-	-	-	312,123	
Caging	-	-	-	-	-	-	256,403	256,403	256,403	
List rental	-	55,545	-	-	55,545	94,459	-	94,459	150,004	
Travel	54,856	8,058	20,710	21,374	104,998	12,925	27,107	40,032	145,030	
Repairs and maintenance	-	-	136,562	-	136,562	-	1,307	1,307	137,869	
Amortization	13,090	-	90,495	-	103,585	19,829	-	19,829	123,414	
Bank charges	-	-	-	28,257	28,257	-	88,258	88,258	116,515	
Telephone	15,895	16,905	21,555	26,282	80,637	17,490	7,387	24,877	105,514	
Meals and entertainment	2,135	-	5,787	8,059	15,981	16,387	38,432	54,819	70,800	
Depreciation	2,338	-	6,666	45,411	54,415	8,997	4,886	13,883	68,298	
Office supplies	3,550	7,063	11,370	28,262	50,245	5,743	6,878	12,621	62,866	
Insurance	5,093	6,577	8,043	12,436	32,149	5,755	23,932	29,687	61,836	
Promotional items	4,505	-	8,573	1,168	14,246	33,698	9,118	42,816	57,062	
Printing and graphics	6,736	-	12,101	10,198	29,035	15,181	1,332	16,513	45,548	
Exhibits and trade shows	2,314	-	23,438	14,836	40,588	4,440	-	4,440	45,028	
Delivery	2,934	-	5,064	15,998	23,996	3,315	1,527	4,842	28,838	
Public relations	23,340	-	-	2,770	26,110	-	-	-	26,110	
Federal and state registrations	-	-	-	-	-	-	20,972	20,972	20,972	
Publications and dues	84	-	1,021	80	1,185	6,794	9,334	16,128	17,313	
Equipment rental	2,422	-	3,825	4,060	10,307	2,737	1,128	3,865	14,172	
Administrative	-	-	-	-	-	-	13,205	13,205	13,205	
Utilities	289	373	456	10,327	11,445	327	266	593	12,038	
Security	-	-	-	11,481	11,481	-	-	-	11,481	
Seminars and training	1,570	-	905	150	2,625	1,048	2,000	3,048	5,673	
Storage	-	-	-	960	960	525	1,658	2,183	3,143	
Photography	937	-	-	995	1,932	-	-	-	1,932	
Licenses and fees	-	-	-	80	80	1,825	-	1,825	1,905	
Other	7	-	1,248	5,712	6,967	91	3,537	3,628	10,595	
Total expenses	\$ 3,172,531	\$ 3,938,353	\$ 2,219,399	\$ 2,181,121	\$ 11,511,404	\$ 4,957,631	\$ 966,367	\$ 5,923,998	\$ 17,435,402	

See Notes to Consolidated Financial Statements.

National Law Enforcement Officers Memorial Fund, Inc. and Affiliate

Consolidated Statement of Cash Flows
Year Ended December 31, 2014

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Cash Flows From Operating Activities	
Change in net assets	\$ 366,474
Adjustments to reconcile change in net assets to net cash used in operating activities:	
Depreciation and amortization	191,712
Realized and unrealized gain on investments, net	(27,521)
Increase in discount to net present value for promises to give	62,446
Increase in allowance for inventory	(4,369)
Net decrease in provision for doubtful promises to give	(3,523,165)
Deferred rent	(55,332)
Contributions restricted for building of museum	(936,430)
Changes in assets and liabilities:	
(Increase) decrease in:	
Promises to give	4,412,674
Receivables	(329,715)
Inventory	1,732
Other assets	123,118
Increase (decrease) in:	
Deferred compensation	10,719
Accounts payable and accrued expenses	(322,606)
Net cash used in operating activities	<u>(30,263)</u>
Cash Flows From Investing Activities	
Purchase of property and equipment	(3,849)
Purchase of investments	(3,012,922)
Proceeds from sale of investments	4,524,261
Payment of memorial development costs	(109,672)
Payment of museum development and collections costs	(1,782,561)
Net cash used in investing activities	<u>(384,743)</u>
Cash Flows from Financing Activities	
Contributions restricted for building of museum	936,430
Net cash provided by financing activities	<u>936,430</u>
Net increase in cash	521,424
Cash	
Beginning	<u>1,046,474</u>
Ending	<u>\$ 1,567,898</u>
Supplemental Schedule of Noncash Financing and Investing Activities	
Amounts in museum development costs included in accounts payable and accrued expenses	<u>\$ 856,524</u>

See Notes to Consolidated Financial Statements.

National Law Enforcement Officers Memorial Fund, Inc. and Affiliate

Notes to Consolidated Financial Statements

Note 1. Nature of Activities and Significant Accounting Policies

Nature of activities: 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 (TBLCBR), collectively, the Organization.

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 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.

The Fund is planning to build a National Law Enforcement Officers Museum (the Museum) adjacent to the Memorial in Washington, D.C., which is scheduled to open approximately 28 months after construction begins. The building is legally authorized to be built on federal land with the Fund owning, operating and maintaining the museum after completion of construction. For existing federal law to be operative, this building construction must begin before November 9, 2016. The Museum will tell the story of American law enforcement through exhibits, collections, research and education. The Fund has received through a donation from the J. Edgar Hoover Foundation more than 2,000 items from Director Hoover's estate. The Fund is currently in negotiations for financing for the museum.

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.

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

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

Principles of consolidation: The accompanying consolidated financial statements include the accounts of the Fund and TBLCBR. All intercompany accounts and transactions have been eliminated in the consolidated financial statements.

Basis of presentation: The Organization follows the Not-for-Profit Topic of the Financial Accounting Standards Board (FASB) Accounting Standards Codification (the Codification). Under this topic, the Organization 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 Organization had no permanently restricted net assets at December 31, 2014.

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.

National Law Enforcement Officers Memorial Fund, Inc. and Affiliate

Notes to Consolidated Financial Statements

Note 1. Nature of Activities and Significant Accounting Policies (Continued)

The Fund invests in professionally managed portfolios that contain common stock, mutual funds, exchange traded funds, fixed income 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 consolidated 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 received. 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 after providing an estimate for doubtful promises to give based on a review of all outstanding promises to give on a monthly basis. 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 \$480,540 at December 31, 2014.

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. The allowance for obsolescence, based on management's evaluation of the salability of inventory at December 31, 2014, was \$14,622.

Property and equipment: Furniture, equipment, and leasehold improvements are stated at cost less accumulated 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. 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.

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 development costs: Direct costs and certain allocations of costs of designing a future museum on federal land are capitalized as incurred. Costs incurred through December 31, 2014, are to pursue the architectural and exhibit design phase and also include utility relocation costs. Also included in these costs is \$981,660 of debt issue costs related to the planned issuance of debt to finance the museum.

National Law Enforcement Officers Memorial Fund, Inc. and Affiliate

Notes to Consolidated Financial Statements

Note 1. Nature of Activities and Significant Accounting Policies (Continued)

Museum collections: Museum 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 amortization on a straight-line basis over the exhibit's estimated useful life.

Valuation of long-lived assets: Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of the long-lived asset is measured by a comparison of the carrying amount of the asset to future undiscounted net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the estimated fair value of the assets. Assets to be disposed of are reportable at the lower of the carrying amount or fair value, less costs to sell.

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.

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.

The Fund receives contributions of in kind contributions from businesses and other organizations toward the fulfillment of program objectives and general operations. Those contributions, which are objectively measurable, have been included in both revenue and the related functional expense categories.

Merchandise sales are recognized upon purchase by the customer.

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

National Law Enforcement Officers Memorial Fund, Inc. and Affiliate

Notes to Consolidated Financial Statements

Note 1. Nature of Activities and Significant Accounting Policies (Continued)

Income taxes: The Organization is generally exempt from federal income taxes under the provisions of Section 501(c)(3) of the Internal Revenue Code. In addition, the Organization 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, 2014.

Management has evaluated the Organization's tax positions and has concluded that the Organization has taken no uncertain tax positions that require adjustment to the financial statements to comply with provisions of this guidance. Generally, the Organization is no longer subject to income tax examinations by the U.S. federal, state or local tax authorities before 2011.

Classification of expenses: The Organization categorizes expenses as follows:

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.

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

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

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

Use of estimates: The preparation of consolidated 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 consolidated financial statements, and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Subsequent events: The Organization evaluated subsequent events through July 20, 2015, which is the date the consolidated financial statements were available to be issued.

National Law Enforcement Officers Memorial Fund, Inc. and Affiliate

Notes to Consolidated Financial Statements

Note 2. Promises to Give

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

Promises to give at December 31, 2014, consist of the following:

Promises to give – restricted	\$ 9,523,037
Promises to give – unrestricted	46,245
	<u>\$ 9,569,282</u>
Promises to give in less than one year	2,428,848
Promises to give in one to five years	7,310,259
	<u>9,739,107</u>
Less allowance for doubtful promises to give	30,540
Less discount to net present value	139,285
	<u>\$ 9,569,282</u>

At December 31, 2014, promises to give included two individual pledges of \$1,064,698 and \$5,000,000 or approximately 63% of total 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.

Note 3. Investments

Investments at December 31, 2014, consist of the following:

Money market	\$ 3,157,266
Mutual funds	3,032,477
Common stock	3,006,715
Fixed income	1,514,664
Alternative investments	196,165
Exchange-traded funds	587,955
	<u>\$ 11,495,242</u>
Deferred compensation*	
Equity mutual fund	\$ 110,468
Money market	46,016
	<u>\$ 156,484</u>

*Deferred compensation plan is included in other assets on the consolidated balance sheet.

National Law Enforcement Officers Memorial Fund, Inc. and Affiliate

Notes to Consolidated Financial Statements

Note 3. Investments (Continued)

Investment income for the year ended December 31, 2014, consists of the following:

Interest and dividends	\$ 292,376
Realized and unrealized gain on investments, net	27,521
Investment fees	(54,119)
	<u>\$ 265,778</u>

Note 4. Property and Equipment

Property and equipment and accumulated depreciation at December 31, 2014, and depreciation expense for the year ended December 31, 2014, are as follows:

	Estimated Useful Lives	Cost	Accumulated Depreciation	Net	Depreciation
Visitors Center and exhibits	5 years	\$ 1,177,670	\$ 1,172,363	\$ 5,307	\$ 38,334
Furniture and equipment	5 years	683,605	675,211	8,394	43,294
Leasehold improvements	10 years	665,976	419,663	246,313	41,628
		<u>\$ 2,527,251</u>	<u>\$ 2,267,237</u>	<u>\$ 260,014</u>	<u>\$ 123,256</u>

Note 5. Memorial Development Costs

Memorial development costs, improvements, and accumulated depreciation at December 31, 2014, and depreciation expense for the year ended December 31, 2014, are as follows:

	Estimated Useful Lives	Cost	Accumulated Depreciation	Net	Depreciation
Memorial	-	\$ 14,300,437	\$ -	\$ 14,300,437	\$ -
Re-engraving	25 years	1,073,493	178,787	894,706	42,939
Tree beds	25 years	287,426	50,586	236,840	11,497
Wall cleaning	25 years	242,802	35,312	207,490	9,712
Light replacement	25 years	94,745	9,294	85,451	1,991
Perimeter security	25 years	57,912	10,424	47,488	2,317
		<u>\$ 16,056,815</u>	<u>\$ 284,403</u>	<u>\$ 15,772,412</u>	<u>\$ 68,456</u>

National Law Enforcement Officers Memorial Fund, Inc. and Affiliate

Notes to Consolidated Financial Statements

Note 6. Board Designated Endowment Funds

The Memorial Maintenance endowment fund was established to maintain the National Law Enforcement Officers Memorial.

The following table summarizes the changes in this Board designated fund during 2014:

Endowment net assets, beginning of year	\$ 4,621,824
Investment return:	
Investment income, net of fees	117,528
Net realized and unrealized losses	(14,212)
Total investment return	<u>103,316</u>
Appropriation of endowment for expenditure	(134,601)
Endowment net assets, end of year	<u>4,590,539</u>
Non-endowed funds	6,904,703
Total investments	<u>\$ 11,495,242</u>

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. 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% 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: The Fund will appropriate for expenditure in its annual budget a maximum of 100% of the earnings. The Fund appropriates in its annual budget approximately 4% 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.

National Law Enforcement Officers Memorial Fund, Inc. and Affiliate

Notes to Consolidated Financial Statements

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, 2014, due to the time restriction ending or the purpose restriction being accomplished.

Changes in temporarily restricted net assets during the year ended December 31, 2014, are as follows:

	Balance December 31, 2013	Additions	Released	Balance December 31, 2014
Time Restricted				
Museum	\$ 10,474,992	\$ 23,523	\$ (975,478)	\$ 9,523,037
Other promises to give	46,245	-	-	46,245
Purpose Restricted				
Memorial Maintenance –				
Department of Interior	1,749,197	-	-	1,749,197
In-kind contributions	1,148,739	-	-	1,148,739
Police Week	-	100,000	-	100,000
Museum Celebration event	-	50,000	-	50,000
Witness to History	40,000	40,000	(40,000)	40,000
Chairman’s Dinner	-	40,000	-	40,000
Museum – program development	904,354	-	-	904,354
	<u>\$ 14,363,527</u>	<u>\$ 253,523</u>	<u>\$ (1,015,478)</u>	<u>\$ 13,601,572</u>

Note 8. Fair Value Measurements

The Fair Value Measurement 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. There were no Level 3 instruments as of December 31, 2014.

National Law Enforcement Officers Memorial Fund, Inc. and Affiliate

Notes to Consolidated 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
Assets				
Fixed income:				
Preferred stocks	\$ 794,360	\$ 794,360	\$ -	\$ -
Corporate bonds	484,554	484,554	-	-
Certificate of deposit	235,750	-	235,750	-
	<u>1,514,664</u>	<u>1,278,914</u>	<u>235,750</u>	<u>-</u>
Common stock:				
Domestic	2,598,501	2,598,501	-	-
International	408,214	408,214	-	-
	<u>3,006,715</u>	<u>3,006,715</u>	<u>-</u>	<u>-</u>
Mutual funds:				
Fixed income	1,823,152	1,823,152	-	-
Domestic equity	977,643	977,643	-	-
Government securities	77,900	77,900	-	-
International equity	148,209	148,209	-	-
Real estate	5,573	5,573	-	-
	<u>3,032,477</u>	<u>3,032,477</u>	<u>-</u>	<u>-</u>
Exchange traded funds:				
Equity	587,955	587,955	-	-
	<u>587,955</u>	<u>587,955</u>	<u>-</u>	<u>-</u>
Alternative investments:				
ML Systematic Momentum LLC	196,165	-	196,165	-
	<u>196,165</u>	<u>-</u>	<u>196,165</u>	<u>-</u>
Money market				
	3,157,266	3,157,266	-	-
	<u>\$ 11,495,242</u>	<u>\$ 11,063,327</u>	<u>\$ 431,915</u>	<u>\$ -</u>
Deferred compensation:				
Equity mutual fund	\$ 110,468	\$ 110,468	\$ -	\$ -
Money market	46,016	46,016	-	-
	<u>\$ 156,484</u>	<u>\$ 156,484</u>	<u>\$ -</u>	<u>\$ -</u>
Liabilities				
Deferred compensation	\$ 156,484	\$ -	\$ 156,484	\$ -

The fair value of mutual funds, corporate bonds, preferred stocks, exchange traded funds, common stocks, and money markets is determined based on quoted market prices, when available, or market prices provided by recognized broker dealers; thus, they are categorized as Level 1.

National Law Enforcement Officers Memorial Fund, Inc. and Affiliate

Notes to Consolidated Financial Statements

Note 8. Fair Value Measurements (Continued)

The fair value of 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 it is 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.

Deferred compensation liability is based on the fair market 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 following presents further information regarding the composition of the Fund's investments in alternative investments at December 31, 2014:

ML Systematic Momentum LLC: The investment objective of the LLC 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 net asset value within a period of ten days as of the last day of each month. The Fund does not have any commitments for additional alternative investment purchases at December 31, 2014.

Note 9. Commitments

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 leases: The Fund has two non-cancelable operating lease agreements for office space. One is for a term that ended February 28, 2015, and was amended and extended to 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 \$528,820 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, 2014, was \$549,203.

National Law Enforcement Officers Memorial Fund, Inc. and Affiliate

Notes to Consolidated Financial Statements

Note 9. Commitments (Continued)

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

Years Ending December 31,

2015	\$	590,649
2016		582,043
2017		426,036
2018		435,451
2019		445,076
Thereafter		410,205
	\$	<u>2,889,460</u>

Employment agreement: The Fund entered into an employment contract with the Chairman/Executive Director, which expires on December 31, 2017. If the Fund terminates the Chairman/Executive Director without cause, the Fund is required to pay the Chairman/Executive Director base salary of two weeks for every year employed for the Fund.

Museum construction contract: The Fund entered into an agreement on July 22, 2013, with a contractor for the construction of the Museum. The contract was subsequently amended on June 18, 2014. The contract calls for a guaranteed maximum cost of \$51,511,062 and is contingent upon the Fund securing outside financing of the construction. At December 31, 2014, financing was not yet secured.

Note 10. Allocation of Joint Costs

For the year ended December 31, 2014, the Fund incurred joint costs of \$5,503,333 for informational materials and activities that included fundraising appeals. Of those costs, \$1,777,333 was allocated to program expenses and \$3,726,000 was allocated to fundraising expenses.

Note 11. Employee Retirement Plans

403(b) plan: The Fund has established a Section 403(b) tax-deferred annuity plan (the Plan) covering all employees. The Plan participants are 100% vested immediately after entering the Plan. Employees 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, 2014, were \$174,038.

Supplemental employee pension plan: 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, 2014, were \$27,051.

National Law Enforcement Officers Memorial Fund, Inc. and Affiliate

Notes to Consolidated Financial Statements

Note 12. 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 audits. Management does not anticipate any significant adjustments as a result of such audits. For the year ended December 31, 2014, no financial and compliance audit was required.

Note 13. Conditional Promises to Give

The Fund has two conditional grants that the Fund may invoice the donor upon completion of the specific milestones related to the construction of the Museum as delineated in the grant agreements. Since the grants represent conditional promises to give, they are not recorded as contribution revenue until the conditions are met. The two grants are described as follows:

- Grant for \$10,000,000 received during the year ended December 31, 2011, of which \$5,000,000 has been received as of December 31, 2014, and revenue recognized of \$2,000,000, \$2,000,000, and \$1,000,000 for the years ended December 31, 2013, 2012, and 2011, respectively. The remaining balance due upon satisfaction of conditions is \$5,000,000 at December 31, 2014.
- Grant for \$1,750,000 received May 2012, which includes cash for the purchase of equipment valued at \$750,000, of which \$125,000 has been received as of December 31, 2014, and revenue recognized of \$100,000 and \$25,000 for the years ended December 31, 2013 and 2012, respectively. The remaining balance due upon satisfaction of conditions is \$1,625,000 at December 31, 2014.