

National Law Enforcement Officers Memorial Fund, Inc. and Affiliate

Consolidated Financial Report
December 31, 2015

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RSM US LLP

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, 2015, 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 Affiliate as of December 31, 2015, 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.

Emphasis of Matter

As discussed in Note 14 to the consolidated financial statements, in January 2016 the Organization issued tax-exempt revenue bonds for the construction of the National Law Enforcement Museum of approximately \$103 million. Our opinion is not modified with respect to this matter.

RSM US LLP

Washington, D.C.
May 27, 2016

National Law Enforcement Officers Memorial Fund, Inc. and Affiliate

**Consolidated Balance Sheet
Year Ended December 31, 2015**

Assets

Cash	\$ 1,786,094
Investments	11,092,871
Promises to give, net	10,032,585
Receivables, net	446,563
Inventory	386,904
Property and equipment, net	212,547
Memorial, net	15,930,099
Museum:	
Development costs	29,427,679
Collections	1,523,387
Other assets	579,338
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	\$ 71,418,067
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Liabilities and Net Assets

Liabilities:

Accounts payable and accrued expenses	\$ 2,563,900
Deferred compensation	176,304
Deferred rent	463,663
Total liabilities	<hr/>
	3,203,867
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Commitments and contingencies (Notes 9, 12, 13 and 14)

Net assets:

Unrestricted:	
Undesignated	34,051,919
Designated for memorial maintenance	4,327,307
Memorial development costs	15,930,099
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	54,309,325
Temporarily restricted	13,904,875
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	68,214,200
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	\$ 71,418,067
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See notes to consolidated financial statements.

National Law Enforcement Officers Memorial Fund, Inc. and Affiliate

**Consolidated Statement of Activities
Year Ended December 31, 2015**

	Unrestricted	Temporarily Restricted	Total
Support and revenue:			
Contributions	\$ 15,278,292	\$ 153,507	\$ 15,431,799
In-kind contributions	1,074,148	1,138,000	2,212,148
Net sales of merchandise	546,084	-	546,084
Federal grants	378,489	-	378,489
List rental	172,575	-	172,575
Investment loss, net	(13,939)	-	(13,939)
Special events, net – TBL	(4,499)	-	(4,499)
Other	62,917	-	62,917
Net assets released from restriction	423,637	(423,637)	-
Total support and revenue	17,917,704	867,870	18,785,574
Expenses:			
Program services:			
Public awareness	1,990,585	-	1,990,585
Societal materials	3,138,143	-	3,138,143
Memorial operations	2,314,888	-	2,314,888
Visitors center	1,850,015	-	1,850,015
	9,293,631	-	9,293,631
Supporting services:			
Fundraising	6,814,557	-	6,814,557
Management and general	978,378	-	978,378
	7,792,935	-	7,792,935
Total expenses	17,086,566	-	17,086,566
Change in net assets before change in provision for doubtful promises to give	831,138	867,870	1,699,008
Loss on change in provision for doubtful promises to give	-	564,567	564,567
Change in net assets	831,138	303,303	1,134,441
Net assets:			
Beginning	53,478,187	13,601,572	67,079,759
Ending	\$ 54,309,325	\$ 13,904,875	\$ 68,214,200

See notes to consolidated financial statements.

National Law Enforcement Officers Memorial Fund, Inc. and Affiliate

Consolidated Statement of Functional Expenses Year Ended December 31, 2015

	Program Services				Total Program Services	Supporting Services				Total
	Public Awareness	Societal Materials	Memorial Operations	Visitors Center		Fundraising	Management and General	Total Supporting Services		
Mailing services	\$ -	\$ 925,957	\$ -	\$ 70,552	\$ 996,509	\$ 2,406,223	\$ -	\$ 2,406,223	\$ 3,402,732	
Postage	1,937	904,173	4,790	94,804	1,005,704	2,345,049	902	2,345,951	3,351,655	
Salaries	412,673	532,938	651,729	691,818	2,289,158	466,321	192,188	658,509	2,947,667	
Media advertising	1,086,188	-	-	6,177	1,092,365	-	-	-	1,092,365	
Special events	150	-	671,781	47,376	719,307	36,124	17,803	53,927	773,234	
Dollar bills and coins	-	241,111	-	-	241,111	512,561	-	512,561	753,672	
Consulting	41,905	150,446	63,877	86,610	342,838	313,416	17,187	330,603	673,441	
Rent	36,059	46,567	56,947	325,144	464,717	73,604	16,794	90,398	555,115	
Employee benefits	78,048	90,248	120,958	130,842	420,096	88,194	41,212	129,406	549,502	
Computing services	99,844	59,650	41,228	35,576	236,298	218,867	17,400	236,267	472,565	
Accounting and legal	44,037	56,870	38,368	73,825	213,100	49,762	98,183	147,945	361,045	
Grants, memorial	-	-	336,000	-	336,000	-	-	-	336,000	
Caging	-	-	-	-	-	-	274,393	274,393	274,393	
List rental	-	68,463	-	-	68,463	149,826	-	149,826	218,289	
Payroll taxes	39,943	24,118	58,709	23,409	146,179	37,317	14,587	51,904	198,083	
Travel	62,790	2,601	26,083	20,874	112,348	9,581	31,992	41,573	153,921	
Bank charges	-	-	-	27,046	27,046	-	115,414	115,414	142,460	
Depreciation and amortization	8,815	-	87,347	6,026	102,188	16,497	739	17,236	119,424	
Telephone	13,702	17,696	21,648	27,333	80,379	16,049	7,575	23,624	104,003	
Printing and graphics	5,637	-	4,464	55,584	65,685	11,509	1,027	12,536	78,221	
Office supplies	4,768	11,588	19,610	32,723	68,689	3,428	5,361	8,789	77,478	
Meals and entertainment	1,392	-	4,013	7,149	12,554	15,990	34,285	50,275	62,829	
Repairs and maintenance	-	-	49,108	4,051	53,159	-	539	539	53,698	
Public relations	35,097	-	-	-	35,097	-	-	-	35,097	
Exhibits and trade shows	2,917	-	27,835	2,910	33,662	1,220	-	1,220	34,882	
Insurance	4,203	5,428	6,637	10,944	27,212	4,749	1,957	6,706	33,918	
Promotional items	1,400	-	2,674	12,280	16,354	8,879	6,582	15,461	31,815	
Federal and state registrations	-	-	-	-	-	-	26,505	26,505	26,505	
Photography	187	-	9,504	14,852	24,543	-	-	-	24,543	
Temporary help	-	-	-	6,448	6,448	7,229	9,589	16,818	23,266	
Delivery	3,022	-	5,095	10,180	18,297	3,415	1,503	4,918	23,215	
Other	198	-	2,018	190	2,406	5,853	11,173	17,026	19,432	
Administrative	-	-	-	-	-	-	19,365	19,365	19,365	
Publications and dues	1,311	-	920	975	3,206	9,847	4,954	14,801	18,007	
Equipment rental	1,594	-	2,516	2,672	6,782	1,801	3,889	5,690	12,472	
Utilities	223	289	352	9,870	10,734	252	1,058	1,310	12,044	
Security system	-	-	-	10,251	10,251	-	280	280	10,531	
Seminars and training	2,545	-	627	1,024	4,196	744	1,750	2,494	6,690	
Storage	-	-	50	480	530	110	1,292	1,402	1,932	
Licenses and fees	-	-	-	20	20	140	900	1,040	1,060	
Total expenses	\$ 1,990,585	\$ 3,138,143	\$ 2,314,888	\$ 1,850,015	\$ 9,293,631	\$ 6,814,557	\$ 978,378	\$ 7,792,935	\$ 17,086,566	

See notes to consolidated financial statements.

National Law Enforcement Officers Memorial Fund, Inc. and Affiliate

**Consolidated Statement of Cash Flows
Year Ended December 31, 2015**

Cash flows from operating activities:	
Change in net assets	\$ 1,134,441
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation and amortization	119,424
Realized and unrealized loss on investments, net	264,850
Decrease in discount to net present value for promises to give	(33,507)
Increase in allowance for inventory	1,924
Net increase in provision for doubtful promises to give	572,040
Deferred rent	(65,157)
Changes in assets and liabilities:	
(Increase) decrease in:	
Promises to give	(1,001,836)
Receivables	(98,371)
Inventory	107,321
Other assets	150,028
Increase (decrease) in:	
Deferred compensation	19,820
Accounts payable and accrued expenses	228,127
Net cash provided by operating activities	<u>1,399,104</u>
Cash flows from investing activities:	
Purchase of property and equipment	(3,501)
Purchase of investments	(7,000,831)
Proceeds from sale of investments	7,138,352
Payment of memorial development costs	(226,143)
Payment of museum development and collections costs	(141,968)
Net cash used in investing activities	<u>(234,091)</u>
Cash flows from financing activities:	
Payment of debt issuance costs	(946,817)
Net cash used in financing activities	<u>(946,817)</u>
Net increase in cash	218,196
Cash:	
Beginning	<u>1,567,898</u>
Ending	<u>\$ 1,786,094</u>
Supplemental schedule of noncash financing and investing activities:	
Amounts in museum development costs included in accounts payable and accrued expenses	<u>\$ 971,868</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 nonprofit 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 the National Law Enforcement 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. In January 2016, the Fund obtained financing for construction of the museum and construction commenced in February 2016 (Note 14).

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, 2015.

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, 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 \$602,580 at December 31, 2015.

Receivables: Receivables are carried at original invoice amounts less an estimate made for doubtful receivables based on a review of all outstanding amounts on a monthly basis. Management determines the allowance for doubtful accounts by identifying troubled accounts and by using historical experience applied to an aging of accounts. Receivables are written off when deemed uncollectible. Recoveries of receivables previously written off are recorded when received. Management determined all receivables to be collectible and there was no allowance for doubtful accounts at December 31, 2015.

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, 2015, was \$16,546.

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 \$1,000, 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, 2015, are to pursue the architectural and exhibit design phase and also include utility relocation costs. Also included in these costs is \$1,928,477 of debt issue costs related to the issuance of debt to finance the museum (Note 14).

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.

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 contribution 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, 2015.

National Law Enforcement Officers Memorial Fund, Inc. and Affiliate

Notes to Consolidated Financial Statements

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

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 2012.

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.

Recent accounting pronouncements: Certain accounting pronouncements have recently been issued by the FASB.

In April 2015, the FASB issued Accounting Standards Update (ASU) No. 2015-03, *Interest – Imputation of Interest (Subtopic 835-30); Simplifying the Presentation of Debt Issuance Costs*. This ASU simplifies the presentation of debt issuance costs. The amendments in this ASU require that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The amendments in this ASU are effective for the annual period beginning after December 15, 2015, and for annual periods and interim periods thereafter. Early application is permitted. The Fund is evaluating the impact to the consolidated financial statements for the year ended December 31, 2016.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*, which sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract (i.e., lessees and lessors). The most significant change for lessees is the requirement under the new guidance to recognize right-of-use assets and lease liabilities for all leases not considered short-term leases. Changes to the lessor accounting model include: (a) synchronizing key aspects of the model with the new revenue recognition guidance, such as basing whether a lease is similar to a sale on whether control of the underlying asset has transferred to the lessee and (b) prospectively eliminating the specialized accounting for leveraged leases. The new standard requires lessors to account for leases using an approach that is substantially equivalent to existing guidance for sales-type leases, direct financing leases and operating leases. The standard is effective on January 1, 2020, with early adoption permitted. The Fund is in the process of evaluating the impact of this new guidance.

National Law Enforcement Officers Memorial Fund, Inc. and Affiliate

Notes to Consolidated Financial Statements

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

In July 2015, the FASB issued ASU No. 2015-11, *Inventory (Topic 330): Simplifying the Measurement of Inventory*. The amendments in the ASU require entities that measure inventory using the first-in, first-out or average cost methods to measure inventory at the lower of cost and net realizable value. Net realizable value is defined as the estimated selling price in the ordinary course of business less, reasonably predictable costs of completion, disposal and transportation. ASU 2015-11 is effective for financial statements issued for fiscal years beginning after December 15, 2016. The amendments should be applied prospectively with earlier application permitted. This ASU will be effective for the Fund for fiscal year ending December 31, 2017. The Fund is evaluating the impact to the consolidated financial statements.

Subsequent events: The Organization evaluated subsequent events through May 27, 2016, which is the date the consolidated 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 1.10% for current year promises to give.

Promises to give at December 31, 2015, consist of the following:

Promises to give – restricted	\$ 9,996,340
Promises to give – unrestricted	36,245
	<u>\$ 10,032,585</u>
Promises to give in less than one year	1,109,695
Promises to give in one to five years	9,591,248
Promises to give greater than five years	40,000
	<u>10,740,943</u>
Less allowance for doubtful promises to give	602,580
Less discount to net present value	105,778
	<u>\$ 10,032,585</u>

At December 31, 2015, promises to give included promises to give from three different donors of \$5,500,000, \$1,864,698 and \$1,138,000 or approximately 79% 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.

National Law Enforcement Officers Memorial Fund, Inc. and Affiliate

Notes to Consolidated Financial Statements

Note 3. Investments

Investments at December 31, 2015, consist of the following:

Common stock	\$ 3,743,820
Mutual funds	2,962,495
Money market	2,480,758
Fixed income	1,722,033
Alternative investments	183,765
	<u>\$ 11,092,871</u>
Deferred compensation:*	
Equity mutual fund	\$ 122,119
Money market	54,185
	<u>\$ 176,304</u>

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

Investment loss for the year ended December 31, 2015, consists of the following:

Interest and dividends	\$ 308,266
Realized and unrealized loss on investments, net	(264,850)
Investment fees	(57,355)
	<u>\$ (13,939)</u>

Note 4. Property and Equipment

Property and equipment and accumulated depreciation at December 31, 2015, and depreciation expense for the year ended December 31, 2015, are as follows:

	Estimated Useful Lives	Cost	Accumulated Depreciation	Net	Depreciation
Visitors center and exhibits	5 years	\$ 1,177,670	\$ 1,177,368	\$ 302	\$ 5,005
Furniture and equipment	5 years	687,104	679,547	7,557	4,336
Leasehold improvements	10 years	665,978	461,290	204,688	41,627
		<u>\$ 2,530,752</u>	<u>\$ 2,318,205</u>	<u>\$ 212,547</u>	<u>\$ 50,968</u>

National Law Enforcement Officers Memorial Fund, Inc. and Affiliate

Notes to Consolidated Financial Statements

Note 5. Memorial Development Costs

Memorial development costs, improvements, and accumulated depreciation at December 31, 2015, and depreciation expense for the year ended December 31, 2015, are as follows:

	Estimated Useful Lives	Cost	Accumulated Depreciation	Net	Depreciation
Memorial	-	\$ 14,526,580	\$ -	\$ 14,526,580	\$ -
Re-engraving	25 years	1,073,493	221,726	851,767	42,939
Tree beds	25 years	287,426	62,083	225,343	11,497
Wall cleaning	25 years	242,802	45,024	197,778	9,712
Light replacement	25 years	94,745	11,285	83,460	1,991
Perimeter security	25 years	57,912	12,741	45,171	2,317
		<u>\$ 16,282,958</u>	<u>\$ 352,859</u>	<u>\$ 15,930,099</u>	<u>\$ 68,456</u>

Note 6. Board Designated Endowment Fund

The board designated 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 2015:

Endowment net assets, beginning of year	<u>\$ 4,590,539</u>
Investment return:	
Investment income, net of fees	122,055
Net realized and unrealized losses	<u>(150,781)</u>
Total investment return	<u>(28,726)</u>
Appropriation of endowment for expenditure	<u>(234,506)</u>
Endowment net assets, end of year	4,327,307
Non-endowed funds	6,765,564
Total investments	<u>\$ 11,092,871</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.

National Law Enforcement Officers Memorial Fund, Inc. and Affiliate

Notes to Consolidated Financial Statements

Note 6. Board Designated Endowment Fund (Continued)

Return objective and risk parameters: The Fund's objective is to earn a respectable, long-term, risk-adjusted total rate of return to support the designated programs. 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.

Note 7. Temporarily Restricted Net Assets

Changes in temporarily restricted net assets during the year ended December 31, 2015, are as follows:

	Balance December 31, 2014	Additions	Released	Balance December 31, 2015
Time restricted:				
Museum	\$ 9,523,037	\$ 1,271,507	\$ (798,204)	\$ 9,996,340
Other promises to give	46,245	-	(10,000)	36,245
Purpose restricted:				
Memorial maintenance –				
Department of Interior	1,749,197	-	-	1,749,197
In-kind contributions	1,148,739	-	-	1,148,739
Museum – program development	904,354	-	-	904,354
Museum celebration event	50,000	20,000	-	70,000
Police week	100,000	-	(100,000)	-
Witness to history	40,000	-	(40,000)	-
Chairman's dinner	40,000	-	(40,000)	-
	<u>\$ 13,601,572</u>	<u>\$ 1,291,507</u>	<u>\$ (988,204)</u>	<u>\$ 13,904,875</u>

National Law Enforcement Officers Memorial Fund, Inc. and Affiliate

Notes to Consolidated Financial Statements

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 consolidated 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, 2015.

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:				
Corporate bonds	\$ 771,861	\$ 771,861	\$ -	\$ -
Preferred stocks	709,422	709,422	-	-
Certificate of deposit	240,750	-	240,750	-
	<u>1,722,033</u>	<u>1,481,283</u>	<u>240,750</u>	<u>-</u>
Common stock:				
Domestic	3,011,154	3,011,154	-	-
International	732,666	732,666	-	-
	<u>3,743,820</u>	<u>3,743,820</u>	<u>-</u>	<u>-</u>
Mutual funds:				
Domestic equity	1,230,045	1,230,045	-	-
Fixed income	849,090	849,090	-	-
Government securities	723,991	723,991	-	-
International equity	154,141	154,141	-	-
Real estate	5,228	5,228	-	-
	<u>2,962,495</u>	<u>2,962,495</u>	<u>-</u>	<u>-</u>
Alternative investments:				
MAN FRM managed futures	183,765	-	183,765	-
	<u>183,765</u>	<u>-</u>	<u>183,765</u>	<u>-</u>
Money market funds				
	2,480,758	2,480,758	-	-
	<u>\$ 11,092,871</u>	<u>\$ 10,668,356</u>	<u>\$ 424,515</u>	<u>\$ -</u>
Deferred compensation:				
Equity mutual fund	\$ 122,119	\$ 122,119	\$ -	\$ -
Money market funds	54,185	54,185	-	-
	<u>\$ 176,304</u>	<u>\$ 176,304</u>	<u>\$ -</u>	<u>\$ -</u>
Liabilities:				
Deferred compensation	\$ 176,304	\$ -	\$ 176,304	\$ -

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

The fair value of 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 MAN FRM managed futures 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.

National Law Enforcement Officers Memorial Fund, Inc. and Affiliate

Notes to Consolidated Financial Statements

Note 8. Fair Value Measurements (Continued)

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, 2015:

MAN FRM Managed Futures: 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 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, 2015.

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 \$463,663 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, 2015, was \$555,115.

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

Years ending December 31:	
2016	\$ 582,043
2017	426,036
2018	435,451
2019	445,076
2020	410,205
	<u>\$ 2,298,811</u>

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

National Law Enforcement Officers Memorial Fund, Inc. and Affiliate

Notes to Consolidated Financial Statements

Note 9. Commitments (Continued)

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 November 15, 2015. The contract calls for a guaranteed maximum cost of \$50,748,031 and is contingent upon the financing of the construction, which was secured January 2016 (Note 14).

Note 10. Allocation of Joint Costs

For the year ended December 31, 2015, the Fund incurred joint costs of \$7,168,512 for informational materials and activities that included fundraising appeals. Of those costs, \$2,302,138 was allocated to program expenses and \$4,866,374 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 employer contributions to the Plan for the year ended December 31, 2015, were \$193,760.

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, 2015, were \$26,770.

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, 2015, 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, 2015. The balance due on the grant was collected in January 2016.
- 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, 2015.

National Law Enforcement Officers Memorial Fund, Inc. and Affiliate

Notes to Consolidated Financial Statements

Note 14. Subsequent Event

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 National Law Enforcement Museum. The bonds consist of the following:

- \$48,130,000 of non-rated, tax exempt fixed rate Series A Bonds;
- \$30,000,000 of non-rated, tax exempt fixed rate Series B Bonds; and
- \$25,000,000 of non-rated, tax exempt fixed rate Series C Bonds.

The bonds have coupon rates of 5.75% to 10.00% per annum. Principal and interest on the bonds is payable semi-annually on January 1 and July 1 of each year beginning July 1, 2016, with a final maturity on July 1, 2049.