

National Law Enforcement Officers Memorial Fund, Inc. And Affiliate

Consolidated Financial Report
December 31, 2011

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Independent Auditor's Report

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

We have audited the accompanying consolidated balance sheet of the National Law Enforcement Officers Memorial Fund, Inc. and Affiliate (the Organization) as of December 31, 2011, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the National Law Enforcement Officers Memorial Fund, Inc. and Affiliate as of December 31, 2011, and the changes in their net assets and their cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

McGladrey LLP

Vienna, Virginia
June 27, 2012

National Law Enforcement Officers Memorial Fund, Inc. And Affiliate

**Consolidated Balance Sheet
December 31, 2011**

Assets

Cash And Cash Equivalents	\$ 2,427,430
Investments	10,373,143
Promises To Give, net	10,361,792
Grant Receivable	33,251
Inventory	469,799
Property And Equipment, net	767,594
Memorial Development Costs, net Museum	15,674,944
Development costs	19,465,422
Collections	1,357,534
Other Assets	60,678
	<u>\$ 60,991,587</u>

Liabilities And Net Assets

Liabilities	
Accounts payable and accrued expenses	\$ 2,546,856
Deferred rent	673,655
Total liabilities	<u>3,220,511</u>

Commitments And Contingencies (Notes 9 and 13)

Net Assets

Unrestricted	
Undesignated	21,094,216
Designated for Memorial Maintenance	3,816,726
Designated for Museum	2,965,097
Memorial development costs	15,674,944
	<u>43,550,983</u>
Temporarily restricted	14,220,093
	<u>57,771,076</u>
	<u>\$ 60,991,587</u>

See Notes To Consolidated Financial Statements.

National Law Enforcement Officers Memorial Fund, Inc. And Affiliate

**Consolidated Statement Of Activities
Year Ended December 31, 2011**

	Unrestricted	Temporarily Restricted	Total
Support and revenue:			
Contributions	\$ 11,967,537	\$ 5,700,581	\$ 17,668,118
Net sales of merchandise	571,094	-	571,094
List rental	122,035	-	122,035
In-kind contributions	61,747	-	61,747
Federal grants	57,809	-	57,809
Investment income, net	19,785	-	19,785
Other	26,584	-	26,584
Net assets released from restriction	3,014,954	(3,014,954)	-
Total support and revenue	15,841,545	2,685,627	18,527,172
Expenses:			
Program services:			
Societal Program Materials	4,348,837	-	4,348,837
Memorial Operations	1,903,878	-	1,903,878
Visitors Center	1,664,717	-	1,664,717
Public Awareness	945,243	-	945,243
	8,862,675	-	8,862,675
Supporting services:			
Fundraising	5,257,191	-	5,257,191
Management and general	819,377	-	819,377
	6,076,568	-	6,076,568
Total expenses	14,939,243	-	14,939,243
Change in net assets before provision for doubtful promises to give	902,302	2,685,627	3,587,929
Provision for doubtful promises to give	-	696,783	696,783
Change in net assets	902,302	1,988,844	2,891,146
Net assets:			
Beginning	42,648,681	12,231,249	54,879,930
Ending	\$ 43,550,983	\$ 14,220,093	\$ 57,771,076

See Notes To Consolidated Financial Statements.

National Law Enforcement Officers Memorial Fund, Inc. And Affiliate

**Consolidated Statement Of Functional Expenses
Year Ended December 31, 2011**

	Program Services					Supporting Services			
	Societal Program Materials	Memorial Operations	Visitors Center	Public Awareness	Total Program Services	Fundraising	Management And General	Total Supporting Services	Total
Salaries	\$ 362,114	\$ 498,897	\$ 547,453	\$ 281,687	\$ 1,690,151	\$ 316,849	\$ 130,586	\$ 447,435	\$ 2,137,586
Employee benefits	55,246	82,887	105,767	54,854	298,754	71,429	37,490	108,919	407,673
Payroll taxes	17,680	45,738	22,740	31,246	117,404	28,854	11,008	39,862	157,266
Temporary help	-	-	11,840	-	11,840	2,676	8,101	10,777	22,617
Postage	1,333,089	3,861	4,850	3,367	1,345,167	1,465,851	2,770	1,468,621	2,813,788
Mailing services	719,999	-	-	-	719,999	1,283,840	-	1,283,840	2,003,839
Printing and graphics	1,308,093	23,091	3,764	28,624	1,363,572	539,655	7,152	546,807	1,910,379
Special events	-	383,405	27,566	147,484	558,455	351,216	20,004	371,220	929,675
Consulting	147,217	30,524	152,469	16,435	346,645	286,993	4,978	291,971	638,616
Rent	48,251	59,006	295,560	37,362	440,179	62,819	17,400	80,219	520,398
Computing services	134,760	1,305	66,089	33,918	236,072	206,083	27,460	233,543	469,615
Accounting and legal	59,035	25,040	76,635	65,256	225,966	51,657	116,021	167,678	393,644
Capital campaign	-	-	-	-	-	315,868	-	315,868	315,868
Depreciation	-	105,027	132,127	21,153	258,307	30,473	5,393	35,866	294,173
List rental	134,069	-	-	-	134,069	137,544	-	137,544	271,613
Grants – Memorial	-	201,660	-	-	201,660	-	-	-	201,660
Caging	-	-	-	-	-	-	174,700	174,700	174,700
Travel	7,796	30,099	33,969	54,650	126,514	15,344	28,158	43,502	170,016
Bank charges	-	-	40,176	-	40,176	-	72,466	72,466	112,642
Office supplies	10,342	17,671	44,035	5,697	77,745	17,538	15,969	33,507	111,252
Meals and entertainment	-	17,447	8,086	2,847	28,380	26,523	37,986	64,509	92,889
Public relations	-	-	-	85,514	85,514	-	-	-	85,514
Repairs and maintenance	-	45,728	11,000	-	56,728	-	2,227	2,227	58,955
Media advertising	-	-	213	53,117	53,330	-	-	-	53,330
Insurance	6,692	8,184	8,688	5,182	28,746	5,856	11,795	17,651	46,397
Telephone	4,116	6,342	11,536	3,391	25,385	7,338	4,808	12,146	37,531
Delivery	-	7,597	10,754	5,484	23,835	7,854	4,979	12,833	36,668
Exhibits and trade shows	-	19,521	9,697	1,527	30,745	625	-	625	31,370
Administrative	-	-	-	-	-	-	28,591	28,591	28,591
Equipment rental	-	6,595	11,731	2,316	20,642	2,697	5,011	7,708	28,350
Federal and state registrations	-	-	-	-	-	-	26,947	26,947	26,947
Promotional items	-	9,394	30	2,005	11,429	8,600	1,752	10,352	21,781
Publications and dues	-	572	2,696	1,411	4,679	6,403	3,921	10,324	15,003
Security system	-	2,901	10,950	-	13,851	-	275	275	14,126
Photography	-	11,676	27	262	11,965	225	-	225	12,190
Utilities	338	414	7,688	262	8,702	296	287	583	9,285
Storage	-	-	20	-	20	-	9,252	9,252	9,272
Other	-	1,341	3,282	192	4,815	1,978	1,818	3,796	8,611
Seminars and training	-	-	1,472	-	1,472	4,107	27	4,134	5,606
Licenses and fees	-	-	1,807	-	1,807	-	45	45	1,852
Special event – Thin Blue Line Bike Ride	-	257,955	-	-	257,955	-	-	-	257,955
Total expenses	\$ 4,348,837	\$ 1,903,878	\$ 1,664,717	\$ 945,243	\$ 8,862,675	\$ 5,257,191	\$ 819,377	\$ 6,076,568	\$ 14,939,243

See Notes To Consolidated Financial Statements.

National Law Enforcement Officers Memorial Fund, Inc. And Affiliate

Consolidated Statement Of Cash Flows
Year Ended December 31, 2011

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Cash Flows From Operating Activities	
Change in net assets	\$ 2,891,146
Adjustments to reconcile change in net assets to net cash used in operating activities:	
Depreciation	294,173
Realized and unrealized loss on investments, net	172,218
Decrease in discount to net present value for promises to give	(83,733)
Increase in provision for doubtful promises to give	686,783
Increase in allowance for obsolete inventory	10,253
Deferred rent	(32,263)
Donated collections	(415)
Contributions restricted for building of museum	(3,006,897)
Changes in assets and liabilities:	
(Increase) decrease in:	
Promises to give	(2,656,285)
Grant receivable	327,228
Inventory	15,968
Other assets	37,639
Increase in accounts payable and accrued expenses	1,312,551
Net cash used in operating activities	<u>(31,634)</u>
Cash Flows From Investing Activities	
Purchase of property and equipment	(58,697)
Purchase of investments	(8,496,962)
Proceeds from sale of investments	10,527,057
Payment of memorial development costs	(252,807)
Payment of museum development costs	(3,894,662)
Net cash used in investing activities	<u>(2,176,071)</u>
Cash Flows From Financing Activities	
Contributions restricted for building of museum	3,006,897
Net cash provided by financing activities	<u>3,006,897</u>
Net increase in cash and cash equivalents	799,192
Cash And Cash Equivalents	
Beginning	<u>1,628,238</u>
Ending	<u><u>\$ 2,427,430</u></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 and maintains a permanent national memorial (the Memorial) to those law enforcement officers and educates the general population as to the officers' and their families' sacrifices. The Fund continues to be involved in the education and promotion of this memorial to the general public. A Visitors Center was opened near the memorial site in May 1993 and is operated by the Fund.

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

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, 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, 2011.

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

Financial risk: The Fund maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits. The Fund has not experienced any losses in such accounts. The Fund believes it is not exposed to any significant financial risk on cash.

The Fund invests in professionally managed portfolios that contain common stock, mutual funds, exchange-traded funds, government securities, corporate bonds and alternative investments. Such investments are exposed to various risks such as interest rate, market, and credit. Due to the level of risk associated with such investments and the level of uncertainty related to changes in the value of such investments, it is at least reasonably possible that changes in risks in the near term could materially affect investment balances and the amounts reported in the financial statements.

National Law Enforcement Officers Memorial Fund, Inc. And Affiliate

Notes To Consolidated Financial Statements

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

Investments: Investments are reflected at fair market value. To adjust the carrying value of these investments, the change in fair market value is charged or credited to current operations.

Unconditional promises to give: Unconditional promises to give are recognized as revenue or gains in the period acknowledged. Conditional promises to give are recognized when the conditions on which they depend are substantially met.

Unconditional promises to give are carried at present value less an estimate made for doubtful promises based on a review of all outstanding promises on a monthly basis. Management determines the allowance for doubtful promises by using the historical experience applied to an aging of promises. Promises are written off when deemed uncollectible. Based on management's evaluation of the collection of promises, the allowance for doubtful promises was \$2,209,933 at December 31, 2011.

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, 2011, was \$10,253.

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

Museum development costs: Direct costs and certain allocations of costs of designing a future museum are capitalized as incurred. Costs incurred through December 31, 2011, are to pursue the architectural and exhibit design phase and also include utility relocation costs.

Museum collections: Museum collection costs include costs incurred to acquire and conserve artifacts, to develop the museum collection, and to further collecting activities. The Museum's collection is not currently on display. When ready for display, a determination will be made as to whether these items are inexhaustible or exhaustible. Exhaustible items will be subject to amortization on a straight-line basis over the exhibit's estimated useful life. Museum collections are capitalized at cost if purchased and at fair value if contributed.

Property and equipment: Betterments, renewals, and extraordinary repairs that extend the life of the asset, usually greater than \$500, are capitalized; other repairs and maintenance charges are expensed as incurred. Furniture, equipment, and leasehold improvements are stated net of depreciation. Depreciation and amortization are determined using the straight-line method over the estimated useful lives of five years for furniture and equipment, and the lesser of ten years or the remaining term of the lease for leasehold improvements. Amortization expense is included in total depreciation expense.

Valuation of long-lived assets: The Fund accounts for the valuation of long-lived assets under the Impairment or Disposal of Long-Lived Assets Topic of the Codification. This topic requires that long-lived assets and certain identifiable intangible assets be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of long-lived assets is measured by a comparison of the carrying amount of the asset to future undiscounted net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the estimated fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value, less costs to sell. The Fund had no impairments of long-lived assets during the year ended December 31, 2011.

National Law Enforcement Officers Memorial Fund, Inc. And Affiliate

Notes To Consolidated Financial Statements

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

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.

Merchandise sales are recognized upon purchase by the customer.

In-kind contributions are recorded at their fair market value when received, which consists of donated property in 2011.

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

Advertising expense: The Fund expenses all advertising costs as incurred. Amounts charged to expense for the year ended December 31, 2011, was \$53,117.

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, 2011.

The Organization complies with the Accounting for Uncertainty in Income Taxes Topic of the Codification, which addresses the determination of whether tax benefits claimed or expected to be claimed on a tax return should be recorded in the financial statements. Under this guidance, the Organization may recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained upon examination by taxing authorities, based upon the technical merits of the position. The tax benefits recognized in the financial statements from such a position are measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement. The guidance on accounting for uncertainty in income taxes also addresses de-recognition, classification, interest and penalties on income taxes, and accounting in interim periods. Management has evaluated the 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 2008.

National Law Enforcement Officers Memorial Fund, Inc. And Affiliate

Notes To Consolidated Financial Statements

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

Classification of expenses: The Organization categorizes expenses as follows:

Societal Program 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 financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Subsequent events: The Organization evaluated subsequent events through June 27, 2012, which is the date the financial statements were available to be issued.

Note 2. Promises To Give

Promises to give in one year or more are measured using the present value of future cash flows based on a discount rate of 1.89%.

Promises to give at December 31, 2011, consist of the following:

Promises to give – restricted	\$ 10,256,732
Promises to give – unrestricted	105,060
	<u>\$ 10,361,792</u>
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Promises to give in less than one year	\$ 5,127,593
Promises to give in one to five years	7,637,072
	12,764,665
Less allowance for doubtful promises to give	2,209,933
Less discount to net present value	192,940
	<u>\$ 10,361,792</u>

At December 31, 2011, promises to give included four individual pledges ranging between \$1.2 and \$3 million for a total of \$7.8 million. These promises consist of both cash and in-kind contributions and are restricted for use in support of the Museum. The promises are due at various dates as development of the Museum progresses. The remaining promises individually, other than these four, are less than 7% of total promises to give at December 31, 2011.

National Law Enforcement Officers Memorial Fund, Inc. And Affiliate

Notes To Consolidated Financial Statements

Note 3. Investments

Investments at December 31, 2011, consist of the following:

Common stock	\$ 2,982,898
Fixed income	2,462,136
Publicly traded mutual funds	2,317,398
Money market funds*	1,744,198
Alternative investments	860,991
Exchange-traded funds	5,522
	<u>\$ 10,373,143</u>

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

Investment income for the year ended December 31, 2011, consists of the following:

Realized and unrealized loss on investments, net	\$ (172,218)
Interest and dividends	253,009
Investment fees	(61,006)
	<u>\$ 19,785</u>

Note 4. Property And Equipment

Property and equipment and accumulated depreciation at December 31, 2011, and depreciation expense for the year ended December 31, 2011, are as follows:

	Estimated Useful Lives	Cost	Accumulated Depreciation	Net	Depreciation
Visitors Center and exhibits	5 years	\$ 1,174,355	\$ 1,049,889	\$ 124,466	\$ 38,647
Furniture and equipment	5 years	678,055	462,613	215,442	99,223
Leasehold improvements	10 years	665,976	238,290	427,686	93,653
		<u>\$ 2,518,386</u>	<u>\$ 1,750,792</u>	<u>\$ 767,594</u>	<u>\$ 231,523</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, 2011, and depreciation expense for the year ended December 31, 2011, are as follows:

	Estimated Useful Lives	Cost	Accumulated Depreciation	Net	Depreciation
Memorial	—	\$ 13,997,659	\$ -	\$ 13,997,659	\$ -
Re-engraving	25 years	1,073,493	50,029	1,023,464	42,885
Tree beds	25 years	287,426	16,094	271,332	9,656
Wall cleaning	25 years	242,802	6,176	236,626	5,801
Light replacement	25 years	94,745	3,319	91,426	1,991
Perimeter security	25 years	57,912	3,475	54,437	2,317
		<u>\$ 15,754,037</u>	<u>\$ 79,093</u>	<u>\$ 15,674,944</u>	<u>\$ 62,650</u>

Note 6. Board Designated Endowment Funds

The Board of Directors has designated endowment funds for Memorial Maintenance and Museum Building.

The Memorial Maintenance endowment fund is to maintain the National Law Enforcement Officers Memorial. The asset allocations of the investments are designed to have a moderate risk. The primary investment objective is to balance current income and growth and achieve returns of 3% above the inflation rate. The Fund appropriates in its annual budget approximately 4% of the average market value of the endowment assets.

The Museum Building Fund is to provide construction funding for the National Law Enforcement Officers Museum. The asset allocation of investments is designed to have a low risk. The primary investment objective is to preserve principal, with a secondary objective of modest appreciation as an inflationary hedge and to achieve returns of 1.5% above the inflation rate. The Fund appropriates in its annual budget amounts sufficient to fund the Museum construction.

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

	Memorial Maintenance	Museum	Total
Endowment net assets, beginning of year	\$ 4,326,993	\$ 4,421,280	\$ 8,748,273
Investment return:			
Investment income, net of fees	74,817	102,454	177,271
Net realized and unrealized losses	(69,795)	(33,325)	(103,120)
Total investment return	<u>5,022</u>	<u>69,129</u>	<u>74,151</u>
Additions	-	1,340,000	1,340,000
Appropriation of endowment for expenditure	(515,289)	(2,865,312)	(3,380,601)
Endowment net assets, end of year	<u>\$ 3,816,726</u>	<u>\$ 2,965,097</u>	<u>6,781,823</u>
Non-endowed funds			3,591,320
Total investments			<u>\$ 10,373,143</u>

National Law Enforcement Officers Memorial Fund, Inc. And Affiliate

Notes To Consolidated Financial Statements

Note 6. Board Designated Endowment Funds (Continued)

Interpretation of relevant law: UPMIFA is a model act approved by the Uniform Law Commission (ULC, formerly known as the National Conference of Commissioners on Uniform State Laws) that serves as a guideline for states to use in enacting legislation. The accounting standard issued in response to the act improves disclosures about an organization's endowment funds (both donor-restricted endowment funds and board designated endowment funds), whether or not the organization is subject to UPMIFA.

Return objective and risk parameters: The Fund's objective is to earn a respectable, long-term, risk-adjusted total rate of return to support the designated programs. We recognize and accept that pursuing a respectable rate of return involves risk and potential volatility. The generation of current income will be a secondary consideration. The Fund targets a diversified asset allocation that places a greater emphasis on equity securities investments to achieve its long-term return objectives within prudent risk constraints. The Fund has established a policy portfolio or normal asset allocation. While the policy portfolio can be adjusted from time to time, it is designed to serve for long-term horizons based upon long-term expected returns. The Fund has a preference for simple investment structures that will have lower cost, easier oversight, and less complexity for internal financial management and auditing.

Spending policy: The Fund will appropriate for expenditure in its annual budget a maximum of 100% of the earnings. There may be times when the Fund may opt not to take the maximum spending rate, but to rather reinvest some of the annual return. At times, the Fund may spend funds from the principal of the board designated endowment funds for Memorial Maintenance and Museum Building.

At December 31, 2011, the Fund had no permanently restricted endowment funds.

Note 7. Temporarily Restricted Net Assets

Temporarily restricted net assets include donor-restricted funds, which are only available for program activities or general support designated for future years. Temporarily restricted net assets were released from restrictions during the year ended December 31, 2011, due to the time restriction ending or the purpose restriction being accomplished.

Temporarily restricted net assets at December 31, 2011, are available for the following programs:

	Balance December 31, 2010		Additions	Released	Transfers	Balance December 31, 2011
Time restricted:						
Museum	\$ 8,179,497	\$ 5,663,625	(3,444,466)	\$ (141,924)	\$ 10,256,732	
Unrestricted promises to give	129,060	36,956	(60,956)	-	105,060	
Purpose restricted:						
Memorial Maintenance –						
Department of Interior	1,749,197	-	-	-	1,749,197	
Museum – program development	1,166,680	-	(206,315)	-	960,365	
In-kind contributions	1,006,815	-	-	141,924	1,148,739	
	<u>\$ 12,231,249</u>	<u>\$ 5,700,581</u>	<u>\$ (3,711,737)</u>	<u>\$ -</u>	<u>\$ 14,220,093</u>	

National Law Enforcement Officers Memorial Fund, Inc. And Affiliate

Notes To Consolidated Financial Statements

Note 8. Fair Value Measurements

The Fair Value Measurements Topic of the Codification requires disclosures of financial position in periods subsequent to initial recognition, whether the measurements are made on a recurring basis or a non-recurring basis, establishes a framework for measuring fair value in accordance with generally accepted accounting principles (GAAP), and expands disclosure about fair market value measurements. This enables the reader of the financial statements to assess the inputs used to develop those measurements by establishing a hierarchy for ranking quality and reliability of the information used to determine fair value. The provision applies to all assets and liabilities that are being measured and reported on a fair value basis and are disclosed in one of the following three categories:

- Level 1 – Quoted market prices in active markets for identical assets or liabilities
- Level 2 – Observable market-based inputs or unobservable inputs corroborated by market data
- Level 3 – Unobservable inputs that are not corroborated by market data

In determining the appropriate levels, the Fund performs a detailed analysis of the assets and liabilities that are subject to the Codification. At each reporting period, all assets and liabilities for which the fair value measurement is based on significant unobservable inputs are classified as Level 3.

The table below presents the balances of assets and liabilities measured at fair value on a recurring basis by level within the hierarchy:

	Total	Level 1	Level 2	Level 3
Fixed income:				
Government securities	\$ 661,417	\$ -	\$ 661,417	\$ -
Corporate bonds	1,219,219	1,219,219	-	-
Contingent payment debt instrument	240,750	240,750	-	-
Corporate step-up notes	103,250	-	103,250	-
Certificate of deposit	237,500	-	237,500	-
	<u>2,462,136</u>	<u>1,459,969</u>	<u>1,002,167</u>	<u>-</u>
Common stock:				
Domestic	2,656,378	2,656,378	-	-
International	326,520	326,520	-	-
	<u>2,982,898</u>	<u>2,982,898</u>	<u>-</u>	<u>-</u>
Publicly traded mutual funds:				
Equity	2,140,634	2,140,634	-	-
International	837	837	-	-
Fixed income	175,927	175,927	-	-
	<u>2,317,398</u>	<u>2,317,398</u>	<u>-</u>	<u>-</u>
Alternative investments:				
Endowment TEI Fund LP	667,951	-	-	667,951
ML Systematic Momentum LLC	193,040	-	193,040	-
	<u>860,991</u>	<u>-</u>	<u>193,040</u>	<u>667,951</u>
Exchange-traded funds:				
Commodities	5,522	5,522	-	-
	<u>\$ 8,628,945</u>	<u>\$ 6,765,787</u>	<u>\$ 1,195,207</u>	<u>\$ 667,951</u>

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

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Notes To Consolidated Financial Statements

Note 8. Fair Value Measurements (Continued)

The fair value of government securities, step-up notes and the certificate of deposit is determined based on inputs other than quoted prices. This includes the use of models or other valuation methodologies, which are corroborated by other market data, in order to determine their fair value. Thus they are categorized as Level 2. The ML Systematic Momentum limited liability corporation alternative investment is classified as a Level 2 instrument, as the value is based on observable data such as ongoing redemption and/or subscription activity, including the ability of the Fund to redeem amounts at net asset value (NAV) per share within a period of ten days as of the last day of each month.

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

The following table represents a reconciliation of the balance sheet amounts for financial instruments measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the year ended December 31, 2011:

Balance at December 31, 2010	\$ 581,048
Purchases	100,000
Unrealized losses	(13,097)
Balance at December 31, 2011	<u>\$ 667,951</u>

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

The following presents further information regarding the composition of the Fund's investments at December 31, 2011:

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

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

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Notes To Consolidated Financial Statements

Note 9. Commitments

Direct mail contract: The Fund participates in a contract with an outside third party, expiring on December 31, 2017, to distribute substantially all of the Fund's educational materials to the public, which describes the purpose of the Fund and how the general public can participate in honoring the law enforcement community. The educational mailings also provide space for a fundraising appeal. All work is performed on a "time-and-materials" basis.

Office leases: The Fund has two non-cancelable operating lease agreements for office space. One is for a five-year term ending on February 28, 2013. The second began on April 1, 2010, for a ten-year term, ending on November 30, 2020. In addition to base rent, the Fund is responsible for annual increases, as specified in the lease agreements, and its proportionate share of any increases in operating expenses over the initial lease year. The Fund was given the benefit of a tenant improvement allowance of \$444,015, which is being amortized over the life of the lease, as well as a nine-month period of free rent at the beginning of the lease. A deferred rent liability of \$673,655 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, 2011, was \$520,398.

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

Years Ending December 31,	
2012	\$ 618,541
2013	444,155
2014	386,140
2015	398,872
2016	409,195
2017 – 2020	1,686,864
	<u>\$ 3,943,767</u>

Museum contracts: In March 2012, the Fund entered into agreements with two vendors totaling \$2,590,000 for completion of construction documents, design development and pre-production related to the museum.

Note 10. Allocation Of Joint Costs

For the year ended December 31, 2011, the Fund incurred joint costs of \$5,405,783 for informational materials and activities that included fundraising appeals. Of those costs, \$1,729,851 was allocated to program expenses and \$3,675,932 was allocated to fundraising expenses.

Note 11. Related Party Transactions

The Treasurer of the Fund is a Partner in the firm that provides monthly accounting, tax, and consulting services to the Fund. Fees and other expenses paid to this firm were \$326,163 for the year ended December 31, 2011.

National Law Enforcement Officers Memorial Fund, Inc. And Affiliate

Notes To Consolidated Financial Statements

Note 12. Employee Retirement Plans

403(b) Plan: The Fund has established a Section 403(b) tax-deferred annuity plan (the Plan) covering all employees. The Plan participants are 100% vested immediately after entering the Plan. Employees who are 21 years of age and scheduled to work at least 1,000 hours per year can contribute to the Plan. Employees are eligible for employer contributions after completing two full years of service. The Plan will match up to a maximum of 4% of gross salary and may provide an additional discretionary contribution up to 6% of each participant's annual compensation. Total contributions to the Plan for the year ended December 31, 2011, were \$218,785.

Supplemental Employee Pension Plan: The Fund has a qualified supplemental employee Section 457(b) deferred compensation plan for all eligible employees. The Fund makes no contributions to the Plan.

Note 13. Contingencies

The Fund participates in federally-assisted grant programs, which may be subject to financial and compliance audits by the federal agency or their representatives. As such, there exists a contingent liability for potential questioned costs that may result from such an audit. Management does not anticipate any significant adjustments as a result of such an audit. For the year ended December 31, 2011, no financial and compliance audit was required.

Note 14. Conditional Promises To Give

In December 2011, the Fund received a grant for \$10,000,000 for which the Fund may invoice the donor upon completion of specific milestones related to the construction of the museum as delineated by the donor in the grant agreement. Since the grant represents a conditional promise to give, it is recorded as contribution revenue as donor conditions are met. Payment of the first \$1,000,000 was upon execution of the grant agreement. The Fund invoiced the donor in December 2011 for \$2,000,000 upon completion of the first milestone agreement. The \$2,000,000 is included as promises to give as of December 31, 2011.