

National Law Enforcement Officers Memorial Fund, Inc. and Affiliate

Consolidated Financial Report
December 31, 2013

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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 the National Law Enforcement Officers Memorial Fund, Inc. and Affiliate (the Organization) which comprise the consolidated balance sheet as of December 31, 2013, 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 the National Law Enforcement Officers Memorial Fund, Inc. and its Affiliate as of December 31, 2013, 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.

A handwritten signature in black ink that reads "McGladrey LLP".

McLean, Virginia
July 21, 2014

National Law Enforcement Officers Memorial Fund, Inc. and Affiliate

**Consolidated Balance Sheet
December 31, 2013**

Assets

Cash	\$ 1,046,474
Investments	12,979,060
Promises to Give, net	10,521,237
Grant and Other Receivable	18,477
Inventory	493,512
Property and Equipment, net	379,421
Memorial, net	15,731,196
Museum	
Development costs	26,006,250
Collections	1,466,759
Other Assets	852,484
	<hr/>
	\$ 69,494,870
	<hr/> <hr/>

Liabilities and Net Assets

Liabilities	
Accounts payable and accrued expenses	\$ 2,051,668
Deferred compensation	145,765
Deferred rent	584,152
Total liabilities	<hr/> 2,781,585 <hr/>

Commitments and Contingencies (Notes 9, 12 and 13)

Net Assets

Unrestricted	
Undesignated	31,996,738
Designated for memorial maintenance	4,621,824
Memorial development costs	15,731,196
	<hr/> 52,349,758
Temporarily restricted	14,363,527
	<hr/> 66,713,285 <hr/>
	\$ 69,494,870
	<hr/> <hr/>

See Notes to Consolidated Financial Statements.

National Law Enforcement Officers Memorial Fund, Inc. and Affiliate

**Consolidated Statement of Activities
Year Ended December 31, 2013**

	Unrestricted	Temporarily Restricted	Total
Support and Revenue			
Contributions	\$ 13,485,810	\$ 2,257,500	\$ 15,743,310
Investment income, net	1,136,487	-	1,136,487
Net sales of merchandise	674,712	-	674,712
List rental	200,063	-	200,063
In-kind contributions	177,643	-	177,643
Federal grants	133,305	-	133,305
Special Events - TBL	123,873	-	123,873
Other	1,920	-	1,920
Net assets released from restriction	2,994,237	(2,994,237)	-
Total support and revenue	18,928,050	(736,737)	18,191,313
Expenses			
Program services:			
Societal Program Materials	3,232,409	-	3,232,409
Visitors Center	1,889,508	-	1,889,508
Memorial Operations	1,876,686	-	1,876,686
Public Awareness	994,465	-	994,465
	<u>7,993,068</u>	<u>-</u>	<u>7,993,068</u>
Supporting services:			
Fundraising	5,609,200	-	5,609,200
Management and general	1,116,748	-	1,116,748
	<u>6,725,948</u>	<u>-</u>	<u>6,725,948</u>
Total expenses	14,719,016	-	14,719,016
Change in net assets before change in provision for doubtful promises to give	4,209,034	(736,737)	3,472,297
Loss on Change in Provision for Doubtful Promises to Give	-	118,821	118,821
	<u>-</u>	<u>118,821</u>	<u>118,821</u>
Change in net assets	4,209,034	(855,558)	3,353,476
Net Assets			
Beginning	48,140,724	15,219,085	63,359,809
	<u>48,140,724</u>	<u>15,219,085</u>	<u>63,359,809</u>
Ending	<u>\$ 52,349,758</u>	<u>\$ 14,363,527</u>	<u>\$ 66,713,285</u>

See Notes to Consolidated Financial Statements.

National Law Enforcement Officers Memorial Fund, Inc. and Affiliate
Consolidated Statement of Functional Expenses
Year Ended December 31, 2013

	Program Services					Supporting Services			
	Societal Program Materials	Visitors Center	Memorial Operations	Public Awareness	Total Program Services	Fundraising	Management and General	Total Supporting Services	Total
Salaries	\$ 486,173	\$ 631,111	\$ 594,540	\$ 376,461	\$ 2,088,285	\$ 425,401	\$ 175,323	\$ 600,724	\$ 2,689,009
Employee Benefits	79,424	119,226	110,216	71,171	380,037	80,806	44,195	125,001	505,038
Payroll Taxes	21,554	19,606	57,323	39,231	137,714	36,044	13,721	49,765	187,479
Temporary Help	-	2,911	-	161	3,072	1,272	-	1,272	4,344
Mailing Services	1,129,880	69,653	-	10,095	1,209,628	1,776,489	-	1,776,489	2,986,117
Postage	949,174	89,198	2,163	10,592	1,051,127	1,571,990	820	1,572,810	2,623,937
Dollar Bills and Coins	270,993	-	-	-	270,993	603,178	-	603,178	874,171
Special Events	-	57,734	413,703	35,430	506,867	74,363	263	74,626	581,493
Rent	49,286	323,623	60,272	38,165	471,346	61,658	17,774	79,432	550,778
Consulting	28,423	96,975	30,044	59,249	214,691	67,528	169,409	236,937	451,628
Computing Services	64,756	35,937	3,321	52,424	156,438	249,428	24,864	274,292	430,730
Accounting and Legal	43,665	56,682	24,743	33,811	158,901	38,207	184,733	222,940	381,841
Capital Campaign	-	-	-	-	-	307,124	-	307,124	307,124
Grants, Memorial	-	-	270,000	-	270,000	-	-	-	270,000
Depreciation	-	78,714	114,618	23,402	216,734	29,708	4,968	34,676	251,410
List Rental	75,589	-	-	-	75,589	168,246	-	168,246	243,835
Printing and Graphics	-	124,292	22,502	9,168	155,962	23,435	1,162	24,597	180,559
Caging	-	-	-	-	-	-	173,920	173,920	173,920
Travel	6,741	23,390	21,334	61,675	113,140	10,222	30,022	40,244	153,384
Media Advertising	-	260	-	113,588	113,848	-	-	-	113,848
Bank Charges	-	32,994	-	-	32,994	-	74,775	74,775	107,769
Telephone	15,415	23,362	19,464	12,099	70,340	15,704	13,976	29,680	100,020
Office Supplies	10,025	44,892	12,956	3,786	71,659	447	7,745	8,192	79,851
Insurance	1,020	4,789	1,247	790	7,846	893	65,892	66,785	74,631
Repairs and Maintenance	-	558	67,226	-	67,784	-	516	516	68,300
Promotional Items	-	2,499	9,169	9,464	21,132	26,995	18,774	45,769	66,901
Meals and Entertainment	-	7,646	5,999	1,498	15,143	16,143	29,290	45,433	60,576
Delivery	-	9,838	7,216	4,126	21,180	5,385	3,682	9,067	30,247
Publications/Dues	-	1,091	2,941	650	4,682	8,586	9,676	18,262	22,944
Exhibits and Trade Shows	-	1,702	17,025	-	18,727	1,975	-	1,975	20,702
Public Relations	-	-	-	20,016	20,016	-	-	-	20,016
Federal & State Registrations	-	-	-	-	-	-	19,320	19,320	19,320
Equipment Rental	-	5,939	4,200	2,659	12,798	3,005	1,971	4,976	17,774
Storage	-	1,738	-	-	1,738	1,134	11,464	12,598	14,336
Administrative	-	-	-	-	-	-	11,999	11,999	11,999
Security System	-	9,893	345	-	10,238	-	238	238	10,476
Other	-	2,693	353	251	3,297	53	6,052	6,105	9,402
Utilities	291	7,206	356	226	8,079	255	105	360	8,439
Photography	-	1,399	3,410	2,820	7,629	-	-	-	7,629
Seminars and Training	-	1,391	-	1,457	2,848	3,526	99	3,625	6,473
Licenses and Fees	-	566	-	-	566	-	-	-	566
Total expenses	\$ 3,232,409	\$ 1,889,508	\$ 1,876,686	\$ 994,465	\$ 7,993,068	\$ 5,609,200	\$ 1,116,748	\$ 6,725,948	\$ 14,719,016

See Notes to Consolidated Financial Statements.

National Law Enforcement Officers Memorial Fund, Inc. and Affiliate

Consolidated Statement of Cash Flows
Year Ended December 31, 2013

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Cash Flows from Operating Activities	
Change in net assets	\$ 3,353,476
Adjustments to reconcile change in net assets to net cash used in operating activities:	
Depreciation	251,410
Realized and unrealized gain on investments, net	(992,845)
Decrease in discount to present value for promises to give	(40,268)
Net increase in provision for doubtful promises to give	91,548
Deferred rent	(44,750)
Donated museum development costs	(325,371)
Contributions restricted for building of museum	(2,859,708)
Changes in assets and liabilities:	
(Increase) decrease in:	
Promises to give	844,269
Grant receivable	12,904
Inventory	40,091
Other assets	(688,955)
Increase in:	
Deferred compensation	41,584
Accounts payable and accrued expenses	(220,713)
Net cash used in operating activities	<u>(537,328)</u>
Cash Flows from Investing Activities	
Purchase of property and equipment	(4,006)
Purchase of investments	(3,782,115)
Proceeds from sale of investments	1,865,638
Payment of memorial development costs	(112,177)
Payment of museum development costs	(2,275,629)
Net cash used in investing activities	<u>(4,308,289)</u>
Cash Flows from Financing Activities	
Contributions restricted for building of museum	2,859,708
Net cash provided by financing activities	<u>2,859,708</u>
Net decrease in cash	(1,985,909)
Cash	
Beginning	<u>3,032,383</u>
Ending	<u><u>\$ 1,046,474</u></u>
Supplemental Schedule of Noncash Financing and Investing Activities	
Amounts in museum development costs included in accounts payable and accrued expenses	<u><u>\$ 365,157</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 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 recently 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, 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, 2013.

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, corporate bonds, alternative investments, preferred stock and a certificate of deposit. 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.

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 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 \$3,553,705 at December 31, 2013.

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, 2013, was \$10,253.

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.

Memorial Development Costs: 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, 2013, are to pursue the architectural and exhibit design phase and also include utility relocation costs. Also included in these costs is \$746,477 of debt issue costs related to the planned issuance of debt to finance the museum.

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 Organization 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.

National Law Enforcement Officers Memorial Fund, Inc. and Affiliate

Notes to Consolidated Financial Statements

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

Valuation of Long-Lived Assets: The FASB Accounting Standards Codification topic, *Accounting for Impairment or Disposal of Long-Lived Assets*, 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, 2013.

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.

Fair Value of Financial Instruments: The carrying amounts, including cash, current portion of promises to give, accounts payable and accrued expenses, approximate fair value because of the short maturity of these instruments.

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.

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 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, 2013.

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 2010.

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 July 21, 2014, 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 1.31% for current year promises to give.

Promises to give at December 31, 2013, consist of the following:

Promises to give – restricted	\$ 10,474,992
Promises to give – unrestricted	46,245
	<u>\$ 10,521,237</u>
Promises to give in less than one year	\$ 3,637,231
Promises to give in one to five years	10,514,550
	<u>14,151,781</u>
Less allowance for doubtful promises to give	3,553,705
Less discount to net present value	76,839
	<u>\$ 10,521,237</u>

At December 31, 2013, promises to give included two individual pledges of \$1,240,000 and \$5,000,000 or approximately 58% 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, 2013, consist of the following:

Money market	\$ 4,631,157
Common stock	3,467,053
Fixed income	2,055,225
Mutual funds	1,506,345
Alternative investments	812,894
Exchange-traded funds	506,386
	<u>\$ 12,979,060</u>
Deferred compensation*	
Equity mutual fund	\$ 108,071
Money market	37,694
	<u>\$ 145,765</u>

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

Investment income for the year ended December 31, 2013, consists of the following:

Realized and unrealized gain on investments, net	\$ 992,845
Interest and dividends	198,345
Investment fees	(54,703)
	<u>\$ 1,136,487</u>

Note 4. Property and Equipment

Property and equipment and accumulated depreciation at December 31, 2013, and depreciation expense for the year ended December 31, 2013, are as follows:

	Estimated Useful Lives	Cost	Accumulated Depreciation	Net	Depreciation
Visitors Center and exhibits	5 years	\$ 1,177,669	\$ 1,134,029	\$ 43,640	\$ 49,564
Furniture and equipment	5 years	679,755	631,914	47,841	70,364
Leasehold improvements	10 years	665,976	378,036	287,940	63,037
		<u>\$ 2,523,400</u>	<u>\$ 2,143,979</u>	<u>\$ 379,421</u>	<u>\$ 182,965</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, 2013, and depreciation expense for the year ended December 31, 2013, are as follows:

	Estimated Useful Lives	Cost	Accumulated Depreciation	Net	Depreciation
Memorial	—	\$ 14,190,764	\$ -	\$ 14,190,764	\$ -
Re-engraving	25 years	1,073,493	135,848	937,645	42,928
Tree beds	25 years	287,426	39,088	248,338	11,497
Wall cleaning	25 years	242,802	25,600	217,202	9,712
Light replacement	25 years	94,745	7,302	87,443	1,991
Perimeter security	25 years	57,912	8,108	49,804	2,317
		<u>\$ 15,947,142</u>	<u>\$ 215,946</u>	<u>\$ 15,731,196</u>	<u>\$ 68,445</u>

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 2013:

Endowment net assets, beginning of year	\$ 4,113,584
Investment return:	
Investment income, net of fees	75,626
Net realized and unrealized gains	555,198
Total investment return	<u>630,824</u>
Transfers	(960)
Appropriation of endowment for expenditure	<u>(121,624)</u>
Endowment net assets, end of year	4,621,824
Non-endowed funds	8,357,236
Total investments	<u>\$ 12,979,060</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.

National Law Enforcement Officers Memorial Fund, Inc. and Affiliate

Notes to Consolidated Financial Statements

Note 6. Board Designated Endowment Funds (Continued)

Spending Policy: The Fund will appropriate for expenditure in its annual budget a maximum of 100% of the earnings. 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

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, 2013, due to the time restriction ending or the purpose restriction being accomplished.

Changes in temporarily restricted net assets during the year ended December 31, 2013, are as follows:

	Balance December 31, 2012	Additions	Released	Balance December 31, 2013
Time Restricted				
Museum	\$ 6,119,226	\$ 2,217,500	\$(2,861,734)	\$ 5,474,992
Other promises to give	5,297,560	-	(251,315)	5,046,245
Purpose Restricted				
Witness to History	-	40,000	-	40,000
Memorial Maintenance – Department of Interior	1,749,197	-	-	1,749,197
Museum – program development	904,363	-	(9)	904,354
In-kind contributions	1,148,739	-	-	1,148,739
	<u>\$ 15,219,085</u>	<u>\$ 2,257,500</u>	<u>\$(3,113,058)</u>	<u>\$ 14,363,527</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.

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	\$ 929,579	\$ 929,579	\$ -	\$ -
Preferred stocks	884,146	884,146	-	-
Certificate of deposit	241,500	-	241,500	-
	<u>2,055,225</u>	<u>1,813,725</u>	<u>241,500</u>	<u>-</u>
Common stock:				
Domestic	2,807,225	2,807,225	-	-
International	659,828	659,828	-	-
	<u>3,467,053</u>	<u>3,467,053</u>	<u>-</u>	<u>-</u>
Mutual funds:				
Domestic equity	415,467	415,467	-	-
International equity	206,276	206,276	-	-
Fixed income	879,804	879,804	-	-
Real estate	4,798	4,798	-	-
	<u>1,506,345</u>	<u>1,506,345</u>	<u>-</u>	<u>-</u>
Exchange traded funds:				
Equity	506,386	506,386	-	-
	<u>506,386</u>	<u>506,386</u>	<u>-</u>	<u>-</u>
Alternative investments:				
Endowment TEI Fund LP	641,174	-	-	641,174
ML Systematic Momentum LLC	171,720	-	171,720	-
	<u>812,894</u>	<u>-</u>	<u>171,720</u>	<u>641,174</u>
Money market				
	<u>4,631,157</u>	<u>4,631,157</u>	<u>-</u>	<u>-</u>
	<u>\$ 12,979,060</u>	<u>\$ 11,924,666</u>	<u>\$ 413,220</u>	<u>\$ 641,174</u>
Deferred compensation:				
Equity mutual fund	\$ 108,071	\$ 108,071	\$ -	\$ -
Money market	37,694	37,694	-	-
	<u>\$ 145,765</u>	<u>\$ 145,765</u>	<u>\$ -</u>	<u>\$ -</u>
Liabilities				
Deferred compensation	<u>\$ 145,765</u>	<u>\$ -</u>	<u>\$ 145,765</u>	<u>\$ -</u>

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.

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.

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 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 fair value is the recorded at fair value of the partnership interest in the master fund which is values at NAV. The underlying investments in the partnership fund include investments that are actively traded on public exchanges.

The following table represents a reconciliation of the consolidated 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, 2013:

Balance at December 31, 2012	\$ 663,828
Unrealized loss	(22,654)
Balance at December 31, 2013	<u>\$ 641,174</u>

The net investment loss 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 in alternative investments at December 31, 2013:

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. Share redemptions vary from monthly to annually, after a notice period of up to two years from the initial investment or an additional investment. 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 net asset value within a period of ten days as of the last day of each month.

Note 9. Commitments

Direct Mail Contract: The Fund participates in a contract with an outside third party, expiring on December 31, 2019, to distribute substantially all of the Fund's educational materials to the public, which describes the purpose of the Fund and how the general public can participate in honoring the law enforcement community. The educational mailings also provide space for a fundraising appeal. All work is performed on a "time-and-materials" basis.

National Law Enforcement Officers Memorial Fund, Inc. and Affiliate

Notes to Consolidated Financial Statements

Note 9. Commitments (Continued)

Office Leases: The Fund has two non-cancelable operating lease agreements for office space. One is for a five-year term that ended on February 28, 2013. In August 2012, this lease was extended through February 28, 2015; however, the Fund has the option to terminate the lease any time after April 30, 2014, with four months advance written notice. This option has not been exercised as of the report date. 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 \$584,152 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, 2013, was \$550,778.

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

Years Ending December 31,

2014	\$	480,253
2015		398,872
2016		409,195
2017		418,401
2018		427,816
Thereafter		840,648
	\$	<u>2,975,184</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 \$53,284,644 and is contingent upon the Fund securing outside financing of the construction. At December 31, 2013, financing was not yet secured.

Note 10. Allocation of Joint Costs

For the year ended December 31, 2013, the Fund incurred joint costs of \$5,577,459 for informational materials and activities that included fundraising appeals. Of those costs, \$1,658,978 was allocated to program expenses and \$3,918,481 was allocated to fundraising expenses.

National Law Enforcement Officers Memorial Fund, Inc. and Affiliate

Notes to Consolidated Financial Statements

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, 2013, were \$148,857.

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, 2013, were \$25,170.

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 an audit. Management does not anticipate any significant adjustments as a result of such an audit. For the year ended December 31, 2013, 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, 2013, and revenue recognized of \$2,000,000 for the year ended December 31, 2013, and \$3,000,000 revenue recognized for years 2012 and earlier.
- Grant for \$1,750,000 received May 2012, which includes a donation of equipment valued at \$750,000, of which \$125,000 has been received as of December 31, 2013, and revenue recognized of \$100,000 and \$25,000 for the years ended December 31, 2013 and 2012, respectively.