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Certified Public Accountants



Audited Financial Statements

**National Fallen Firefighters  
Foundation**

December 31, 2010 and 2009

Audited Financial Statements  
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## Report of Independent Auditors

Board of Directors  
National Fallen Firefighters Foundation  
Emmitsburg, Maryland

We have audited the accompanying balance sheets of the National Fallen Firefighters Foundation, (the Foundation) as of December 31, 2010 and 2009, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the Foundation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States of America. Those standards require that we plan and perform our audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Foundation's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the National Fallen Firefighters Foundation as of December 31, 2010 and 2009, and the results of its activities and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 23, 2011 on our consideration of the Foundation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters for the year ended December 31, 2010. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

*Cohen, Rutherford + Knight, P.C.*  
June 23, 2011  
Bethesda, Maryland

**National Fallen Firefighters Foundation**  
Balance Sheets

	<b>December 31</b>	
	<b>2010</b>	<b>2009</b>
<i>ASSETS</i>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 219,900	\$ 229,991
Grants receivable - <i>Note B</i>	784,206	759,092
Inventory	211,712	185,903
Interest receivable	13,621	16,748
Prepaid expenses and other current assets	46,235	54,208
<b>TOTAL CURRENT ASSETS</b>	<b>1,275,674</b>	<b>1,245,942</b>
<b>PROPERTY AND EQUIPMENT</b>		
Walk of Honor	250,690	250,690
Memorial Park	590,590	558,916
Memorial Chapel	1,072,364	1,058,889
Furniture and equipment	76,130	84,809
	<u>1,989,774</u>	<u>1,953,304</u>
Less accumulated depreciation	459,024	395,916
<b>TOTAL PROPERTY AND EQUIPMENT</b>	<b>1,530,750</b>	<b>1,557,388</b>
<b>OTHER NONCURRENT ASSETS</b>		
Investments, including \$1,938,353 and \$2,224,044 whose use is restricted by donors for 2010 and 2009, respectively - <i>Note C</i>	3,235,310	2,919,486
<b>TOTAL OTHER NONCURRENT ASSETS</b>	<b>3,235,310</b>	<b>2,919,486</b>
<b>TOTAL ASSETS</b>	<b>\$ 6,041,734</b>	<b>\$ 5,722,816</b>

See the accompanying notes to the financial statements.

**National Fallen Firefighters Foundation**  
 Balance Sheets – Continued

	<b>December 31</b>	
	<u>2010</u>	<u>2009</u>
<i>LIABILITIES AND NET ASSETS</i>		
<b>CURRENT LIABILITIES</b>		
Accounts payable and accrued expenses	\$ 359,116	\$ 228,839
<b>TOTAL CURRENT LIABILITIES</b>	<u>359,116</u>	<u>228,839</u>
<b>NET ASSETS</b>		
Unrestricted:		
General	2,213,515	1,712,545
Board designated	1,530,750	1,557,388
Temporarily restricted - <i>Note D</i>	1,938,353	2,224,044
<b>TOTAL NET ASSETS</b>	<u>5,682,618</u>	<u>5,493,977</u>
<b>COMMITMENTS AND CONTINGENCIES</b> - <i>Notes B, D, F, G and H</i>		
	<u>\$ 6,041,734</u>	<u>\$ 5,722,816</u>

See the accompanying notes to the financial statements.

# National Fallen Firefighters Foundation

## Statements of Activities

	Year Ended December 31, 2010		
	Unrestricted	Temporarily Restricted	Total
<b>REVENUE</b>			
Department of Justice - Network for Survivors	\$ 0	\$ 1,227,966	\$ 1,227,966
USFA			
Memorial Weekend	0	392,578	392,578
Vulnerability Assessment	0	281,506	281,506
Memorial Weekend	0	376,364	376,364
LODD:			
Prevention	0	10,269	10,269
Department of Homeland Security - Fire Act	0	1,199,352	1,199,352
Into the Fire	0	14,076	14,076
Scholarships	0	310,884	310,884
Site Expansion	0	76,990	76,990
Other NFFF programs	1,668,766	5,430	1,674,196
Net realized gains - <i>Note C</i>	92,104	0	92,104
Net unrealized gains on trading securities - <i>Note C</i>	140,537	0	140,537
Interest income - <i>Note C</i>	98,870	0	98,870
Released from restrictions	4,181,106	(4,181,106)	0
<b>TOTAL REVENUE</b>	<b>6,181,383</b>	<b>(285,691)</b>	<b>5,895,692</b>
<b>EXPENSES</b>			
Program Services:			
Department of Justice - Fire Service Survivors Support	1,222,966	0	1,222,966
USFA:			
Memorial Weekend	392,578	0	392,578
Vulnerability Assessment	156,506	0	156,506
Memorial Weekend	416,441	0	416,441
LODD:			
Prevention	60,230	0	60,230
Department of Homeland Security - Fire Act	1,199,352	0	1,199,352
FDNY			
Other - NYC	382,813	0	382,813
Into the Fire	44,924	0	44,924
Scholarships	238,426	0	238,426
Site Expansion	141,365	0	141,365
Other NFFF programs	887,038	0	887,038
	5,142,639	0	5,142,639
Management and administration	141,316	0	141,316
Fundraising	423,096	0	423,096
<b>TOTAL EXPENSES</b>	<b>5,707,051</b>	<b>0</b>	<b>5,707,051</b>
<b>EXCESS REVENUE OVER EXPENSES</b>			
<b>(EXPENSES OVER REVENUE)</b>	<b>474,332</b>	<b>(285,691)</b>	<b>188,641</b>
<b>INCREASE (DECREASE) IN NET ASSETS</b>	<b>474,332</b>	<b>(285,691)</b>	<b>188,641</b>
<b>NET ASSETS AT BEGINNING OF YEAR</b>	<b>3,269,933</b>	<b>2,224,044</b>	<b>5,493,977</b>
<b>NET ASSETS AT END OF YEAR</b>	<b>\$ 3,744,265</b>	<b>\$ 1,938,353</b>	<b>\$ 5,682,618</b>

See the accompanying notes to the financial statements.

# National Fallen Firefighters Foundation

## Statements of Activities - Continued

	<b>Year Ended December 31, 2009</b>		
	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Total</b>
<b>REVENUE</b>			
Department of Justice - Network for Survivors	\$ 0	\$ 1,095,690	\$ 1,095,690
USFA - Memorial Weekend	0	415,174	415,174
Memorial Weekend	0	188,286	188,286
LODD:			
Prevention	0	5,940	5,940
NIST Award	0	10,053	10,053
Department of Homeland Security - Fire Act	0	948,513	948,513
FDNY			
Other - NYC	0	585	585
Into the Fire	0	29,849	29,849
Scholarships	0	91,775	91,775
Site Expansion	0	72,062	72,062
Other NFFF programs	1,706,911	148,703	1,855,614
Net realized losses - <i>Note C</i>	(278,299)	0	(278,299)
Net unrealized gains on trading securities - <i>Note C</i>	537,827	0	537,827
Interest income - <i>Note C</i>	91,743	0	91,743
Released from restrictions	3,345,728	(3,345,728)	0
<b>TOTAL REVENUE</b>	<b>5,403,910</b>	<b>(339,098)</b>	<b>5,064,812</b>
<b>EXPENSES</b>			
Program Services:			
Department of Justice - Fire Service Survivors Support	1,095,690	0	1,095,690
USFA - Memorial Weekend	415,174	0	415,174
Memorial Weekend	388,454	0	388,454
LODD:			
Prevention	53,318	0	53,318
NIST Award	10,053	0	10,053
Department of Homeland Security - Fire Act	948,513	0	948,513
FDNY			
Other - NYC	265,195	0	265,195
Into the Fire	8,394	0	8,394
Scholarships	145,290	0	145,290
Site Expansion	111,344	0	111,344
Other NFFF programs	609,120	0	609,120
	4,050,545	0	4,050,545
Management and administration	127,728	0	127,728
Fundraising	567,306	0	567,306
<b>TOTAL EXPENSES</b>	<b>4,745,579</b>	<b>0</b>	<b>4,745,579</b>
<b>EXCESS REVENUE OVER EXPENSES (EXPENSES OVER REVENUE)</b>	<b>658,331</b>	<b>(339,098)</b>	<b>319,233</b>
<b>INCREASE (DECREASE) IN NET ASSETS</b>	<b>658,331</b>	<b>(339,098)</b>	<b>319,233</b>
<b>NET ASSETS AT BEGINNING OF YEAR</b>	<b>2,611,602</b>	<b>2,563,142</b>	<b>5,174,744</b>
<b>NET ASSETS AT END OF YEAR</b>	<b>\$ 3,269,933</b>	<b>\$ 2,224,044</b>	<b>\$ 5,493,977</b>

See the accompanying notes to the financial statements.

**National Fallen Firefighters Foundation**  
**Statements of Cash Flows**

	<b>Year Ended December 31</b>	
	<b>2010</b>	<b>2009</b>
	<u>          </u>	<u>          </u>
<b>OPERATING ACTIVITIES</b>		
Increase in net assets	\$ 188,641	\$ 319,233
Adjustments to reconcile increase in net assets to net cash and cash equivalents provided by operating activities:		
Depreciation	83,918	79,622
Realized (gains) losses on investments	(92,104)	278,299
Unrealized gains on investments	(140,537)	(537,827)
Decrease (increase) in:		
Grants receivable	(25,114)	(213,156)
Pledges receivable	0	153,544
Inventory	(25,809)	3,536
Interest receivable	3,127	1,130
Prepaid expenses and other current assets	7,973	(13,113)
Increase in:		
Accounts payable and accrued expenses	130,277	18,313
<b>NET CASH AND CASH EQUIVALENTS PROVIDED BY OPERATING ACTIVITIES</b>	<u>130,372</u>	<u>89,581</u>
<b>INVESTING ACTIVITIES</b>		
Purchases of investments	(1,244,536)	(1,024,877)
Proceeds from sales of investments	1,161,353	946,244
Purchases of property and equipment	(57,280)	(41,184)
<b>NET CASH AND CASH EQUIVALENTS USED IN INVESTING ACTIVITIES</b>	<u>(140,463)</u>	<u>(119,817)</u>
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>	(10,091)	(30,236)
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	<u>229,991</u>	<u>260,227</u>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<u><u>\$ 219,900</u></u>	<u><u>\$ 229,991</u></u>

See the accompanying notes to the financial statements.

# National Fallen Firefighters Foundation

## Notes to the Financial Statements

### Note A – Organization and Summary of Significant Accounting Principles

#### *Organization*

The National Fallen Firefighters Foundation (the Foundation) was incorporated in Maryland on August 23, 1993 in accordance with Public Law 102-522, as amended, for the purpose of 1) primarily encouraging, accepting and administering private gifts of property for the benefit of the National Fallen Firefighters' Memorial and the annual memorial service associated with it; 2) providing financial assistance to families of fallen firefighters for transportation to and lodging during the annual memorial service; 3) assisting federal, state and local efforts to recognize firefighters who die in the line of duty; 4) providing scholarships and other financial assistance for educational purposes and job training for the spouses, life partners, children, and stepchildren of fallen firefighters; 5) planning, directing, and managing the National Fallen Firefighters Memorial Service and related activities in coordination with the federal government, fire service organizations, and survivors of fallen firefighters; 6) promoting national, state, and local initiatives to increase public fire and life safety awareness; and 7) providing for a national program to assist families of fallen firefighters and fire departments in dealing with line-of-duty deaths of those firefighters.

The Foundation currently operates the following programs, among others:

- **Annual National Fallen Firefighters Memorial Weekend**, held each October at the National Fire Academy in Emmitsburg, Maryland, to pay tribute to all firefighters who died in the line of duty during the previous year. The weekend features special programs for survivors and coworkers along with public ceremonies.
- **Scholarship Program for Survivors**, assistance for education and job training costs of spouses, life partners, children, and stepchildren of fallen firefighters.
- **Fire Service Survivors Network**, a support network of volunteer survivors that provides outreach to survivors of similar circumstances. The Foundation holds an annual conference of fire service survivors. As part of the effort to support survivors, the Foundation also provides resources for grieving.
- **Line of Duty Death Prevention Program**, an initiative to reduce firefighter deaths by providing training and sponsoring related research. The “Everyone Goes Home” website was developed as part of the initiative.
- **New York City Fire Department (FDNY)**, a program to provide support services to benefit the families and coworkers of New York City fallen firefighters.

In addition, the Foundation maintains a National Memorial Park that contains the National Fallen Firefighters Memorial and features the Walk of Honor® containing bricks that connect the Memorial to the historic Fallen Firefighters Memorial Chapel.

## **National Fallen Firefighters Foundation**

### **Notes to the Financial Statements – Continued**

#### **Note A – Organization and Summary of Significant Accounting Principles – Continued**

##### *Basis of Accounting*

The Foundation prepares its financial statements on the accrual basis of accounting. Consequently, revenue is recognized when earned and expenses when the obligations are incurred.

##### *Income Taxes*

Pursuant to its initial exemption application, management has received a tax determination letter dated January 17, 1995 from the Internal Revenue Service indicating that the Foundation is exempt from the payment of income taxes on its exempt activities. The Internal Revenue Service has classified the Foundation as a publicly supported organization as defined in Section 170(b)(1)(A)(vi) of the Internal Revenue Code. Federal tax law requires that the Foundation be operated in a manner consistent with its initial exemption application in order to maintain its exempt status. Management has analyzed the operations of the Foundation and concluded that it remains in compliance with the requirements for exemption.

The Foundation had no unrecognized tax benefits or such amounts were immaterial during the period presented. For tax periods with respect to which no unrelated business income was recognized, no tax return was required. Tax periods for which no return is filed remain open for examinations indefinitely.

Current accounting standards provide the accounting and financial reporting guidance related to uncertain income tax positions, and define the threshold for recognizing tax return positions in the financial statements as “more likely than not” that the position is sustainable, based on its technical merits. In the opinion of management, the Foundation has no unrecognized tax benefits at the beginning or end of the periods presented as a result of tax positions taken during the current or prior year, changes resulting from settlements, or reductions due to a lapse of a statute of limitations. As such, there are no interest or penalties recognized in operations and/or in the combined balance sheets related to unrecognized tax benefits. Furthermore, management is of the opinion that there are no tax positions for which it is reasonably possible that the total amounts of unrecognized tax benefits will significantly change in the next twelve months. In the opinion of management, the application of these current accounting standards had no impact on the accompanying combined financial statements.

##### *Use of Estimates*

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that effect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

## **National Fallen Firefighters Foundation**

### **Notes to the Financial Statements – Continued**

#### **Note A – Organization and Summary of Significant Accounting Principles – Continued**

##### *Cash and Cash Equivalents*

The Foundation considers all highly liquid financial instruments with original maturities of three months or less to be cash and cash equivalents. Cash and cash equivalents are reported at cost which approximates market value. For financial statement purposes, the Foundation considers money market funds and certificates of deposit to be investments and are excluded from the balance of cash and cash equivalents. The Foundation has cash holdings in commercial banks that routinely exceed the Federal Deposit Insurance Corporation maximum insurance limit of \$250,000.

##### *Inventory*

Inventory, which consists of clothing, pins, books, videos and other materials related to firefighters and firefighting, are stated at the lower of cost or market as determined by the average cost method.

##### *Property and Equipment*

The Walk of Honor® and the Memorial Park were completed in October 2004, at which time they began to be depreciated on the straight-line basis over a period of 15 years. Chapel renovations were completed in September 2006, at which time these capitalized costs began to be depreciated on the straight-line basis over a period of 39 years. Furniture and equipment are recorded at cost and depreciated on the straight-line basis over the term of the applicable grant the equipment is being purchased for or its estimated useful life, whichever is less (10 - 36 months). Furniture and equipment includes computer software and website development costs and are recorded at cost and depreciated on the straight-line basis over a period of 3 years. Depreciation expense totaled \$83,918 and \$79,622 for the years ended December 31, 2010 and 2009, respectively. Only furniture and equipment with a cost of \$5,000 or more and a useful life of one year or more is capitalized.

The Walk of Honor®, Memorial Park and Chapel are located at the National Emergency Training Center campus, which is the property of the United States Government (see *Note E*). The renovated Chapel houses the administrative headquarters of the Foundation, in addition to serving as the location for survivors to gather at the annual vigil during the Memorial Weekend.

# National Fallen Firefighters Foundation

## Notes to the Financial Statements – Continued

### Note A – Organization and Summary of Significant Accounting Principles – Continued

#### *Net Assets*

Net assets are classified as either unrestricted or temporarily restricted based on the existence or absence of donor-imposed restrictions. The purpose of each net asset group is as follows:

- **Unrestricted Net Assets (including amounts designated by the board)** represent resources of the Foundation available to support its general operations. Board designated unrestricted net assets represent assets whose use by the Foundation has been designated by the board of directors for internal use.
- **Temporarily Restricted Net Assets** represents resources restricted by donors and grantors for use in funding donor specified programs.

#### *Contributions and Grants*

Contributions and grants received are recorded as unrestricted or temporarily restricted support, depending on the existence and/or nature of any donor or grantor restrictions. Support that is restricted by the donor or grantor is reported as an increase in temporarily restricted net assets. 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.

Contributed property and equipment is recorded at fair value at the date of the contribution. If donors stipulate the use of the assets, the contributions are recorded as restricted support. In the absence of such stipulations, contributions of property and equipment are recorded as unrestricted support.

## **National Fallen Firefighters Foundation**

### **Notes to the Financial Statements – Continued**

#### **Note A – Organization and Summary of Significant Accounting Principles – Continued**

##### *Revenues*

In addition to grants and contributions, the Foundation engages in retail sales, event registration, and royalty agreements for the purpose of generating cash flow to help support its operations. These sales revenues contain fees charged for shipping and handling and are recorded net of discounts.

##### *Risk Factors*

During September 2008, certain large U.S. financial institutions failed, primarily as a result of holdings in troubled subprime loans or assets collateralized with such distressed loans. These institutional failures, and the negative economic conditions that contributed to these failures, generated substantial volatility in global financial markets and substantial uncertainty regarding access to capital and the continued viability of many other financial institutions. These conditions created uncertainty regarding the Foundation's future ability to access capital and the cost of such capital, as well as the future valuation of the Foundation's invested funds and the resulting impact on the future financial position, results of operations and cash flows of the Foundation could be material.

The Foundation currently receives a substantial amount of its support from the federal government in the form of grants. A significant reduction in the level of this support, if this were to occur, may have a significant effect on the Foundation's programs and activities.

##### *Subsequent Events*

Management has evaluated subsequent events through June 23, 2011, the date that the financial statements were available to be issued.

## **National Fallen Firefighters Foundation**

### Notes to the Financial Statements – Continued

#### **Note B – Grants and Pledges**

The Foundation was awarded a grant of \$1,800,000 in June 2008 by the Department of Justice, Bureau of Justice Assistance, to expand its nation-wide effort to assist survivors of fallen firefighters, including expansion of the Fire Service Survivors Network; helping survivors locate grief support in their local communities; sponsoring family day activities at the annual Memorial Weekend; providing information on death and disability benefits; developing state and regional response teams to assist survivors in accessing federal, state, and local benefits; offering specialized web site services and resources; and conducting a two-day conference for survivors. As of December 31, 2010, all amounts have been expended and received. During January 2010, the Foundation was awarded another grant of \$3,913,841 by the Department of Justice, Bureau of Justice Assistance. As of December 31, 2010, \$1,010,319 was expended, of which \$193,487 remains to be received.

During October 2010, the Foundation was awarded grants in the amount of \$149,960, \$141,760, and \$149,650 to support fire fighter and first responder awareness and outreach, prerequisite certification and benefits, and notification of fire fighters and first responder deaths, respectively, for the period of October 1, 2010 to September 30, 2011. As of December 31, 2010, \$11,500 was expended, of which all remains to be received.

The Foundation was awarded grants in the amounts of \$387,000 during 2009 and 2010 from the Department of Homeland Security, United States Fire Administration, to cover the services and supplies for the annual National Memorial Weekend. During 2010, the Foundation was awarded an additional \$300,000 for the development of a Vulnerability Assessment model to allow fire department personnel to evaluate community risks and resource capabilities. As of December 31, 2010, \$549,084 was expended, of which \$419,771 remains to be received.

In July 2009, the Foundation received a Fire Prevention and Safety Grant award in the amount of \$996,500 for the period July 31, 2009 to July 30, 2010 to support the Foundation's Line-of-Duty Death Prevention program. As of December 31, 2010, all amounts were expended and received. During 2010, the Foundation was awarded another Fire Prevention and Safety Grant award in the amount of \$1,000,000 for the period March 29, 2010 to March 28, 2011. As of December 31, 2010, \$406,077 was expended, of which \$141,804 remains to be received.

## National Fallen Firefighters Foundation

### Notes to the Financial Statements – Continued

#### Note C – Investments

Investments are reported at fair value and are classified as trading. Investment income or loss (including realized and unrealized gains and losses on investments, interest, and dividends) is recognized in the statements of activities as an increase in unrestricted net assets, unless restricted by donor or law. The investment portfolio generated returns as follows:

	<u>2010</u>	<u>2009</u>
Interest and dividends	\$ 98,870	\$ 91,743
Expenses	(18,692)	(14,451)
Net realized gains (losses)	92,104	(278,299)
Net unrealized gains	140,537	537,827
	<u>\$ 312,819</u>	<u>\$ 336,820</u>

The following table summarizes the Foundation's target of asset allocation for short-term and long-term funds:

	<u>Short-Term</u>	<u>Long-Term</u>
Cash	80%	10%
Fixed Income	20%	45%
Equities	0%	40%
Alternative	0%	5%

These investments are subject to credit, market and interest rate risks that cannot be predicted at this time. However, management has attempted to mitigate these risks by maintaining a diversified portfolio.

# National Fallen Firefighters Foundation

## Notes to the Financial Statements – Continued

### Note C – Investments – Continued

Current accounting standards define fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, and establish a three-level hierarchy for fair value measurements based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. The three levels of inputs that may be used to measure fair value are as follows:

Level 1: Quoted prices in active markets for identical assets or liabilities. Level 1 assets and liabilities include debt and equity securities that are traded in an active exchange market, as well as U.S. Treasury securities.

Level 2: Observable input other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities. Level 2 assets and liabilities include debt securities with quoted market prices that are traded less frequently than exchange-traded instruments. This category generally includes certain U.S. government and agency mortgage-backed debt securities, corporate-debt securities, and alternative investments.

Level 3: Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets(s) or liabilities. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation. This category generally includes certain private debt and equity instruments and alternative investments.

The following discussion describes the Foundation's valuation methodologies used for financial assets measured at fair value. The techniques utilized in estimating the fair values are affected by the assumptions used, including discount rates, and estimates of the amount and timing of future cash flows. Care should be exercised in deriving conclusions about the Foundation's business, its value, or financial position based on the fair value information of financial assets presented.

# National Fallen Firefighters Foundation

## Notes to the Financial Statements – Continued

### Note C – Investments – Continued

Fair value estimates are made at a specific point in time, based on available market information and judgments about the financial asset, including estimates of the timing, amount of expected future cash flows, and the credit standing of the issuer. In some cases, the fair value estimates cannot be substantiated by comparison to independent markets. In addition, the disclosed fair value may not be realized in the immediate settlement of the financial asset. Furthermore, the disclosed fair values do not reflect any premium or discount that could result from offering for sale at one time an entire holding of a particular financial asset. Potential taxes and other expenses that would be incurred in an actual sale or settlement are not reflected in the amounts disclosed.

Fair values for the Foundation's government securities and corporate bonds are based on prices provided by its investment managers and its custodian bank. Both the investment managers and the custodian bank use a variety of pricing sources to determine market valuations. Each designate specific pricing services or indexes for each sector of the market based upon the provider's experience. The Foundation's government securities and corporate bonds portfolio is highly liquid, which allows for a high percentage of the portfolio to be priced through pricing services.

Fair values of money market funds and equity securities have been determined by the Foundation from observable market quotations, when available. Private placement securities and other equity securities where a public quotation is not available are valued by using broker quotes.

The Foundation invests in Merrill Lynch & Co., Inc. Structured Access Notes (the Notes). The Notes are a series of privately placed senior, unsecured debt securities that are linked to the Mariner StructuredAccess Index (the "Reference Index"). The Reference Index is a composite index that measures the performance of a strategy that allocates hypothetical funds among three index components: (1) Fund units representing the value of a hypothetical investment in the Class B Shares of Mariner Select Ultra International, Ltd., (2) Zero Coupon Bond Units representing the value of a hypothetical investment in zero-coupon bonds of a certain maturity, and (3) Leverage Units representing the cost of hypothetical funds borrowed to increase allocations to the Fund Units. The Reference Index is rebalanced quarterly by Merrill Lynch International based on an algorithm that systematically reallocates hypothetical funds among the index components based on performance of the Fund Units, prevailing interest rates and market conditions. The stated maturity date of the Notes is November 19, 2012. The Notes will not provide for any periodic payments prior to their maturity. At maturity, the Notes will pay the greater of the principal amount of the Notes and an amount calculated by reference to changes in the level of the Reference Index. Merrill Lynch & Co., Inc. has guaranteed that the Notes held to maturity will pay not less than 100% of the principal amount of the Notes. Merrill Lynch, Pierce, Fenner & Smith Incorporated may, but is not required to, repurchase the Notes prior to maturity based on bids it receives for such Notes.

## National Fallen Firefighters Foundation

### Notes to the Financial Statements – Continued

#### Note C – Investments – Continued

The Mariner Select Ultra International, Ltd. invests 100% of its investible funds in Mariner Select, L.P., a Delaware limited partnership. Mariner Select, L.P. is a diversified fund of hedge funds which seeks capital appreciation in a manner not intended to reflect correlation to the general equity, fixed income, real estate or other traditional asset classes over an extended period. The alternative investment in which the Foundation has invested is recorded at estimated fair value, as described above, and the resulting gains and losses are reflected as a component of unrealized gain or loss on investments in the statements of activities.

The Foundation holds the Notes to seek capital appreciation. The Notes are not held to hedge against fluctuations of the Foundation's activities. This objective is expected to be achieved by balancing the investment portfolio with other instruments.

The following table presents the Foundation's fair value hierarchy for assets measured at fair value on a recurring basis as of December 31, 2010:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Cash and cash equivalents				
Cash	\$ 12,042	\$ 0	\$ 0	\$ 12,042
Money market funds	189,781	0	0	189,781
Certificates of deposit	114,009	0	0	114,009
Fixed Income				
U.S. Government agency bonds/notes	0	222,119	0	222,119
U.S. Government notes	0	136,686	0	136,686
Corporate bonds	0	749,884	0	749,884
Equity Securities				
Common Stocks				
Basic materials	213,165	0	0	213,165
Conglomerates	29,867	0	0	29,867
Consumer goods	146,827	0	0	146,827
Financial	390,164	0	0	390,164
Healthcare	123,153	0	0	123,153
Industrial goods	73,189	0	0	73,189
Services	210,544	0	0	210,544
Technology	203,242	0	0	203,242
Utilities	39,916	0	0	39,916
Preferred Stocks				
Financial	44,746	0	0	44,746
Services	15,290	0	0	15,290

*Continued*

**National Fallen Firefighters Foundation**  
Notes to the Financial Statements – Continued  
**Note C – Investments – Continued**

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Foreign stocks				
Basic materials	\$ 5,671	\$ 0	\$ 0	\$ 5,671
Financial	5,879	0	0	5,879
Industrial goods	2,417	0	0	2,417
Services	6,444	0	0	6,444
Technology	5,580	0	0	5,580
Utilities	1,895	0	0	1,895
Alternative investments	0	0	292,800	292,800
	<u>\$ 1,833,821</u>	<u>\$ 1,108,689</u>	<u>\$ 292,800</u>	<u>\$ 3,235,310</u>

The following table presents the Foundation’s fair value hierarchy for assets measured at fair value on a recurring basis as of December 31, 2009:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Cash and money market	\$ 165,756	\$ 0	\$ 0	\$ 165,756
Certificates of deposit	30,229	0	0	30,229
Corporate bonds	0	950,619	0	950,619
Government securities	0	330,699	0	330,699
Equities	1,163,513	0	0	1,163,513
Alternative investments	0	0	278,670	278,670
	<u>\$ 1,359,498</u>	<u>\$ 1,281,318</u>	<u>\$ 278,670</u>	<u>\$ 2,919,486</u>

The following table summarizes the transfers between level one and two during 2010. These transfers were made in effort to meet the investment policy’s target asset allocation.

	<u>Level 1</u>	<u>Level 2</u>
Transfers (to) from	\$ (140,000)	\$ 140,000
Net transfers	<u>\$ (140,000)</u>	<u>\$ 140,000</u>

**National Fallen Firefighters Foundation**  
Notes to the Financial Statements – Continued

**Note C – Investments – Continued**

The following table summarizes the activity for fair value measurements using significant unobservable inputs (Level 3):

	<b>Level 3</b>	
	<b>2010</b>	<b>2009</b>
Market value beginning balance	\$ 278,670	\$ 283,860
Interest income	15,973	15,296
Unrealized losses	(1,843)	(20,486)
Market value ending balance	<u>\$ 292,800</u>	<u>\$ 278,670</u>

**Note D – Temporarily Restricted Net Assets**

At December 31, net assets were temporarily restricted as follows:

	<b>2010</b>	<b>2009</b>
Scholarships	\$ 1,399,986	\$ 1,334,196
Other NYC Survivor Programs	220,651	307,000
Memorial Weekend	4,400	0
Memorial Weekend - NYC Survivors	0	296,464
Memorial, Tribute, & Remembrance Conference	0	39,603
Survivors Conference	33,955	67,993
Site/Chapel Renovation	17,461	45,020
Into the Fire	21,808	52,656
NYC Walk of Honor	85,230	72,990
Line-of-Duty Death Prevention Program	18,122	8,122
Vulnerability Assessment	125,000	0
Stair Climb	11,740	0
	<u>\$ 1,938,353</u>	<u>\$ 2,224,044</u>

## National Fallen Firefighters Foundation

### Notes to the Financial Statements – Continued

#### Note E – Contributed Goods and Services

The Foundation's headquarters is located on the campus of the National Emergency Training Center in Emmitsburg, Maryland. The United States government provides the Foundation with this office space free of charge indefinitely. Given the remote location and uniqueness of the property, the value of this in-kind contribution cannot be readily determined. Management of the Foundation believes such amount, if determinable, would be immaterial to the financial statements of the Foundation. Thus, no amount has been recorded in accompanying financial statements for the use of this facility.

The Foundation records contributed goods and services received at their estimated fair value. The following table summarizes the contributed goods and services recorded in the accompanying financial statements.

	<u>2010</u>	<u>2009</u>
Memorial Weekend	\$ 81,662	\$ 75,605
Fundraising	78,741	286,627
Other Programs	103,760	16,536
LODD Prevention Program	169	0
Trade Shows	14,577	11,650
	<u>\$ 278,909</u>	<u>\$ 390,418</u>

In addition, the Foundation receives volunteered hours in administrative support and program events. No amounts have been assigned for these contributed services.

#### Note F – Retirement Plan

The Foundation maintains a qualified SIMPLE IRA plan that covers all regular full-time employees who have successfully completed their probationary period, which typically lasts six months. The participants elect contributions to the plan. The Foundation matches 100% of employees' contributions up to a maximum of 3% of an employee's gross salary. Total contributions to the Plan for the years ended December 31, 2010 and 2009 were \$24,051 and \$21,338, respectively.

## National Fallen Firefighters Foundation

### Notes to the Financial Statements – Continued

#### Note G – Leases

The Foundation has entered into various non-cancellable operating lease agreements for certain equipment and office space with initial lease terms in excess of one year. Future minimum lease payments under these agreements as of December 31, 2010 were as follows:

2011	\$	99,009
2012		56,263
2013		52,614
2014		5,863
Thereafter		891
	\$	<u>214,640</u>

The leases contain renewal provisions, escalation clauses, and provisions for payment by the Foundation of certain insurance, taxes, utilities, and maintenance costs. Rental expense on all operating leases for the years ended December 31, 2010 and 2009 was \$90,687 and \$80,146, respectively.

The Foundation subleases a portion of its office space to a third party. Rental income associated with the sublease for the years ended December 31, 2010 and 2009 was \$23,399 and \$34,239, respectively. During 2010, the sublease under agreement expired and was not renewed, therefore there is no future minimum rental income associated as of December 31, 2010.

#### Note H – Commitments and Contingencies

The Foundation is presently exposed to asserted and unasserted potential legal claims encountered in the ordinary course of business. In the opinion of management, the resolution of such matters will not have a material adverse impact on the Foundation's December 31, 2010 balance sheets or statements of activities for the year then ended.

## **National Fallen Firefighters Foundation**

### Notes to the Financial Statements – Continued

#### **Note H – Commitments and Contingencies – Continued**

The Foundation maintains professional liability coverage with a commercial insurer. The Foundation's professional liability insurance coverage is on a claims-made basis, with \$1 million per incident coverage, up to a maximum of \$2 million annually, and contains a \$1,000 per incident deductible. The Foundation also maintains a general commercial insurance policy with an aggregate limit of \$2 million. Should the claims-made policy not be renewed or replaced with equivalent insurance, occurrences during its term, but asserted subsequently, will be uninsured. The current policy extends coverage through June 2010, at which time management intends to renew the policy. Management is of the opinion that its financial position, liquidity and future operating results will not be materially affected by the ultimate cost related to unasserted claims at December 31, 2010 and 2009.

#### **Note I – Related Parties**

The Foundation incurred expenses of approximately \$15,250 and \$8,250 for 2010 and 2009, respectively, for services provided by the Congressional Fire Services Institute (CFSI). The Executive Director of CFSI is a member of the Foundation's board of directors. During 2010 and 2009, the Foundation incurred expenses of approximately \$8,000 each year for insurance products provided by the Volunteer Firemen's Insurance Services. A board member of the Foundation is the President of the Volunteer Firemen's Insurance Services.

In January 2006, the Foundation was awarded a four-year commitment from the Motorola Foundation to support the Foundation's Scholarship Program in the amount of \$100,000 per year, and an additional four year commitment from Motorola, Inc. to support the National Memorial Weekend in the amount of \$150,000 per year. As of December 31, 2009, the Foundation has received all four installments, \$400,000 of which was used towards the scholarship awardees for the 2006-2009 school years, and \$600,000 of which was used for the four National Memorial Weekends in 2006-2009. In addition, Motorola, Inc. has provided approximately \$100,000 per year in cash and in-kind donations for support of the National Memorial Weekend, Stop, Drop, Rock and Roll, Survivors Conference, Memorial Conference, Speedway Fundraising Events, and market research donations during 2006-2010. During 2010, the Foundation received a \$250,000 grant from the Motorola Foundation to support the Foundation's Scholarship Program. As of January 4, 2011, the portion of the business that has supported the Foundation, Motorola, Inc., has become Motorola Solutions, Inc., and the Motorola Foundation entity supporting the Foundation is now the Motorola Solutions Foundation. An executive of Motorola, Inc. is a member of the Foundation's board of directors.

Contributions of \$117,100 and \$100,000, during 2010 and 2009, respectively, were made to the Foundation by State Farm Fire and Casualty Company (State Farm). An executive of State Farm is a member of the Foundation's board of directors.

## Report of Independent Auditors on the Schedule of Expenditures of Federal Awards and the Schedule of Expenses by Natural Classification and Function

Board of Directors  
National Fallen Firefighters Foundation  
Emmitsburg, Maryland

The 2010 and 2009 audited financial statements of the National Fallen Firefighters Foundation and our report thereon are presented in the preceding section of this report. Those audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying schedule of expenditures of federal awards as of and for the year ended December 31, 2010 and schedule of expenses by natural classification and function as of and for the years ended December 31, 2010 and 2009 are presented hereinafter for the purpose of additional analysis and, in the case of the schedule of expenditures of federal awards, to comply with the requirements of the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. Although not a required part of the basic financial statements, such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepting the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements taken as a whole.

*Cohen, Rutherford + Knight, P.C.*

June 23, 2011  
Bethesda, Maryland

**National Fallen Firefighters Foundation**  
**Schedule of Expenditures of Federal Awards**  
For the Year Ended December 31, 2010

Federal Grantor / Program Title	Federal CFDA Number	Grant Identification Number	Federal Expenditures
<b>MAJOR PROGRAM</b>			
U.S. Department of Homeland Security	97.044	EMW-2008-FP-02214	\$ 793,275
Federal Emergency Management Agency		EMW-2009-FP-01370	406,077
U.S. Fire Administration			
Assistance to Firefighters Grant Program			
Firefighter Life Safety Initiatives Program			
(Line of Duty Death Prevention)			
<b>TOTAL MAJOR PROGRAM</b>			1,199,352
<b>NON-MAJOR PROGRAMS</b>			
U.S. Department of Justice	16.580	2008-PS-DX-K001	\$ 153,963
Office of Justice Programs		2009-PS-DX-K016	1,010,319
Bureau of Justice Assistance			
BJA Solicited Awards			
National Fire Services Survivors Support Programs			
(Network for Survivors)			
U.S. Department of Homeland Security	97.101	2009-RB-62-0001	188,554
Federal Emergency Management Agency		2010-RB-61-K001	360,530
National Emergency Training Center			
National Fallen Firefighters Memorial Weekend Services			
(Memorial Service Weekend, Vulnerability Assessment)			
U.S. Department of Justice	16.571	2010-PS-DX-0002	10,945
Office of Justice Programs		2010-PS-DX-0004	555
Bureau of Justice Assistance			
Firefighter and First Responder Awareness & Outreach			
Firefighter & First Responder Prerequisite Certification/Benefits			
<b>TOTAL NON-MAJOR PROGRAMS</b>			1,724,866
<b>TOTAL</b>			\$ 2,924,218

The schedule of expenditures of federal awards includes the federal grant activity of the National Fallen Firefighters Foundation and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirement of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

**See the accompanying report of independent auditors on the schedule of expenditures of federal awards and the schedule of expenses by natural classification and function.**

**National Fallen Firefighters Foundation**  
**Schedule of Expenses by Natural Classification and Function**  
**Year Ended December 31, 2010**

	<u>Total</u>	<u>Program</u>	<u>Management and Administration</u>	<u>Fundraising</u>
Cost of goods sold	\$ 98,500	\$ 98,500	\$ 0	\$ 0
Salaries, benefits, and payroll taxes - <i>Note G</i>	1,299,337	1,009,505	87,760	202,072
Depreciation	83,918	83,918	0	0
Professional fees	2,325,297	2,287,799	1,685	35,813
Travel	701,588	640,222	14,707	46,659
Rent - <i>Note H</i>	67,289	62,155	0	5,134
Office supplies	374,506	339,318	2,937	32,251
Insurance	19,513	16,956	1,898	659
Printing, postage, and communication	131,206	119,139	1,381	10,686
Scholarships	226,147	226,147	0	0
Contributed goods and services - <i>Note E</i>	278,909	200,168	0	78,741
Member fees and subscriptions	11,530	5,991	0	5,539
Meetings	23,665	14,076	6,011	3,578
Repair and maintenance	14,937	14,937	0	0
Investment and bank fees	42,393	18,176	24,217	0
Other	8,316	5,632	720	1,964
<b>Total Expenses</b>	<u>\$ 5,707,051</u>	<u>\$ 5,142,639</u>	<u>\$ 141,316</u>	<u>\$ 423,096</u>

See the accompanying report of independent auditors on the schedule of expenditures of federal awards and the schedule of expenses by natural classification and function.

**National Fallen Firefighters Foundation**  
**Schedule of Expenses by Natural Classification and Function**  
**Year Ended December 31, 2009**

	<u>Total</u>	<u>Program</u>	<u>Management and Administration</u>	<u>Fundraising</u>
Cost of goods sold	\$ 106,072	\$ 106,072	\$ 0	\$ 0
Salaries, benefits, and payroll taxes - <i>Note G</i>	1,114,918	857,140	72,177	185,601
Depreciation	79,622	79,622	0	0
Professional fees	1,727,288	1,688,457	9,173	29,658
Travel	571,067	526,154	16,774	28,139
Rent - <i>Note H</i>	45,907	45,892	0	15
Office supplies	276,935	252,260	2,785	21,890
Insurance	17,502	13,758	3,146	598
Printing, postage, and communication	190,181	181,701	1,515	6,965
Scholarships	158,474	158,474	0	0
Contributed goods and services - <i>Note E</i>	390,418	103,791	0	286,627
Member fees and subscriptions	8,038	3,316	315	4,407
Meetings	14,082	7,734	2,942	3,406
Investment and bank fees	40,086	21,185	18,901	0
Other	4,989	4,989	0	0
<b>Total Expenses</b>	<u>\$ 4,745,579</u>	<u>\$ 4,050,545</u>	<u>\$ 127,728</u>	<u>\$ 567,306</u>

See the accompanying report of independent auditors on the schedule of expenditures of federal awards and the schedule of expenses by natural classification and function.

**Independent Auditors' Report on Internal Control Over  
Reporting and on Compliance and Other Matters  
Based on an Audit of Financial Statements Performed In  
Accordance with Government Auditing Standards**

Board of Directors  
National Fallen Firefighters Foundation  
Emmitsburg, Maryland

We have audited the financial statements of the National Fallen Firefighters Foundation (the Foundation) as of and for the year ended December 31, 2010, and have issued our report thereon dated June 23, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

*Internal Control Over Financial Reporting*

In planning and performing our audit, we considered the Foundation's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Foundation's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Foundation's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified a deficiency in internal control over financial reporting, described in the accompanying schedule of findings and questioned costs that we consider to be a significant deficiency in internal control over financial reporting (see 2010-1). A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Board of Directors  
National Fallen Firefighters Foundation

*Compliance and Other Matters*

As part of obtaining reasonable assurance about whether the Foundation's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

The Foundation's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the Foundation's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, the audit committee, the board of directors, federal awarding agencies, and pass through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Cohen, Rutherford + Knight, P.C.*  
June 23, 2011  
Bethesda, Maryland

**Independent Auditors' Report on Compliance with  
Requirements Applicable to Each Major Federal Program  
and on Internal Control Over Compliance in Accordance  
With OMB Circular A-133**

Board of Directors  
National Fallen Firefighters Foundation  
Emmitsburg, Maryland

*Compliance*

We have audited the compliance of the National Fallen Firefighters Foundation (the Foundation) with the types of compliance requirements described in the OMB *Circular A-133 Compliance Supplement* that are applicable to its major federal program for the year ended December 31, 2010. The Foundation's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal program is the responsibility of the Foundation's management. Our responsibility is to express an opinion on the Foundation's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Foundation's compliance with those requirements, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Foundation's compliance with those requirements.

In our opinion, the Foundation complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended December 31, 2010.

*Internal Control Over Compliance*

The management of the Foundation is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable



Board of Directors  
National Fallen Firefighters Foundation

to federal programs. In planning and performing our audit, we considered the Foundation's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Foundation's internal control over compliance.

A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of management, the audit committee, the board of directors, federal awarding agencies, and pass through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Cohen, Rutherford + Knight, P.C.*  
June 23, 2011  
Bethesda, Maryland

**National Fallen Firefighters Foundation**  
**Schedule of Findings and Questioned Costs**  
For the Year Ended December 31, 2010

**SECTION I - SUMMARY OF AUDITOR'S RESULTS**

FINANCIAL STATEMENTS

Type of auditor's report issued:	Unqualified
Internal control over financial reporting?	
Material weakness(es) identified?	No
Significant deficiency(ies) identified not considered to be material weaknesses?	Yes
Noncompliance material to the financial statements noted?	No

FEDERAL AWARDS

Internal control over major program:	
Material weakness(es) identified?	No
Significant deficiency(ies) identified not considered to be material weaknesses?	None reported
Type of auditors' report issued on compliance for major programs?	Unqualified
Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133?	No

**Identification of Major Program:**

<u>CFDA Number/Grant Identification Number</u>	<u>Name of Federal Program</u>
97.044                    EMW-2008-FP-02214, EMW-2009-FP-01370	Firefighter Life Safety Initiatives Program

**Identification of Nonmajor Programs:**

<u>CFDA Number/Grant Identification Number</u>	<u>Name of Federal Program</u>
97.101                    2009-RB-62-0001, 2010-RB-61-K001	National Fallen Firefighters Memorial Weekend Services
16.580                    2008-PS-DX-K001, 2009-PS-DX-K016	National Fire Services Survivors Support Programs
16.571                    2010-PS-DX-0002	Firefighter and First Responder Awareness & Outreach
16.571                    2010-PS-DX-0004	Firefighter and First Responder Prerequisite Certification/Benefits
Dollar threshold to distinguish between type A and type B programs?	\$300,000
Auditee qualified as low-risk?	Yes

**National Fallen Firefighters Foundation**  
**Schedule of Findings and Questioned Costs - Continued**  
For the Year Ended December 31, 2010

**SECTION II - FINANCIAL STATEMENT FINDINGS**

<b>2010-1</b>	<b>Criteria</b>	Documentation of employee withholding information maintained in the employee records should agree with the third party payroll processor's records.
	<b>Condition</b>	We noted nine out of our sample of fifteen personnel records selected for testing in which certain withholding information did not reconcile between documentation maintained in the employee records and the third party payroll processor records.
	<b>Questioned Costs</b>	Not applicable.
	<b>Cause</b>	Withholding forms are not returned in a timely manner for newly hired employees, and as changes to withholding forms are submitted, the information is not timely submitted to the third party payroll processor.
	<b>Effect</b>	Amounts withheld from an employee's gross pay is potentially inaccurate or not in accordance with their elections.
	<b>Recommendation</b>	We recommend management evaluate and revise its policies and procedures to ensure that current withholding information be included in a timely manner and in all employee records.
	<b>Management's Response</b>	Management contacted each employee identified in our sample that met this condition and requested new withholding documentation to be completed. The current withholding information was then updated with the third party payroll processor, then filed in the employees' personnel file.

**SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

No matters were reported.