



Navy-Marine Corps Relief Society

Audited Financial Statements

*Years ended December 31, 2010 and 2009  
with Report of Independent Auditors*

Navy-Marine Corps Relief Society

Audited Financial Statements

Years ended December 31, 2010 and 2009

Contents

Report of Independent Auditors.....	1
Audited Financial Statements	
Statements of Financial Position .....	2
Statements of Activities.....	3
Statements of Functional Expenses.....	4
Statements of Cash Flows.....	5
Notes to Financial Statements.....	6 - 24

## Report of Independent Auditors

Board of Directors  
Navy-Marine Corps Relief Society  
Arlington, Virginia

We have audited the accompanying statements of financial position of Navy-Marine Corps Relief Society (the Society) as of December 31, 2010 and 2009 and the related statements of activities, functional expenses and cash flows for the years then ended. These financial statements are the responsibility of the Society'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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes 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 Society'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 Navy-Marine Corps Relief Society at December 31, 2010 and 2009, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States.

*Johnson Lambert & Co. LLP*

Falls Church, Virginia  
April 4, 2011

Navy-Marine Corps Relief Society

Statements of Financial Position

	December 31,	
	<u>2010</u>	<u>2009</u>
<b>Assets</b>		
Cash and cash equivalents	\$ 1,090,013	\$ 1,103,709
Investments	98,347,803	93,423,928
Prepaid expenses, inventory and other assets	743,290	863,882
Contributions receivable	4,385,939	4,079,722
Loans receivable, net	19,899,503	20,781,754
Property and equipment, net	<u>42,733</u>	<u>48,718</u>
Total assets	<u>\$ 124,509,281</u>	<u>\$ 120,301,713</u>
<b>Liabilities and net assets</b>		
Accounts payable and accrued expenses	\$ 786,825	\$ 1,062,857
Accrued salary and leave	1,279,683	1,280,665
Line of credit	-	209,330
Pension liability	4,013,708	6,702,617
Annuity payable	<u>78,271</u>	<u>25,951</u>
Total liabilities	6,158,487	9,281,420
<b>Net assets</b>		
Unrestricted	106,643,071	99,134,781
Temporarily restricted	9,259,504	9,525,019
Permanently restricted	<u>2,448,219</u>	<u>2,360,493</u>
Total net assets	<u>118,350,794</u>	<u>111,020,293</u>
Total liabilities and net assets	<u>\$ 124,509,281</u>	<u>\$ 120,301,713</u>

*See accompanying notes to the financial statements.*

# Navy-Marine Corps Relief Society

## Statements of Activities

	Years ended December 31,							
	2010			2009				
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>Revenues, Gains and Other Support</b>								
Contributions	\$ 12,313,526	\$ 4,861,950	\$ 80,000	\$ 17,255,476	\$ 12,883,821	\$ 4,651,481	\$ -	\$ 17,535,302
Other revenues:								
Thrift shop	809,334	-	-	809,334	870,664	-	-	870,664
Miscellaneous	29,187	-	-	29,187	46,555	-	-	46,555
Investments:								
Interest and dividends	1,892,192	-	-	1,892,192	1,505,137	-	-	1,505,137
Realized and unrealized gains, net	8,925,052	296,939	-	9,221,991	12,990,766	296,808	-	13,287,574
	<u>23,969,291</u>	<u>5,158,889</u>	<u>80,000</u>	<u>29,208,180</u>	<u>28,296,943</u>	<u>4,948,289</u>	<u>-</u>	<u>33,245,232</u>
Net assets released from restrictions:								
Satisfaction of program restrictions	1,646,522	(1,646,522)	-	-	1,105,073	(1,105,073)	-	-
Expiration of time restrictions	3,777,882	(3,777,882)	-	-	3,911,112	(3,911,112)	-	-
Total net assets released from restrictions	<u>5,424,404</u>	<u>(5,424,404)</u>	<u>-</u>	<u>-</u>	<u>5,016,185</u>	<u>(5,016,185)</u>	<u>-</u>	<u>-</u>
<b>Total Revenues, Gains and Other Support</b>	<u>29,393,695</u>	<u>(265,515)</u>	<u>80,000</u>	<u>29,208,180</u>	<u>33,313,128</u>	<u>(67,896)</u>	<u>-</u>	<u>33,245,232</u>
<b>Expenses</b>								
Program services	21,853,826	-	-	21,853,826	24,042,379	-	-	24,042,379
Management and general	1,898,343	-	-	1,898,343	1,769,996	-	-	1,769,996
Fundraising	683,050	-	-	683,050	750,254	-	-	750,254
<b>Total Expenses</b>	<u>24,435,219</u>	<u>-</u>	<u>-</u>	<u>24,435,219</u>	<u>26,562,629</u>	<u>-</u>	<u>-</u>	<u>26,562,629</u>
<b>Change in net assets from operations</b>	<u>4,958,476</u>	<u>(265,515)</u>	<u>80,000</u>	<u>4,772,961</u>	<u>6,750,499</u>	<u>(67,896)</u>	<u>-</u>	<u>6,682,603</u>
<b>Non-operating activities</b>								
Change in beneficial interest in trust held by third parties	-	-	7,726	7,726	-	-	87,059	87,059
Pension related credits (costs) other than net periodic pension cost	2,549,814	-	-	2,549,814	4,680,018	-	-	4,680,018
<b>Change in net assets</b>	7,508,290	(265,515)	87,726	7,330,501	11,430,517	(67,896)	87,059	11,449,680
<b>Net assets, beginning of year</b>	<u>99,134,781</u>	<u>9,525,019</u>	<u>2,360,493</u>	<u>111,020,293</u>	<u>87,704,264</u>	<u>9,592,915</u>	<u>2,273,434</u>	<u>99,570,613</u>
<b>Net assets, end of year</b>	<u>\$ 106,643,071</u>	<u>\$ 9,259,504</u>	<u>\$ 2,448,219</u>	<u>\$ 118,350,794</u>	<u>\$ 99,134,781</u>	<u>\$ 9,525,019</u>	<u>\$ 2,360,493</u>	<u>\$ 111,020,293</u>

See accompanying notes to the financial statements.

## Navy-Marine Corps Relief Society

### Statements of Functional Expenses

Expenses	Years ended December 31,							
	2010				2009			
	Program Services	Management and General	Fundraising	Total	Program Services	Management and General	Fundraising	Total
Salaries and benefits	\$ 13,479,289	\$ 1,036,868	\$ 296,248	\$ 14,812,405	\$ 14,751,892	\$ 930,011	\$ 352,763	\$ 16,034,666
Grant expense	3,806,442	-	-	3,806,442	3,899,960	-	-	3,899,960
Loans written off (net of recoveries)	518,347	-	-	518,347	1,034,758	-	-	1,034,758
Loans converted to grants	524,685	-	-	524,685	540,205	-	-	540,205
Financial assistance fees	69,061	-	-	69,061	65,223	-	-	65,223
Non-financial programs	616,620	-	-	616,620	595,850	-	-	595,850
Volunteer expenses	772,572	-	-	772,572	750,209	-	-	750,209
Human resources	203,218	15,632	4,506	223,356	170,776	10,766	5,882	187,424
Professional fees/bank charges	-	608,391	39,156	647,547	-	615,815	20,297	636,112
Office administration	1,190,522	91,579	325,359	1,607,460	1,270,283	80,083	348,301	1,698,667
Travel expense	260,118	8,948	-	269,066	280,473	10,551	605	291,629
Training and conferences	5,012	18,904	1,325	25,241	5,559	10,419	110	16,088
Depreciation and equipment expenses	407,940	31,380	8,966	448,286	677,191	42,692	16,194	736,077
Miscellaneous administration	-	86,641	7,490	94,131	-	69,659	6,102	75,761
Total Expenses	\$ 21,853,826	\$ 1,898,343	\$ 683,050	\$ 24,435,219	\$ 24,042,379	\$ 1,769,996	\$ 750,254	\$ 26,562,629

*See accompanying notes to the financial statements.*

# Navy-Marine Corps Relief Society

## Statements of Cash Flows

	Years ended December 31,	
	2010	2009
<b>Cash flows from operating activities</b>		
Change in net assets	\$ 7,330,501	\$ 11,449,680
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation	33,591	67,061
Realized and unrealized gains, net	(9,221,991)	(13,287,574)
Change in beneficial interest in trusts held by third parties	(7,726)	(87,059)
Change in permanently restricted funds	(80,000)	-
Change in provision for doubtful accounts	(447,000)	(206,000)
Changes in operating assets and liabilities:		
Prepaid expenses, inventory and other assets	120,592	49,063
Contributions receivable	(306,217)	(42,713)
Loans receivable	1,329,251	(1,319,785)
Accounts payable and accrued expenses	(276,032)	(336,906)
Accrued salary and leave	(982)	98,416
Annuity payable	52,320	6,952
Accrued pension liability	(2,688,909)	(3,757,166)
Net cash used in operating activities	(4,162,602)	(7,366,031)
<b>Cash flows from investing activities</b>		
Purchase of property and equipment	(27,606)	(5,984)
Sale of investments, net of purchases	4,385,845	6,274,596
Net cash provided by investing activities	4,358,239	6,268,612
<b>Cash flows from financing activities</b>		
Proceeds from line-of-credit	50,062,923	48,041,103
Principal payments on line-of-credit	(50,272,256)	(48,128,184)
Net cash used in financing activities	(209,333)	(87,081)
Net change in cash and cash equivalents	(13,696)	(1,184,500)
Cash and cash equivalents, beginning of year	1,103,709	2,288,209
Cash and cash equivalents, end of year	\$ 1,090,013	\$ 1,103,709
<b>Supplemental Cash Flow Information</b>		
Interest paid	\$ 46,421	\$ 44,847

*See accompanying notes to the financial statements.*

# Navy-Marine Corps Relief Society

## Notes to Financial Statements

Years ended December 31, 2010 and 2009

### **Note A - Organization**

The Navy-Marine Corps Relief Society (the Society) is a non-profit charitable corporation founded in 1904. The Society consists of a headquarters located in Arlington, Virginia and field offices located at U.S. Navy and Marine Corps installations throughout the world. The mission of the Society is to provide, in partnership with the Navy and Marine Corps, financial, educational and other assistance to members of the naval service of the United States, and their eligible family members and survivors, when in need, and to manage funds to administer these programs. Financial assistance may be in the form of interest-free loans, direct relief grants, educational loans, educational grants, or any combination thereof. The accompanying financial statements include the accounts of the Society's headquarters and its field sites.

### **Note B - Summary of Significant Accounting Policies**

#### *Basis of Presentation*

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States (GAAP).

#### *Use of Estimates*

Preparation of financial statements in accordance with GAAP 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 revenues and expenses during the reporting period. Actual results could differ from those estimates.

#### *Subsequent Events*

The Society has evaluated subsequent events for disclosure and recognition through April 4, 2011, the date on which these financial statements were available to be issued.

#### *Classification of Net Assets*

Activities of the Society are recorded in the following net asset categories:

Unrestricted net assets - net assets that are not subject to any donor-imposed stipulation or other legal limitation.



## Navy-Marine Corps Relief Society

### Notes to Financial Statements (Continued)

#### **Note B - Summary of Significant Accounting Policies (Continued)**

##### *Classification of Net Assets (Continued)*

Temporarily restricted net assets - net assets received with donor stipulations that limit the use of the donated assets. When a donor 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.

Permanently restricted net assets - net assets subject to donor-imposed stipulations that require the Society to maintain the principal in perpetuity.

##### *Revenue Recognition*

Pledges and contributions result primarily from an annual fundraising drive sponsored by the Secretary of the Navy and held at Navy and Marine Corps commands throughout the world. Pledges and contributions are recorded in their entirety at the time they are made. Contributions received are recorded at fair value as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions. The Society estimates contributions receivable based on prior years' experience and management's analysis of specific promises made. All amounts are considered current.

##### *Loans Receivable - Assistance and Education*

In accordance with GAAP, loans made and repayments of loans affect the calculation of the loan balance on the statement of financial position and are not shown as income or expense.

Educational and direct relief loans are recorded at face value, bear no interest, and are generally due in monthly installments over periods deemed appropriate by caseworkers. Some loans are converted into grants and thereby expensed when it becomes apparent that the individual is in financial need and is unable to repay the Society. Some loans are written off as uncollectible. The Society determines loans to be uncollectible when payments are not received as scheduled.

Delinquent loans are charged to the allowance for doubtful accounts when internal collection efforts have been exhausted and the account is deemed uncollectible. The Society evaluates the adequacy of the allowance on an annual basis based on historical loss experience. Loans written off as expenses are shown net of recoveries in the financial statements.

##### *Investments and Fair Value Measurements*

All investments are carried at fair value, with gains and losses included in the statement of activities. Gains and losses on investments reflected in the accompanying statement of activities include gains and losses realized upon sales and unrealized gains and losses resulting from fluctuations in market values of investments, net of related investment management expenses. Gains and losses upon sales are calculated using the average cost method.

## Navy-Marine Corps Relief Society

### Notes to Financial Statements (Continued)

#### **Note B - Summary of Significant Accounting Policies (Continued)**

##### *Investments and Fair Value Measurements (Continued)*

The Society's estimates of fair value for financial assets and liabilities are based on the framework established in the fair value measurements and disclosures accounting guidance. The framework is based on the inputs used in valuation and requires that observable inputs be used in the valuations when available. The disclosure of fair value estimates in the fair value accounting guidance includes a hierarchy based on whether significant valuation inputs are observable. In determining the level of the hierarchy in which the estimate is disclosed, the highest priority is given to unadjusted quoted prices in active markets and the lowest priority to unobservable inputs that reflect the Society's significant market assumptions. The three levels of the hierarchy are as follows:

**Level 1** – Inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities traded in active markets.

**Level 2** – Inputs to the valuation methodology include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability and market-corroborated inputs.

**Level 3** – Valuations based on models where significant inputs are not observable. The unobservable inputs reflect the Society's own assumptions about the inputs that market participants would use.

Fair values are based on quoted market prices when available (Level 1). When market prices are not available, fair value is generally estimated using current market inputs for similar financial instruments with comparable terms and credit quality, commonly referred to as matrix pricing (Level 2). In instances where there is little or no market activity for the same or similar instruments, the Society estimates fair value using methods, models and assumptions that management believes are relevant to the particular asset or liability. This may include discounted cash flow analysis or other income based approaches (Level 3). These valuation techniques involve some level of management estimation and judgment.

##### *Income Taxes*

The Society is a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code. In addition, income in the statement of activities has been properly classified as exempt. Accounting standards require an entity to analyze the technical merits of their tax positions and determine the likelihood that these positions will be sustained if examined by the taxing authorities. Management has evaluated its tax positions and concluded that the Society has properly maintained its exempt status. In addition, the Society has concluded that there are no uncertain tax positions as of December 31, 2010. Tax years after 2007 are subject to examination by taxing authorities; there are currently no examinations being conducted.

## Navy-Marine Corps Relief Society

### Notes to Financial Statements (Continued)

#### **Note B - Summary of Significant Accounting Policies (Continued)**

##### *Inventory*

Donated inventory located at the Society's thrift shops is valued at its estimated net realizable value. Management has determined that its thrift shop sales are generally exempt from sales tax. In 2009, California passed legislation that specifically exempted the thrift shops from sales tax until January 2014. While this legislation is not retroactive, the Society has maintained its tax exempt status as a part of the Employee Retirement Income Security Act of 1974 (ERISA).

##### *Property and Equipment*

Property and equipment are recorded at cost, less accumulated depreciation. Depreciation is computed using the straight-line method over the estimated useful lives of three to five years for the respective assets.

##### *Cash and Cash Equivalents*

The Society considers cash and cash equivalents to include only demand deposits. Money market accounts and short-term, highly liquid investments purchased for its trading accounts and handled by investment managers, are treated as investments rather than cash equivalents. Cash overdrafts totaling approximately \$258,000 and \$406,000 have been reclassified as accounts payable as of December 31, 2010 and 2009, respectively. The carrying amounts approximate fair value because of the short nature of these instruments.

##### *Allocation of Expenses*

Certain costs have been allocated among the programs and supporting services benefited. The Society allocates its costs based on salaries among three categories: programs, management and general, and fundraising.

##### *Concentrations of Credit Risk*

Financial instruments that potentially subject the Society to significant concentrations of credit risk consist principally of cash, investments and loans receivable. Substantially all of the Society's cash and cash equivalents are maintained in a single bank. The Society has exposure to credit risk to the extent that its cash and cash equivalents exceed amounts covered by Federal Deposit Insurance Corporation. The Society has not experienced any losses in such accounts and management believes it is not exposed to any significant credit risk on cash and cash equivalents. With respect to investments, the Society limits its credit risk by diversifying its investments and working with many different investment managers. At December 31, 2010 and 2009, the Society had uncollateralized loans receivable totaling \$21.9 million and \$23.2 million, respectively, all to present or former service members of the Navy or Marine Corps, their eligible family members and their survivors. The Society believes that its credit risk is not significant.

## Navy-Marine Corps Relief Society

### Notes to Financial Statements (Continued)

#### **Note B - Summary of Significant Accounting Policies (Continued)**

##### *Concentrations of Credit Risk (Continued)*

In the course of its investments, the Society enters into transactions in financial instruments with off-balance-sheet risk. These financial instruments include futures contracts, which contain varying degrees of off-balance-sheet risk. This involves changes in the market values of the securities or money market instruments underlying the financial instruments that may be in excess of the amounts recognized in the statements of financial position.

Futures contracts provide for the delayed delivery of securities or money market instruments with the seller agreeing to make delivery at a specified future date, at a specified price or yield. Risk arises from the potential inability of counter-parties to perform under the terms of the contracts, and from changes in securities values and interest rates.

Securities sold, but not yet purchased, represent obligations to deliver the specified security at the contracted price and thereby create a liability to repurchase the security in the market and prevailing prices. Accordingly, these transactions result in off-balance-sheet risk, as the ultimate obligation to satisfy the sale of securities sold, but not yet purchased, may exceed the amount recognized.

In the normal course of business, the Society is also subject to the credit risk associated with the non-performance by counter-parties of their contractual obligations pursuant to securities and foreign currency transactions.

##### *Loans Receivable*

The Society's loans receivable are reported on the statements of financial position, net of an allowance for doubtful accounts. The loans have widely varying maturities and are based upon need rather than credit worthiness of the borrower. Due to the unique nature of the amounts due from loan recipients, it is not practical to estimate their fair market value.

##### *Reclassifications*

From time to time, certain accounts in the prior year financial statements may be reclassified for comparative purposes to conform to the presentation in the current year financial statements.

# Navy-Marine Corps Relief Society

## Notes to Financial Statements (Continued)

### Note C - Investments

The Society follows a policy of diversification of its investments in order to reduce volatility of price fluctuations in its overall portfolio and balance risk/return levels to meets its financial goals. Investments are stated at fair value and consist of the following at December 31:

	2010	2009
Common stocks and short-term investments:		
Alliance Capital Management	\$ 3,223	\$ 11,127,062
Columbia Partners	7,285,164	5,706,959
Diamond Hill	5,841,921	5,842,905
UBS Financial Services Inc., Bloomberg Commodity Index	227	-
Brockenbrough, Tierney & Tattersall	4,757,655	4,079,099
Charitable Gift Annuities	68,204	-
Chase Investment Counsel	5,661,270	-
Pimco All Assets Fund	2	-
Pimco Total Return Bond Fund	848	-
Rothschild Capital Asset Management, Inc.	8,272,587	7,428,666
Wells Capital Management, Inc.	9,339,957	7,203,877
Third Avenue	5,170,607	-
Turner Investment Partners, Inc., Large Cap	5,459,457	4,858,609
Turner Investment Partners, Inc. Small Cap	12,634,958	10,033,773
SunTrust Master Trust	-	403
Thompson, Siegal & Walmsley, LLC	-	4,151
Total common stocks and short-term investments	64,496,080	56,285,504
Fixed-income securities:		
ASB Capital Management	-	4,729,277
Charitable Gift Annuities	13,069	-
Total fixed-income securities	13,069	4,729,277
Market neutral equities and short-term investments		
The Boston Company	5,398,689	5,400,177
Numeric Investors LP	8,187,745	8,570,219
Total market neutral equities and short-term investments	13,586,434	13,970,396
Mutual funds:		
SunTrust Master Trust	1,905,195	1,647,235
UBS Financial Services Inc., Bloomberg Commodity Index	2,618,207	-
Third Avenue	-	4,653,838
Loomis Sayles	5,030,690	-
Pimco All Assets Fund	4,120,424	-
Pimco Total Return Bond Fund	5,860,735	5,408,940
UBS Financial Services Inc., Money Market	-	2,161,127
S&P 500 SPDRS	-	3,898,051
Charitable Gift Annuities	98,750	59,067
Total mutual funds	19,634,001	17,828,258
Beneficial interest in perpetual trust	618,219	610,493
Total investments	\$ 98,347,803	\$ 93,423,928

## Navy-Marine Corps Relief Society

### Notes to Financial Statements (Continued)

#### Note C - Investments (Continued)

In 2010 and 2009, money managers invested in market neutral equity strategies which may be equitized by holding long positions in future contracts on the securities that comprise the S&P500 or EAFE Index.

Managers reported as follows at December 31:

	<u>Numeric Investors</u>		<u>The Boston Company</u>	
	<u>Unequitized 2010</u>	<u>Unequitized 2009</u>	<u>Unequitized 2010</u>	<u>Unequitized 2009</u>
Equities	\$ 7,782,235	\$ 7,989,101	\$ 4,304,157	\$ 4,191,627
Short-term investments	<u>405,510</u>	<u>581,118</u>	<u>1,094,532</u>	<u>1,208,550</u>
	<u>\$ 8,187,745</u>	<u>\$ 8,570,219</u>	<u>\$ 5,398,689</u>	<u>\$ 5,400,177</u>

The Society holds a beneficial interest in the Behannon Perpetual Trust, which is valued at the fair value of the Society's share of the assets in the trust equal to the current value of the Society's share of the estate at year end.

Investments were recorded at fair value as of December 31, 2010 based on the following level of hierarchy:

	<u>Quoted Prices in Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Total</u>
Common stocks	\$ 62,091,706	\$ -	\$ 62,091,706
Fixed income securities	13,069	-	13,069
Short-term investments	3,904,416	-	3,904,416
Market neutral equities	12,086,392	-	12,086,392
Mutual funds	19,634,001	-	19,634,001
Beneficial interest in perpetual trust	-	618,219	618,219
	<u>\$ 97,729,584</u>	<u>\$ 618,219</u>	<u>\$ 98,347,803</u>

## Navy-Marine Corps Relief Society

### Notes to Financial Statements (Continued)

#### Note C - Investments (Continued)

Investments were recorded at fair value as of December 31, 2009 based on the following level of hierarchy:

	Quoted Prices in Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Total
Common stocks	\$ 55,028,505	\$ -	\$ 55,028,505
Fixed income securities	-	4,729,277	4,729,277
Short-term investments	3,046,667	-	3,046,667
Market neutral equities	12,180,728	-	12,180,728
Mutual funds	17,828,258	-	17,828,258
Beneficial interest in perpetual trust	-	610,493	610,493
	\$ 88,084,158	\$ 5,339,770	\$ 93,423,928

Composition of investment return is as follows for the years ended December 31:

	2010	2009
Realized and unrealized gains	\$ 9,860,201	\$ 13,973,523
Management fees	(638,210)	(685,949)
Realized and unrealized gains, net	9,221,991	13,287,574
Interest and dividends	1,892,192	1,505,137
Total investment return	\$ 11,114,183	\$ 14,792,711

#### Note D - Loans Receivable-Assistance and Education

An analysis of loan activity, which includes all loans for education programs as well as direct relief, is as follows as of December 31:

	2010	2009
Loans outstanding, beginning of year	\$ 23,245,754	\$ 21,925,968
Loans made	44,335,336	41,985,645
Collections on loans	(43,956,859)	(38,694,974)
Loans considered uncollectible	(1,156,929)	(1,291,196)
Loans converted to grants	(524,685)	(540,205)
Other adjustments	(26,114)	(139,484)
Loans outstanding	21,916,503	23,245,754
Allowance for doubtful accounts	(2,017,000)	(2,464,000)
Net loans receivable-assistance and education	\$ 19,899,503	\$ 20,781,754

## Navy-Marine Corps Relief Society

### Notes to Financial Statements (Continued)

#### Note E - Property and Equipment

The following summarizes the property and equipment accounts as of December 31:

	<u>2010</u>	<u>2009</u>
Office furniture and equipment	\$ 227,332	\$ 329,656
Computer equipment	945,099	927,598
Software	<u>163,651</u>	<u>163,651</u>
	1,336,082	1,420,905
Less: accumulated depreciation	<u>(1,293,349)</u>	<u>(1,372,187)</u>
Total property and equipment	<u>\$ 42,733</u>	<u>\$ 48,718</u>

#### Note F - Line-of-Credit

The Society maintains a \$10,000,000 line-of-credit to provide funds to meet its short-term cash flow needs over the course of its operating cycle. The line-of-credit expires on June 30, 2011 and carried an interest rate of the greater of 2% per annum or the Libor 30-day index plus 1% per annum during 2010. The Turner Investment Partners, Small Cap account is pledged as collateral against the line of credit. The agreement allows for borrowing up to 75% of the market value (\$12.6 million as of December 31, 2010) of this investment account. The outstanding account balance at December 31, 2010 and 2009 was \$0 and \$209,330 in principal and \$5,135 and \$4,358 in accrued interest, respectively. The carrying value of the liability approximates fair value.

#### Note G - Retirement Plans

The Society sponsors a defined benefit retirement plan (the Plan) and a 403(b) salary reduction arrangement, both covering substantially all full-time employees.

Under the terms of the Plan, a participant may retire at the later of attainment of age 65 or completion of five years of participation. Vesting in employer contributions is 0% for the first five years of service and full vesting occurs after five years. The Society's funding policy is to make the minimum annual contribution required by applicable regulations. Contributions are intended to provide not only for benefits attributed to service to date, but for those expected to be earned in the future. There are no Plan participant contributions. Effective January 1, 2011, any employee hired after that date will not be eligible to enter the Plan.



## Navy-Marine Corps Relief Society

### Notes to Financial Statements (Continued)

#### Note G - Retirement Plans (Continued)

On March 11, 1994, the Plan established a trust to hold and administer the assets of the Plan and to pay benefits and expenses from the fund upon direction of the Plan administrators or the Society. The trustee, SunTrust Bank, provides an annual accounting of the administration of the fund. The Plan also executed an agreement, effective March 10, 1994, with Strong Capital Management, Inc., to act as investment advisor and allocate the Plan's funds among the Strong family of mutual funds in accordance with the Plan's investment policy. In 2005, Wells Capital Management, Inc. purchased Strong Capital Management, Inc., including the management of the pension assets. Contributions are also made annually to an insurance company and funded in accordance with an actuarial estimate of amounts required to meet the benefits payable to pre-1986 retirees who are still covered under the terms of the Society's previous coverage.

GAAP requires that the unfunded status of the Plan be recognized as a liability in the statement of financial position and as a reduction of unrestricted net assets in the statement of activities as well as certain additional disclosures.

The following table sets forth the Plan's funded status and amounts recognized in the Society's financial statements as of and for the years ended December 31:

	<u>2010</u>	<u>2009</u>
Accumulated benefit obligation	\$ 29,265,343	\$ 27,686,180
Projected benefit obligation	\$ (33,175,204)	\$ (31,711,538)
Plan assets at fair value	<u>29,161,496</u>	<u>25,008,921</u>
Funded status	<u>\$ (4,013,708)</u>	<u>\$ (6,702,617)</u>

The amounts of contributions, benefits paid from the Plan, benefit cost and accrued pension liability are as follows for the years ended December 31:

	<u>2010</u>	<u>2009</u>
Employer contribution	\$ 2,027,736	\$ 1,669,488
Benefits paid	1,660,467	1,323,159
Components of net benefit pension costs:		
Service costs	1,443,974	1,386,049
Interest costs	1,933,284	1,833,563
Amortization of prior service costs	28,055	28,055
Amortization of actuarial gains	250,391	733,186
Expected return on plan assets	<u>(1,767,063)</u>	<u>(1,388,513)</u>
Net benefit pension costs	<u>1,888,641</u>	<u>2,592,340</u>

# Navy-Marine Corps Relief Society

## Notes to Financial Statements (Continued)

### Note G - Retirement Plans (Continued)

Amounts not yet recognized as a component of net periodic benefit cost reported as a reduction of unrestricted net assets in the accompanying statement of activities:

	2010	2009
Net gain	\$ 2,521,759	\$ 4,651,963
Amortization of prior service credit (cost)	28,055	28,055
	\$ 2,549,814	\$ 4,680,018

The accumulated prior service cost and net actuarial losses that will be amortized into net periodic benefit costs during 2011 are \$28,055 and \$250,391 respectively.

The Society determines its assumptions based on historical returns and other pertinent information, and adjusts them based on current conditions in the market. The expected long-term return is based on a historic three-year average of Plan asset return if the historic return is within 3% of the assumed rate of return. If the current expected rate of returns falls outside of this margin, an adjustment to the expected rate of return is made. Assumptions used in accounting for the Plan were as follows at December 31:

	2010	2009
Weighted-average assumptions to determine benefit obligations:		
Discount rate	6.25 %	6.25 %
Rate of compensation increase	5.00 %	5.00 %
Weighted-average assumptions to determine net periodic pension cost:		
Discount rate	6.25 %	6.25 %
Expected long-term rate of return on Plan assets	7.00 %	7.00 %
Rate of compensation increase	5.00 %	5.00 %

Based on actuarial estimates, the Society expects to contribute \$1,669,488 toward the plan in 2011. The estimated future benefits payments are as follows for the fiscal years ending December 31, 2011 through 2021:

2011	\$ 1,680,732
2012	1,847,185
2013	1,998,693
2014	2,133,375
2015	2,296,526
2016 - 2021	13,366,481
	\$ 23,322,992

## Navy-Marine Corps Relief Society

### Notes to Financial Statements (Continued)

#### **Note G - Retirement Plans (Continued)**

Plan assets invested in mutual funds and money market accounts are carried at their fair market value based on market quotes as determined and certified by the custodian. The fair value of each account is based on the fair value of the respective accumulation units as determined by the custodian on the last business day of the Society year. The Society also continues to hold an Immediate Participation Guarantee Contract, with First Allmerica Financial Life Insurance Company (Allmerica and the custodian) acting as deposit administrator. These funds are deposited with Allmerica in a deposit administration fund and used to pay the benefits of seven beneficiaries. The fair value of the Society's investment contract with Allmerica is estimated using contract value. Fair value is 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.

These valuation methods may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Society believes its valuation method is appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date.

The following table sets forth by level, within the GAAP fair value hierarchy, the Plan assets at fair value as of December 31, 2010:

	<u>Level 1</u>	<u>Level 3</u>	<u>Total</u>
Bond mutual funds	\$ 8,994,764	\$ -	\$ 8,994,764
Equity mutual funds	19,815,846	-	19,815,846
Money market funds	210,899	-	210,899
Insurance company guaranteed account	-	139,987	139,987
	<u>\$ 29,021,509</u>	<u>\$ 139,987</u>	<u>\$ 29,161,496</u>

The following table sets forth by level, within the GAAP fair value hierarchy, the Plan assets at fair value as of December 31, 2009:

	<u>Level 1</u>	<u>Level 3</u>	<u>Total</u>
Bond mutual funds	\$ 8,076,859	\$ -	\$ 8,076,859
Equity mutual funds	16,422,264	-	16,422,264
Money market funds	353,289	-	353,289
Insurance company guaranteed account	-	156,509	156,509
	<u>\$ 24,852,412</u>	<u>\$ 156,509</u>	<u>\$ 25,008,921</u>

## Navy-Marine Corps Relief Society

### Notes to Financial Statements (Continued)

#### Note G - Retirement Plans (Continued)

A reconciliation of investments measured at fair value on a recurring basis with the use of significant unobservable inputs (Level 3) from January 1, 2009 to December 31, 2010 is as follows:

	Insurance company guaranteed account
Balance at January 1, 2009	\$ 174,688
Purchases, sales, issuances and settlements (net)	(18,179)
Balance at December 31, 2009	156,509
Purchases, sales, issuances and settlements (net)	(16,522)
Balance at December 31, 2010	\$ 139,987

The investment policy and target investment allocations for the Plan assets for the fiscal year ending December 31, 2010 are designed to target 20% to 60% invested in fixed income securities, 40% to 80% invested in equity securities, and 0% to 40% invested in cash and cash equivalents.

The following table summarizes the Plan assets by major category as of December 31:

	2010	2009
Equity securities	68 %	66 %
Debt securities	31 %	33 %
Other	1 %	1 %
Total	100 %	100 %

## Navy-Marine Corps Relief Society

### Notes to Financial Statements (Continued)

#### Note H - Restricted Net Assets

The Society acts as custodian and disbursing agent for a number of trust funds with specific restricted purposes. The net asset balances of the restricted portions of the funds are as follows at December 31:

	2010		2009	
	Temporarily Restricted	Permanently Restricted	Temporarily Restricted	Permanently Restricted
McAlinden Fund	\$ 132,280	\$ -	\$ 135,279	\$ -
Pentagon Assistance Fund	3,289,172	-	3,825,093	-
SCAMP Fund	9,366	250,000	-	250,000
Selfridge Fund	37,463	1,000,000	-	1,000,000
USS Cole Fund	244,611	-	244,611	-
USS Stark Memorial Fund	1,741,761	-	1,530,322	-
USS Tennessee Scholarship Fund	-	-	11,832	-
Lowell Reade	28,366	580,000	-	500,000
<b>Total funds</b>	<b>5,483,019</b>	<b>1,830,000</b>	<b>5,747,137</b>	<b>1,750,000</b>
Time restricted	3,776,485	-	3,777,882	-
Beneficial interest in Behannon perpetual trust	-	618,219	-	610,493
<b>Total restricted net assets</b>	<b>\$ 9,259,504</b>	<b>\$ 2,448,219</b>	<b>\$ 9,525,019</b>	<b>\$ 2,360,493</b>

Temporarily restricted net assets are available for the following purposes:

Joseph A. McAlinden Working Divers Scholarship Fund - To fund research of ocean agriculture by Navy working divers.

Pentagon Assistance Fund - Financial assistance to surviving spouses and children of the personnel killed as a result of the terrorist attack on September 11, 2001, and those killed in the theater of combat operations during the war on terrorism in Afghanistan, which provides for the Society to act as a guarantor of sufficient funds for tuition, books and fees for each of the surviving spouses and children to obtain a four-year, post-secondary university degree or equivalent technical/vocational training. Additionally, each surviving spouse is eligible to receive a distribution of \$50,000 and each surviving child will be eligible to receive \$125,000 upon reaching his or her 21st birthday. Since spouses and children of naval personnel who may lose their lives in the theater of operation during the ongoing Operation Enduring Freedom are also beneficiaries of this fund, it is not possible to estimate any reasonable future disbursement amount for this purpose.

## Navy-Marine Corps Relief Society

### Notes to Financial Statements (Continued)

#### **Note H - Restricted Net Assets (Continued)**

USS Cole Memorial Fund - Financial assistance to surviving family members of the personnel killed as a result of the terrorist attack on October 12, 2000, and funds for the design, construction and maintenance of a USS Cole memorial and annual memorial flowers. The Society anticipates making disbursements to the 11 children for a total amount of \$1,375,000 as each child reaches his or her 21st birthday. The Society has also agreed to be the guarantor of sufficient funds for tuition, books and fees for each of the 11 children to obtain a four-year, post-secondary university degree or equivalent technical/vocational training. Since the Society is not the first payer of educational benefits, and since it is unknown how many of the children will pursue future education opportunities, or what the future costs of tuition will be for those who do request education assistance, it is not possible to estimate any reasonable future disbursement amount for this purpose.

USS Stark Memorial Fund - To aid surviving spouses and children of U.S. Navy personnel killed or permanently disabled as a result of the May 1987 attack on the USS Stark.

USS Tennessee Scholarship Fund - To assist with post-secondary undergraduate education of dependent children of active duty and retired personnel assigned to or previously assigned to duty aboard the USS Tennessee. During 2010, the fund was dissolved and the residual funds of approximately \$11,000 were transferred to unrestricted net assets in accordance with the donor agreement.

California Community Foundation Fund-Combat Casualty Grant - The Society received a \$1,905,000 grant over a three-year period for support of the Combat Casualty Assistance/Visiting Nurses program. The program provides case management, extended nursing care and emotional support to Marines and Sailors injured in Iraq or Afghanistan, and support to their families. The grant period began January 1, 2008 and ended December 31, 2010. The Society received grant payments in the amount of \$635,000 in January of each year.

#### *Permanently Restricted Endowment Funds*

Permanently restricted net assets are restricted to investment in perpetuity, the income from which is expendable to support its intended purpose. Permanently restricted net assets are available for the following purposes:

Scholarships for Children of American Military Personnel (SCAMP) - To provide scholarships through the Travers Scholarship Program (\$250,000 corpus).

Selfridge Fund - To assist widows and minor children of deceased officers and enlisted men of the U.S. Navy and Marine Corps (\$1,000,000 corpus).

Lowell Reade - To be used at the unrestricted discretion of the Society (\$580,000 corpus).

# Navy-Marine Corps Relief Society

## Notes to Financial Statements (Continued)

### **Note H - Restricted Net Assets (Continued)**

#### *Interpretation and Adoption of Relevant Law*

The Management and Board of Directors of the Society have interpreted the District of Columbia "Uniform Prudent Management of Institutional Funds Act of 2007" (the Act), absent explicit donor stipulations to the contrary, to require the Society to act in good faith and with the care that an ordinarily prudent person in a like position would exercise under similar circumstances in making determinations to appropriate or accumulated endowment funds, taking into account both its obligation to preserve the value of the endowment and its obligation to use the endowment to achieve the purposes for which it was donated. The Society classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment and (c) accumulations to the permanent endowment required by the applicable donor gift instrument, if applicable.

#### *Investment Policy*

Permanently restricted funds are invested to provide long term growth of capital to meet the future obligations of the funds in accordance with the respective donor covenants establishing them. Another consideration and objective of the fund is to prudently manage risk by diversifying investments in a manner that lowers overall volatility of the funds' corpus. An asset allocation of 50% to 70% in equities, 20% to 50% in fixed income, and 5% to 10% in other asset classes is maintained.

#### *Spending Policy*

In making a determination to appropriate or accumulate funds in an endowment, the Society adheres to the standard of prudence prescribed by the Act as well as donor stipulations, and considers the following factors:

1. The duration and preservation of the endowment fund
2. The purposes of the institution and endowment fund
3. General economic conditions and market cycles
4. The effects of inflation and deflation
5. The expected total return from income and appreciation of investments
6. Other resources of the Society
7. The investment policies of the Society
8. The changing financial needs of the Society's clients, i.e., demands for the services and programs of the Society

## Navy-Marine Corps Relief Society

### Notes to Financial Statements (Continued)

#### **Note H - Restricted Net Assets (Continued)**

##### *Funds with Deficiencies*

From time to time, the fair value of assets associated with the individual donor restricted endowment funds discussed above may fall below the level that the donor requires the Society to retain as a fund of perpetual duration. In accordance with GAAP, deficiencies of this nature are reported in unrestricted net assets. As of December 31, 2010, the fair value of endowments exceeded their corpus by \$75,195 and as of December 31, 2009, there was a \$102,765 deficiency.

##### *Other Permanently Restricted Funds*

The Society holds a beneficial interest in the Mozelle Behannon Charitable Trust, a perpetual trust which is valued at the fair value of the Society's one-third share of the assets in the trust. The Society receives an annual income payment which is used to fulfill the Society's mission.

Changes in permanently restricted net assets for the years ended December 31, 2010 and 2009 were as follows:

	2010	2009
<b>Permanently restricted endowments</b>		
Permanently restricted assets fair value, beginning of year	\$ 1,647,235	\$ 1,339,366
Contributions	80,000	-
Realized and unrealized gains	177,960	307,869
Permanently restricted assets fair value, end of year	\$ 1,905,195	\$ 1,647,235
Corpus, beginning of year	\$ 1,750,000	\$ 1,750,000
Additions to corpus	80,000	-
Corpus, end of year	\$ 1,830,000	\$ 1,750,000
<b>Other permanently restricted assets: Behannon Trust</b>		
Behannon Trust fair value, beginning of year	\$ 610,493	\$ 523,434
Realized and unrealized (losses) gains	7,726	87,059
Behannon Trust fair value, end of year	\$ 618,219	\$ 610,493
<b>Total permanently restricted net assets</b>	<b>\$ 2,448,219</b>	<b>\$ 2,360,493</b>

##### *Temporarily Restricted Funds*

The remaining portion of donor-restricted funds that are not classified as permanently restricted are classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Society. Net assets are released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by the donors.



## Navy-Marine Corps Relief Society

### Notes to Financial Statements (Continued)

#### Note H - Restricted Net Assets (Continued)

The following details the total assets released from restriction:

	2010	2009
Purpose restrictions accomplished:		
USS Stark Memorial Fund	\$ 10,304	\$ 16,509
USS Tennessee Scholarship Fund	11,832	17,492
McAlinden Scholarship Fund	3,000	-
Visiting Nurses Program	152,244	-
Pentagon Assistance Fund	535,921	184,029
California Community Foundation Combat Casualty	635,000	635,000
Other Combat Casualty	298,221	238,598
USS Cole Memorial Fund	-	13,445
	1,646,522	1,105,073
Total purpose restrictions accomplished:		
Time restrictions released	3,777,882	3,911,112
Total restrictions released	\$ 5,424,404	\$ 5,016,185

The following are included in the Society's accompanying financial statements for the years ended December 31:

	2010	2009
USS Stark		
Investments at market value	\$ 1,741,761	\$ 1,530,322
Grants made	10,304	16,509
USS Tennessee		
Investments at market value	-	11,832
Grants made	9,750	17,492
Amounts released to unrestricted net assets in fund dissolution	2,732	-

#### Note I - Contributed Services/Facilities/Equipment

Donated services are recognized as contributions if the services create or enhance non-financial assets or require specialized skills, are performed by people with those skills, and would otherwise be purchased. No contributions of services were recorded in the financial statements for the years ended December 31, 2010 and 2009.

The Society receives substantial benefit from services provided by active and retired members of the Navy and Marine Corps and their spouses. These volunteer services totaled an estimated 303,000 and 282,000 hours in 2010 and 2009, respectively. The value of these volunteer services is not included in the financial statements.

## Navy-Marine Corps Relief Society

### Notes to Financial Statements (Continued)

#### **Note I - Contributed Services/Facilities/Equipment (Continued)**

In addition, the Navy and Marine Corps donate the use of office space and other services at various military installations around the world. The value of these donated facilities has not been reflected in the accompanying financial statements and is not presently determinable. Space occupied by the NMCRS Headquarters in Arlington, Virginia during 2010 and 2009 was valued at \$643,119 and \$648,600, respectively, which is recorded in the financial statements as contributed revenue and rent expense.

The Society, from time to time, is provided the use of government furniture and equipment in accordance with Title X of the U.S. Code and agreements reached between the Society and the Navy and Marine Corps. Equipment valued at \$801,121 was provided in 2005. The use of these assets was amortized over their estimated useful lives, which was five years ending in 2009. Amortization related to Title X equipment was \$0 and \$160,224 in 2010 and 2009, respectively. These amounts are recorded in net assets released from restriction in the statement of activities.