



Navy-Marine Corps Relief Society

Audited Financial Statements

*Years ended December 31, 2011 and 2010
with Report of Independent Auditors*

Navy-Marine Corps Relief Society

Audited Financial Statements

Years ended December 31, 2011 and 2010

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Report of Independent Auditors

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

We have audited the accompanying statements of financial position of the Navy-Marine Corps Relief Society (the Society) as of December 31, 2011 and 2010, 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, 2011 and 2010, 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 19, 2012

Navy-Marine Corps Relief Society

Statements of Financial Position

| | December 31, | |
|--|-----------------------|-----------------------|
| | 2011 | 2010 |
| Assets | | |
| Cash and cash equivalents | \$ 4,831,648 | \$ 1,090,013 |
| Investments | 91,063,403 | 98,347,803 |
| Prepaid expenses, inventory and other assets | 525,397 | 743,290 |
| Contributions receivable | 4,848,529 | 4,385,939 |
| Loans receivable, net | 19,066,475 | 19,899,503 |
| Property and equipment, net | 108,019 | 42,733 |
| Total assets | \$ 120,443,471 | \$ 124,509,281 |
| Liabilities and net assets | | |
| Accounts payable and accrued expenses | \$ 839,135 | \$ 786,825 |
| Accrued salary and leave | 1,364,623 | 1,279,683 |
| Pension liability | 12,916,589 | 4,013,708 |
| Annuity payable | 159,800 | 78,271 |
| Total liabilities | 15,280,147 | 6,158,487 |
| Net assets | | |
| Unrestricted | 92,491,731 | 106,643,071 |
| Temporarily restricted | 10,259,284 | 9,259,504 |
| Permanently restricted | 2,412,309 | 2,448,219 |
| Total net assets | 105,163,324 | 118,350,794 |
| Total liabilities and net assets | \$ 120,443,471 | \$ 124,509,281 |

See accompanying notes to the financial statements.

Navy-Marine Corps Relief Society

Statements of Activities

| | Years ended December 31, | | | | | | | |
|--|--------------------------|---------------------------|---------------------------|-----------------------|-----------------------|---------------------------|---------------------------|-----------------------|
| | 2011 | | | | 2010 | | | |
| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
| Revenues, Gains and Other Support | | | | | | | | |
| Contributions | \$ 15,220,520 | \$ 5,564,067 | \$ - | \$ 20,784,587 | \$ 12,313,526 | \$ 4,861,950 | \$ 80,000 | \$ 17,255,476 |
| Other revenues: | | | | | | | | |
| Thrift shop | 888,995 | - | - | 888,995 | 809,334 | - | - | 809,334 |
| Miscellaneous | 56,023 | - | - | 56,023 | 29,187 | - | - | 29,187 |
| Investments: | | | | | | | | |
| Interest and dividends | 2,058,941 | - | - | 2,058,941 | 1,892,192 | - | - | 1,892,192 |
| Realized and unrealized (losses) gains, net | <u>(3,034,071)</u> | <u>33,102</u> | <u>-</u> | <u>(3,000,969)</u> | <u>8,925,052</u> | <u>296,939</u> | <u>-</u> | <u>9,221,991</u> |
| | <u>15,190,408</u> | <u>5,597,169</u> | <u>-</u> | <u>20,787,577</u> | <u>23,969,291</u> | <u>5,158,889</u> | <u>80,000</u> | <u>29,208,180</u> |
| Net assets released from restrictions: | | | | | | | | |
| Satisfaction of program restrictions | 820,904 | (820,904) | - | - | 1,646,522 | (1,646,522) | - | - |
| Expiration of time restrictions | <u>3,776,485</u> | <u>(3,776,485)</u> | <u>-</u> | <u>-</u> | <u>3,777,882</u> | <u>(3,777,882)</u> | <u>-</u> | <u>-</u> |
| Total net assets released from restrictions | <u>4,597,389</u> | <u>(4,597,389)</u> | <u>-</u> | <u>-</u> | <u>5,424,404</u> | <u>(5,424,404)</u> | <u>-</u> | <u>-</u> |
| Total Revenues, Gains and Other Support | <u>19,787,797</u> | <u>999,780</u> | <u>-</u> | <u>20,787,577</u> | <u>29,393,695</u> | <u>(265,515)</u> | <u>80,000</u> | <u>29,208,180</u> |
| Expenses | | | | | | | | |
| Program services | 22,249,440 | - | - | 22,249,440 | 21,853,826 | - | - | 21,853,826 |
| Management and general | 1,892,120 | - | - | 1,892,120 | 1,898,343 | - | - | 1,898,343 |
| Fundraising | <u>678,473</u> | <u>-</u> | <u>-</u> | <u>678,473</u> | <u>683,050</u> | <u>-</u> | <u>-</u> | <u>683,050</u> |
| Total Expenses | <u>24,820,033</u> | <u>-</u> | <u>-</u> | <u>24,820,033</u> | <u>24,435,219</u> | <u>-</u> | <u>-</u> | <u>24,435,219</u> |
| Change in net assets from operations | <u>(5,032,236)</u> | <u>999,780</u> | <u>-</u> | <u>(4,032,456)</u> | <u>4,958,476</u> | <u>(265,515)</u> | <u>80,000</u> | <u>4,772,961</u> |
| Non-operating activities | | | | | | | | |
| Change in beneficial interest in trust held by third parties | - | - | (35,910) | (35,910) | - | - | 7,726 | 7,726 |
| Pension related (costs) credits other than net periodic pension cost | <u>(9,119,104)</u> | <u>-</u> | <u>-</u> | <u>(9,119,104)</u> | <u>2,549,814</u> | <u>-</u> | <u>-</u> | <u>2,549,814</u> |
| Change in net assets | <u>(14,151,340)</u> | <u>999,780</u> | <u>(35,910)</u> | <u>(13,187,470)</u> | <u>7,508,290</u> | <u>(265,515)</u> | <u>87,726</u> | <u>7,330,501</u> |
| Net assets, beginning of year | <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> |
| Net assets, end of year | <u>\$ 92,491,731</u> | <u>\$ 10,259,284</u> | <u>\$ 2,412,309</u> | <u>\$ 105,163,324</u> | <u>\$ 106,643,071</u> | <u>\$ 9,259,504</u> | <u>\$ 2,448,219</u> | <u>\$ 118,350,794</u> |

See accompanying notes to the financial statements.

Navy-Marine Corps Relief Society

Statements of Functional Expenses

| Expenses | Years ended December 31, | | | | | | | |
|---------------------------------------|--------------------------|---------------------------|-------------|---------------|---------------------|---------------------------|-------------|---------------|
| | 2011 | | | | 2010 | | | |
| | Program Services | Management and General | Fundraising | Total | Program Services | Management and General | Fundraising | Total |
| Salaries and benefits | \$ 13,314,023 | \$ 868,306 | \$ 289,435 | \$ 14,471,764 | \$ 13,479,289 | \$ 1,036,868 | \$ 296,248 | \$ 14,812,405 |
| Grant expense | 4,095,159 | - | - | 4,095,159 | 3,806,442 | - | - | 3,806,442 |
| Loans written off (net of recoveries) | 763,749 | - | - | 763,749 | 518,347 | - | - | 518,347 |
| Loans converted to grants | 426,525 | - | - | 426,525 | 524,685 | - | - | 524,685 |
| Financial assistance fees | 57,399 | - | - | 57,399 | 69,061 | - | - | 69,061 |
| Non-financial programs | 627,733 | - | - | 627,733 | 616,620 | - | - | 616,620 |
| Volunteer expenses | 743,956 | - | - | 743,956 | 772,572 | - | - | 772,572 |
| Human resources | 243,755 | 15,897 | 7,823 | 267,475 | 203,218 | 15,632 | 4,506 | 223,356 |
| Professional fees/bank charges | - | 644,174 | 38,201 | 682,375 | - | 608,391 | 39,156 | 647,547 |
| Office administration | 1,223,690 | 79,806 | 320,674 | 1,624,170 | 1,190,522 | 91,579 | 325,359 | 1,607,460 |
| Travel expense | 213,586 | 8,552 | 2,985 | 225,123 | 260,118 | 8,948 | - | 269,066 |
| Training and conferences | 5,024 | 23,232 | 1,180 | 29,436 | 5,012 | 18,904 | 1,325 | 25,241 |
| Depreciation and equipment expenses | 534,841 | 34,881 | 11,627 | 581,349 | 407,940 | 31,380 | 8,966 | 448,286 |
| Miscellaneous administration | - | 217,272 | 6,548 | 223,820 | - | 86,641 | 7,490 | 94,131 |
| Total Expenses | \$ 22,249,440 | \$ 1,892,120 | \$ 678,473 | \$ 24,820,033 | \$ 21,853,826 | \$ 1,898,343 | \$ 683,050 | \$ 24,435,219 |

See accompanying notes to the financial statements.

Navy-Marine Corps Relief Society

Statements of Cash Flows

| | Years ended December 31, | |
|---|--------------------------|--------------|
| | 2011 | 2010 |
| Cash flows from operating activities | | |
| Change in net assets | \$ (13,187,470) | \$ 7,330,501 |
| Adjustments to reconcile change in net assets to net cash used in operating activities: | | |
| Depreciation | 54,822 | 33,591 |
| Realized and unrealized (losses) gains, net | 3,000,969 | (9,221,991) |
| Change in beneficial interest in trusts held by third parties | 35,910 | (7,726) |
| Change in permanently restricted funds | - | (80,000) |
| Change in provision for doubtful accounts | (327,000) | (447,000) |
| Pension related credits other than net periodic costs | 9,119,104 | (2,549,814) |
| Changes in operating assets and liabilities: | | |
| Prepaid expenses, inventory and other assets | 217,893 | 120,592 |
| Contributions receivable | (462,590) | (306,217) |
| Loans receivable | 1,160,026 | 1,329,251 |
| Accounts payable and accrued expenses | 52,310 | (276,032) |
| Accrued salary and leave | 84,940 | (982) |
| Annuity payable | 81,529 | 52,320 |
| Accrued pension liability | (216,223) | (139,095) |
| Net cash used in operating activities | (385,780) | (4,162,602) |
| Cash flows from investing activities | | |
| Purchase of property and equipment | (120,107) | (27,606) |
| Sale of investments, net of purchases | 4,247,522 | 4,305,845 |
| Net cash provided by investing activities | 4,127,415 | 4,278,239 |
| Cash flows from financing activities | | |
| Proceeds from line-of-credit | (51,104,932) | 50,062,923 |
| Principal payments on line-of-credit | 51,104,932 | (50,272,256) |
| Permanently restricted contributions | - | 80,000 |
| Net cash used in financing activities | - | (129,333) |
| Net change in cash and cash equivalents | 3,741,635 | (13,696) |
| Cash and cash equivalents, beginning of year | 1,090,013 | 1,103,709 |
| Cash and cash equivalents, end of year | \$ 4,831,648 | \$ 1,090,013 |
| Supplemental Cash Flow Information | | |
| Interest paid | \$ 44,045 | \$ 46,421 |

See accompanying notes to the financial statements.

Navy-Marine Corps Relief Society

Notes to Financial Statements

Years ended December 31, 2011 and 2010

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 19, 2012, 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.

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.

Navy-Marine Corps Relief Society

Notes to Financial Statements (Continued)

Note B - Summary of Significant Accounting Policies (Continued)

Classification of Net Assets (Continued)

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

The Society's loans receivable are reported on the statements of financial position, net of an allowance for doubtful accounts. In accordance with GAAP, loans made and repayments of loans affect the calculation of the loan balance and are not shown as income or expense. Due to the unique nature of the amounts due from loan recipients, it is not practical to estimate their fair market value.

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. The loans have widely varying maturities and are based upon need rather than credit worthiness of the borrower. 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. The Society recognizes transfers between levels in the fair value hierarchy at the end of the period for the event or change in circumstances that caused the transfer.

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, 2011. Tax years after 2008 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 \$0 and \$258,000 have been reclassified as accounts payable as of December 31, 2011 and 2010, 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, 2011 and 2010, the Society had uncollateralized loans receivable totaling \$20.7 million and \$21.9 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.

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:

| | 2011 | 2010 |
|--|---------------|---------------|
| Common stocks and short-term investments: | | |
| Alliance Capital Management | \$ - | \$ 3,223 |
| Columbia Partners | 7,167,548 | 7,285,164 |
| Diamond Hill | 6,034,783 | 5,841,921 |
| UBS Financial Services Inc., Bloomberg Commodity Index | 77 | 227 |
| Brockenbrough, Tierney & Tattersall | 4,947,755 | 4,757,655 |
| Charitable Gift Annuities | 165,530 | 68,204 |
| Chase Investment Counsel | 5,635,185 | 5,661,270 |
| Pimco All Assets Fund | (148) | 2 |
| Pimco Total Return Bond Fund | 712 | 848 |
| Rothschild Capital Asset Management, Inc. | 8,308,152 | 8,272,587 |
| Wells Capital Management, Inc. | 8,612,270 | 9,339,957 |
| Third Avenue | 4,380,352 | 5,170,607 |
| Turner Investment Partners, Inc., Large Cap | 893,299 | 5,459,457 |
| Turner Investment Partners, Inc. Small Cap | 10,313,236 | 12,634,958 |
| SunTrust Master Trust | 1,021,392 | - |
| Loomis Sayles | (150) | - |
| Total common stocks and short-term investments | 57,479,993 | 64,496,080 |
| Fixed-income securities: | | |
| Charitable Gift Annuities | 63,758 | 13,069 |
| Total fixed-income securities | 63,758 | 13,069 |
| Market neutral equities and short-term investments | | |
| The Boston Company | 4,764,867 | 5,398,689 |
| Numeric Investors LP | 9,040,854 | 8,187,745 |
| Total market neutral equities and short-term investments | 13,805,721 | 13,586,434 |
| Mutual funds: | | |
| SunTrust Master Trust | 826,711 | 1,905,195 |
| UBS Financial Services Inc., Bloomberg Commodity Index | 2,390,542 | 2,618,207 |
| Loomis Sayles | 5,356,929 | 5,030,690 |
| Pimco All Assets Fund | 4,392,392 | 4,120,424 |
| Pimco Total Return Bond Fund | 6,081,643 | 5,860,735 |
| Charitable Gift Annuities | 83,405 | 98,750 |
| Total mutual funds | 19,131,622 | 19,634,001 |
| Beneficial interest in perpetual trust | 582,309 | 618,219 |
| Total investments | \$ 91,063,403 | \$ 98,347,803 |

Navy-Marine Corps Relief Society

Notes to Financial Statements (Continued)

Note C - Investments (Continued)

In 2011 and 2010, money managers invested in market neutral equity strategies which may be equitized by holding long positions in future contracts on securities that comprise major stock indices.

Managers reported as follows at December 31:

| | <u>Numeric Investors</u> | | <u>The Boston Company</u> | |
|----------------------------|--------------------------|---------------------|---------------------------|---------------------|
| | <u>2011</u> | <u>2010</u> | <u>2011</u> | <u>2010</u> |
| Equities - long positions | \$ 8,506,635 | \$ 7,782,235 | \$ 4,521,852 | \$ 4,304,157 |
| Equities - short positions | (8,508,451) | (7,775,592) | (4,440,471) | (4,173,986) |
| Short-term investments | <u>9,042,670</u> | <u>8,181,102</u> | <u>4,683,486</u> | <u>5,268,518</u> |
| | <u>\$ 9,040,854</u> | <u>\$ 8,187,745</u> | <u>\$ 4,764,867</u> | <u>\$ 5,398,689</u> |

The Society's common stocks include securities in several industries including industrials, energy, consumer discretionary and staples, technology, financial and other industries. The Society's fixed income securities include an investment in a focused core fixed income fund with Chevy Chase Trust Company. 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, 2011 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 | \$ 54,143,674 | \$ - |
| Fixed income securities | 63,758 | - | 63,758 |
| Short-term investments | 3,336,319 | - | 3,336,319 |
| Market neutral equities | 13,805,721 | - | 13,805,721 |
| Mutual funds | 19,131,622 | - | 19,131,622 |
| Beneficial interest in perpetual trust | - | 582,309 | 582,309 |
| | <u>\$ 90,481,094</u> | <u>\$ 582,309</u> | <u>\$ 91,063,403</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, 2010 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 | \$ 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 |
| | \$ 97,729,584 | \$ 618,219 | \$ 98,347,803 |

There were no transfers between levels during the year ended December 31, 2011.

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

| | 2011 | 2010 |
|------------------------------------|----------------|---------------|
| Realized and unrealized gains | \$ (2,357,653) | \$ 9,860,201 |
| Management fees | (643,316) | (638,210) |
| Realized and unrealized gains, net | (3,000,969) | 9,221,991 |
| Interest and dividends | 2,058,941 | 1,892,192 |
| Total investment return | \$ (942,028) | \$ 11,114,183 |

Note D - Loans Receivable-Assistance and Education

The Society provides uncollateralized interest-free loans to eligible service members and eligible family members for help with emergency needs and education, such as:

- Emergency Transportation
- Funeral Expenses
- Medical/Dental Bills (patient's share)
- Food, Rent and Utilities
- Disaster Relief Assistance
- Child Care Expenses
- Essential Vehicle Repairs
- Unforeseen Family Emergencies
- Tuition Assistance

Navy-Marine Corps Relief Society

Notes to Financial Statements (Continued)

Note D - Loans Receivable-Assistance and Education (Continued)

Credit quality indicators such as consumer credit risk scores, credit ratings, collateral, collection experience, etc. are not used for any criteria. The credit quality indicators used by the Society are internal metrics. Those internal metrics/assessments include verification of need, preparation of a budget, and ability to repay the loan.

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

| | 2011 | 2010 |
|---|---------------|---------------|
| Loans outstanding, beginning of year | \$ 21,916,503 | \$ 23,245,754 |
| Loans made | 42,523,308 | 44,335,336 |
| Collections on loans | (42,103,246) | (43,956,859) |
| Loans considered uncollectible | (1,153,565) | (1,156,929) |
| Loans converted to grants | (426,525) | (524,685) |
| Other adjustments | - | (26,114) |
| Loans outstanding | 20,756,475 | 21,916,503 |
| Allowance for doubtful accounts | (1,690,000) | (2,017,000) |
| Net loans receivable-assistance and education | \$ 19,066,475 | \$ 19,899,503 |

The following chart represents the aging of loans receivable by class of loan as of December 31, 2011:

| | 31 to 60 Days Past Due | 61 to 90 Days Past Due | Greater than 90 Days Past Due | Total Past Due | Current | Total |
|--------------------|---------------------------|---------------------------|-------------------------------------|-------------------|---------------|---------------|
| Education Loans | \$ - | \$ - | \$ - | \$ - | \$ 370,730 | \$ 370,730 |
| Quick Assist Loans | 6,944 | 4,132 | 46,267 | 57,343 | 4,378,638 | 4,435,981 |
| Casework Loans | 50,246 | 42,251 | 245,154 | 337,651 | 15,612,113 | 15,949,764 |
| | \$ 57,190 | \$ 46,383 | \$ 291,421 | \$ 394,994 | \$ 20,361,481 | \$ 20,756,475 |

Impairment of loans receivable are not evaluated separately, but are evaluated collectively for impairment. The calculation is an estimate based upon the average of the prior three years history of loans write-offs, conversions and total loan assistance. The allowance is then adjusted as calculations require.

The activity in the allowance for credit losses on loans receivable for the year ended December 31, 2011 is as follows:

| | |
|-----------------------------|--------------|
| Allowance beginning balance | \$ 2,017,000 |
| Current period Allowance | 826,565 |
| Current year write-off | (1,153,565) |
| Allowance ending balance | \$ 1,690,000 |

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>2011</u> | <u>2010</u> |
|--------------------------------|--------------------|--------------------|
| Office furniture and equipment | \$ 224,587 | \$ 227,332 |
| Computer equipment | 1,065,207 | 945,099 |
| Software | <u>163,651</u> | <u>163,651</u> |
| | 1,453,445 | 1,336,082 |
| Less: accumulated depreciation | <u>(1,345,426)</u> | <u>(1,293,349)</u> |
| Total property and equipment | <u>\$ 108,019</u> | <u>\$ 42,733</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 28, 2012 and carried an interest rate of the greater of 2% per annum or the LIBOR 30-day index plus 1% per annum during the first six months of 2011 and the LIBOR 30-day index plus 1.25% per annum during the last six months of 2011. 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 (\$10.3 million as of December 31, 2011) of this investment account. The outstanding account balance at December 31, 2011 and 2010 was \$0 and \$0 in principal and \$0 and \$5,135 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. The Society sponsors a 401(k) Plan for only those employees hired after January 1, 2011.

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>2011</u> | <u>2010</u> |
|--------------------------------|------------------------|-----------------------|
| Accumulated benefit obligation | \$ 35,632,675 | \$ 29,265,343 |
| Projected benefit obligation | \$ (42,054,653) | \$ (33,175,204) |
| Plan assets at fair value | <u>29,138,064</u> | <u>29,161,496</u> |
| Funded status | <u>\$ (12,916,589)</u> | <u>\$ (4,013,708)</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>2011</u> | <u>2010</u> |
|--|---------------------|---------------------|
| Employer contribution | \$ 1,669,488 | \$ 2,027,736 |
| Benefits paid | 1,607,239 | 1,660,467 |
| Components of net benefit pension costs: | | |
| Service costs | 1,445,204 | 1,443,974 |
| Interest costs | 2,020,927 | 1,933,284 |
| Amortization of prior service costs | 28,045 | 28,055 |
| Amortization of actuarial gains | - | 250,391 |
| Expected return on plan assets | <u>(2,040,911)</u> | <u>(1,767,063)</u> |
| Net benefit pension costs | <u>\$ 1,453,265</u> | <u>\$ 1,888,641</u> |

Navy-Marine Corps Relief Society

Notes to Financial Statements (Continued)

Note G - Retirement Plans (Continued)

The 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 for the years ended December 31:

| | 2011 | 2010 |
|---|----------------|--------------|
| Net (loss) gain | \$ (9,147,149) | \$ 2,521,759 |
| Amortization of prior service credit (cost) | 28,045 | 28,055 |
| | \$ (9,119,104) | \$ 2,549,814 |

The amounts that have been recognized as changes in unrestricted net assets but not yet reclassified as components of net periodic benefit cost as of December 31:

| | 2011 | 2010 |
|---|-----------------|----------------|
| Net (loss) gain | \$ (12,300,456) | \$ (3,153,307) |
| Amortization of prior service credit (cost) | (1,207) | (29,252) |
| | \$ (12,301,663) | \$ (3,182,559) |

The accumulated prior service costs that will be amortized into net periodic benefit costs during 2012 are \$28,045.

In determining the expected rate of return on plan assets, the Society considers the relative weighting of plan assets, the historical performance of total plan assets and individual asset classes and economic and other indicators of future performance. In addition, the Society may consult with and consider the input of financial and other professionals in developing appropriate return benchmarks.

Assumptions used in accounting for the Plan were as follows at December 31:

| | 2011 | 2010 |
|--|--------|--------|
| Weighted-average assumptions to determine benefit obligations: | | |
| Discount rate | 5.00 % | 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 % |

Navy-Marine Corps Relief Society

Notes to Financial Statements (Continued)

Note G - Retirement Plans (Continued)

Based on actuarial estimates, in 2012 the Society expects to contribute \$417,372 towards the Plan related to plan year 2011 and approximately \$2.4 million related to plan year 2012. The estimated future benefits payments are as follows for the fiscal years ending December 31, 2012 through 2022:

| | | |
|-------------|--|----------------------|
| 2012 | | \$ 1,866,233 |
| 2013 | | 2,021,614 |
| 2014 | | 2,106,847 |
| 2015 | | 2,233,505 |
| 2016 | | 2,366,500 |
| 2017 - 2022 | | <u>13,921,740</u> |
| | | <u>\$ 24,516,439</u> |

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, 2011:

| | <u>Level 1</u> | <u>Level 3</u> | <u>Total</u> |
|---|----------------------|-------------------|----------------------|
| Bond mutual funds | \$ 10,234,191 | \$ - | \$ 10,234,191 |
| Equity mutual funds | 15,750,638 | - | 15,750,638 |
| Balanced mutual funds | 2,902,630 | - | 2,902,630 |
| Money market funds | 126,929 | - | 126,929 |
| Insurance company guaranteed account | - | 123,676 | 123,676 |
| | <u>\$ 29,014,388</u> | <u>\$ 123,676</u> | <u>\$ 29,138,064</u> |

Navy-Marine Corps Relief Society

Notes to Financial Statements (Continued)

Note G - Retirement Plans (Continued)

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> |

There were no transfers between levels during the year ended December 31, 2011.

A reconciliation of investments measured at fair value on a recurring basis with the use of significant unobservable inputs (Level 3) from January 1, 2010 to December 31, 2011 is as follows:

| | <u>Insurance company guaranteed account</u> |
|---|---|
| Balance at January 1, 2010 | \$ 156,509 |
| Purchases, sales, issuances and settlements (net) | <u>(16,522)</u> |
| Balance at December 31, 2010 | 139,987 |
| Purchases, sales, issuances and settlements (net) | <u>(16,311)</u> |
| Balance at December 31, 2011 | <u>\$ 123,676</u> |

The investment policy and target investment allocations for the Plan assets for the fiscal year ending December 31, 2011 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:

| | <u>2011</u> | <u>2010</u> |
|-------------------|--------------|--------------|
| Equity securities | 64 % | 68 % |
| Debt securities | 35 % | 31 % |
| Other | 1 % | 1 % |
| Total | <u>100 %</u> | <u>100 %</u> |

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:

| | 2011 | | 2010 | |
|--|---------------------------|---------------------------|---------------------------|---------------------------|
| | Temporarily Restricted | Permanently Restricted | Temporarily Restricted | Permanently Restricted |
| McAlinden Fund | \$ 128,618 | \$ - | \$ 132,280 | \$ - |
| Pentagon Assistance Fund | 2,637,895 | - | 3,289,172 | - |
| SCAMP Fund | - | 250,000 | 9,366 | 250,000 |
| Selfridge Fund | - | 1,000,000 | 37,463 | 1,000,000 |
| USS Cole Fund | 176,933 | - | 244,611 | - |
| USS Stark Memorial Fund | 1,751,366 | - | 1,741,761 | - |
| Military Services Support | 60,000 | - | - | - |
| Clegg Fund | 676,925 | - | - | - |
| Neuman Fund | 200,405 | - | - | - |
| America's Heroes First Foundation | 20,000 | - | - | - |
| Lowell Reade | - | 580,000 | 28,366 | 580,000 |
| Total funds | 5,652,142 | 1,830,000 | 5,483,019 | 1,830,000 |
| Time restricted | 4,607,142 | - | 3,776,485 | - |
| Beneficial interest in Behannon perpetual trust | - | 582,309 | - | 618,219 |
| Total restricted net assets | \$ 10,259,284 | \$ 2,412,309 | \$ 9,259,504 | \$ 2,448,219 |

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.

Military Services Support - To provide financial assistance for Society-wide programs, restricted to interest income only for a period of 10 years.

America's Heroes First Foundation - To support the Society's Combat Casualty Assistance ("CCA") program as facilitated by a CCA Nurse.

Major Joel L. Neuman USMC Scholarship Fund - To provide educational assistance to eligible Sailors, Marines and their families

RADM Courtney G. Clegg (MC) and Mrs. Margaret H. Clegg Scholarship Fund - To provide education scholarships to eligible dependents of the Navy and Marine Corps.

Navy-Marine Corps Relief Society

Notes to Financial Statements (Continued)

Note H - Restricted Net Assets (Continued)

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).

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.

Navy-Marine Corps Relief Society

Notes to Financial Statements (Continued)

Note H - Restricted Net Assets (Continued)

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.

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, 2011 and 2010, there were no funds with deficiencies.

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.

Navy-Marine Corps Relief Society

Notes to Financial Statements (Continued)

Note H - Restricted Net Assets (Continued)

Changes in permanently restricted net assets for the years ended December 31, 2011 and 2010 were as follows:

| | 2011 | 2010 |
|---|----------------------------|----------------------------|
| Permanently restricted endowments | | |
| Permanently restricted assets fair value, beginning of year | \$ 1,905,195 | \$ 1,647,235 |
| Contributions | - | 80,000 |
| Realized and unrealized gains | (57,092) | 177,960 |
| Permanently restricted assets fair value, end of year | <u>\$ 1,848,103</u> | <u>\$ 1,905,195</u> |
| | | |
| Corpus, beginning of year | \$ 1,830,000 | \$ 1,750,000 |
| Additions to corpus | - | 80,000 |
| Corpus, end of year | <u>\$ 1,830,000</u> | <u>\$ 1,830,000</u> |
| | | |
| Other permanently restricted assets: Behannon Trust | | |
| Behannon Trust fair value, beginning of year | \$ 618,219 | \$ 610,493 |
| Realized and unrealized (losses) gains | (35,910) | 7,726 |
| Behannon Trust fair value, end of year | <u>\$ 582,309</u> | <u>\$ 618,219</u> |
| | | |
| Total permanently restricted net assets | <u>\$ 2,412,309</u> | <u>\$ 2,448,219</u> |

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. Effective January 1, 2011, temporarily restricted funds for which the restricted purpose is satisfied in the year they are received are classified as unrestricted revenues on the statement of activities.

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:

| | 2011 | 2010 |
|---|--------------|--------------|
| Purpose restrictions accomplished: | | |
| USS Stark Memorial Fund | \$ 4,503 | \$ 10,304 |
| USS Tennessee Scholarship Fund | - | 11,832 |
| McAlinden Scholarship Fund | 3,661 | 3,000 |
| SCAMP Fund | 10,960 | - |
| Selfridge Fund | 43,837 | - |
| Lowell Reade | 38,501 | - |
| Visiting Nurses Program | - | 152,244 |
| Pentagon Assistance Fund | 651,278 | 535,921 |
| California Community Foundation Combat Casualty | - | 635,000 |
| Other Combat Casualty | - | 298,221 |
| USS Cole Memorial Fund | 67,678 | - |
| Military Services Support | 486 | - |
| Total purpose restrictions accomplished: | 820,904 | 1,646,522 |
| Time restrictions released | 3,776,485 | 3,777,882 |
| Total restrictions released | \$ 4,597,389 | \$ 5,424,404 |

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

| | 2011 | 2010 |
|---|--------------|--------------|
| USS Stark | | |
| Investments at market value | \$ 1,751,366 | \$ 1,741,761 |
| Grants made | 4,503 | 10,304 |
| USS Tennessee | | |
| Investments at market value | - | - |
| Grants made | - | 9,750 |
| 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, 2011 and 2010.

Navy-Marine Corps Relief Society

Notes to Financial Statements (Continued)

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

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 299,000 and 303,000 hours in 2011 and 2010, respectively. The value of these volunteer services is not included in the financial statements.

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 2011 and 2010 was valued at \$631,694 and \$643,119, 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. There were no assets donated in 2011 or 2010, and assets donated in prior years were fully depreciated prior to 2010.