

**Pentagon Memorial Fund, Inc.**

Financial Statements  
and Independent Auditors' Report

December 31, 2013 and 2012

**Pentagon Memorial Fund, Inc.**

Financial Statements  
December 31, 2013 and 2012

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## INDEPENDENT AUDITORS' REPORT

To the Board of Directors  
Pentagon Memorial Fund, Inc.

We have audited the accompanying financial statements of Pentagon Memorial Fund, Inc. ("the Fund"), which comprise the statements of financial position as of December 31, 2013 and 2012, the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditor's Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

*Opinion*

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Fund as of December 31, 2013 and 2012, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

*Other Matter*

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The supplemental information included on page 15 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Handwritten signature in black ink that reads "Rogers + Company PLLC". The signature is written in a cursive, slightly stylized font.

Vienna, Virginia  
August 8, 2014

**Pentagon Memorial Fund, Inc.**

Statements of Financial Position  
December 31, 2013 and 2012

	<u>2013</u>	<u>2012</u>
<b>Assets</b>		
Cash and cash equivalents	\$ 534,728	\$ 140,499
Investments	9,459,440	8,740,706
Promises to give	102,000	5,602
Other receivables	-	19,500
Prepaid expenses and deposits	<u>23,962</u>	<u>51,212</u>
Total assets	<u>\$ 10,120,130</u>	<u>\$ 8,957,519</u>
<b>Liabilities and Net Assets</b>		
<b>Liabilities</b>		
Accounts payable and accrued expenses	<u>\$ -</u>	<u>\$ 3,553</u>
Total liabilities	<u>-</u>	<u>3,553</u>
<b>Net Assets</b>		
Unrestricted:		
Board designated – maintenance fund	9,459,440	8,740,706
Undesignated	<u>560,690</u>	<u>213,260</u>
Total unrestricted	10,020,130	8,953,966
Temporarily restricted	<u>100,000</u>	<u>-</u>
Total net assets	<u>10,120,130</u>	<u>8,953,966</u>
Total liabilities and net assets	<u>\$ 10,120,130</u>	<u>\$ 8,957,519</u>

**Pentagon Memorial Fund, Inc.**

Statements of Activities  
For the Years Ended December 31, 2013 and 2012

	2013	2012
<b>Unrestricted Revenue and Support</b>		
Contributions	\$ 777,696	\$ 199,580
Contributed services	202,872	402,199
Investment income	1,122,351	871,442
Other income	-	3,171
	<u>2,102,919</u>	<u>1,476,392</u>
<b>Expenses</b>		
Program services:		
Contributions expense – PRMR Fund	350,000	350,000
Education and outreach	166,354	215,422
Other programs	62,828	97,732
Contributed services	72,000	325,000
	<u>651,182</u>	<u>988,154</u>
Total program services		
Supporting services:		
Management and general	169,723	152,596
Fundraising	84,977	41,831
Contributed services	130,873	77,197
	<u>385,573</u>	<u>271,624</u>
Total supporting services		
Total expenses	<u>1,036,755</u>	<u>1,259,778</u>
Change in unrestricted net assets	<u>1,066,164</u>	<u>216,614</u>
<b>Temporarily Restricted Net Assets</b>		
Contributions	<u>100,000</u>	<u>-</u>
Change in temporarily restricted net assets	<u>100,000</u>	<u>-</u>
<b>Change in Net Assets</b>	<u>1,166,164</u>	<u>216,614</u>
<b>Net Assets, beginning of year</b>	<u>8,953,966</u>	<u>8,737,352</u>
<b>Net Assets, end of year</b>	<u>\$ 10,120,130</u>	<u>\$ 8,953,966</u>

See accompanying notes.

**Pentagon Memorial Fund, Inc.**

Statements of Cash Flows  
For the Years Ended December 31, 2013 and 2012

	2013	2012
<b>Cash Flows from Operating Activities</b>		
Change in net assets	\$ 1,166,164	\$ 216,614
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Decrease in allowance for uncollectible promises to give	-	(72,716)
Unrealized gains	(615,611)	(496,030)
Change in operating assets and liabilities:		
(Increase) decrease in promises to give	(96,398)	75,895
Decrease (increase) in other receivables	19,500	(19,500)
Decrease (increase) in prepaid expenses and deposits	27,250	(22,033)
(Decrease) increase in accounts payable and accrued expenses	(3,553)	1,153
	<u>497,352</u>	<u>(316,617)</u>
<b>Cash Flows from Investing Activities</b>		
Sales of investments	2,813,067	1,799,484
Purchases of investments	(2,916,190)	(1,772,707)
	<u>(103,123)</u>	<u>26,777</u>
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	394,229	(289,840)
<b>Cash and Cash Equivalents, beginning of year</b>	<u>140,499</u>	<u>430,339</u>
<b>Cash and Cash Equivalents, end of year</b>	<u>\$ 534,728</u>	<u>\$ 140,499</u>

*See accompanying notes.*

## **Pentagon Memorial Fund, Inc.**

Notes to Financial Statements  
December 31, 2013 and 2012

### **1. Nature of Operations**

Pentagon Memorial Fund, Inc. (“the Fund”) was incorporated on May 21, 2003, as a not-for-profit, non-stock Virginia corporation and is qualified as tax-exempt under Section 501(c)(3) of the Internal Revenue Code (IRC). The Fund was organized by families of the victims of the terrorist attack on the Pentagon on September 11, 2001, to fund the design, construction, maintenance, and continuing educational activities surrounding a lasting memorial to the 184 individuals who lost their lives at the Pentagon.

The construction of a permanent memorial to the Pentagon victims of September 11, 2001, was authorized by Section 2864 of Public Law 107-107, wherein the Secretary of Defense is authorized to accept contributions for the purposes of (i) establishing the Pentagon Memorial and (ii) repairing the damage to the Pentagon caused by the terrorist attack. Furthermore, Section 2864(c) provides that these contributions must be deposited in the Pentagon Reservation Maintenance Revolving Fund (the “PRMR Fund”) and shall be available for expenditures only for the two purposes specified. Accordingly, amounts raised by the Fund in excess of the reasonable and necessary costs of its operations will be used to fund the construction and maintenance of the planned memorial through contributions to the PRMR Fund established for these purposes. The PRMR Fund has received and will continue to receive contributions directly from contributors, which will not be reflected in the Fund.

### **2. Summary of Significant Accounting Policies**

#### Basis of Accounting and Presentation

The Fund’s financial statements are prepared on the accrual basis of accounting and are in accordance with generally accepted accounting principles for not-for-profit organizations. Net assets are reported based on the presence or absence of donor imposed restrictions.

#### Cash Equivalents

The Fund considers as cash equivalents all highly liquid investments, which can be converted into known amounts of cash and have a maturity period of 90 days or less at the time of purchase. Excluded from this definition are amounts designated by the Board for long term purposes.



## **Pentagon Memorial Fund, Inc.**

Notes to Financial Statements  
December 31, 2013 and 2012

### **2. Summary of Significant Accounting Policies (continued)**

#### Investments

Investments at December 31, 2013 and 2012 consist of money market funds and mutual funds and are recorded at fair value based on quoted market prices. Realized and unrealized gains and losses are reported as a component of investment income in the accompanying statements of activities.

#### Promises to Give

Promises to give represent unconditional pledges and are recorded at net realizable value. Promises to give are recognized as contribution revenue in the period promised. No allowance for doubtful accounts is recorded as management believes that all receivables are fully collectible.

#### Revenue Recognition

Unconditional grants and contributions are recognized as revenue when received or promised and are reported as temporarily restricted support if they are received with donor or grantor 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 statements of activities as net assets released from restrictions. Donor-restricted contributions whose restrictions are met in the same accounting period are reported as unrestricted contributions.

Conditional promises to give are not recognized until they become unconditional (that is, when the conditions are substantially met).

Contributed services meet the criteria for recognition under Accounting Standards Codification (ASC) 958-605-25-16, *Contributed Services*, and are recorded at fair market value at the time of donation, using the applicable billing rates. See Note 9 for additional information.

Revenue from all other sources is recognized when earned.

#### Functional Allocation of Expenses

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

## **Pentagon Memorial Fund, Inc.**

Notes to Financial Statements  
December 31, 2013 and 2012

### **2. Summary of Significant Accounting Policies (continued)**

#### Use of Estimates

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

#### Reclassifications

Certain amounts in the 2012 financial statements have been reclassified to conform to the 2013 presentation.

#### Subsequent Events

The Fund follows the guidance ASC 855, *Subsequent Events*, which establishes general standards of accounting for and disclosure of events that occur after the statement of financial position date but before the financial statements are issued. In preparing these financial statements, the Fund has evaluated events and transactions for potential recognition or disclosure through August 8, 2014, the date the financial statements were available to be issued.

### **3. Concentrations of Credit Risk**

Financial instruments that potentially subject the Fund to significant concentrations of credit risk consist primarily of cash and cash equivalents, and investments. The Society maintains cash deposit and transaction accounts, along with investments, with various financial institutions and these values, from time to time, may exceed insurable limits under the Federal Depository Insurance Corporation (FDIC) and Securities Investor Protection Corporation (SIPC). The Society has not experienced any credit losses on its cash and cash equivalents, and investments to date as it relates to FDIC and SIPC insurance limits. Management periodically assesses the financial condition of these financial institutions and believes that the risk of any credit loss is minimal.

## Pentagon Memorial Fund, Inc.

Notes to Financial Statements  
December 31, 2013 and 2012

### 4. Investments

Investments consist of the following at December 31:

	2013	2012
Money market funds	\$ 638,028	\$ 73,678
Mutual funds	8,821,412	8,667,028
Total investments	<u>\$ 9,459,440</u>	<u>\$ 8,740,706</u>

Investment income consists of the following for the years ended December 31:

	2013	2012
Interest and dividends	\$ 332,600	\$ 288,270
Realized gain	174,140	87,142
Unrealized gain	615,611	496,030
Total investment income	<u>\$ 1,122,351</u>	<u>\$ 871,442</u>

### 5. Fair Value Measurements

The Fund follows ASC 820, *Fair Value Measurements and Disclosures*, for its financial assets. This standard establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. Fair value measurement standards require an entity to maximize the use of observable inputs (such as quoted prices in active markets) and minimize the use of unobservable inputs (such as appraisals or other valuation techniques) to determine fair value. The categorization of a financial instrument within the hierarchy is based upon the pricing transparency of the instrument and does not necessarily correspond to the entity's perceived risk of that instrument.

The inputs used in measuring fair value are categorized into three levels. Level 1 inputs consist of unadjusted quoted prices in active markets for identical assets and liabilities and have the highest priority. Level 2 is based upon observable inputs other than quoted market prices, and Level 3 is based on unobservable inputs.

**Pentagon Memorial Fund, Inc.**

Notes to Financial Statements  
December 31, 2013 and 2012

**5. Fair Value Measurements (continued)**

The Fund recognizes transfers between levels in the fair value hierarchy at the end of the reporting period. In general, and where applicable, the Fund uses quoted prices in active markets for identical assets to determine fair value. This pricing methodology applies to Level 1 investments.

The following table presents the Fund's fair value hierarchy for those assets measured on a recurring basis at December 31, 2013:

	Level 1	Level 2	Level 3	Total
Money market funds	\$ 638,028	\$ -	\$ -	\$ 638,028
Bond mutual funds:				
Nontraditional	361,128	-	-	361,128
Multisector	471,230	-	-	471,230
Bank loan	227,600	-	-	227,600
Intermediate-term	1,113,013	-	-	1,113,013
Emerging markets	252,820	-	-	252,820
Short-term	538,834	-	-	538,834
World	453,664	-	-	453,664
Equity mutual funds:				
Large value	753,329	-	-	753,329
Multialternative	238,294	-	-	238,294
Large blend	1,529,685	-	-	1,529,685
Small growth	229,638	-	-	229,638
Bank loan	189,703	-	-	189,703
Real estate	282,019	-	-	282,019
Foreign large blend	425,095	-	-	425,095
Small blend	314,766	-	-	314,766
Large growth	525,291	-	-	525,291
Mid-cap growth	486,754	-	-	486,754
Foreign large growth	284,055	-	-	284,055
Mid-cap blend	144,494	-	-	144,494
Total investments	<u>\$ 9,459,440</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 9,459,440</u>

**Pentagon Memorial Fund, Inc.**

Notes to Financial Statements  
December 31, 2013 and 2012

**5. Fair Value Measurements (continued)**

The following table presents the Fund's fair value hierarchy for those assets measured on a recurring basis at December 31, 2012:

	Level 1	Level 2	Level 3	Total
Money market funds	\$ 73,678	\$ -	\$ -	\$ 73,678
Bond mutual funds:				
Multisector	267,499	-	-	267,499
Inflation-protected	594,703	-	-	594,703
Intermediate-term	1,885,584	-	-	1,885,584
Short-term	408,160	-	-	408,160
World	424,214	-	-	424,214
Equity mutual funds:				
Large value	731,193	-	-	731,193
Multialternative	220,824	-	-	220,824
Large blend	1,540,125	-	-	1,540,125
Small growth	180,441	-	-	180,441
Diversified emerging market	239,055	-	-	239,055
Real estate	303,550	-	-	303,550
Foreign large blend	345,490	-	-	345,490
Small blend	278,480	-	-	278,480
Large growth	478,457	-	-	478,457
Mid-cap growth	436,670	-	-	436,670
Foreign large growth	194,538	-	-	194,538
Mid-cap blend	138,045	-	-	138,045
Total investments	<u>\$ 8,740,706</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 8,740,706</u>

**6. Promises to Give**

Promises to give are receivable as follows at December 31:

	2013	2012
Receivable in less than one year	\$ 52,000	\$ 5,602
Receivable in one to five years	50,000	-
Total promises to give	<u>\$ 102,000</u>	<u>\$ 5,602</u>

## Pentagon Memorial Fund, Inc.

Notes to Financial Statements  
December 31, 2013 and 2012

### 6. Promises to Give (continued)

The Fund has not recorded an allowance for uncollectible amounts, as management believes all grant amounts are fully collectible. The discount on grants receivable in greater than one year has not been recorded due to immateriality.

### 7. Board Designated Endowment

During the year ended December 31, 2009, the Fund established an unrestricted quasi-endowment fund for the purpose of maintaining the Pentagon Memorial. Accordingly, the fund is not subject to the Commonwealth of Virginia's Uniform Prudent Management of Institutional Funds Act. The investment objectives of the fund are long-term growth of capital, preservation of purchasing power, and preservation of capital. In order to achieve these objectives, a majority of the endowment funds are diversified among mutual funds and money market accounts.

The spending policy established for the fund, which is for yearly maintenance payments to the PRMR Fund, is 4% of the average market value of the fund over the trailing three years, with the initial value assumed to be \$9,000,000.

Composition of endowment fund and changes in endowment net assets were as follows for the years ended December 31:

	<u>2013</u>	<u>2012</u>
Board designated endowment fund, beginning	\$ 8,740,706	\$ 8,271,453
Net investment income:		
Interest	332,596	288,270
Net realized and unrealized gains	789,751	583,172
Investment fees	<u>(53,613)</u>	<u>(52,189)</u>
Net investment income	<u>1,068,734</u>	<u>819,253</u>
Payment of endowment funds	<u>(350,000)</u>	<u>(350,000)</u>
Board designated endowment fund, ending	<u>\$ 9,459,440</u>	<u>\$ 8,740,706</u>

## Pentagon Memorial Fund, Inc.

Notes to Financial Statements  
December 31, 2013 and 2012

### 8. Management, Administration, and Outreach Fees

The Fund has in place an agreement with a consulting company, CAA Consulting, to provide various services including professional management, office administration, outreach and communications, and operations. Under the terms of the contract, the Fund paid for management and administration services in the amount of \$21,916 and \$19,500 per month during the years ended December 31, 2013 and 2012, respectively. During 2012, the Fund agreed to temporarily pay an additional \$8,333 per month for a Director of Communication position. After the first three months, the Chair of the Board determined that a full-time position was not necessary. In November 2012, the Fund decided to pay \$4,916 for the last two months of the year so that CAA Consulting could hire an employee with bookkeeping experience to manage the Fund's daily financials. Either party may terminate the agreement by notifying the other in writing 90 days prior to termination. Fees paid under this contract for the years ended December 31, 2013 and 2012 were \$262,992 and \$263,915, respectively.

### 9. Contributed Services

Contributed services are as follows for the years ended December 31:

	<u>2013</u>	<u>2012</u>
Program:		
Visitor Education Center consulting	\$ -	\$ 325,000
Design and support services	67,000	-
Donated services/space for meeting	<u>5,000</u>	<u>-</u>
Total program	<u>72,000</u>	<u>325,000</u>
Management and general:		
Advertising	-	6,431
Office space	21,893	20,504
Legal	104,480	46,762
Audit and accounting services	<u>4,500</u>	<u>3,500</u>
Total management and general	<u>130,873</u>	<u>77,197</u>
Total contributed services	<u>\$ 202,873</u>	<u>\$ 402,197</u>

## **Pentagon Memorial Fund, Inc.**

Notes to Financial Statements  
December 31, 2013 and 2012

### **10. Income Taxes**

The Fund is recognized as a tax-exempt organization under Section 501(c)(3) of the IRC and is exempt from income taxes except for taxes on unrelated business activities. No tax expense is recorded in the accompanying financial statements, as there was no significant unrelated business income. No provision for income taxes has been made for either of the years ended December 31, 2013 and 2012, as the Fund had no unrelated business income. The Fund had no significant uncertain tax positions for the years ended December 31, 2013 and 2012.



## **SUPPLEMENTAL INFORMATION**

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**Pentagon Memorial Fund, Inc.**

Schedules of Functional Expenses  
For the Years Ended December 31, 2013 and 2012

	2013				2012			
	Program	G&A	Fundraising	Total	Program	G&A	Fundraising	Total
Accounting	\$ -	\$ 23,471	\$ -	\$ 23,471	\$ -	\$ 25,748	\$ -	\$ 25,748
Advertising	-	-	6,548	6,548	50	-	57	107
Audio tour hosting	5,290	-	-	5,290	-	-	-	-
Bad debts	-	-	-	-	-	3,179	-	3,179
Bank fees	-	1,113	-	1,113	-	-	-	-
Contribution to PRMR Fund	350,000	-	-	350,000	350,000	-	-	350,000
Docent program	2,981	-	-	2,981	-	-	-	-
Fees for services	14,777	-	44,500	59,277	27,522	-	16,000	43,522
Information technology	1,350	25	219	1,594	-	-	174	174
In-kind	72,000	130,873	-	202,873	325,000	77,197	-	402,197
Insurance	-	2,539	-	2,539	-	2,538	-	2,538
Investment management fees	-	53,614	-	53,614	-	52,190	-	52,190
Meetings	15,542	-	-	15,542	4,472	-	-	4,472
Miscellaneous	288	1,612	6,867	8,767	-	5	-	5
Occupancy	-	3,683	-	3,683	-	2,624	-	2,624
Office expenses	256	2,526	544	3,326	33	7,995	-	8,028
Operational support	157,795	78,898	26,299	262,992	187,901	58,317	25,600	271,818
Production/syndication	26,800	-	-	26,800	91,997	-	-	91,997
Travel	4,103	2,242	-	6,345	1,179	-	-	1,179
<b>Total Expenses</b>	<b>\$ 651,182</b>	<b>\$ 300,596</b>	<b>\$ 84,977</b>	<b>\$ 1,036,755</b>	<b>\$ 988,154</b>	<b>\$ 229,793</b>	<b>\$ 41,831</b>	<b>\$ 1,259,778</b>