

**Pentagon Memorial Fund, Inc.**

Financial Statements  
and Independent Auditors' Report

December 31, 2011 and 2010

**Pentagon Memorial Fund, Inc.**

Financial Statements  
December 31, 2011 and 2010

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## **INDEPENDENT AUDITORS' REPORT**

To the Board of Directors  
Pentagon Memorial Fund, Inc.

We have audited the accompanying statements of financial position of Pentagon Memorial Fund, Inc. ("the Fund") as of December 31, 2011 and 2010, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes 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 Fund 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 of America.

A handwritten signature in black ink that reads "Rogers + Company PLLC". The signature is written in a cursive, flowing style.

Vienna, Virginia  
October 31, 2012

**Pentagon Memorial Fund, Inc.**

Statements of Financial Position  
December 31, 2011 and 2010

	<u>2011</u>	<u>2010</u>
<b>Assets</b>		
Cash and cash equivalents	\$ 430,339	\$ 688,225
Investments	8,271,453	8,791,922
Promises to give, net	8,781	575,892
Prepaid expenses and deposits	<u>29,179</u>	<u>13,953</u>
Total assets	<u><u>\$ 8,739,752</u></u>	<u><u>\$ 10,069,992</u></u>
<b>Liabilities and Net Assets</b>		
<b>Liabilities</b>		
Accounts payable and accrued expenses	\$ 2,400	\$ 7,166
Contributions payable - PRMR Fund	<u>-</u>	<u>340,000</u>
Total liabilities	<u>2,400</u>	<u>347,166</u>
<b>Net Assets</b>		
Unrestricted:		
Board designated - maintenance fund	8,271,453	8,791,922
Undesignated	<u>465,899</u>	<u>866,485</u>
Total unrestricted	8,737,352	9,658,407
Temporarily restricted	<u>-</u>	<u>64,419</u>
Total net assets	<u>8,737,352</u>	<u>9,722,826</u>
Total liabilities and net assets	<u><u>\$ 8,739,752</u></u>	<u><u>\$ 10,069,992</u></u>

**Pentagon Memorial Fund, Inc.**

Statement of Activities  
For the Year Ended December 31, 2011

	Unrestricted	Temporarily Restricted	Total
<b>Revenue and Support</b>			
Contributions	\$ 125,742	\$ -	\$ 125,742
Contributed services	50,705	-	50,705
Investment loss	(115,066)	-	(115,066)
Other income	134	-	134
Released from restrictions	64,419	(64,419)	-
<b>Total revenue and support</b>	<b>125,934</b>	<b>(64,419)</b>	<b>61,515</b>
<b>Expenses</b>			
Program services:			
Contributions expense - PRMR Fund	350,000	-	350,000
Education and outreach	275,516	-	275,516
Other programs	47,834	-	47,834
<b>Total program services</b>	<b>673,350</b>	<b>-</b>	<b>673,350</b>
Supporting services:			
Management and general	261,435	-	261,435
Fundraising	61,499	-	61,499
Contributed services	50,705	-	50,705
<b>Total supporting services</b>	<b>373,639</b>	<b>-</b>	<b>373,639</b>
<b>Total expenses</b>	<b>1,046,989</b>	<b>-</b>	<b>1,046,989</b>
<b>Change in Net Assets</b>	<b>(921,055)</b>	<b>(64,419)</b>	<b>(985,474)</b>
<b>Net Assets, beginning of year</b>	<b>9,658,407</b>	<b>64,419</b>	<b>9,722,826</b>
<b>Net Assets, end of year</b>	<b>\$ 8,737,352</b>	<b>\$ -</b>	<b>\$ 8,737,352</b>

**Pentagon Memorial Fund, Inc.**

Statement of Activities  
For the Year Ended December 31, 2010

	Unrestricted	Temporarily Restricted	Total
<b>Revenue and Support</b>			
Contributions	\$ 79,244	\$ -	\$ 79,244
Contributed services	89,687	-	89,687
Investment income	1,039,374	-	1,039,374
Other income	-	-	-
Released from restrictions	702,588	(702,588)	-
<b>Total revenue and support</b>	<u>1,910,893</u>	<u>(702,588)</u>	<u>1,208,305</u>
<b>Expenses</b>			
Program services:			
Contributions expense - PRMR Fund	340,039	-	340,039
Education and outreach	258,408	-	258,408
<b>Total program services</b>	<u>598,447</u>	<u>-</u>	<u>598,447</u>
Supporting services:			
Management and general	298,855	-	298,855
Fundraising	24,944	-	24,944
Contributed services	89,687	-	89,687
<b>Total supporting services</b>	<u>413,486</u>	<u>-</u>	<u>413,486</u>
<b>Total expenses</b>	<u>1,011,933</u>	<u>-</u>	<u>1,011,933</u>
<b>Change in Net Assets</b>	898,960	(702,588)	196,372
<b>Net Assets, beginning of year</b>	<u>8,759,447</u>	<u>767,007</u>	<u>9,526,454</u>
<b>Net Assets, end of year</b>	<u>\$ 9,658,407</u>	<u>\$ 64,419</u>	<u>\$ 9,722,826</u>

See accompanying notes.

**Pentagon Memorial Fund, Inc.**

Statements of Cash Flows  
For the Years Ended December 31, 2011 and 2010

	<u>2011</u>	<u>2010</u>
<b>Cash Flows from Operating Activities</b>		
Change in net assets	\$ (985,474)	\$ 196,372
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:		
Decrease (increase) in allowance for uncollectible promises to give	66,909	(10,896)
Unrealized losses (gains)	774,397	(662,580)
Change in operating assets and liabilities:		
Decrease in promises to give	500,202	700,672
Increase in prepaid expenses and deposits	(15,226)	(2,589)
(Decrease) increase in accounts payable and accrued expenses	(4,766)	4,937
(Decrease) increase in contributions payable - PRMR Fund	(340,000)	340,000
Net cash (used in) provided by operating activities	<u>(3,958)</u>	<u>565,916</u>
<b>Cash Flows from Investing Activities</b>		
Net sales (purchases) of investments	<u>(253,928)</u>	<u>(328,634)</u>
Net cash provided by (used in) investing activities	<u>(253,928)</u>	<u>(328,634)</u>
<b>Net (Decrease) Increase in Cash and Cash Equivalents</b>	(257,886)	237,282
<b>Cash and Cash Equivalents, beginning of year</b>	<u>688,225</u>	<u>450,943</u>
<b>Cash and Cash Equivalents, end of year</b>	<u>\$ 430,339</u>	<u>\$ 688,225</u>

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

Notes to Financial Statements  
December 31, 2011 and 2010

### **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. 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 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 and Cash Equivalents

For the purpose of the statements of cash flows, 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 ninety 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, 2011 and 2010

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

#### Investments

Investments at December 31, 2011 and 2010 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.

#### Contributions Payable

Contributions payable represent amounts payable to the PRMR Fund that arise when commitments are made to the PRMR Fund or as money is needed to fund costs related to construction of the Pentagon Memorial.

#### Classification of Net Assets

- *Unrestricted net assets* represent funds that are not subject to donor-imposed stipulations and are available for support of the Fund's operations. Included in unrestricted net assets were Board designated reserves of \$8,271,453 and \$8,791,922 at December 31, 2011 and 2010, respectively.
- *Temporarily restricted net assets* represent funds subject to donor-imposed restrictions that are met either by actions of the Fund or the passage of time. Temporarily restricted net assets were \$0 and \$64,419 and were all time restricted at December 31, 2011 and 2010, respectively. No amounts are considered purpose restricted.

#### 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 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).

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

Notes to Financial Statements  
December 31, 2011 and 2010

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

#### Revenue Recognition (continued)

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. As of December 31, 2011 and 2010, the Fund had no employees. The services of the President are being contributed by his employer. See Note 7 for additional information.

Revenue from all other sources is recognized when earned.

#### Fair Value Measurements

The Fund applies the provisions of the Financial Accounting Standards Board's Accounting Standards Codification (ASC) Topic 820, *Fair Value Measurements and Disclosures*, for financial assets and liabilities. This standard establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. This hierarchy consists of three broad 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.

#### Advertising

The Fund expenses advertising costs as incurred. Advertising costs totaled \$974 and \$12,358 for the years ended December 31, 2011 and 2010, respectively.

#### 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.

#### 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.

## Pentagon Memorial Fund, Inc.

Notes to Financial Statements  
December 31, 2011 and 2010

### 3. Concentrations

#### Cash and Investments

Financial instruments that potentially subject the Fund to significant concentrations of credit risk consist of cash and investments. The Fund maintains cash deposits and investments with various financial institutions that exceed insurable limits under the Federal Depository Insurance Corporation (FDIC) and Securities Investor Protection Corporation (SIPC). The Fund has not experienced any credit losses on its cash 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.

### 4. Promises to Give

Pledges receivable are unconditional promises to give and are recognized as contribution revenue in the period received. As of December 31, 2011, all amounts due are receivable in less than one year. Management estimates the collectability of pledges and provides an allowance when appropriate. Pledges are receivable as follows for the years ending December 31:

Promises to give	\$	81,497
Less: allowance for uncollectible promises to give		<u>(72,716)</u>
Promises to give, net	\$	<u>8,781</u>

### 5. Investments

Investments consist of the following at December 31:

	<u>2011</u>	<u>2010</u>
Money market funds	\$ 95,327	\$ 79,606
Mutual funds	<u>8,176,126</u>	<u>8,712,316</u>
Total investments	<u>\$ 8,271,453</u>	<u>\$ 8,791,922</u>

## Pentagon Memorial Fund, Inc.

Notes to Financial Statements  
December 31, 2011 and 2010

### 5. Investments (continued)

Investment (loss) income consists of the following as of and for the years ended December 31:

	<u>2011</u>	<u>2010</u>
Interest and dividends	\$ 279,534	\$ 264,416
Realized gain	379,797	112,378
Unrealized (loss) gain	<u>(774,397)</u>	<u>662,580</u>
Total investment (loss) income	<u>\$ (115,066)</u>	<u>\$ 1,039,374</u>

### 6. Fair Value Measurements

Fair value of assets measured on a recurring basis is as follows at December 31:

	Total fair value	Level 1	Level 2	Level 3
<u>2011</u>				
Money market funds	\$ 95,327	\$ 95,327	\$ -	\$ -
Mutual funds	8,176,126	8,176,126	-	-
Investments	<u>\$ 8,271,453</u>	<u>\$ 8,271,453</u>	<u>\$ -</u>	<u>\$ -</u>
<u>2010</u>				
Money market funds	\$ 79,606	\$ 79,606	\$ -	\$ -
Mutual funds	8,712,316	8,712,316	-	-
Investments	<u>\$ 8,791,922</u>	<u>\$ 8,791,922</u>	<u>\$ -</u>	<u>\$ -</u>

Financial assets valued using level 1 inputs are based on unadjusted quoted market prices within active markets. There were no level 2 or level 3 financial assets at December 31, 2011 and 2010.

## Pentagon Memorial Fund, Inc.

Notes to Financial Statements  
December 31, 2011 and 2010

### 7. Contributed Services

The Fund receives donated professional services, which are recorded based on applicable billing rates. Contributed services are as follows for the years ended December 31:

	2011	2010
Fundraising:		
Consulting	\$ -	\$ 5,500
Management and general:		
Office space	12,528	12,528
Legal	35,477	71,659
Audit and accounting services	2,700	-
Total management and general	50,705	84,187
Total contributed services	\$ 50,705	\$ 89,687

### 8. Commitments

#### Website Hosting and Management

In 2008, the Fund renegotiated the terms contract with a website services provider for hosting and management of the Fund's website and extended the services contract for a period of three years beginning June 1, 2008 through May 31, 2011. Under the terms, in addition to a 4% fee paid on funds collected through the provider's online donation system, the Fund paid monthly fees of \$300 per month to host the website and paid for hourly support at a rate of \$150 per hour, as needed. During 2011, the contract was renewed for an additional one year period through July 1, 2012 and will be automatically renewed thereafter unless either party provides a 30 days written notice of cancellation. Under the new terms of the contract, the charge to the Fund is \$25 per month and the agency is entitled to 3% of all funds raised through fundraising links and 2% of all funds raised through internally processed transactions. Costs incurred under this contract for the years ended December 31, 2011 and 2010 totaled \$3,450 and \$5,447, respectively.

#### Management, Administration, and Outreach

In June of 2010, the Fund renewed an agreement with a consulting company to provide various services including professional management, office administration, outreach and communications, and operations, which is in effect through December 31, 2012, at a rate of \$19,500 per month. Subsequent to year end, the Fund agreed to pay an additional \$8,333 per month for additional communications services. Either party may choose to terminate the agreement by notifying the other in writing 90 days prior to termination.

## Pentagon Memorial Fund, Inc.

Notes to Financial Statements  
December 31, 2011 and 2010

### 9. Income Taxes

The Fund is recognized as a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code 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, 2011 and 2010, as the Fund had no unrelated business income. The Fund had no significant uncertain tax positions for the years ended December 31, 2011 and 2010.

### 10. 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. The first maintenance payment from the Board Designated Endowment occurred in October 2011. Composition of endowment fund and changes in endowment net assets were as follows for the years ended December 31:

	<u>2011</u>	<u>2010</u>
Board designated endowment fund, beginning	\$ 8,791,922	\$ 7,800,708
Net investment income:		
Interest	277,022	264,161
Net realized and unrealized gains	(394,600)	774,958
Investment fees	<u>(52,891)</u>	<u>(47,905)</u>
Net investment income	<u>(170,469)</u>	<u>991,214</u>
Payment of endowment funds	(350,000)	-
Board designated endowment fund, ending	<u>\$ 8,271,453</u>	<u>\$ 8,791,922</u>

**Pentagon Memorial Fund, Inc.**

Notes to Financial Statements  
December 31, 2011 and 2010

**11. Subsequent Events**

In preparing these financial statements, the Fund has evaluated events and transactions for potential recognition or disclosure through October 31, 2012 the date the financial statements were issued.