Pentagon Memorial Fund, Inc.

Financial Statements
and Independent Auditors' Report

December 31, 2015 and 2014

Pentagon Memorial Fund, Inc.

Financial Statements
December 31, 2015 and 2014

Contents

ROGERS & COMPANY

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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, 2015 and 2014, 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.

ROGERS & COMPANY

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, 2015 and 2014, 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 supplementary information included on page 16 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.

Rogers + Company PLLC

Vienna, Virginia
July 14, 2016

Pentagon Memorial Fund, Inc.

Statements of Financial Position
December 31, 2015 and 2014

	2015	2014
Assets		
Cash and cash equivalents	$ 852,015	$ 885,148
Investments	9,031,588	9,564,147
Promises to give	2,000	352,000
Prepaid expenses and deposits	2,216	23,950
Property and equipment, net	37,863	-
Total assets	$ 9,925,682	$ 10,825,245
Liabilities and Net Assets		
Liabilities	$ -	$ -
Net Assets		
Unrestricted:		
Board-designated – maintenance fund	9,031,588	9,564,147
Undesignated	894,094	911,098
Total unrestricted	9,925,682	10,475,245
Temporarily restricted	-	350,000
Total net assets	9,925,682	10,825,245
Total liabilities and net assets	$ 9,925,682	$ 10,825,245

See accompanying notes.

Pentagon Memorial Fund, Inc.

Statement of Activities
For the Year Ended December 31, 2015

	Unrestricted	Temporarily Restricted	Total
Operating Revenue and Support			
Contributions	$ 84,126	$ -	$ 84,126
Contributed services	124,361	-	124,361
Net assets released from restrictions	350,000	(350,000)	-
Total operating revenue and support	558,487	(350,000)	208,487
Expenses			
Program services:			
Contributions expense – PRMR Fund	350,000	-	350,000
Education and outreach	170,374	-	170,374
Other programs	120,626	-	120,626
Contributed services	76,005	-	76,005
Total program services	717,005	-	717,005
Supporting services:			
Management and general	125,134	-	125,134
Fundraising	35,075	-	35,075
Contributed services	48,356	-	48,356
Total supporting services	208,565	-	208,565
Total expenses	925,570	-	925,570
Change in net assets from operations	(367,083)	(350,000)	(717,083)
Non-Operating Activities			
Interest and dividends	403,796	-	403,796
Realized gain	76,946	-	76,946
Unrealized loss	(606,007)	-	(606,007)
Investment management fees	(57,215)	-	(57,215)
Change in non-operating activities	(182,480)	-	(182,480)
Change in Net Assets	(549,563)	(350,000)	(899,563)
Net Assets, beginning of year	10,475,245	350,000	10,825,245
Net Assets, end of year	$ 9,925,682	$ -	$ 9,925,682

See accompanying notes.

Pentagon Memorial Fund, Inc.

Statement of Activities
For the Year Ended December 31, 2014

	Unrestricted	Temporarily Restricted	Total
Operating Revenue and Support			
Contributions	$ 719,821	$ 300,000	$ 1,019,821
Contributed services	127,327	-	127,327
Donated goods	1,193	-	1,193
Net assets released from restrictions	50,000	(50,000)	-
Total operating revenue and support	898,341	250,000	1,148,341
Expenses			
Program services:			
Contributions expense – PRMR Fund	350,000	-	350,000
Education and outreach	183,581	-	183,581
Other programs	83,604	-	83,604
Contributed services	37,873	-	37,873
Total program services	655,058	-	655,058
Supporting services:			
Management and general	110,240	-	110,240
Fundraising	42,042	-	42,042
Contributed services	90,647	-	90,647
Total supporting services	242,929	-	242,929
Total expenses	897,987	-	897,987
Change in net assets from operations	354	250,000	250,354
Non-Operating Activities			
Interest and dividends	435,694	-	435,694
Realized gain	174,008	-	174,008
Unrealized loss	(96,977)	-	(96,977)
Investment management fees	(57,964)	-	(57,964)
Change in non-operating activities	454,761	-	454,761
Change in Net Assets	455,115	250,000	705,115
Net Assets, beginning of year	10,020,130	100,000	10,120,130
Net Assets, end of year	$ 10,475,245	$ 350,000	$ 10,825,245

See accompanying notes.

Pentagon Memorial Fund, Inc.

Statements of Cash Flows
For the Years Ended December 31, 2015 and 2014

	2015	2014
Cash Flows from Operating Activities		
Change in net assets	$ (899,563)	$ 705,115
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Net realized and unrealized loss (gain)	529,061	(77,031)
Depreciation	2,227	-
Change in operating assets and liabilities:		
Decrease (increase) in promises to give	350,000	(250,000)
Decrease in prepaid expenses and deposits	21,734	12
Net cash provided by operating activities	3,459	378,096
Cash Flows from Investing Activities		
Sales of investments	2,106,171	3,325,621
Purchases of investments	(2,102,673)	(3,353,297)
Purchase of property and equipment	(40,090)	-
Net cash used in investing activities	(36,592)	(27,676)
Net (Decrease) Increase in Cash and Cash Equivalents	(33,133)	350,420
Cash and Cash Equivalents, beginning of year	885,148	534,728
Cash and Cash Equivalents, end of year	$ 852,015	$ 885,148

See accompanying notes.

1. Nature of Operations

Pentagon Memorial Fund, Inc. ("the Fund") was incorporated on May 21, 2003, as a not-for-profit, nonstock 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. Net assets are reported based on the presence or absence of donor-imposed restrictions, as follows:

- *Unrestricted net assets* represent funds that are not subject to donor-imposed stipulations and are available for support of the Fund's operations. Board-designated funds totaled $9,031,588 and $9,564,147 for the years ended December 31, 2015 and 2014, respectively. See Note 6.

- *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. All temporarily restricted net assets were time restricted and totaled $0 and $350,000 at December 31, 2015 and 2014, respectively.

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.

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.

Investments

Investments are stated at fair value. Realized and unrealized gains and losses are included 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. No discount is recorded as all promises to give are due in less than one year.

Property and Equipment

Property and equipment acquisitions with a cost greater than $5,000 and a projected useful life exceeding one year are capitalized and recorded at cost. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, which is three years for equipment assets. Upon disposal of depreciable assets, the cost and related accumulated depreciation are eliminated from the accounts and the resulting gain or loss is credited or charged to income. Expenditures for repairs and maintenance are expensed as incurred.

2. Summary of Significant Accounting Policies (continued)

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 Financial Accounting Standards Board (FASB) 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 8 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.

Measure of Operations

Interest and dividends, realized and unrealized gains and losses, and investment management fees are considered non-operating activity. The Fund does not consider these items to be part of normal operating activities and, accordingly, separately identifies them in the accompanying statements of activities.

Reclassifications

Certain amounts in the 2014 financial statements have been reclassified to conform to the 2015 presentation. These reclassifications have no effect on the change in net assets previously reported.

2. Summary of Significant Accounting Policies (continued)

Subsequent Events

In preparing these financial statements, the Fund has evaluated events and transactions for potential recognition or disclosure through July 14, 2016, the date the financial statements were available to be issued.

3. Concentrations of Risk

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 Fund 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 Fund 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.

Revenue Risk

During the year ended December 31, 2014, approximately 60% of the Fund's support was received from a single donor.

4. Investments and Fair Value Measurements

The Fund follows FASB 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. The Fund recognizes transfers between levels in the fair value hierarchy at the end of the reporting period.

4. Investments and Fair Value Measurements (continued)

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, 2015:

	Level 1	Level 2	Level 3	Total
Money market funds	$ 4,416	$ -	$ -	$ 4,416
Bond mutual funds:				
Nontraditional	818,648	-	-	818,648
Multisector	301,147	-	-	301,147
Bank loan	149,266	-	-	149,266
Intermediate-term	1,830,223	-	-	1,830,223
Emerging markets	153,095	-	-	153,095
Short-term	154,297	-	-	154,297
Equity mutual funds:				
Large value	708,479	-	-	708,479
Multialternative	421,682	-	-	421,682
Large blend	1,383,133	-	-	1,383,133
Small growth	267,082	-	-	267,082
Bank loan	157,154	-	-	157,154
Real estate	318,324	-	-	318,324
Foreign large blend	879,725	-	-	879,725
Small blend	224,900	-	-	224,900
Large growth	463,810	-	-	463,810
Mid-cap growth	297,836	-	-	297,836
Foreign large growth	364,503	-	-	364,503
Mid-cap blend	133,868	-	-	133,868
Total investments	$ 9,031,588	$ -	$ -	$ 9,031,588

4. Investments and 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, 2014:

	Level 1	Level 2	Level 3	Total
Money market funds	$ 132,311	$ -	$ -	$ 132,311
Bond mutual funds:				
Nontraditional	1,018,943	-	-	1,018,943
Multisector	641,665	-	-	641,665
Bank loan	177,962	-	-	177,962
Intermediate-term	1,317,850	-	-	1,317,850
Emerging markets	157,513	-	-	157,513
Short-term	328,635	-	-	328,635
Equity mutual funds:				
Large value	692,512	-	-	692,512
Multialternative	578,735	-	-	578,735
Large blend	1,462,179	-	-	1,462,179
Small growth	226,778	-	-	226,778
Bank loan	158,940	-	-	158,940
Real estate	337,088	-	-	337,088
Foreign large blend	612,723	-	-	612,723
Small blend	323,709	-	-	323,709
Large growth	500,041	-	-	500,041
Mid-cap growth	479,612	-	-	479,612
Foreign large growth	270,483	-	-	270,483
Mid-cap blend	146,468	-	-	146,468
Total investments	$ 9,564,147	$ -	$ -	$ 9,564,147

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

	2015	2014
Interest and dividends	$ 403,796	$ 435,694
Realized gain	76,946	174,008
Unrealized loss	(606,007)	(96,977)
Investment management fees	(57,215)	(57,964)
Total investment (loss) income	$ (182,480)	$ 454,761

5. Property and Equipment

Property and equipment consists of the following at December 31:

	2015	2014
Equipment	$ 40,090	$ -
Less: accumulated depreciation	(2,227)	-
Property and equipment, net	$ 37,863	$ -

6. 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:

	2015	2014
Board-designated endowment fund, beginning	$ 9,564,147	$ 9,459,440
Net investment (loss) income:		
Interest	403,717	435,640
Net realized and unrealized (loss) gain	(529,061)	77,031
Investment fees	(57,215)	(57,964)
Net investment (loss) income	(182,559)	454,707
Payment of endowment funds	(350,000)	(350,000)
Board-designated endowment fund, ending	$ 9,031,588	$ 9,564,147

7. Commitments

It is the intention of the Fund to establish a 9/11 Pentagon Visitor Education Center ("the Center") that will use educational programming to help visitors of the Pentagon Memorial understand and appreciate the historical significance of 9/11. On January 20, 2015, the Fund and the U.S. Department of Defense ("the Department") signed a license agreement commencing on January 23, 2015 and expiring on January 22, 2023, for use of real property whereby the Fund is granted certain restricted access to a parcel of land in the Commonwealth of Virginia for purposes of performing preliminary professional studies to determine if the premises is appropriate for the construction and operation of the Center. Under the terms of the contract, there is no financial commitment required from the Fund for the duration of this initial license agreement. During the years ended December 31, 2015 and 2014, the Fund incurred expenditures totaling $72,812 and $50,816, respectively, related to the pre-construction activities with consultants and potential donors related to the Center.

It is anticipated that the Department and the Fund may enter into a long-term lease of the premises for construction of the Center if the parcel of land is deemed to be a suitable location, but as of [Report Date], the organizations had not signed a binding agreement to this effect.

8. Contributed Services

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

	2015	2014
Program:		
Design and support services	$ 70,680	$ 34,873
Donated services/space for meeting	5,325	3,000
Total program	76,005	37,873
Management and general:		
Office space	12,783	21,076
Legal	33,073	57,571
Audit and accounting services	2,500	12,000
Total management and general	48,356	90,647
Total contributed services	$ 124,361	$ 128,520

9. 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 amounts of $22,812 and $21,916, respectively, per month during the years ended December 31, 2015 and 2014. 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, 2015 and 2014 were $272,843 and $263,932, respectively.

10. Income Taxes

The Fund is recognized as a tax-exempt organization under IRC Section 501(c)(3) 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 the years ended December 31, 2015 and 2014, as the Fund had no unrelated business income. The Fund had no significant uncertain tax positions for the years ended December 31, 2015 and 2014.

SUPPLEMENTARY INFORMATION

Pentagon Memorial Fund, Inc.

Schedules of Functional Expenses
For the Years Ended December 31, 2015 and 2014

	2015				2014			
	Program	G&A	Fundraising	Total	Program	G&A	Fundraising	Total
Accounting	$ -	$ 17,788	$ -	$ 17,788	$ -	$ 18,309	$ -	$ 18,309
Audio tour hosting	4,680	-	-	4,680	4,680	-	-	4,680
Bank fees	-	215	-	215	-	866	-	866
Contribution to PRMR Fund	350,000	-	-	350,000	350,000	-	-	350,000
Depreciation	-	2,227	-	2,227	-	-	-	-
Docent program	2,040	-	-	2,040	3,804	-	-	3,804
Development	-	-	-	-	9,941	-	-	9,941
Education outreach	-	-	-	-	8,117	-	-	8,117
Fees for services	-	-	7,767	7,767	-	-	11,250	11,250
Information technology	750	-	-	750	1,800	-	-	1,800
In-kind	76,005	48,356	-	124,361	37,873	90,647	-	128,520
Insurance	-	2,814	-	2,814	-	2,523	-	2,523
Meetings	33,322	-	-	33,322	25,231	-	-	25,231
Miscellaneous	10,557	1,324	24	11,905	44	1,199	2,995	4,238
Occupancy	-	4,210	-	4,210	-	4,004	-	4,004
Office expenses	378	14,703	-	15,081	266	4,129	1,408	5,803
Operational support	163,706	81,853	27,284	272,843	158,333	79,210	26,389	263,932
Production/syndication	69	-	-	69	11	-	-	11
Travel	2,686	-	-	2,686	4,142	-	-	4,142
Visitor Education Center	72,812	-	-	72,812	50,816	-	-	50,816
Total Expenses	$ 717,005	$ 173,490	$ 35,075	$ 925,570	$ 655,058	$ 200,887	$ 42,042	$ 897,987