

Pentagon Memorial Fund, Inc.

Financial Statements
and Independent Auditors' Report

December 31, 2019 and 2018

Pentagon Memorial Fund, Inc.

Financial Statements
December 31, 2019 and 2018

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
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, 2019 and 2018; the related statements of activities, functional expenses, 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 from 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, 2019 and 2018, 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.

Emphasis of Matter

As discussed in Note 2 to the financial statements, the Fund adopted Financial Accounting Standards Board Accounting Standards Update 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. Our opinion is not modified with respect to this matter.

A handwritten signature in black ink that reads "Rogers + Company PLLC". The signature is written in a cursive, slightly stylized font. The "R" is large and loops around the "o". The "+" sign is a simple cross. "Company" is written in a similar cursive style, and "PLLC" is in a slightly more upright, blocky cursive.

Vienna, Virginia
July 2, 2020

Pentagon Memorial Fund, Inc.

Statements of Financial Position
December 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Assets		
Cash and cash equivalents	\$ 1,352,654	\$ 327,640
Investments	9,438,367	8,912,369
Grants and contributions receivable	524,078	1,340,744
Prepaid expenses and deposits	4,480	4,518
Visitor Education Center – Preconstruction Phase	<u>2,216,480</u>	<u>1,507,294</u>
Total assets	<u>\$ 13,536,059</u>	<u>\$ 12,092,565</u>
Liabilities and Net Assets		
Liabilities		
Accounts payable and accrued expenses	<u>\$ 386,384</u>	<u>\$ 106,597</u>
Total liabilities	<u>386,384</u>	<u>106,597</u>
Net Assets		
Without donor restrictions:		
Undesignated	3,113,840	2,267,492
Board-designated – maintenance fund	<u>9,438,367</u>	<u>8,911,933</u>
Total without donor restrictions	12,552,207	11,179,425
With donor restrictions	<u>597,468</u>	<u>806,543</u>
Total net assets	<u>13,149,675</u>	<u>11,985,968</u>
Total liabilities and net assets	<u>\$ 13,536,059</u>	<u>\$ 12,092,565</u>

Pentagon Memorial Fund, Inc.

Statement of Activities
For the Year Ended December 31, 2019

	Without Donor Restrictions		With Donor Restrictions	Total
	Undesignated	Board- Designated		
Operating Revenue and Support				
Grants and contributions	\$ 11,049	\$ -	\$ 1,210,000	\$ 1,221,049
In-kind contributions	122,326	-	-	122,326
Net assets released from restrictions	1,419,075	-	(1,419,075)	-
Total operating revenue and support	1,552,450	-	(209,075)	1,343,375
Expenses				
Program services:				
Memorial maintenance	350,000	-	-	350,000
Visitor Education Center	351,390	-	-	351,390
Education and outreach	24,648	-	-	24,648
Other programs	11,795	-	-	11,795
In-kind contributions	97,861	-	-	97,861
Total program services	835,694	-	-	835,694
Supporting services:				
Management and general	87,235	-	-	87,235
Fundraising	358,328	-	-	358,328
In-kind contributions	24,465	-	-	24,465
Total supporting services	470,028	-	-	470,028
Total expenses	1,305,722	-	-	1,305,722
Change in net assets from operations	246,728	-	(209,075)	37,653
Non-Operating Activities				
Interest and dividends	56	262,312	-	262,368
Realized gain	-	27,215	-	27,215
Unrealized gain	-	884,725	-	884,725
Investment management fees	-	(48,254)	-	(48,254)
Transfer to undesignated funds	599,564	(599,564)	-	-
Change in non-operating activities	599,620	526,434	-	1,126,054
Change in Net Assets	846,348	526,434	(209,075)	1,163,707
Net Assets, beginning of year	2,267,492	8,911,933	806,543	11,985,968
Net Assets, end of year	\$ 3,113,840	\$ 9,438,367	\$ 597,468	\$ 13,149,675

See accompanying notes.

Pentagon Memorial Fund, Inc.

Statement of Activities
For the Year Ended December 31, 2018

	Without Donor Restrictions		With Donor Restrictions	Total
	Undesignated	Board- Designated		
Operating Revenue and Support				
Grants and contributions	\$ 130,908	\$ -	\$ 530,000	\$ 660,908
In-kind contributions	176,742	-	-	176,742
Board-designated net assets transferred to net assets with donor restrictions	-	(99,378)	99,378	-
Net assets released from restrictions	1,631,839	-	(1,631,839)	-
Total operating revenue and support	1,939,489	(99,378)	(1,002,461)	837,650
Expenses				
Program services:				
Memorial maintenance	350,000	-	-	350,000
Visitor Education Center	473,913	-	-	473,913
Education and outreach	28,954	-	-	28,954
Other programs	19,305	-	-	19,305
In-kind contributions	141,393	-	-	141,393
Total program services	1,013,565	-	-	1,013,565
Supporting services:				
Management and general	85,838	-	-	85,838
Fundraising	289,416	-	-	289,416
In-kind contributions	35,349	-	-	35,349
Total supporting services	410,603	-	-	410,603
Total expenses	1,424,168	-	-	1,424,168
Change in net assets from operations	515,321	(99,378)	(1,002,461)	(586,518)
Non-Operating Activities				
Interest and dividends	86	220,004	-	220,090
Realized gain	-	87,518	-	87,518
Unrealized loss	-	(777,774)	-	(777,774)
Investment management fees	-	(49,935)	-	(49,935)
Transfer to undesignated funds	350,000	(350,000)	-	-
Change in non-operating activities	350,086	(870,187)	-	(520,101)
Change in Net Assets	865,407	(969,565)	(1,002,461)	(1,106,619)
Net Assets, beginning of year	1,402,085	9,881,498	1,809,004	13,092,587
Net Assets, end of year	\$ 2,267,492	\$ 8,911,933	\$ 806,543	\$ 11,985,968

See accompanying notes.

Pentagon Memorial Fund, Inc.

Statements of Functional Expenses
For the Years Ended December 31, 2019 and 2018

	2019				2018			
	Program	Management and General	Fundraising	Total	Program	Management and General	Fundraising	Total
Accounting	\$ -	\$ 42,703	\$ -	\$ 42,703	\$ -	\$ 18,560	\$ -	\$ 18,560
Advertising	-	-	-	-	-	-	490	490
Audio tour hosting	4,680	-	-	4,680	4,680	-	-	4,680
Awareness materials	5,444	-	-	5,444	5,758	-	6,588	12,346
Bank fees	-	100	-	100	-	79	-	79
Community partnerships	11,699	-	-	11,699	15,342	-	-	15,342
Memorial maintenance	350,000	-	-	350,000	350,000	-	-	350,000
Depreciation	-	-	-	-	-	11,136	-	11,136
Docent program	1,596	-	-	1,596	5,487	-	-	5,487
Fees for services	-	-	320,105	320,105	-	-	266,315	266,315
Information technology	1,875	158	-	2,033	2,294	706	-	3,000
In-kind contributions	97,861	18,349	6,116	122,326	141,393	26,512	8,837	176,742
Insurance	-	3,227	-	3,227	-	2,980	-	2,980
Meetings	-	-	27,053	27,053	-	-	1,325	1,325
Miscellaneous	-	308	-	308	-	939	-	939
Occupancy	-	5,100	-	5,100	-	4,848	-	4,848
Office expenses	-	1,835	-	1,835	-	1,745	-	1,745
Operational support	11,149	33,446	11,149	55,744	14,698	44,095	14,698	73,491
Travel	-	358	21	379	-	750	-	750
Visitor Education Center	351,390	-	-	351,390	473,913	-	-	473,913
Total Expenses	\$ 835,694	\$ 105,584	\$ 364,444	\$ 1,305,722	\$ 1,013,565	\$ 112,350	\$ 298,253	\$ 1,424,168

See accompanying notes.

Pentagon Memorial Fund, Inc.

Statements of Cash Flows
For the Years Ended December 31, 2019 and 2018

	2019	2018
Cash Flows from Operating Activities		
Change in net assets	\$ 1,163,707	\$ (1,106,619)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Net realized and unrealized (gain) loss	(863,686)	740,191
Depreciation	-	11,136
Loss on disposal of assets	39,900	-
Change in operating assets and liabilities:		
Decrease in grants and contributions receivable	816,666	311,878
Decrease (increase) in prepaid expenses and deposits	38	(936)
Increase (decrease) in accounts payable and accrued expenses	279,787	(67,499)
	1,436,412	(111,849)
Net cash provided by (used in) operating activities		
Cash Flows from Investing Activities		
Sales of investments	1,065,034	2,382,331
Purchases of investments	(969,058)	(2,408,975)
Short term investments, net	241,712	255,582
Building preconstruction costs	(749,086)	(1,065,469)
	(411,398)	(836,531)
Net cash used in investing activities		
Net Increase (Decrease) in Cash and Cash Equivalents	1,025,014	(948,380)
Cash and Cash Equivalents, beginning of year	327,640	1,276,020
Cash and Cash Equivalents, end of year	\$ 1,352,654	\$ 327,640

See accompanying notes.

Pentagon Memorial Fund, Inc.

Notes to Financial Statements
December 31, 2019 and 2018

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 associated with a lasting memorial to the 184 individuals who lost their lives at the Pentagon.

Since opening to the public on September 11, 2008, research showed that there is a unique teachable opportunity at the Pentagon Memorial to explain the events on 9/11, the significance of the Pentagon Memorial, and the historic response that continues to this day. Based on this research, the Fund has focused its efforts on education outreach through the design and construction of the 9/11 Pentagon Memorial Visitor Education Center (VEC) to complement the Pentagon Memorial.

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:

- *Net Assets Without Donor Restrictions* – Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions. The governing Board has designated, from net assets without donor restrictions, net assets for a Board-designated endowment.
- *Net Assets With Donor Restrictions* – Net assets subject to donor- (or certain grantor-) imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

Pentagon Memorial Fund, Inc.

Notes to Financial Statements
December 31, 2019 and 2018

2. Summary of Significant Accounting Policies (continued)

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 of Directors 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.

Grants and Contributions Receivable

Grants and contributions receivable represent unconditional receivables and are recorded at net realizable value. Grants and contributions are recognized as revenue in the period promised. Grants and contributions due in more than one year are discounted to present value based on management's estimate of the risk adjusted rate of return. No discount was recorded on multi-year grants and contributions during the years ended December 31, 2019 and 2018, due to immateriality. No allowance for doubtful accounts is recorded as management believes that all receivables are fully collectible.

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.

Pentagon Memorial Fund, Inc.

Notes to Financial Statements
December 31, 2019 and 2018

2. Summary of Significant Accounting Policies (continued)

Property and Equipment (continued)

Building costs consist of capitalized costs related to the planned construction of the VEC during the preconstruction phase, including professional fees, such as design and architectural services. As of December 31, 2019, construction of the VEC had not yet commenced, and capitalized building costs were not yet being amortized.

Revenue Recognition

Unconditional grants and contributions are recognized as revenue when received or promised and are reported as 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, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions.

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

Revenue from all other sources is recognized when earned.

Functional Allocation of Expenses

The costs of program and supporting services activities have been summarized on a functional basis in the statements of activities. The statements of functional expenses present the natural classification detail of expenses by function. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Advertising Costs

The Fund expenses advertising costs as incurred. Advertising expenses totaled \$0 and \$490 during the years ended December 31, 2019 and 2018, respectively.

Pentagon Memorial Fund, Inc.

Notes to Financial Statements
December 31, 2019 and 2018

2. Summary of Significant Accounting Policies (continued)

Measure of Operations

Interest and dividends, realized and unrealized gains and losses, and investment management fees are considered non-operating activities. 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.

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.

Adopted Accounting Pronouncement

In June 2018, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. This standard assists entities in evaluating whether transactions should be accounted for as contributions or exchange transactions and determining whether a contribution is conditional. The Fund has adopted the provisions of ASU 2018-08 applicable to both contributions received and to contributions made in these financial statements under a modified prospective basis. The implementation had no impact on the previously reported net assets.

Recently Issued Accounting Pronouncement

In February 2016, the FASB issued ASU 2016-02, *Leases*. The update requires a lessee to recognize a right-of-use asset and lease liability, initially measured at the present value of the lease payments, in its statements of financial position. The guidance also expands the required quantitative and qualitative lease disclosures. The guidance is effective beginning in 2021.

Subsequent Events

In preparing these financial statements, the Fund has evaluated events and transactions for potential recognition or disclosure through July 2, 2020, the date the financial statements were available to be issued.

Pentagon Memorial Fund, Inc.

Notes to Financial Statements
December 31, 2019 and 2018

2. Summary of Significant Accounting Policies (continued)

Subsequent Events (continued)

The Fund evaluated its December 31, 2019 financial statements for subsequent events through the date the financial statements were issued.

As a result of the spread of the COVID-19 coronavirus, economic uncertainties have arisen which are likely to impact the Fund. The extent of the impact of COVID-19 on the Fund's operational and financial performance will depend on certain developments, including the duration and spread of the outbreak, and its impact on the Fund's employees and donors, all of which are uncertain and cannot be predicted. The Fund has determined that these events are non-adjusting subsequent events. Accordingly, the financial position and results of operations as of and for the year ended December 31, 2019 have not been adjusted to reflect their impact. At this point, the extent to which COVID-19 may impact the Fund's financial condition or results of operations is uncertain.

3. Liquidity and Availability

The Fund has financial assets available within one year of the statements of financial position date to meet cash needs for general expenditures as of December 31, as shown below:

	<u>2019</u>	<u>2018</u>
Cash and cash equivalents	\$ 1,352,654	\$ 327,640
Short-term investments	9,438,367	8,912,369
Grants and contributions receivable – current portion	<u>291,667</u>	<u>891,666</u>
Total available for general expenditures	<u>\$ 11,082,688</u>	<u>\$ 10,131,675</u>

Pentagon Memorial Fund, Inc.

Notes to Financial Statements
December 31, 2019 and 2018

3. Liquidity and Availability (continued)

The Fund monitors the balance of its cash and cash equivalents on hand, with a goal to maintain balances at levels sufficient to meet at least 90 days of normal operating expenses. The Fund structures its financial assets to be available as its general expenditures, liabilities, and other obligations come due. The Fund considers net assets with donor restrictions for use in current programs that are ongoing, major, and central to its annual operations to be available to meet cash needs for general expenditures. In addition, as part of its liquidity management, the Fund invests in excess of its short-term operating needs in highly liquid securities and investments.

4. Concentration 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 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 Deposit 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.

5. Investments and Fair Value Measurements

The Fund follows FASB Accounting Standards Codification (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.

Pentagon Memorial Fund, Inc.

Notes to Financial Statements
December 31, 2019 and 2018

5. Investments and Fair Value Measurements (continued)

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. 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, 2019:

	Level 1	Level 2	Level 3	Total
Money market funds	\$ 144,080	\$ -	\$ -	\$ 144,080
Bond funds:				
Nontraditional	715,084	-	-	715,084
Closed-end fund	930,809	-	-	930,809
Equity funds:				
Closed-end fund	1,373,231	-	-	1,373,231
Real estate	799,725	-	-	799,725
Intermediate-term bond	1,486,094	-	-	1,486,094
Large value	999,872	-	-	999,872
Emerging markets bond	190,284	-	-	190,284
Foreign large blend	1,019,310	-	-	1,019,310
Small blend	145,144	-	-	145,144
Large growth	987,564	-	-	987,564
Mid-cap blend	341,867	-	-	341,867
Diversified emerging markets	305,303	-	-	305,303
Total investments	<u>\$ 9,438,367</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 9,438,367</u>

Pentagon Memorial Fund, Inc.

Notes to Financial Statements
December 31, 2019 and 2018

5. 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, 2018:

	Level 1	Level 2	Level 3	Total
Money market funds	\$ 171,732	\$ -	\$ -	\$ 171,732
Bond funds:				
Nontraditional	688,546	-	-	688,546
Closed-end fund	931,727	-	-	931,727
Equity funds:				
Closed-end fund	1,500,802	-	-	1,500,802
Real estate	777,728	-	-	777,728
Intermediate-term bond	1,458,913	-	-	1,458,913
Large value	824,291	-	-	824,291
Emerging markets bond	172,595	-	-	172,595
Foreign large blend	876,810	-	-	876,810
Small blend	119,993	-	-	119,993
Large growth	835,013	-	-	835,013
Mid-cap blend	286,454	-	-	286,454
Diversified emerging markets	267,765	-	-	267,765
Total investments	<u>\$ 8,912,369</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 8,912,369</u>

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

	2019	2018
Interest and dividends	\$ 262,368	\$ 220,090
Realized gain	27,215	87,518
Unrealized gain (loss)	884,725	(777,774)
Investment management fees	(48,254)	(49,935)
Total investment return	<u>\$ 1,126,054</u>	<u>\$ (520,101)</u>

Pentagon Memorial Fund, Inc.

Notes to Financial Statements
December 31, 2019 and 2018

6. Grants and Contributions Receivable

Grants and contributions receivable are promised as follows at December 31:

	<u>2019</u>	<u>2018</u>
Receivable in less than one year	\$ 291,667	\$ 891,666
Receivable in one to five years	<u>232,411</u>	<u>449,078</u>
Total grants and contributions receivable	<u>\$ 524,078</u>	<u>\$ 1,340,744</u>

7. Property and Equipment

Building costs related to the preconstruction phase of the 9/11 VEC amounted to \$2,216,480 and \$1,507,294 at December 31, 2019 and 2018, respectively. As of December 31, 2019, construction of the VEC had not yet commenced, and capitalized building costs were not yet being amortized. See Note 9 for further description of the VEC.

8. Board-Designated Endowment

During the year ended December 31, 2009, the Fund established a quasi-endowment fund without donor restrictions 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 U.S. Department of Defense, is approximately 4% of the average market value of the fund over the trailing three years, with the initial value assumed to be \$9,000,000.

Pentagon Memorial Fund, Inc.

Notes to Financial Statements
December 31, 2019 and 2018

8. Board-Designated Endowment (continued)

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

	<u>2019</u>	<u>2018</u>
Board-designated endowment fund, beginning	\$ 8,911,933	\$ 9,881,498
Net investment return:		
Interest and dividends	262,312	220,004
Net realized and unrealized gain (loss)	911,940	(690,256)
Investment fees	<u>(48,254)</u>	<u>(49,935)</u>
Net investment return	<u>1,125,998</u>	<u>(520,187)</u>
Contribution-in-transit for VEC	-	(99,378)
Transfer to undesignated funds	(249,564)	-
Payment of endowment funds	<u>(350,000)</u>	<u>(350,000)</u>
Board-designated endowment fund, ending	<u>\$ 9,438,367</u>	<u>\$ 8,911,933</u>

9. Capital Campaign

During 2016, the Fund launched a new fundraising campaign to fund the VEC to raise \$50 million over 5 years for the construction of the VEC. During 2018, the Fund contracted with an external fundraising consultant, Hahn Group LLC, to redefine the campaign goals. The focus of 2018 was spent recruiting new members to the Board of Directors and working with them to identify prospects that could support the campaign at a leadership gift level (between \$1-10 million).

The VEC will be a space where visitors from around the world can learn about the events of September 11, 2001, the lives lost that day, and the historic significance of the Pentagon Memorial site. The funds raised by the Campaign will be used to create a self-sustaining, multi-purpose building for education, conferences, and special events. The VEC is meant to complement and enhance the visitor's experience to the 9/11 Pentagon Memorial. The VEC will feature exhibits, conference space, children's area, food and refreshments, general facility space, gift shop, and other areas to help visitors understand and appreciate the historic events that took place that day, connect with those who experienced them, and learn why those events are relevant today.

Pentagon Memorial Fund, Inc.

Notes to Financial Statements
December 31, 2019 and 2018

9. Capital Campaign (continued)

During the year ended December 31, 2019, the Fund received \$1,210,000 of contributions with donor restrictions related to the Campaign, and incurred \$1,419,075 in costs related to the Campaign from those funds with donor restrictions, of which \$749,086 was capitalized as a part of preconstruction costs of the VEC. During the year ended December 31, 2018, the Fund received \$530,000 of contributions with donor restrictions related to the Campaign, and incurred \$1,539,382 in costs related to the Campaign from those funds with donor restrictions, of which \$1,065,469 was capitalized as a part of preconstruction costs of the VEC.

10. Net Assets With Donor Restrictions

At December 31, 2019 and 2018, net assets with donor restrictions, which totaled \$597,468 and \$806,543, respectively, were all program-restricted for the VEC.

11. Commitments

9/11 Pentagon Memorial Visitor Education Center

It is the Fund's intention to establish the VEC, which 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 are appropriate for the construction and operation of the VEC. 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, 2019 and 2018, the Fund incurred expenditures totaling \$1,419,075 and \$1,539,382, respectively, related to the VEC. Of those total expenditures during the years ended December 31, 2019 and 2018, costs amounting to \$749,086 and \$1,065,469 were capitalized as a part of the preconstruction activities with consultants related to the VEC.

During 2019 and 2018, the Fund focused on refining its vision for the planned construction of the VEC, securing exhibit content and raising awareness and funds for the project. It is anticipated that the Department and the Fund may enter into a long-term lease agreement for the land to be used for constructing the VEC. The Fund will pursue a long-term lease agreement with the Department once the boundaries for the parcel of land, intended to be used for the location of the VEC, have been suitably defined based on the other construction projects related to the Arlington National Cemetery's Southern Expansion Project. As of July 2, 2020, the Funds had not signed a binding agreement to this effect.

Pentagon Memorial Fund, Inc.

Notes to Financial Statements
December 31, 2019 and 2018

11. Commitments (continued)

License Agreement

The Fund has a license agreement for the use of office space and equipment through December 31, 2020. The use of the facilities is donated to the Fund, and the value of the donated rent and facilities is included in in-kind contributions in the accompanying statements of activities.

Employment Contract

The Fund has a signed employment agreement with the Executive Director through December 31, 2022. The agreement contains terms that require payments to the Executive Director upon the occurrence of certain contractual events.

Hotel Commitment

The Fund enters into contracts with hotels to host meetings and events. In the event that the Fund cancels its agreements with the hotels, it can be held liable for liquidated damages or other cancellation fees.

12. In-Kind Contributions

Contributed Services

Contributed services meeting the criteria for recognition under FASB ASC 958, *Revenue Recognition – Contributions Received*, are recorded at fair market value at the time of receipt. These services consist primarily of legal, accounting, and other professional services. The value of these donated services is included in the accompanying financial statements as both revenue and expense in the amounts of \$111,526 and \$166,242 for the years ended December 31, 2019 and 2018, respectively.

Donated Rent and Facilities

The Fund receives donated space for operations from an Officer of the Fund that is recorded at estimated fair market value by the Fund at the time of receipt. Total in-kind rent and facilities donations, which are reflected in the accompanying statements of activities and statements of functional expenses, totaled \$10,800 and \$10,500 for the years ended December 31, 2019 and 2018, respectively.

Pentagon Memorial Fund, Inc.

Notes to Financial Statements
December 31, 2019 and 2018

13. Management, Administration, and Outreach Fees

Through 2019, the Fund had in place an agreement with a consulting company, CAA Consulting (CAAC), to provide various services including program support, professional management, office administration, outreach and communications, and operations. Under the terms of the contract, the Fund paid CAAC a retainer-based agreement for management and administration services in the amounts of \$22,812 per month through August 2018. From September 2018 through April 2019, the agreement was amended to increase the monthly retainer fee to \$27,868. In 2019, the agreement was further amended to increase the fee to \$22,300 per month from May 1, 2019 to September 30, 2019. On August 30, 2019, the Fund provided notice to CAAC to terminate the retainer-based agreement effective September 30, 2019. Fees paid under this agreement for the years ended December 31, 2019 and 2018 were \$223,523 and \$294,608, respectively.

14. Functionalized Expenses

The financial statements report certain categories of expenses that are attributed to more than one program or supporting function. Therefore, expenses require allocation on a reasonable basis that is consistently applied. The Fund allocates the majority of its expenses utilizing a direct allocation methodology, recording expenses to their specific function based on the actual time spent per natural expense category. In-kind contributed expenses are allocated across functions utilizing an estimated calculation on the basis of time and effort.

15. 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, 2019 and 2018, as the Fund had no unrelated business income. Management has evaluated the Fund's tax positions and concluded that the financial statements do not include any uncertain tax positions.