

Pentagon Memorial Fund, Inc.

Statements of Financial Position
December 31, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Assets		
Cash and cash equivalents	\$ 885,148	\$ 534,728
Investments	9,564,147	9,459,440
Promises to give	352,000	102,000
Prepaid expenses and deposits	<u>23,950</u>	<u>23,962</u>
Total assets	<u>\$ 10,825,245</u>	<u>\$ 10,120,130</u>
Liabilities and Net Assets		
Liabilities	<u>\$ -</u>	<u>\$ -</u>
Net Assets		
Unrestricted:		
Board-designated – maintenance fund	9,564,147	9,459,440
Undesignated	<u>911,098</u>	<u>560,690</u>
Total unrestricted	10,475,245	10,020,130
Temporarily restricted	<u>350,000</u>	<u>100,000</u>
Total net assets	<u>10,825,245</u>	<u>10,120,130</u>
Total liabilities and net assets	<u>\$ 10,825,245</u>	<u>\$ 10,120,130</u>

Pentagon Memorial Fund, Inc.

Statements of Activities
For the Years Ended December 31, 2014 and 2013

	2014	2013
Unrestricted Revenue and Support		
Contributions	\$ 719,821	\$ 777,695
Contributed services	127,327	202,873
Donated goods	1,193	-
Investment income	512,725	1,122,351
Net assets released from restrictions	50,000	-
Total unrestricted revenue and support	1,411,066	2,102,919
Expenses		
Program services:		
Contributions expense – PRMR Fund	350,000	350,000
Education and outreach	183,581	166,354
Other programs	83,604	62,828
Contributed services	37,873	72,000
Total program services	655,058	651,182
Supporting services:		
Management and general	168,204	169,723
Fundraising	42,042	84,977
Contributed services	90,647	130,873
Total supporting services	300,893	385,573
Total expenses	955,951	1,036,755
Change in unrestricted net assets	455,115	1,066,164
Temporarily Restricted Net Assets		
Contributions	300,000	100,000
Net assets released from restrictions	(50,000)	-
Change in temporarily restricted net assets	250,000	100,000
Change in Net Assets	705,115	1,166,164
Net Assets, beginning of year	10,120,130	8,953,966
Net Assets, end of year	\$ 10,825,245	\$ 10,120,130

See accompanying notes.

Pentagon Memorial Fund, Inc.

Statements of Cash Flows
For the Years Ended December 31, 2014 and 2013

	2014	2013
Cash Flows from Operating Activities		
Change in net assets	\$ 705,115	\$ 1,166,164
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Net realized and unrealized gains	(77,031)	(789,751)
Change in operating assets and liabilities:		
Increase in promises to give	(250,000)	(96,398)
Decrease in other receivables	-	19,500
Decrease in prepaid expenses and deposits	12	27,250
Decrease in accounts payable and accrued expenses	-	(3,553)
	378,096	323,212
Net cash provided by operating activities	378,096	323,212
Cash Flows from Investing Activities		
Sales of investments	3,325,621	2,813,067
Purchases of investments	(3,353,297)	(2,742,050)
	(27,676)	71,017
Net cash (used in) provided by investing activities	(27,676)	71,017
Net Increase in Cash and Cash Equivalents	350,420	394,229
Cash and Cash Equivalents, beginning of year	534,728	140,499
Cash and Cash Equivalents, end of year	\$ 885,148	\$ 534,728

See accompanying notes.

Pentagon Memorial Fund, Inc.

Notes to Financial Statements
December 31, 2014 and 2013

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 \$9,564,147 and \$9,459,440 for the years ended December 31, 2014 and 2013, 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 donations were time restricted and were \$350,000 and \$100,000 at December 31, 2014 and 2013, respectively.

Pentagon Memorial Fund, Inc.

Notes to Financial Statements
December 31, 2014 and 2013

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 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.

Pentagon Memorial Fund, Inc.

Notes to Financial Statements
December 31, 2014 and 2013

2. Summary of Significant Accounting Policies (continued)

Revenue Recognition (continued)

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.

Subsequent Events

In preparing these financial statements, the Fund has evaluated events and transactions for potential recognition or disclosure through January 7, 2016, the date the financial statements were available to be issued.

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 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. 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 January 7, 2016, the organizations had not signed a binding agreement to this effect.

Pentagon Memorial Fund, Inc.

Notes to Financial Statements
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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

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

	2014	2013
Interest and dividends	\$ 435,694	\$ 332,600
Realized gain	157,526	174,140
Unrealized (loss) gain	(80,495)	615,611
Total investment income	<u>\$ 512,725</u>	<u>\$ 1,122,351</u>

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.

Pentagon Memorial Fund, Inc.

Notes to Financial Statements
December 31, 2014 and 2013

4. 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, 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	<u>\$ 9,564,147</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 9,564,147</u>

Pentagon Memorial Fund, Inc.

Notes to Financial Statements
December 31, 2014 and 2013

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, 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>

5. Promises to Give

Promises to give are receivable as follows at December 31:

	2014	2013
Receivable in less than one year	\$ 352,000	\$ 52,000
Receivable in one to five years	-	50,000
Total promises to give	<u>\$ 352,000</u>	<u>\$ 102,000</u>

Pentagon Memorial Fund, Inc.

Notes to Financial Statements
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5. 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.

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:

	<u>2014</u>	<u>2013</u>
Board-designated endowment fund, beginning	\$ 9,459,440	\$ 8,740,706
Net investment income:		
Interest	435,640	332,596
Net realized and unrealized gains	77,031	789,751
Investment fees	<u>(57,964)</u>	<u>(53,613)</u>
Net investment income	<u>454,707</u>	<u>1,068,734</u>
Payment of endowment funds	<u>(350,000)</u>	<u>(350,000)</u>
Board-designated endowment fund, ending	<u><u>\$ 9,564,147</u></u>	<u><u>\$ 9,459,440</u></u>

Pentagon Memorial Fund, Inc.

Notes to Financial Statements
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7. 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 per month during both years ended December 31, 2014 and 2013. 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, 2014 and 2013 were \$263,932 and \$262,992, respectively.

8. Contributed Services

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

	<u>2014</u>	<u>2013</u>
Program:		
Design and support services	\$ 34,873	\$ 67,000
Donated services/space for meeting	3,000	5,000
	<u>37,873</u>	<u>72,000</u>
Total program		
	<u>37,873</u>	<u>72,000</u>
Management and general:		
Office space	21,076	21,893
Legal	57,571	104,480
Audit and accounting services	12,000	4,500
	<u>90,647</u>	<u>130,873</u>
Total management and general		
	<u>90,647</u>	<u>130,873</u>
Total contributed services	<u>\$ 128,520</u>	<u>\$ 202,873</u>

9. 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, 2014 and 2013, as the Fund had no unrelated business income. The Fund had no significant uncertain tax positions for the years ended December 31, 2014 and 2013.

SUPPLEMENTARY INFORMATION

Pentagon Memorial Fund, Inc.

Schedules of Functional Expenses
For the Years Ended December 31, 2014 and 2013

	2014				2013			
	Program	G&A	Fundraising	Total	Program	G&A	Fundraising	Total
Accounting	\$ -	\$ 18,309	\$ -	\$ 18,309	\$ -	\$ 23,471	\$ -	\$ 23,471
Advertising	-	-	-	-	-	-	6,548	6,548
Audio tour hosting	4,680	-	-	4,680	5,290	-	-	5,290
Bank fees	-	866	-	866	-	1,113	-	1,113
Contribution to PRMR Fund	350,000	-	-	350,000	350,000	-	-	350,000
Docent program	3,804	-	-	3,804	2,981	-	-	2,981
Development	9,941	-	-	9,941	288	-	-	288
Education outreach	8,117	-	-	8,117	-	-	-	-
Fees for services	-	-	11,250	11,250	14,777	-	44,500	59,277
Information technology	1,800	-	-	1,800	1,350	25	219	1,594
In-kind	37,873	90,647	-	128,520	72,000	130,873	-	202,873
Insurance	-	2,523	-	2,523	-	2,539	-	2,539
Investment management fees	-	57,964	-	57,964	-	53,614	-	53,614
Meetings	25,231	-	-	25,231	15,542	-	-	15,542
Miscellaneous	44	1,199	2,995	4,238	-	1,612	6,867	8,479
Occupancy	-	4,004	-	4,004	-	3,683	-	3,683
Office expenses	266	4,129	1,408	5,803	256	2,526	544	3,326
Operational support	158,333	79,210	26,389	263,932	157,795	78,898	26,299	262,992
Production/syndication	11	-	-	11	26,800	-	-	26,800
Travel	4,142	-	-	4,142	4,103	2,242	-	6,345
Visitor Education Center	50,816	-	-	50,816	-	-	-	-
Total Expenses	\$ 655,058	\$ 258,851	\$ 42,042	\$ 955,951	\$ 651,182	\$ 300,596	\$ 84,977	\$ 1,036,755