

Pentagon Memorial Fund, Inc.

Financial Statements
and Independent Auditors' Report

December 31, 2017 and 2016

Pentagon Memorial Fund, Inc.

Financial Statements
December 31, 2017 and 2016

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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, 2017 and 2016, 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 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, 2017 and 2016, 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 18 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.

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

Vienna, Virginia
October 9, 2018

Pentagon Memorial Fund, Inc.

Statements of Financial Position
December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Assets		
Cash and cash equivalents	\$ 1,276,020	\$ 2,099,155
Investments	9,881,498	9,035,010
Grants and contributions receivable	1,652,622	1,252,000
Prepaid expenses and deposits	3,582	24,879
Visitor Education Center – Preconstruction Phase	441,825	-
Property and equipment, net	11,136	24,499
Total assets	<u>\$ 13,266,683</u>	<u>\$ 12,435,543</u>
Liabilities and Net Assets		
Liabilities		
Accounts payable and accrued expenses	<u>\$ 174,096</u>	<u>\$ 11,620</u>
Total liabilities	<u>174,096</u>	<u>11,620</u>
Net Assets		
Unrestricted:		
Undesignated	1,402,085	1,130,646
Board-designated – maintenance fund	9,881,498	9,035,010
Total unrestricted	11,283,583	10,165,656
Temporarily restricted	<u>1,809,004</u>	<u>2,258,267</u>
Total net assets	<u>13,092,587</u>	<u>12,423,923</u>
Total liabilities and net assets	<u>\$ 13,266,683</u>	<u>\$ 12,435,543</u>

Pentagon Memorial Fund, Inc.

Statement of Activities
For the Year Ended December 31, 2017

	Unrestricted		Temporarily Restricted	Total
	Undesignated	Board- Designated		
Operating Revenue and Support				
Grants and contributions	\$ 15,257	\$ 99,378	\$ 490,622	\$ 605,257
In-kind contributions	136,523	-	-	136,523
Other income	6,863	-	-	6,863
Net assets released from restrictions	939,885	-	(939,885)	-
Total operating revenue and support	1,098,528	99,378	(449,263)	748,643
Expenses				
Program services:				
Memorial maintenance	350,000	-	-	350,000
Visitor Education Center	299,712	-	-	299,712
Education and outreach	179,901	-	-	179,901
Other programs	2,896	-	-	2,896
In-kind contributions	81,914	-	-	81,914
Total program services	914,423	-	-	914,423
Supporting services:				
Management and general	139,158	-	-	139,158
Fundraising	69,063	-	-	69,063
In-kind contributions	54,609	-	-	54,609
Total supporting services	262,830	-	-	262,830
Total expenses	1,177,253	-	-	1,177,253
Change in net assets from operations	(78,725)	99,378	(449,263)	(428,610)
Non-Operating Activities				
Interest and dividends	164	407,235	-	407,399
Realized gain	-	859,865	-	859,865
Unrealized loss	-	(115,933)	-	(115,933)
Investment management fees	-	(54,057)	-	(54,057)
Transfer to undesignated funds	350,000	(350,000)	-	-
Change in non-operating activities	350,164	747,110	-	1,097,274
Change in Net Assets	271,439	846,488	(449,263)	668,664
Net Assets, beginning of year	1,130,646	9,035,010	2,258,267	12,423,923
Net Assets, end of year	\$ 1,402,085	\$ 9,881,498	\$ 1,809,004	\$ 13,092,587

See accompanying notes.

Pentagon Memorial Fund, Inc.

Statement of Activities
For the Year Ended December 31, 2016

	Unrestricted		Temporarily Restricted	Total
	Undesignated	Board- Designated		
Operating Revenue and Support				
Grants and contributions	\$ 447,404	\$ -	\$ 2,500,000	\$ 2,947,404
In-kind contributions	52,811	-	-	52,811
Net assets released from restrictions	241,733	-	(241,733)	-
Total operating revenue and support	741,948	-	2,258,267	3,000,215
Expenses				
Program services:				
Memorial maintenance	350,000	-	-	350,000
Visitor Education Center	1,960	-	-	1,960
Education and outreach	174,320	-	-	174,320
Other programs	57,743	-	-	57,743
In-kind contributions	31,687	-	-	31,687
Total program services	615,710	-	-	615,710
Supporting services:				
Management and general	137,464	-	-	137,464
Fundraising	81,217	-	-	81,217
In-kind contributions	21,124	-	-	21,124
Total supporting services	239,805	-	-	239,805
Total expenses	855,515	-	-	855,515
Change in net assets from operations	(113,567)	-	2,258,267	2,144,700
Non-Operating Activities				
Interest and dividends	119	312,076	-	312,195
Realized gain	-	131,266	-	131,266
Unrealized loss	-	(34,943)	-	(34,943)
Investment management fees	-	(54,977)	-	(54,977)
Transfer to undesignated funds	350,000	(350,000)	-	-
Change in non-operating activities	350,119	3,422	-	353,541
Change in Net Assets	236,552	3,422	2,258,267	2,498,241
Net Assets, beginning of year	894,094	9,031,588	-	9,925,682
Net Assets, end of year	\$ 1,130,646	\$ 9,035,010	\$ 2,258,267	\$ 12,423,923

See accompanying notes.

Pentagon Memorial Fund, Inc.

Statements of Cash Flows
For the Years Ended December 31, 2017 and 2016

	2017	2016
Cash Flows from Operating Activities		
Change in net assets	\$ 668,664	\$ 2,498,241
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:		
Net realized and unrealized gain	(689,875)	(41,346)
Donated securities	(99,378)	-
Depreciation	13,363	13,364
Change in operating assets and liabilities:		
Increase in grants and contributions receivable	(400,622)	(1,250,000)
Decrease (increase) in prepaid expenses and deposits	21,297	(22,663)
Increase in accounts payable and accrued expenses	162,476	11,620
	<u>(324,075)</u>	<u>1,209,216</u>
Net cash (used in) provided by operating activities		
Cash Flows from Investing Activities		
Sales of investments	9,815,025	3,533,529
Purchases of investments	(10,122,882)	(3,145,605)
Short term investments, net	250,622	(350,000)
Building preconstruction costs	(441,825)	-
	<u>(499,060)</u>	<u>37,924</u>
Net cash (used in) provided by investing activities		
Net (Decrease) Increase in Cash and Cash Equivalents	(823,135)	1,247,140
Cash and Cash Equivalents, beginning of year	<u>2,099,155</u>	<u>852,015</u>
Cash and Cash Equivalents, end of year	<u>\$ 1,276,020</u>	<u>\$ 2,099,155</u>

See accompanying notes.

Pentagon Memorial Fund, Inc.

Notes to Financial Statements
December 31, 2017 and 2016

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:

- *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 \$9,881,498 and \$9,035,010 for the years ended December 31, 2017 and 2016, respectively. See Note 7.
- *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 program-restricted and totaled \$1,809,004 and \$2,258,267 at December 31, 2017 and 2016, respectively. See Note 9.

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, 2017 and 2016

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 pledges 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, 2017 and 2016, 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.

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, 2017, construction of the VEC had not yet commenced, and capitalized building costs were not yet being amortized.

Pentagon Memorial Fund, Inc.

Notes to Financial Statements
December 31, 2017 and 2016

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.

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 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.

Recently Issued Accounting Pronouncements

In February 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (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 2020.

In August 2016, the FASB issued ASU 2016-14, *Presentation of Financial Statements for Not-for-Profit Entities*. The update changes the manner by which nonprofit organizations classify net assets as well as improves information presented in financial statements and notes about nonprofit organization liquidity, financial performance, and cash flows. The guidance is effective beginning in 2018.

Pentagon Memorial Fund, Inc.

Notes to Financial Statements
December 31, 2017 and 2016

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 October 9, 2018, 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 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.

Revenue Risk

During the year ended December 31, 2016, approximately 83% of the Fund's support was received from a single donor, in the amount of \$2,500,000. There were no significant concentrations in revenue sources during the year ended December 31, 2017.

4. 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, 2017 and 2016

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, 2017:

	Level 1	Level 2	Level 3	Total
Money market funds	\$ 328,334	\$ -	\$ -	\$ 328,334
Bond funds:				
Nontraditional	335,947	-	-	335,947
Closed-end fund	933,561	-	-	933,561
Equity funds:				
Closed-end fund	1,672,385	-	-	1,672,385
Foreign blend	922,708	-	-	922,708
Intermediate-term bond	706,053	-	-	706,053
Large value	1,281,087	-	-	1,281,087
Emerging markets bond	113,314	-	-	113,314
Foreign large blend	1,298,735	-	-	1,298,735
Small blend	192,563	-	-	192,563
Large growth	1,250,117	-	-	1,250,117
Mid-cap blend	450,158	-	-	450,158
Diversified emerging markets	396,536	-	-	396,536
Total investments	\$ 9,881,498	\$ -	\$ -	\$ 9,881,498

Pentagon Memorial Fund, Inc.

Notes to Financial Statements
December 31, 2017 and 2016

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, 2016:

	Level 1	Level 2	Level 3	Total
Money market funds	\$ 1,354	\$ -	\$ -	\$ 1,354
Bond funds:				
Nontraditional	629,548	-	-	629,548
Multisector	266,736	-	-	266,736
Intermediate-term	2,719,614	-	-	2,719,614
Emerging markets	260,516	-	-	260,516
Equity funds:				
Large value	612,179	-	-	612,179
Multialternative	361,487	-	-	361,487
Large blend	1,127,318	-	-	1,127,318
Small growth	135,891	-	-	135,891
Bank loan	154,283	-	-	154,283
Real estate	293,449	-	-	293,449
Foreign large blend	1,042,918	-	-	1,042,918
Small blend	249,419	-	-	249,419
Large growth	351,175	-	-	351,175
Mid-cap growth	329,218	-	-	329,218
Foreign large growth	245,323	-	-	245,323
Mid-cap blend	142,577	-	-	142,577
Diversified emerging markets	112,005	-	-	112,005
Total investments	<u>\$ 9,035,010</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 9,035,010</u>

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

	2017	2016
Interest and dividends	\$ 407,399	\$ 312,195
Realized gain	859,865	131,266
Unrealized loss	(115,933)	(34,943)
Investment management fees	(54,057)	(54,977)
Total investment income	<u>\$ 1,097,274</u>	<u>\$ 353,541</u>

Pentagon Memorial Fund, Inc.

Notes to Financial Statements
December 31, 2017 and 2016

5. Grants and Contributions Receivable

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

	<u>2017</u>	<u>2016</u>
Receivable in less than one year	\$ 1,352,622	\$ 627,000
Receivable in one to five years	<u>300,000</u>	<u>625,000</u>
Total grants and contributions receivable	<u><u>\$ 1,652,622</u></u>	<u><u>\$ 1,252,000</u></u>

6. Property and Equipment

Building costs related to the preconstruction phase of the 9/11 VEC amounted to \$441,825 at December 31, 2017. As of December 31, 2017, construction of the VEC had not yet commenced, and capitalized building costs were not yet being amortized. See Note 8 for further description of the VEC.

Property and equipment consists of the following at December 31:

	<u>2017</u>	<u>2016</u>
Equipment	\$ 40,090	\$ 40,090
Less: accumulated depreciation	<u>(28,954)</u>	<u>(15,591)</u>
Property and equipment, net	<u><u>\$ 11,136</u></u>	<u><u>\$ 24,499</u></u>

7. Board-Designated Endowment

During the year ended December 31, 2009, the Fund established an unrestricted quasi-endowment fund for the purpose of maintaining the Pentagon Memorial. Accordingly, the fund is not subject to the Commonwealth of Virginia's Uniform Prudent Management of Institutional Funds Act.

The investment objectives of the fund are long-term growth of capital, preservation of purchasing power, and preservation of capital. In order to achieve these objectives, a majority of the endowment funds are diversified among mutual funds and money market accounts.

Pentagon Memorial Fund, Inc.

Notes to Financial Statements
December 31, 2017 and 2016

7. Board-Designated Endowment (continued)

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.

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

	<u>2017</u>	<u>2016</u>
Board-designated endowment fund, beginning	\$ 9,035,010	\$ 9,031,588
Net investment income:		
Interest and dividends	407,235	312,076
Net realized and unrealized gain	743,932	96,323
Investment fees	<u>(54,057)</u>	<u>(54,977)</u>
Net investment income	<u>1,097,110</u>	<u>353,422</u>
Contribution-in-transit for VEC	99,378	-
Payment of endowment funds	<u>(350,000)</u>	<u>(350,000)</u>
Board-designated endowment fund, ending	<u>\$ 9,881,498</u>	<u>\$ 9,035,010</u>

8. 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. 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 and special events. The VEC will feature exhibits, conference rooms, 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, 2017 and 2016

8. Capital Campaign (continued)

During the year ended December 31, 2017, the Fund received \$590,000 of temporarily restricted contributions related to the Campaign, including \$99,378 due from the Board-designated endowment fund, and incurred \$741,537 in costs related to the Campaign from those temporarily restricted funds, of which \$441,825 was capitalized as a part of preconstruction costs of the VEC. During the year ended December 31, 2016, the Fund received \$2,500,000 of temporarily restricted contributions related to the Campaign, and incurred \$1,960 in costs related to the Campaign from those temporarily restricted funds. The majority of the \$2,500,000 was held in temporarily restricted net assets at December 31, 2016.

9. Temporarily Restricted Net Assets

At December 31, 2017 and 2016, temporarily restricted net assets, which totaled \$1,809,004 and \$2,258,267, respectively, were all program-restricted for the VEC.

10. 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, 2017 and 2016, the Fund incurred expenditures totaling \$741,537, of which \$441,825 have been capitalized, and \$1,960, respectively, related to the pre-construction activities with consultants and potential donors related to the VEC.

During 2017 and 2016, 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 of the premises for construction of the VEC if the parcel of land is deemed to be a suitable location, but as of October 9, 2018, the organizations had not signed a binding agreement to this effect.

Pentagon Memorial Fund, Inc.

Notes to Financial Statements
December 31, 2017 and 2016

10. Commitments (continued)

License Agreement

The Fund had a license agreement for the use of office space and equipment through April 30, 2017. During 2017, a new license agreement was entered into for the use of office space and common areas, and extended through April 30, 2018. Subsequent to year-end in September 2018, the license agreement was extended through December 31, 2019. 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.

11. In-Kind Contributions

Contributed Services

Contributed services meeting the criteria for recognition 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 \$125,732 and \$42,751 for the years ended December 31, 2017 and 2016, 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 supplementary schedule of functional expenses, totaled \$10,791 and \$10,060 for the years ended December 31, 2017 and 2016, respectively.

12. Management, Administration, and Outreach Fees

The Fund has in place an agreement with a consulting company, CAA Consulting, 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 for management and administration services in the amounts of \$22,812 per month during both years ended December 31, 2017 and 2016. 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, 2017 and 2016 were \$278,021 and \$273,739, respectively.

Pentagon Memorial Fund, Inc.

Notes to Financial Statements
December 31, 2017 and 2016

13. 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, 2017 and 2016, 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.

SUPPLEMENTARY INFORMATION

Pentagon Memorial Fund, Inc.

Schedules of Functional Expenses
For the Years Ended December 31, 2017 and 2016

	2017				2016			
	Program	G&A	Fundraising	Total	Program	G&A	Fundraising	Total
Accounting	\$ -	\$ 17,077	\$ -	\$ 17,077	\$ -	\$ 19,647	\$ -	\$ 19,647
Advertising	-	-	1,040	1,040	-	-	173	173
Audio tour hosting	4,680	-	-	4,680	4,680	-	-	4,680
Awareness materials	5,758	-	-	5,758	-	-	-	-
Bank fees	-	136	-	136	-	409	-	409
Community partnerships	598	-	-	598	1,964	-	-	1,964
Memorial maintenance	350,000	-	-	350,000	350,000	-	-	350,000
Depreciation	-	13,363	-	13,363	-	13,364	-	13,364
Docent program	420	-	-	420	2,533	-	-	2,533
Development	-	-	-	-	1,500	-	-	1,500
Education outreach	-	-	-	-	1,628	-	-	1,628
Fees for services	-	-	39,421	39,421	-	-	46,620	46,620
Information technology	5,073	315	-	5,388	580	378	-	958
In-kind contributions	81,914	40,957	13,652	136,523	31,687	15,843	5,281	52,811
Insurance	-	3,373	-	3,373	-	2,994	-	2,994
Meetings	232	-	-	232	49,772	-	-	49,772
Miscellaneous	71	1,389	1,228	2,688	-	1,008	4,965	5,973
Occupancy	-	3,862	-	3,862	-	4,032	-	4,032
Office expenses	284	12,266	-	12,550	280	10,320	2,085	12,685
Operational support	164,243	86,404	27,374	278,021	164,243	82,122	27,374	273,739
Subscriptions	-	787	-	787	-	-	-	-
Supporting services	-	-	-	-	-	3,190	-	3,190
Travel	1,438	186	-	1,624	4,883	-	-	4,883
Visitor Education Center	299,712	-	-	299,712	1,960	-	-	1,960
Total Expenses	\$ 914,423	\$ 180,115	\$ 82,715	\$ 1,177,253	\$ 615,710	\$ 153,307	\$ 86,498	\$ 855,515