

Pentagon Memorial Fund, Inc.

Financial Statements
and Independent Auditors' Report

December 31, 2008 and 2007

Pentagon Memorial Fund, Inc.

Financial Statements
December 31, 2008 and 2007

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Pentagon Memorial Fund, Inc.

We have audited the accompanying statements of financial position of Pentagon Memorial Fund, Inc. as of December 31, 2008 and 2007, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of Pentagon Memorial Fund, Inc.'s management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Pentagon Memorial Fund, Inc. at December 31, 2008 and 2007, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

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

Vienna, Virginia
August 17, 2009

Pentagon Memorial Fund, Inc.

Statements of Financial Position
December 31, 2008 and 2007

	<u>2008</u>	<u>2007</u>
Assets		
Cash and cash equivalents	\$ 5,054,933	\$ 1,628,394
Investments	2,172,195	2,135,605
Promises to give, net	2,361,923	1,576,997
Prepaid expenses and deposits	<u>-</u>	<u>1,272</u>
Total assets	<u>\$ 9,589,051</u>	<u>\$ 5,342,268</u>
Liabilities and Net Assets		
Liabilities		
Accounts payable and accrued expenses	<u>\$ 62,300</u>	<u>\$ 31,924</u>
Total liabilities	<u>62,300</u>	<u>31,924</u>
Net Assets		
Unrestricted	7,382,060	4,779,095
Temporarily restricted	<u>2,144,691</u>	<u>531,249</u>
Total net assets	<u>9,526,751</u>	<u>5,310,344</u>
Total liabilities and net assets	<u>\$ 9,589,051</u>	<u>\$ 5,342,268</u>

Pentagon Memorial Fund, Inc.

Statement of Activities
For the Year Ended December 31, 2008

	Unrestricted	Temporarily Restricted	Total
Revenue and Support			
Contributions	\$ 5,015,301	\$ 2,138,850	\$ 7,154,151
Contributed services	699,553	-	699,553
Interest income	71,455	-	71,455
Net assets released from restrictions	525,408	(525,408)	-
Total revenue and support	6,311,717	1,613,442	7,925,159
Expenses			
Program services:			
Contributions expense – PRMR Fund	500,000	-	500,000
Pentagon Memorial Dedication Activities	965,617	-	965,617
Contributed services	90,000	-	90,000
Other	383,211	-	383,211
Total program services	1,938,828	-	1,938,828
Supporting services:			
Management and general	177,479	-	177,479
Fundraising	982,892	-	982,892
Contributed services	609,553	-	609,553
Total supporting services	1,769,924	-	1,769,924
Total expenses	3,708,752	-	3,708,752
Changes in Net Assets	2,602,965	1,613,442	4,216,407
Net Assets, beginning of year	4,779,095	531,249	5,310,344
Net Assets, end of year	\$ 7,382,060	\$ 2,144,691	\$ 9,526,751

Pentagon Memorial Fund, Inc.

Statement of Activities For the Year Ended December 31, 2007

	Unrestricted	Temporarily Restricted	Total
Revenue and Support			
Contributions	\$ 2,366,351	\$ 197,988	\$ 2,564,339
Government grants	350,000	-	350,000
Contributed services	363,342	-	363,342
Interest income	144,373	-	144,373
Special events and other	5,973	-	5,973
Net assets released from restrictions	633,566	(633,566)	-
Total revenue and support	<u>3,863,605</u>	<u>(435,578)</u>	<u>3,428,027</u>
Expenses			
Program services:			
Contributions expense – PRMR Fund	657,598	-	657,598
Contributed services	65,000	-	65,000
Other	110,210	-	110,210
Total program services	<u>832,808</u>	<u>-</u>	<u>832,808</u>
Supporting services:			
Management and general	120,352	-	120,352
Fundraising	625,225	-	625,225
Contributed services	298,342	-	298,342
Total supporting services	<u>1,043,919</u>	<u>-</u>	<u>1,043,919</u>
Total expenses	<u>1,876,727</u>	<u>-</u>	<u>1,876,727</u>
Changes in Net Assets	1,986,878	(435,578)	1,551,300
Net Assets, beginning of year	<u>2,792,217</u>	<u>966,827</u>	<u>3,759,044</u>
Net Assets, end of year	<u>\$ 4,779,095</u>	<u>\$ 531,249</u>	<u>\$ 5,310,344</u>

See accompanying notes.

Pentagon Memorial Fund, Inc.

Statements of Cash Flows
For the Years Ended December 31, 2008 and 2007

	<u>2008</u>	<u>2007</u>
Cash Flows from Operating Activities		
Change in net assets	\$ 4,216,407	\$ 1,551,300
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Increase in allowance for uncollectible promises to give	25,000	-
Change in operating assets and liabilities:		
(Increase) decrease in promises to give	(809,926)	1,394,026
Decrease in prepaid expenses and deposits	1,272	24
Increase (decrease) in accounts payable and accrued expenses	30,376	(116,849)
Decrease in contributions payable – PRMR Fund	-	(2,461,362)
	<u>3,463,129</u>	<u>367,139</u>
Net cash provided by operating activities		
Cash Flows from Investing Activities		
Purchase of investments	<u>(36,590)</u>	<u>(82,064)</u>
Net cash used in investing activities	<u>(36,590)</u>	<u>(82,064)</u>
Net Increase in Cash and Cash Equivalents	3,426,539	285,075
Cash and Cash Equivalents, beginning of year	<u>1,628,394</u>	<u>1,343,319</u>
Cash and Cash Equivalents, end of year	<u><u>\$ 5,054,933</u></u>	<u><u>\$ 1,628,394</u></u>

Pentagon Memorial Fund, Inc.

Notes to Financial Statements
December 31, 2008 and 2007

1. Nature of Operations

Pentagon Memorial Fund, Inc. (the Fund) was incorporated on May 21, 2003, as a not-for-profit, non-stock Virginia corporation and is qualified as tax-exempt under Section 501(c)(3) of the Internal Revenue Code. The Fund was organized by families of the victims of the terrorist attack on the Pentagon on September 11, 2001, to fund the design, construction, maintenance and continuing educational activities surrounding a lasting memorial to the 184 individuals who lost their lives at the Pentagon.

The construction of a permanent memorial to the Pentagon victims of September 11, 2001, was authorized by Section 2864 of Public Law 107-107, wherein the Secretary of Defense is authorized to accept contributions for the purposes of (i) establishing the Pentagon Memorial and (ii) repairing the damage to the Pentagon caused by the terrorist attack. Furthermore, Section 2864(c) provides that these contributions must be deposited in the Pentagon Reservation Maintenance Revolving Fund (the "PRMR Fund") and shall be available for expenditures only for the two purposes specified. Accordingly, amounts raised by the Fund in excess of the reasonable and necessary costs of its operations will be used to fund the construction and maintenance of the planned memorial through contributions to the PRMR Fund established for these purposes. The PRMR Fund has and will continue to receive contributions directly from contributors, which will not be reflected in the Fund.

2. Summary of Significant Accounting Policies

Basis of Accounting and Presentation

The Fund's financial statements are prepared on the accrual basis of accounting and in accordance with generally accepted accounting principles for not-for-profit organizations. Net assets are reported based on the presence or absence of donor-imposed restrictions.

Cash and Cash Equivalents

For the purpose of the statements of cash flows, the Fund considers as cash equivalents all highly liquid investments, which can be converted into known amounts of cash and have a maturity period of ninety days or less at the time of purchase.

Investments

Investments are stated at fair value, based on quoted market prices and consist entirely of certificates of deposit in the amounts of \$2,172,195 and \$2,135,605 at December 31, 2008 and 2007, respectively.

Pentagon Memorial Fund, Inc.

Notes to Financial Statements
December 31, 2008 and 2007

2. Summary of Significant Accounting Policies (continued)

Contributions Payable

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

Classification of Net Assets

- *Unrestricted net assets* represent funds that are not subject to donor-imposed stipulations and are available for support of the Fund's operations. Unrestricted net assets were \$7,382,060 and \$4,779,095 at December 31, 2008 and 2007, respectively.
- *Temporarily restricted net assets* represent funds subject to donor-imposed restrictions that are met either by actions of the Fund or the passage of time. Temporarily restricted net assets were \$2,144,691 and \$531,249 and were all time restricted at December 31, 2008 and 2007, respectively. No amounts are considered purpose restricted.

Revenue Recognition

Unconditional grants and contributions are recognized as revenue when received or promised and are reported as temporarily restricted support if they are received with donor or grantor stipulations that limit the use of donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions. Donor-restricted contributions whose restrictions are met in the same accounting period are reported as unrestricted contributions.

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

Contributed services that meet the criteria of Statement of Financial Accounting Standards No. 116, "Accounting for Contributions Received and Contributions Made" are recorded at fair market value at the time of donation, using the applicable billing rates. As of December 31, 2008 and 2007, the Fund had no employees. The services of the President are being contributed by his employer. See footnote 5 for additional information.

Revenue from all other sources is recognized when earned.

Pentagon Memorial Fund, Inc.

Notes to Financial Statements
December 31, 2008 and 2007

2. Summary of Significant Accounting Policies (continued)

Fair Value Measurements

Statement of Financial Accounting Standards No. 157, "*Fair Value Measurements*," was adopted by the Fund effective January 1, 2008. This standard establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. This hierarchy consists of three broad levels. Level 1 inputs consist of unadjusted quoted prices in active markets for identical assets and liabilities and have the highest priority. Level 2 is based upon observable inputs other than quoted market prices, and level 3 is based on unobservable inputs. This standard had no effect on the Fund's financial statements, but did result in additional disclosures.

Advertising

The Fund expenses advertising costs as incurred. Advertising costs totaled \$52,424 and \$86,551 for the years ended December 31, 2008 and 2007, respectively.

Functional Allocation of Expense

The costs of providing the various programs and other activities have been summarized on a functional basis in the accompanying statements of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

3. Concentrations

Cash and Investments

Financial instruments that potentially subject the Fund to significant concentrations of credit risk consist of cash and investments. The Fund maintains cash deposits and investments with various financial institutions that exceed insurable limits under the Federal Depository Insurance Corporation (FDIC) and Securities Investor Protection Corporation (SIPC). The Fund has not experienced any losses on its cash and investments to date as it relates to FDIC and SIPC insurance limits. Management periodically assesses the financial condition of these financial institutions and believes that the risk of any loss is minimal.

Pentagon Memorial Fund, Inc.

Notes to Financial Statements
December 31, 2008 and 2007

4. Promises to Give

Pledges receivable are unconditional promises to give and are recognized as contribution revenue in the period received. Amounts due beyond one year are discounted to present value using applicable discount rates ranging from 2.4% to 3.1% in 2008, and 3.4% in 2007. Management estimates the collectability of pledges and provides an allowance when appropriate. Pledges are receivable as follows for the years ending December 31:

Receivable in less than one year	\$ 1,890,708
Receivable in one to five years	<u>537,039</u>
Total unconditional promises to give	2,427,747
Less: Discount to net present value	(30,824)
Less: Allowance for uncollectible promises to give	<u>(35,000)</u>
Unconditional promises to give, net	<u><u>\$ 2,361,923</u></u>

5. Contributed Services

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

	<u>2008</u>	<u>2007</u>
Program services:		
Executive management	\$ 70,000	\$ 65,000
Donor recognition dinner	<u>20,000</u>	<u>-</u>
Total program services	<u>90,000</u>	<u>65,000</u>
Fundraising:		
Magazine and video advertising	<u>301,275</u>	<u>64,925</u>
Management and general:		
Legal	228,278	137,867
Executive management	70,000	65,000
Audit and accounting services	<u>10,000</u>	<u>30,550</u>
Total management and general	<u>308,278</u>	<u>233,417</u>
Total contributed services	<u><u>\$ 699,553</u></u>	<u><u>\$ 363,342</u></u>

Pentagon Memorial Fund, Inc.

Notes to Financial Statements
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6. Commitments

On February 1, 2005, the Fund entered into a contract with a public relations firm for strategic communications and public relations services. This agreement, which expired January 31, 2007, required fees of \$10,000 per month, payable in quarterly installments at the end of each calendar quarter. The contract was renewed March 10, 2007, extending the term of the agreement from February 1, 2007 to January 31, 2009. Costs incurred under this contract totaled \$120,000 for each of the years ended December 31, 2008 and 2007.

Subsequent to year end, the Fund came to terms with a consulting company that will provide various services including professional management, office administration, outreach and communications, and operations activities at a monthly fee of \$16,500. The agreement commenced on December 1, 2008 and will continue for an initial period of six months. When the initial period lapses the agreement will automatically renew for two consecutive terms. Either party may choose to terminate the agreement by notifying the other party in writing 90 days prior to termination.

7. Fair Value Measurements

Fair value of assets measured on a recurring basis is as follows at December 31, 2008:

	Total fair value	Quoted prices in active markets (level 1)	Significant other observable inputs (level 2)	Significant unobservable inputs (level 3)
Investments	\$ 2,172,195	\$ 2,172,195	\$ -	\$ -

Financial assets valued using level 1 inputs are based on unadjusted quoted market prices within active markets. There were no level 2 or level 3 financial assets at December 31, 2008.

8. Income Taxes

The Fund is recognized as a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code and is exempt from income taxes except for taxes on unrelated business activities. No tax expense is recorded in the accompanying financial statements, as there was no significant unrelated business income.