

Pentagon Memorial Fund, Inc.

Financial Statements
and Independent Auditors' Report

December 31, 2009 and 2008

Pentagon Memorial Fund, Inc.

Financial Statements
December 31, 2009 and 2008

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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, 2009 and 2008, 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, 2009 and 2008, 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
June 30, 2010

Pentagon Memorial Fund, Inc.

Statements of Financial Position
December 31, 2009 and 2008

	<u>2009</u>	<u>2008</u>
Assets		
Cash and cash equivalents	\$ 450,943	\$ 5,054,933
Investments	7,800,708	2,172,195
Promises to give, net	1,265,668	2,361,923
Prepaid expenses and deposits	<u>11,364</u>	<u>-</u>
Total assets	<u>\$ 9,528,683</u>	<u>\$ 9,589,051</u>
Liabilities and Net Assets		
Liabilities		
Accounts payable and accrued expenses	<u>\$ 2,229</u>	<u>\$ 62,300</u>
Total liabilities	<u>2,229</u>	<u>62,300</u>
Net Assets		
Unrestricted:		
Board designated - maintenance fund	7,800,708	-
Undesignated	<u>958,739</u>	<u>7,382,060</u>
Total unrestricted	8,759,447	7,382,060
Temporarily restricted	<u>767,007</u>	<u>2,144,691</u>
Total net assets	<u>9,526,454</u>	<u>9,526,751</u>
Total liabilities and net assets	<u>\$ 9,528,683</u>	<u>\$ 9,589,051</u>

Pentagon Memorial Fund, Inc.

Statement of Activities
For the Year Ended December 31, 2009

	Unrestricted	Temporarily Restricted	Total
Revenue and Support			
Contributions	\$ 368,591	\$ 300,000	\$ 668,591
Contributed services	53,436	-	53,436
Investment income	336,105	-	336,105
Other income	3,256	-	3,256
Released from restrictions	1,677,684	(1,677,684)	-
Total revenue and support	2,439,072	(1,377,684)	1,061,388
Expenses			
Program services:			
Contributions expense -			
PRMR Fund	420,000	-	420,000
Education and outreach	208,284	-	208,284
Other	81,978	-	81,978
Total program services	710,262	-	710,262
Supporting services:			
Management and general	190,949	-	190,949
Fundraising	107,038	-	107,038
Contributed services	53,436	-	53,436
Total supporting services	351,423	-	351,423
Total expenses	1,061,685	-	1,061,685
Change in Net Assets	1,377,387	(1,377,684)	(297)
Net Assets, beginning of year	7,382,060	2,144,691	9,526,751
Net Assets, end of year	\$ 8,759,447	\$ 767,007	\$ 9,526,454

See accompanying notes.

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
Investment income	71,455	-	71,455
Released from restrictions	525,408	(525,408)	-
Total revenue and support	<u>6,311,717</u>	<u>1,613,442</u>	<u>7,925,159</u>
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	<u>1,938,828</u>	<u>-</u>	<u>1,938,828</u>
Supporting services:			
Management and general	177,479	-	177,479
Fundraising	982,892	-	982,892
Contributed services	609,553	-	609,553
Total supporting services	<u>1,769,924</u>	<u>-</u>	<u>1,769,924</u>
Total expenses	<u>3,708,752</u>	<u>-</u>	<u>3,708,752</u>
Change in Net Assets	2,602,965	1,613,442	4,216,407
Net Assets , beginning of year	<u>4,779,095</u>	<u>531,249</u>	<u>5,310,344</u>
Net Assets , end of year	<u>\$ 7,382,060</u>	<u>\$ 2,144,691</u>	<u>\$ 9,526,751</u>

See accompanying notes.

Pentagon Memorial Fund, Inc.

Statements of Cash Flows
For the Years Ended December 31, 2009 and 2008

	<u>2009</u>	<u>2008</u>
Cash Flows from Operating Activities		
Change in net assets	\$ (297)	\$ 4,216,407
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
(Decrease) increase in allowance for uncollectible promises to give	(18,297)	25,000
Net realized and unrealized gains	232,937	-
Change in operating assets and liabilities:		
Decrease (increase) in promises to give	1,114,552	(809,926)
(Increase) decrease in prepaid expenses and deposits	(11,364)	1,272
(Decrease) increase in accounts payable and accrued expenses	(60,071)	30,376
	<u>1,257,460</u>	<u>3,463,129</u>
Net cash provided by operating activities		
Cash Flows from Investing Activities		
Net purchases of investments	(5,861,450)	(36,590)
	<u>(5,861,450)</u>	<u>(36,590)</u>
Net cash used in investing activities		
Net (Decrease) Increase in Cash and Cash Equivalents	(4,603,990)	3,426,539
Cash and Cash Equivalents, beginning of year	<u>5,054,933</u>	<u>1,628,394</u>
Cash and Cash Equivalents, end of year	<u>\$ 450,943</u>	<u>\$ 5,054,933</u>

Pentagon Memorial Fund, Inc.

Notes to Financial Statements
December 31, 2009 and 2008

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. Excluded from this definition are amounts designated by the Board for long term purposes.

Investments

Investments at December 31, 2009 and 2008 consist of money market funds, mutual funds, and a certificate of deposit and are recorded at fair value based on quoted market prices. Realized and unrealized gains and losses are reported as a component of investment income in the accompanying statements of activities.

Pentagon Memorial Fund, Inc.

Notes to Financial Statements
December 31, 2009 and 2008

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. Included in unrestricted net assets were board designated reserves of \$7,800,708 and \$0 at December 31, 2009 and 2008, 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 \$767,007 and \$2,144,691 and were all time restricted at December 31, 2009 and 2008, 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 for recognition under 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. As of December 31, 2009 and 2008, the Fund had no employees. The services of the President are being contributed by his employer. See footnote 6 for additional information.

Revenue from all other sources is recognized when earned.

Pentagon Memorial Fund, Inc.

Notes to Financial Statements
December 31, 2009 and 2008

2. Summary of Significant Accounting Policies (continued)

Fair Value Measurements

The Fund applies the provisions of the Financial Accounting Standards Board's ASC Topic 820, "*Fair Value Measurements and Disclosures*," for financial assets and liabilities. 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.

Advertising

The Fund expenses advertising costs as incurred. Advertising costs totaled \$21,300 and \$52,424 for the years ended December 31, 2009 and 2008, 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 credit 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, 2009 and 2008

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%. 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	\$	1,226,014
Receivable in one to five years		<u>66,850</u>
Total unconditional promises to give		1,292,864
Less: discount to net present value		(10,493)
Less: allowance for uncollectible promises to give		<u>(16,703)</u>
Promises to give, net	\$	<u><u>1,265,668</u></u>

5. Investments

Investments consist of the following at December 31:

	<u>2009</u>	<u>2008</u>
Money market funds	\$ 128,039	\$ -
Mutual funds	7,672,669	-
Certificate of deposit	<u>-</u>	<u>2,172,195</u>
Total investments	<u><u>\$ 7,800,708</u></u>	<u><u>\$ 2,172,195</u></u>

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

	<u>2009</u>	<u>2008</u>
Interest and dividends	\$ 103,168	\$ 71,455
Net realized and unrealized gains	<u>232,937</u>	<u>-</u>
Total investment income	<u><u>\$ 336,105</u></u>	<u><u>\$ 71,455</u></u>

Pentagon Memorial Fund, Inc.

Notes to Financial Statements
December 31, 2009 and 2008

6. 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:

	2009	2008
Program services:		
Executive management	\$ -	\$ 70,000
Donor recognition dinner	-	20,000
	<u>-</u>	<u>90,000</u>
Total program services	-	90,000
Fundraising:		
Magazine and video advertising	-	301,275
	<u>-</u>	<u>301,275</u>
Management and general:		
Legal	43,436	228,278
Executive management	-	70,000
Audit and accounting services	10,000	10,000
	<u>53,436</u>	<u>308,278</u>
Total management and general	53,436	308,278
Total contributed services	<u>\$ 53,436</u>	<u>\$ 699,553</u>

7. Commitments

During 2008, the Fund came to terms with a consulting company to 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 continued for an initial period of six months, at which point the agreement automatically renewed for two consecutive six month terms, bringing the contract completion date to May 2010. Either party may choose to terminate the agreement by notifying the other party in writing 90 days prior to termination.

On February 1, 2005, the Fund entered into a contract with a public relations firm for strategic communications and public relations services. This agreement has since expired and been renewed several times. On April 10, 2009, the contract was renewed again, extending the term of the agreement from February 1, 2009 until January 31, 2010. The monthly payments under this extension are \$7,500 for the month of January 2009 and \$5,000 per month for the period February 1, 2009 through January 31, 2010. Costs incurred under this contract for 2009 and 2008 totaled \$62,500 and \$120,000, respectively.

Pentagon Memorial Fund, Inc.

Notes to Financial Statements
December 31, 2009 and 2008

7. Commitments (continued)

In 2006, the Fund entered into a two year contract effective May 1, 2006 through May 31, 2008, with a website services provider for hosting and management of the Fund's website. Upon execution of this contract, a one-time fee of \$10,000 was required, to create, install, and test the website. In addition, this contract required a \$4,300 monthly fee, and the Fund was required to pay a fee of 4% of funds collected through the online donation system. In 2008, the Fund renegotiated the terms and extended the website services contract for a period of three years beginning June 1, 2008 through May 31, 2011. From January 1, 2008 through December 31, 2008, in addition to the 4% fee paid on funds collected through the online donation system, the Fund paid monthly fees of \$2,300 per month. Beginning January 1, 2009, in addition to the 4% fee paid on funds collected through the online donation system, the Fund pays monthly fees of \$300 per month to host the website and pays for hourly support at a rate of \$150 per hour, as needed. Costs incurred under this contract for the years ended December 31, 2009 and 2008 totaled \$3,600 and \$27,600, respectively.

In 2007, the Fund entered into a contract with a production company to write, produce, and distribute a documentary on the Pentagon Memorial. In 2008 the project was completed, and in 2009 the Fund entered into another production contract with this company to refresh the documentary, with footage from the 2008 Pentagon Memorial Dedication Ceremony, for use in television syndication, produce an audio tour to be used by visitors to the Pentagon Memorial and create a digital library of video footage from the Pentagon Memorial Dedication Ceremony and Donor Recognition Dinner. During the year ended December 31, 2009, the Fund paid the production company \$56,750 under the current contract. The final payment on this contract of \$18,750 is due to be paid in January of 2010. Costs incurred under these two contracts for the years ended December 31, 2009 and 2008 totaled \$56,750 and \$344,818, respectively.

In 2009, the Fund entered into contract with a television syndication company to provide services associated with getting the Fund's documentary on the Pentagon Memorial, shown on television stations across the country. The contract covers services from July 1, 2009, through September 11, 2011. Under the terms of this contract, \$37,500 was paid in July of 2009 and the remaining payment of \$37,500 is due in January of 2010.

8. Board Designated Endowment

During the year ended December 31, 2009, the Fund established as 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, 2009 and 2008

8. Board Designated Endowment (continued)

The spending policy established for the 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 was as follows for the years ended December 31, 2009:

Board designated endowment fund, beginning	\$	-
Additions to Board designated endowment		7,500,000
Net investment income:		
Interest		84,167
Net realized and unrealized gains		232,937
Investment fees		(16,396)
		300,708
Net investment income		300,708
Board designated endowment fund, ending	\$	7,800,708

9. Fair Value Measurements

Fair value of assets measured on a recurring basis is as follows at December 31, 2009:

	Total fair value	Quoted prices in active markets (level 1)	Significant other observable inputs (level 2)	Significant unobservable inputs (level 3)
Investments	\$ 7,800,708	\$ 7,800,708	\$ -	\$ -

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, 2009 and 2008.

Pentagon Memorial Fund, Inc.

Notes to Financial Statements
December 31, 2009 and 2008

10. 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. No provision for income taxes has been made for either of the years ended December 31, 2009 and 2008, as the Fund had no unrelated business income. The Fund had no significant uncertain tax positions for the year ended December 31, 2009.

11. Subsequent Events

In preparing these financial statements, the Fund has evaluated events and transactions for potential recognition or disclosure through June 30, 2010, the date the financial statements were issued.