

**Pentagon Memorial Fund, Inc.**

Financial Statements  
and Independent Auditors' Report

December 31, 2010 and 2009

**Pentagon Memorial Fund, Inc.**

Financial Statements  
December 31, 2010 and 2009

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8300 Boone Boulevard  
Suite 600  
Vienna, Virginia 22182

703.893.0300 voice  
703.893.4070 facsimile  
www.rogerspllc.com

## **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, 2010 and 2009, 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, 2010 and 2009, 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 29, 2011

**Pentagon Memorial Fund, Inc.**

Statements of Financial Position  
December 31, 2010 and 2009

	<u>2010</u>	<u>2009</u>
<b>Assets</b>		
Cash and cash equivalents	\$ 688,225	\$ 450,943
Investments	8,791,922	7,800,708
Promises to give, net	575,892	1,265,668
Prepaid expenses and deposits	<u>13,953</u>	<u>11,364</u>
Total assets	<u>\$ 10,069,992</u>	<u>\$ 9,528,683</u>
<b>Liabilities and Net Assets</b>		
<b>Liabilities</b>		
Accounts payable and accrued expenses	\$ 7,166	\$ 2,229
Contributions payable - PRMR Fund	<u>340,000</u>	<u>-</u>
Total liabilities	<u>347,166</u>	<u>2,229</u>
<b>Net Assets</b>		
Unrestricted:		
Board designated - maintenance fund	8,791,922	7,800,708
Undesignated	<u>866,485</u>	<u>958,739</u>
Total unrestricted	9,658,407	8,759,447
Temporarily restricted	<u>64,419</u>	<u>767,007</u>
Total net assets	<u>9,722,826</u>	<u>9,526,454</u>
Total liabilities and net assets	<u>\$ 10,069,992</u>	<u>\$ 9,528,683</u>

**Pentagon Memorial Fund, Inc.**

Statement of Activities  
For the Year Ended December 31, 2010

	Unrestricted	Temporarily Restricted	Total
<b>Revenue and Support</b>			
Contributions	\$ 79,244	\$ -	\$ 79,244
Contributed services	89,687	-	89,687
Investment income	1,039,374	-	1,039,374
Released from restrictions	702,588	(702,588)	-
<b>Total revenue and support</b>	<b>1,910,893</b>	<b>(702,588)</b>	<b>1,208,305</b>
<b>Expenses</b>			
Program services:			
Contributions expense - PRMR Fund	340,039	-	340,039
Education and outreach	258,407	-	258,407
<b>Total program services</b>	<b>598,447</b>	<b>-</b>	<b>598,447</b>
Supporting services:			
Management and general	298,855	-	298,855
Fundraising	24,944	-	24,944
Contributed services	89,687	-	89,687
<b>Total supporting services</b>	<b>413,486</b>	<b>-</b>	<b>413,486</b>
<b>Total expenses</b>	<b>1,011,933</b>	<b>-</b>	<b>1,011,933</b>
<b>Change in Net Assets</b>	<b>898,960</b>	<b>(702,588)</b>	<b>196,372</b>
<b>Net Assets, beginning of year</b>	<b>8,759,447</b>	<b>767,007</b>	<b>9,526,454</b>
<b>Net Assets, end of year</b>	<b>\$ 9,658,407</b>	<b>\$ 64,419</b>	<b>\$ 9,722,826</b>

**Pentagon Memorial Fund, Inc.**

Statement of Activities  
For the Year Ended December 31, 2009

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

**Pentagon Memorial Fund, Inc.**

Statements of Cash Flows  
For the Years Ended December 31, 2010 and 2009

	<u>2010</u>	<u>2009</u>
<b>Cash Flows from Operating Activities</b>		
Change in net assets	\$ 196,372	\$ (297)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Decrease in allowance for uncollectible promises to give	(10,896)	(18,297)
Net realized and unrealized gains	(774,958)	(232,937)
Change in operating assets and liabilities:		
Decrease in promises to give	700,672	1,114,552
Increase in prepaid expenses and deposits	(2,589)	(11,364)
Increase (decrease) in accounts payable and accrued expenses	4,937	(60,071)
Increase in contributions payable - PRMR Fund	340,000	-
	<u>453,538</u>	<u>791,586</u>
Net cash provided by operating activities		
<b>Cash Flows from Investing Activities</b>		
Net purchases of investments	<u>(216,256)</u>	<u>(5,395,576)</u>
Net cash used in investing activities	<u>(216,256)</u>	<u>(5,395,576)</u>
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	237,282	(4,603,990)
<b>Cash and Cash Equivalents, beginning of year</b>	<u>450,943</u>	<u>5,054,933</u>
<b>Cash and Cash Equivalents, end of year</b>	<u>\$ 688,225</u>	<u>\$ 450,943</u>

## **Pentagon Memorial Fund, Inc.**

Notes to Financial Statements  
December 31, 2010 and 2009

### **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, 2010 and 2009 consist of money market funds and mutual funds 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, 2010 and 2009

### 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 and at December 31, 2010 and 2009, 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 \$866,485\$64,419 and \$958,739\$767,007 and were all time restricted at December 31, 2010 and 2009, 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 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, 2010 and 2009, the Fund had no employees. The services of the President are being contributed by his employer. See Note 7 for additional information.

Revenue from all other sources is recognized when earned.

## **Pentagon Memorial Fund, Inc.**

Notes to Financial Statements  
December 31, 2010 and 2009

### **2. Summary of Significant Accounting Policies (continued)**

#### Fair Value Measurements

The Fund follows the provisions of ASC 820, *Fair Value Measurements and Disclosures*, for measuring 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.

In addition, the Fund follows ASC 825-10, *Financial Instruments*, which allows entities the irrevocable option to carry most financial assets and liabilities at fair value that are not currently required to be measured at fair value. At adoption, the effect of the first remeasurement to fair value is recorded as a cumulative effect adjustment to the opening balance of unrestricted net assets. The Fund did not elect to measure any additional eligible financial assets or financial liabilities at fair value. Accordingly, adoption of this standard had no impact on the Fund's results of operations or financial position.

Effective January 1, 2010, the Fund adopted Accounting Standards Update 2009-12, *Investments in Certain Entities That Calculate Net Assets Value per Share (or its Equivalent)*, which has amended the existing guidance in ASC 820. This guidance permits, as a practical expedient, the fair value of investments that do not have a quoted market price to be estimated using net asset value (NAV) per share or its equivalent. At December 31, 2010, the Fund did not have any investments requiring to be valued using NAV.

#### Advertising

The Fund expenses advertising costs as incurred. Advertising costs totaled \$12,358 and \$21,300 for the years ended December 31, 2010 and 2009, 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.

## Pentagon Memorial Fund, Inc.

Notes to Financial Statements  
December 31, 2010 and 2009

### 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.

### 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 credit loss is minimal.

### 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	\$	564,130
Receivable in one to five years		<u>20,000</u>
Total unconditional promises to give		584,130
Less: discount to net present value		(2,431)
Less: allowance for uncollectible promises to give		<u>(5,807)</u>
Promises to give, net	\$	<u><u>575,892</u></u>

**Pentagon Memorial Fund, Inc.**

Notes to Financial Statements  
December 31, 2010 and 2009

**5. Investments**

Investments consist of the following at December 31:

	<u>2010</u>	<u>2009</u>
Money market funds	\$ 79,606	\$ 128,039
Mutual funds	<u>8,712,316</u>	<u>7,672,669</u>
Total investments	<u>\$ 8,791,922</u>	<u>\$ 7,800,708</u>

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

	<u>2010</u>	<u>2009</u>
Interest and dividends	\$ 264,416	\$ 103,168
Net realized and unrealized gains	<u>774,958</u>	<u>232,937</u>
Total investment income	<u>\$ 1,039,374</u>	<u>\$ 336,105</u>

**6. Fair Value Measurements**

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

	Total fair value	Level 1	Level 2	Level 3
<u>2010</u>				
Money market funds	\$ 79,606	\$ 79,606	\$ -	\$ -
Mutual funds	<u>8,712,316</u>	<u>8,712,316</u>	-	-
Investments	<u>\$ 8,791,922</u>	<u>\$ 8,791,922</u>	\$ -	\$ -
<u>2009</u>				
Money market funds	\$ 128,039	\$ 128,039	\$ -	\$ -
Mutual funds	<u>7,672,669</u>	<u>7,672,669</u>	-	-
Investments	<u>\$ 7,800,708</u>	<u>\$ 7,800,708</u>	\$ -	\$ -

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, 2010 and 2009.

## Pentagon Memorial Fund, Inc.

Notes to Financial Statements  
December 31, 2010 and 2009

### 7. 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>2010</u>	<u>2009</u>
Fundraising:		
Consulting	\$ 5,500	\$ -
Management and general:		
Office space	12,528	-
Legal	71,659	43,436
Audit and accounting services	-	10,000
Total management and general	<u>84,187</u>	<u>53,436</u>
Total contributed services	<u>\$ 89,687</u>	<u>\$ 53,436</u>

### 8. Commitments

In 2006, the Fund entered into a contract with a website services provider for hosting and management of the Fund's website. Initially, 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. 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, 2010 and 2009 totaled \$5,447 and \$27,600, respectively.

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. In June of 2010 another agreement, which is in effect through December 31, 2012, was entered into for performance of these services for a rate of \$19,500 per month. Either party may choose to terminate the agreement by notifying the other party in writing 90 days prior to termination.

## **Pentagon Memorial Fund, Inc.**

Notes to Financial Statements  
December 31, 2010 and 2009

### **8. Commitments (continued)**

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 late 2011. Fees paid under this contract for the years ended December 31, 2010 and 2009 were \$82,500 and \$37,500, respectively. Under the terms of this contract, the last remaining payment of \$30,000 is due in January of 2011.

During 2010, the Fund contracted with a management consulting firm to expand its Education and Outreach program. The firm's duties include tactical planning and development of new tools, resources, activities and initiatives that would be crucial to a successful education program. Under terms of the agreement, which commenced in June 2010, the Fund paid \$10,000 upon signing the contract and a monthly fee of \$11,500 through December 2010. In 2011, the Fund is under contract to pay a \$10,000 monthly fee for services through the project completion date on December 31, 2011. The contract also requires the Fund to pay certain reimbursable costs related to travel and similar expenditures.

### **9. 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, 2010 and 2009, as the Fund had no unrelated business income. The Fund had no significant uncertain tax positions for the years ended December 31, 2010 and 2009.

### **10. 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, 2010 and 2009

### 10. Board Designated Endowment (continued)

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. It is expected that the first maintenance payment to be made from the Board Designated Endowment will occur in October 2011. Composition of endowment fund and changes in endowment net assets was as follows for the years ended December 31:

	<u>2010</u>	<u>2009</u>
Board designated endowment fund, beginning	\$ 7,800,708	\$ -
Additions to Board designated endowment	-	7,500,000
Net investment income:		
Interest	264,161	84,167
Net realized and unrealized gains	774,958	232,937
Investment fees	<u>(47,905)</u>	<u>(16,396)</u>
Net investment income	<u>991,214</u>	<u>300,708</u>
Board designated endowment fund, ending	<u><u>\$ 8,791,922</u></u>	<u><u>\$ 7,800,708</u></u>

### 11. Subsequent Events

In preparing these financial statements, the Fund has evaluated events and transactions for potential recognition or disclosure through June 29, 2011, the date the financial statements were issued.