

**Pentagon Memorial Fund, Inc.**

Financial Statements  
and Independent Auditors' Report

December 31, 2012 and 2011

**Pentagon Memorial Fund, Inc.**

Financial Statements  
December 31, 2012 and 2011

**Contents**

Independent Auditors' Report.....	1-2
<i>Audited Financial Statements</i>	
Statements of Financial Position.....	3
Statements of Activities.....	4
Statements of Cash Flows.....	5
Notes to Financial Statements.....	6-12

## INDEPENDENT AUDITORS' REPORT

To the Board of Directors  
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, 2012 and 2011, 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 of 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.

*Auditor's Responsibility (continued)*

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, 2012 and 2011, 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.

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

Vienna, Virginia  
September 4, 2013

**Pentagon Memorial Fund, Inc.**

Statements of Financial Position  
December 31, 2012 and 2011

	<u>2012</u>	<u>2011</u>
<b>Assets</b>		
Cash and cash equivalents	\$ 140,499	\$ 430,339
Investments	8,740,706	8,271,453
Promises to give, net	5,602	8,781
Other receivables	19,500	-
Prepaid expenses and deposits	<u>51,212</u>	<u>29,179</u>
Total assets	<u>\$ 8,957,519</u>	<u>\$ 8,739,752</u>
<b>Liabilities and Net Assets</b>		
<b>Liabilities</b>		
Accounts payable and accrued expenses	<u>\$ 3,553</u>	<u>\$ 2,400</u>
Total liabilities	<u>3,553</u>	<u>2,400</u>
<b>Net Assets</b>		
Unrestricted:		
Board designated – maintenance fund	8,740,706	8,271,453
Undesignated	<u>213,260</u>	<u>465,899</u>
Total net assets	<u>8,953,966</u>	<u>8,737,352</u>
Total liabilities and net assets	<u>\$ 8,957,519</u>	<u>\$ 8,739,752</u>

## Pentagon Memorial Fund, Inc.

### Statement of Activities For the Year Ended December 31, 2012

	2012	2011
<b>Unrestricted Revenue and Support</b>		
Contributions	\$ 199,580	\$ 125,742
Contributed services	402,199	50,705
Investment income (loss)	871,442	(115,066)
Other income	3,171	134
Released from restrictions	-	64,419
	<hr/>	<hr/>
Total revenue and support	1,476,392	125,934
	<hr/>	<hr/>
<b>Expenses</b>		
Program services:		
Contributions expense – PRMR Fund	350,000	350,000
Education and outreach	215,422	275,516
Other programs	97,732	47,834
	<hr/>	<hr/>
Total program services	663,154	673,350
	<hr/>	<hr/>
Supporting services:		
Management and general	152,596	261,435
Fundraising	41,831	61,499
Contributed services	402,197	50,705
	<hr/>	<hr/>
Total supporting services	596,624	373,639
	<hr/>	<hr/>
Total expenses	1,259,778	1,046,989
	<hr/>	<hr/>
Change in unrestricted net assets	216,614	(921,055)
	<hr/>	<hr/>
<b>Temporarily Restricted Net Assets</b>		
Net assets released from restrictions	-	(64,419)
	<hr/>	<hr/>
Change in temporarily restricted net assets	-	(64,419)
	<hr/>	<hr/>
<b>Change in Net Assets</b>	216,614	(985,474)
	<hr/>	<hr/>
<b>Net Assets, beginning of year</b>	8,737,352	9,722,826
	<hr/>	<hr/>
<b>Net Assets, end of year</b>	\$ 8,953,966	\$ 8,737,352
	<hr/> <hr/>	<hr/> <hr/>

See accompanying notes.

**Pentagon Memorial Fund, Inc.**

Statements of Cash Flows  
For the Years Ended December 31, 2012 and 2011

	<u>2012</u>	<u>2011</u>
<b>Cash Flows from Operating Activities</b>		
Change in net assets	\$ 216,614	\$ (985,474)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
(Decrease) increase in allowance for uncollectible promises to give	(72,716)	66,909
Unrealized (gains) losses	(496,030)	774,397
Change in operating assets and liabilities:		
Decrease in promises to give	75,895	500,202
Increase in other receivables	(19,500)	-
Increase in prepaid expenses and deposits	(22,033)	(15,226)
Increase (decrease) in accounts payable and accrued expenses	1,153	(4,766)
Decrease in contributions payable – PRMR Fund	-	(340,000)
Net cash used in operating activities	<u>(316,617)</u>	<u>(3,958)</u>
<b>Cash Flows from Investing Activities</b>		
Net sales (purchases) of investments	<u>26,777</u>	<u>(253,928)</u>
Net cash provided by (used in) investing activities	<u>26,777</u>	<u>(253,928)</u>
<b>Net Decrease in Cash and Cash Equivalents</b>	(289,840)	(257,886)
<b>Cash and Cash Equivalents, beginning of year</b>	<u>430,339</u>	<u>688,225</u>
<b>Cash and Cash Equivalents, end of year</b>	<u>\$ 140,499</u>	<u>\$ 430,339</u>

*See accompanying notes.*

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

Notes to Financial Statements  
December 31, 2012 and 2011

### **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 (IRC). The Fund was organized by families of the victims of the terrorist attack on the Pentagon on September 11, 2001, to fund the design, construction, maintenance, and continuing educational activities surrounding a lasting memorial to the 184 individuals who lost their lives at the Pentagon.

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

### **2. Summary of Significant Accounting Policies**

#### Basis of Accounting and Presentation

The Fund’s financial statements are prepared on the accrual basis of accounting and are 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

The Fund considers as cash equivalents all highly liquid investments, which can be converted into known amounts of cash and have a maturity period of 90 days or less at the time of purchase. Excluded from this definition are amounts designated by the Board for long term purposes.



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

Notes to Financial Statements  
December 31, 2012 and 2011

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

#### Investments

Investments at December 31, 2012 and 2011 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.

#### Promises to Give

Pledges receivable are unconditional promises to give and are recognized as contribution revenue in the period received. The entire amount of accounts receivable is expected to be collected within one year and is recorded at net realizable value at December 31, 2012 and 2011. No allowance for doubtful accounts is recorded as management believes that all receivables are fully collectible.

#### Revenue Recognition

Unconditional grants and contributions are recognized as revenue when received or promised and are reported as temporarily restricted support if they are received with donor or grantor stipulations that limit the use of 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).

#### Revenue Recognition (continued)

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. See Note 6 for additional information.

Revenue from all other sources is recognized when earned.

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

Notes to Financial Statements  
December 31, 2012 and 2011

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

#### Advertising

The Fund expenses advertising costs as incurred. Advertising costs totaled \$0 and \$974 for the years ended December 31, 2012 and 2011, respectively.

#### 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.

#### 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.

#### Subsequent Events

The Fund follows the guidance of FASB Accounting Standards Codification (ASC) 855, *Subsequent Events*, which establishes general standards of accounting for and disclosure of events that occur after the statement of financial position date but before the financial statements are issued. In preparing these financial statements, the Fund has evaluated events and transactions for potential recognition or disclosure through September 4, 2013, the date the consolidated financial statements were available to be issued.

### **3. Concentrations**

#### Cash and Investments

Financial instruments that potentially subject the Fund to significant concentrations of credit risk consist of cash and cash equivalents, and investments. The Fund maintains cash deposits and investments with various financial institutions and these values, from time to time, 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.

## Pentagon Memorial Fund, Inc.

Notes to Financial Statements  
December 31, 2012 and 2011

### 4. Investments

Investments consist of the following at December 31:

	<u>2012</u>	<u>2011</u>
Money market funds	\$ 73,678	\$ 95,327
Mutual funds	<u>8,667,028</u>	<u>8,176,126</u>
Total investments	<u>\$ 8,740,706</u>	<u>\$ 8,271,453</u>

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

	<u>2012</u>	<u>2011</u>
Interest and dividends	\$ 288,270	\$ 279,534
Realized gain	87,142	379,797
Unrealized gain (loss)	<u>496,030</u>	<u>(774,397)</u>
Total investment income (loss)	<u>\$ 871,442</u>	<u>\$ (115,066)</u>

### 5. Fair Value Measurements

Fair value is defined as the price that would be received to sell an asset between market participants in an orderly transaction on the measurement date. Fair value is based on assumptions that market participants would make in pricing the asset. Generally, fair value is based on observable quoted market prices or derived from observable market data when such market prices or data are available. When such prices or inputs are not available, the reporting entity should use valuation models.

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.

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.

**Pentagon Memorial Fund, Inc.**

Notes to Financial Statements  
December 31, 2012 and 2011

**5. Fair Value Measurements (continued)**

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 sets forth the Fund's investments at fair value, by level:

	As of December 31, 2012			
	Level 1	Level 2	Level 3	Total
Money market funds	\$ 73,678	\$ -	\$ -	\$ 73,678
Mutual funds	8,667,028	-	-	8,667,028
<b>Total investments</b>	<b>\$ 8,740,706</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 8,740,706</b>
	As of December 31, 2011			
	Level 1	Level 2	Level 3	Total
Money market funds	\$ 95,327	\$ -	\$ -	\$ 95,327
Mutual funds	8,176,126	-	-	8,176,126
<b>Total investments</b>	<b>\$ 8,271,453</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 8,271,453</b>

**6. Contributed Services**

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

	2012	2011
Program:		
Visitor Education Center consulting	\$ 325,000	\$ -
Management and general:		
Advertising	6,431	-
Office space	20,504	12,528
Legal	46,762	35,477
Audit and accounting services	3,500	2,700
<b>Total management and general</b>	<b>77,197</b>	<b>50,705</b>
<b>Total contributed services</b>	<b>\$ 402,197</b>	<b>\$ 50,705</b>

## Pentagon Memorial Fund, Inc.

Notes to Financial Statements  
December 31, 2012 and 2011

### 7. Management, Administration, and Outreach Fees

The Fund has in place an agreement with a consulting company, CAA Consulting, to provide various services including professional management, office administration, outreach and communications, and operations. Under the terms of the contract, the fund pays for management and administration services in the amount of \$19,500 per month, and during 2012, agreed to temporarily pay an additional \$8,333 a month for communications services. 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, 2012 and 2011 were \$263,915 and \$234,000, respectively.

### 8. Board Designated Endowment

During the year ended December 31, 2009, the Fund established an unrestricted quasi-endowment fund for the purpose of maintaining the Pentagon Memorial. Accordingly, the fund is not subject to the Commonwealth of Virginia's Uniform Prudent Management of Institutional Funds Act. The investment objectives of the fund are long-term growth of capital, preservation of purchasing power, and preservation of capital. In order to achieve these objectives, a majority of the endowment funds are diversified among mutual funds and money market accounts.

The spending policy established for the fund, which is for yearly maintenance payments to the PRMR Fund, is 4% of the average market value of the fund over the trailing three years, with the initial value assumed to be \$9,000,000.

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

	<u>2012</u>	<u>2011</u>
Board designated endowment fund, beginning	\$ 8,271,453	\$ 8,791,922
Net investment income:		
Interest	288,270	277,022
Net realized and unrealized gains	583,172	(394,600)
Investment fees	<u>(52,189)</u>	<u>(52,891)</u>
Net investment income	<u>819,253</u>	<u>(170,469)</u>
Payment of endowment funds	(350,000)	(350,000)
Board designated endowment fund, ending	<u><u>\$ 8,740,706</u></u>	<u><u>\$ 8,271,453</u></u>

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

Notes to Financial Statements  
December 31, 2012 and 2011

### **9. Income Taxes**

The Fund is recognized as a tax-exempt organization under Section 501(c)(3) of the IRC 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, 2012 and 2011, as the Fund had no unrelated business income. The Fund had no significant uncertain tax positions for the years ended December 31, 2012 and 2011.