

Pentagon Memorial Fund, Inc.

Financial Statements
and Independent Auditors' Report

December 31, 2007 and 2006

Pentagon Memorial Fund, Inc.

Financial Statements
December 31, 2007 and 2006

Contents

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

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Pentagon Memorial Fund, Inc.

We have audited the accompanying statement of financial position of Pentagon Memorial Fund, Inc. as of December 31, 2007, and the related statements of activities and cash flows for the year 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 audit. The financial statements of Pentagon Memorial Fund, Inc. as of December 31, 2006, were audited by other auditors whose report dated April 3, 2007 expressed an unqualified opinion of those statements.

We conducted our audit 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 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 audit provides 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, 2007, and the changes in its net assets and its cash flows for the year 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
May 8, 2008

Pentagon Memorial Fund, Inc.

Statements of Financial Position
December 31, 2007 and 2006

	<u>2007</u>	<u>2006</u>
Assets		
Cash and cash equivalents	\$ 1,628,394	\$ 1,343,319
Investments	2,135,605	2,053,541
Promises to give, net	1,576,997	2,971,023
Prepaid expenses and deposits	<u>1,272</u>	<u>1,296</u>
Total assets	<u>\$ 5,342,268</u>	<u>\$ 6,369,179</u>
Liabilities and Net Assets		
Liabilities		
Accounts payable and accrued expenses	\$ 31,924	\$ 148,773
Contributions payable – PRMR Fund	<u>-</u>	<u>2,461,362</u>
Total liabilities	<u>31,924</u>	<u>2,610,135</u>
Net Assets		
Unrestricted	\$ 4,779,095	2,792,217
Temporarily restricted	<u>531,249</u>	<u>966,827</u>
Total net assets	<u>5,310,344</u>	<u>3,759,044</u>
Total liabilities and net assets	<u>\$ 5,342,268</u>	<u>\$ 6,369,179</u>

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	3,863,605	(435,578)	3,428,027
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	832,808	-	832,808
Supporting services:			
Management and general	120,352	-	120,352
Fundraising	625,225	-	625,225
Contributed services	298,342	-	298,342
Total supporting services	1,043,919	-	1,043,919
Total expenses	1,876,727	-	1,876,727
Changes in Net Assets	1,986,878	(435,578)	1,551,300
Net Assets, beginning of year	2,792,217	966,827	3,759,044
Net Assets, end of year	\$ 4,779,095	\$ 531,249	\$ 5,310,344

Pentagon Memorial Fund, Inc.

Statement of Activities
For the Year Ended December 31, 2006

	Unrestricted	Temporarily Restricted	Total
Revenue and Support			
Contributions	\$ 3,264,302	\$ 995,422	\$ 4,259,724
Contributed services	319,690	-	319,690
Interest income	126,260	-	126,260
Net assets released from restrictions	1,601,685	(1,601,685)	-
Total revenue and support	5,311,937	(606,263)	4,705,674
Expenses			
Program services			
Contributions expense – PRMR Fund	1,193,362	-	1,193,362
Contributed services	55,000	-	55,000
Other	10,798	-	10,798
Total program services	1,259,160	-	1,259,160
Supporting services:			
Management and general	120,432	-	120,432
Fundraising	779,291	-	779,291
Contributed services	264,690	-	264,690
Total supporting services	1,164,413	-	1,164,413
Total expenses	2,423,573	-	2,423,573
Changes in Net Assets	2,888,364	(606,263)	2,282,101
Net Assets, beginning of year	(96,147)	1,573,090	1,476,943
Net Assets, end of year	\$ 2,792,217	\$ 966,827	\$ 3,759,044

Pentagon Memorial Fund, Inc.

Statements of Cash Flows
For the Years Ended December 31, 2007 and 2006

	<u>2007</u>	<u>2006</u>
Cash Flows from Operating Activities		
Change in net assets	\$ 1,551,300	\$ 2,282,101
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Increase in allowance for uncollectible promises to give	-	10,000
Change in operating assets and liabilities:		
Decrease (increase) in promises to give	1,394,026	(966,434)
Decrease in prepaid expenses and deposits	24	2,039
(Decrease) increase in accounts payable and accrued expenses	(116,849)	11,047
Decrease in contributions payable – PRMR Fund	<u>(2,461,362)</u>	<u>(738,638)</u>
Net cash provided by operating activities	<u>367,139</u>	<u>600,115</u>
Cash Flows from Investing Activities		
Purchase of investments	<u>(82,064)</u>	<u>(2,053,541)</u>
Net cash used in investing activities	<u>(82,064)</u>	<u>(2,053,541)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	285,075	(1,453,426)
Cash and Cash Equivalents, beginning of year	<u>1,343,319</u>	<u>2,796,745</u>
Cash and Cash Equivalents, end of year	<u><u>\$ 1,628,394</u></u>	<u><u>\$ 1,343,319</u></u>

Pentagon Memorial Fund, Inc.

Notes to Financial Statements
December 31, 2007 and 2006

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 \$2,135,605 and \$2,053,541 at December 31, 2007 and 2006, respectively.

Pentagon Memorial Fund, Inc.

Notes to Financial Statements
December 31, 2007 and 2006

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 \$4,779,095 and \$2,792,217 at December 31, 2007 and 2006, 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 \$531,249 and \$966,827 and were all time restricted at December 31, 2007 and 2006, 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 statement 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, 2007 and 2006, 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, 2007 and 2006

2. Summary of Significant Accounting Policies (continued)

Advertising

The Fund expenses advertising costs as incurred. Advertising costs totaled \$25,126 and \$99,173 for the years ended December 31, 2007 and 2006, 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.

Reclassifications

Certain amounts in the 2006 financial statements have been reclassified to conform to the 2007 presentation.

3. 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 of 3.4% in 2007, and ranging from 2.8% to 5% in 2006. Management estimates the collectability of pledges and provides an allowance when appropriate. Pledges are receivable as follows for the years ending December 31:

2008	\$ 1,473,109
2009	95,000
2010	20,000
2011	<u>10,000</u>
Total unconditional promises to give	1,598,109
Less: Discount to net present value	(11,112)
Less: Allowance for uncollectible promises to give	<u>(10,000)</u>
Unconditional promises to give, net	<u>\$ 1,576,997</u>

Pentagon Memorial Fund, Inc.

Notes to Financial Statements
December 31, 2007 and 2006

4. 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.

Government Grants

The Fund and the U.S. Department of Defense (DOD) entered into a Memorandum of Understanding (“MOU”) on October 31, 2003, in order to advance the shared goal of a dignified, attractive, and well-maintained Pentagon Memorial honoring and remembering the victims of the attack on the Pentagon. The MOU outlines the general roles and responsibilities of the two parties, details the funding and accountability for any funds raised by either party, and describes the responsibilities of the parties to maintain the original design, construction and maintenance of the Pentagon Memorial.

The Fund obtained approximately 10% and 22% of its revenue from a grant awarded from DOD for the years ended December 31, 2007 and 2006, respectively. The funds are treated as unrestricted revenues in the accompanying financial statements as they are for the construction of the Pentagon Memorial, consistent with the Fund’s primary purpose.

5. Commitments

Professional Management and Fundraising Contracts

In March 2006, the Fund entered into a new two-year contract with an existing professional fundraiser to continue to perform professional management and fundraising services for the Fund. This contract, which commenced on January 1, 2006 and had an end date of December 31, 2007, required a monthly fee. The monthly fee was \$25,500, until April 2006, at which point the monthly fee increased to \$34,000, when the professional fundraiser hired an additional person to assist with fund raising efforts on behalf of the Fund. In addition to these monthly payments, the fundraiser was eligible to receive incentive fee payments based on helping the Fund reach certain fundraising milestones. Total incentive fees paid to the professional fundraiser were limited to a total of \$300,000 per year.

Pentagon Memorial Fund, Inc.

Notes to Financial Statements
December 31, 2007 and 2006

5. Commitments (continued)

Professional Management and Fundraising Contracts (continued)

In October 2007, both parties agreed to mutually terminate their existing agreement and enter into a new contract. This contract, which has an effective date of August 1, 2007 and a termination date of December 31, 2008, requires the Fund to pay the fundraiser an \$18,000 retainer fee on the first of each month. In addition to the retainer fee, the professional fundraiser is eligible to receive incentive fee payments if certain fundraising milestones are met. Total incentive fees paid to the professional fundraiser are not to exceed \$960,000 over the life of the contract.

Amounts paid under these contracts totaled \$328,000 and \$380,800 for the years ended December 31, 2007 and 2006, respectively, which included \$0 in incentive fee payments for each of the years. In addition, the professional fundraiser was reimbursed \$28,669 and \$24,220 for the years ended December 31, 2007 and 2006, respectively, for registration costs incurred to become the professional fundraiser for the Fund in states outside the Washington, DC metropolitan area.

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, 2007 and 2006.

On December 1, 2007, the Fund entered into a contract with a fundraising consultant, which will last through December 31, 2008. The Fund must pay the fundraising consulting firm a retainer fee equal to \$486,000, payable as \$162,000 upon signing with the remaining balance paid in 12 monthly installments of \$27,000 each beginning January 1, 2008. In addition to the basic retainer fee, the fundraising consulting firm is eligible to receive incentive fees if certain performance objectives are met. The total incentive fee shall not exceed \$900,000 over the life of the contract. Costs incurred under this contract totaled \$162,000 for the year ended December 31, 2007.

Other Professional Service Contracts

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 requires a \$4,300 monthly fee, and the Fund is required to pay a fee of 4% of funds collected through the online donation system. Costs incurred under this contract for 2007 and 2006 totaled \$29,509 and \$34,300, respectively.

Pentagon Memorial Fund, Inc.

Notes to Financial Statements
December 31, 2007 and 2006

5. Commitments (continued)

Other Professional Service Contracts (continued)

On July 17, 2006, the Fund entered into a contract with a direct marketing agency to assist the Fund with conducting limited test mailings to assess the feasibility of a national direct mail campaign. Based on the results achieved from the test mailings through May of 2007, the Fund determined that the costs of implementing a national direct mail campaign would outweigh any funds generated as a result of future mailings. Therefore, the Fund decided it was best not to pursue the direct mail campaign and terminated its contract with the direct marketing agency, effective July, 31, 2007. This agreement requires fees of \$2,500 per month. Additionally, the contract required package creation fees of \$3,500 for each new package used in a mailing and a production fee of \$.05 per letter mailed. Costs incurred under this contract for 2007 and 2006 were \$17,202 and \$17,250, respectively.

Subsequent to year end, the Fund entered into a contract with a production company to write, produce, and distribute a documentary on the Pentagon Memorial. During the year ended December 31, 2007, the Fund paid the production company \$110,000 to begin working on the project. Under the contract, the Fund must pay a minimum of \$340,000 in 2008 for production services.

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:

	<u>2007</u>	<u>2006</u>
Program services: Executive management	\$ 65,000	\$ 55,000
Fundraising: Magazine and video advertising	<u>64,925</u>	<u>-</u>
Management and general:		
Legal	137,867	179,140
Executive management	65,000	55,000
Audit	<u>30,550</u>	<u>30,550</u>
Total management and general	<u>233,417</u>	<u>264,690</u>
Total contributed services	<u>\$ 363,342</u>	<u>\$ 319,690</u>

Pentagon Memorial Fund, Inc.

Notes to Financial Statements
December 31, 2007 and 2006

7. 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.