

PENTAGON MEMORIAL FUND, INC.

Arlington, Virginia

Financial Statements

Years Ended December 31, 2005 and 2004

PENTAGON MEMORIAL FUND, INC.

Financial Statements

Years Ended December 31, 2005 and 2004

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Independent Auditors' Report

To the Board of Directors of
Pentagon Memorial Fund, Inc.
Arlington, Virginia

We have audited the accompanying statements of financial position of the Pentagon Memorial Fund, Inc. (the "Fund"), a Virginia not-for-profit organization, as of December 31, 2005 and 2004, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with U.S. generally accepted auditing standards. 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control over financial reporting. Accordingly, we express no such opinion. 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. as of December 31, 2005 and 2004, and the changes in its net assets and its cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

Bears & Cutler PLLC

March 8, 2006

PENTAGON MEMORIAL FUND, INC.

Statements of Financial Position

December 31, 2005 and 2004

	2005	2004
Assets		
Cash	\$ 2,796,745	\$ 650,055
Unconditional promises to give, net	2,014,589	2,345,635
Prepaid expenses	3,335	2,300
Total Assets	\$ 4,814,669	\$ 2,997,990
Liabilities and Net Assets		
Accrued expenses	\$ 137,726	\$ 51,659
Contributions payable - PRMR Fund	3,200,000	890,000
Total Liabilities	3,337,726	941,659
Net Assets		
Unrestricted	(96,147)	46,542
Temporarily restricted	1,573,090	2,009,789
Total Net Assets	1,476,943	2,056,331
Total Liabilities and Net Assets	\$ 4,814,669	\$ 2,997,990

The accompanying notes are an integral part of these financial statements.

PENTAGON MEMORIAL FUND, INC.

Statements of Activities

Year Ended December 31, 2005

	2005		
	Unrestricted	Temporarily Restricted	Total
Contributions and Other Revenues			
Corporations	\$ 1,019,242	\$ 568,171	\$ 1,587,413
Foundations	298,750	22,073	320,823
Individuals	527,450	101,322	628,772
International	1,162,225	-	1,162,225
Special events	69,792	-	69,792
Total contributions	3,077,459	691,566	3,769,025
Contributed services	366,853	-	366,853
Total	3,444,312	691,566	4,135,878
Interest income	55,351	-	55,351
Net assets released from restrictions	1,128,265	(1,128,265)	-
Total contributions and other revenues	4,627,928	(436,699)	4,191,229
Expenses			
Program Services:			
Contributions expense - PRMR Fund	3,723,436	-	3,723,436
Contributed services	46,250	-	46,250
Other	969	-	969
Total program services	3,770,655	-	3,770,655
Supporting Services:			
Fundraising			
Professional fundraisers	327,356	-	327,356
Other	149,642	-	149,642
Management & General			
Contributed services	320,603	-	320,603
Other	202,361	-	202,361
Total supporting services	999,962	-	999,962
Total expenses	4,770,617	-	4,770,617
Change in Net Assets	(142,689)	(436,699)	(579,388)
Net Assets, beginning of year	46,542	2,009,789	2,056,331
Net Assets, end of year	\$ (96,147)	\$ 1,573,090	\$ 1,476,943

The accompanying notes are an integral part of these financial statements.

PENTAGON MEMORIAL FUND, INC.

Statements of Activities

Year Ended December 31, 2004

	2004		
	Unrestricted	Temporarily Restricted	Total
Contributions and Other Revenues			
Corporations	\$ 1,017,620	\$ 1,367,996	\$ 2,385,616
Foundations	415,000	529,356	944,356
Individuals	548,472	112,437	660,909
Total contributions	1,981,092	2,009,789	3,990,881
Contributed services	510,804	-	510,804
Total contributions and other revenues	2,491,896	2,009,789	4,501,685
Expenses			
Program Services:			
Contributions expense - PRMR Fund	1,550,000	-	1,550,000
Contributed services	45,000	-	45,000
Other	2,963	-	2,963
Total program services	1,597,963	-	1,597,963
Supporting Services:			
Fundraising			
Contributed services - public relations	157,411	-	157,411
Professional fundraisers	293,710	-	293,710
Other	81,837	-	81,837
Management & General			
Contributed services	308,393	-	308,393
Other	75,207	-	75,207
Total supporting services	916,558	-	916,558
Total expenses	2,514,521	-	2,514,521
Change in Net Assets	(22,625)	2,009,789	1,987,164
Net Assets, beginning of year	69,167	-	69,167
Net Assets, end of year	\$ 46,542	\$ 2,009,789	\$ 2,056,331

The accompanying notes are an integral part of these financial statements.

PENTAGON MEMORIAL FUND, INC.

Statements of Cash Flows

Years Ended December 31, 2005 and 2004

	2005	2004
Cash Flow from Operating Activities		
(Decrease) increase in net assets	\$ (579,388)	\$ 1,987,164
Reconciling adjustments		
Changes in net assets and liabilities:		
Unconditional promises to give, less allowance for uncollectible promises	331,046	(2,345,635)
Prepaid expenses	(1,035)	(2,300)
Contributions payable - PRMR Fund	2,310,000	840,000
Accrued expenses	86,067	43,659
Net cash provided by operating activities	2,146,690	522,888
Increase in Cash	2,146,690	522,888
Cash and Cash Equivalents, beginning of year	650,055	127,167
Cash and Cash Equivalents, end of year	\$ 2,796,745	\$ 650,055

The accompanying notes are an integral part of these financial statements.

PENTAGON MEMORIAL FUND, INC.

Notes to the Financial Statements

December 31, 2005 and 2004

NOTE 1 - ORGANIZATION

Pentagon Memorial Fund, Inc. (the "Fund") was incorporated on May 21, 2003, as a not-for-profit, nonstock 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 construction, maintenance and continuing educational activities surrounding a lasting memorial to the 184 individuals who lost their lives at the Pentagon.

The Fund and the U.S. Department of Defense 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 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.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation - The accompanying financial statements of the Fund have been prepared on the accrual basis of accounting and conform to U.S. generally accepted accounting principles as applicable to not-for-profit organizations.

Cash - The term cash, as used in the accompanying financial statements, includes currency on hand and interest-bearing demand deposit accounts with financial institutions. The Fund maintains cash in accounts which, at times, may exceed federally insured limits. The Fund has not experienced any losses in such accounts and management believes that since the Fund places its cash with a high-audit quality financial institution, no significant credit risk exists on these accounts.

Use of Estimates - The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

PENTAGON MEMORIAL FUND, INC.

Notes to the Financial Statements

December 31, 2005 and 2004

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Net Assets - In accordance with Statement of Financial Accounting Standards ("SFAS") No. 117, *Financial Statements of Not-For-Profit Organizations*, net assets, contributions, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Fund and changes therein may be classified as follows:

Unrestricted net assets - Net assets that are not subject to donor-imposed stipulations.

Temporarily restricted net assets - Net assets subject to donor-imposed stipulations that may be met either by actions of the Fund and/or passage of time and include unconditional promises to give in future periods.

Permanently restricted net assets - Net assets subject to donor-imposed stipulations that they be maintained permanently by the Fund.

Contributions are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Contributions, including unconditional promises to give, are recognized in the period received. Unconditional promises to give due in subsequent years are reflected as long-term promises to give and are recorded as temporarily restricted and at the present value of their net realizable value, using risk-free interest rates applicable to the years in which the promises are received to discount the amounts. Conditional promises to give are not recognized until they become unconditional (that is, when the conditions are substantially met).

Support that is restricted by the donor is reported as an increase in unrestricted net assets if the restriction expires in the reporting period in which the support is recognized. All other donor-restricted support is reported as an increase in temporarily or permanently restricted net assets depending on the nature of the restriction. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

Temporarily restricted net assets represent unconditional pledges to be received in future years. No amounts are restricted as to purpose as of December 31, 2005 and 2004.

Contributed Services - Pursuant to the criterion enumerated by SFAS No. 116, *Accounting for Contributions Received and Contributions Made*, contributions of assets other than cash are recorded at their estimated fair value. Expenses are reported as decreases in unrestricted net assets.

Contributions Payable - Liabilities are established for contributions payable to the PRMR Fund when commitments are made to the PRMR Fund and moneys are available.

Functional Expenses - Expenses are charged to program, management and general, or fundraising based on a combination of specific identification and allocation by management.

Reclassifications - Certain reclassifications were made to the 2004 financial statements to conform to the current year presentation.

PENTAGON MEMORIAL FUND, INC.

Notes to the Financial Statements

December 31, 2005 and 2004

NOTE 3 - PROMISES TO GIVE

Unconditional promises to give as of December 31, 2005 are as follows:

Receivable in 2006	\$ 1,328,303
2007	465,000
2008	264,515
2009	25,000
Total unconditional promises to give	2,082,818
Less discounts to net present value	(68,229)
Net unconditional promises to give	\$ 2,014,589

Discount rates used on long-term promises to give ranged from 2.3 percent to 4.3 percent in 2005.

NOTE 4 - COMMITMENTS

The Fund entered into a contract commencing February 23, 2004 with a professional fund raiser to perform professional management and fundraising services for the Fund. This contract, which expired in December 2005, required total fixed payments of \$480,000, paid in monthly payments of \$20,000. In addition to these monthly payments, the fund raiser was eligible to receive additional incentive fee payments based on helping the Fund reach certain fundraising milestones. Total incentive fees paid to the professional fund raiser were limited to a total of \$570,000 over the life of the contract.

Amounts paid under this contract totaled \$316,000 and \$259,000 for the years ending December 31, 2005 and 2004, respectively, which included \$76,000 and \$19,000 in incentive fee payments for the years ending December 31, 2005 and 2004, respectively. In addition, the fundraiser was reimbursed \$18,600 and \$28,400 for the years ending December 31, 2005 and 2004, respectively, for registration costs incurred to become the professional fundraising counsel for the Fund in states outside the Washington, DC metropolitan area. These amounts are included in other management and general costs on the accompanying statements of activities.

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 expires January 31, 2007, requires fees of \$10,000 per month, payable in quarterly installments at the end of each calendar quarter. Costs incurred under this contract for 2005 totaled \$110,000.

NOTE 5 - INCOME TAXES

Under section 501(c)(3) of the Internal Revenue Code, the Fund is exempt from taxes on income other than unrelated business income pending an advance ruling period ending December 31, 2007. No provision for taxes is required at December 31, 2005 and 2004, as the Fund had no significant unrelated business income. The Internal Revenue Service has determined that the Fund is not a private foundation within the meaning of Section 509(a) of the Internal Revenue Code.

PENTAGON MEMORIAL FUND, INC.

Notes to the Financial Statements

December 31, 2005 and 2004

NOTE 6 - CONTRIBUTED SERVICES

For the years ended December 31, 2005 and 2004, the Fund received donated executive management and professional services as follows:

	2005	2004
Contributed Services - Program Services		
Executive management (Accenture)	\$ 46,250	\$ 45,000
Total contributed services - program services	46,250	45,000
Contributed Services - Fundraising		
Public relations (Edelman)	-	157,411
Total contributed services - fundraising	-	157,411
Contributed Services - Management and General		
Legal (Sonnenschein Nath & Rosenthal, LLP)	239,353	225,939
Executive management (Accenture)	46,250	45,000
Accounting (Langan Associates, PC)	1,000	1,050
Audit (Beers & Cutler PLLC)	34,000	18,700
Website, logo, and other (Bates Creative Group, LLC)	-	17,704
Total contributed services - management and general	320,603	308,393
Total Contributed Services	\$ 366,853	\$ 510,804

As of December 31, 2005 and 2004, the Fund had no employees and no office space. The services of the President are being contributed by his employer.

NOTE 7 - SUBSEQUENT EVENTS

On February 9, 2006, the Fund paid \$700,000 to the PRMR Fund as a part of its ongoing contribution plan to pay for the design and construction of the Pentagon Memorial. This represents a partial satisfaction of amounts reflected as due to the PRMR Fund at December 31, 2005.

PENTAGON MEMORIAL FUND, INC.

Notes to the Financial Statements

December 31, 2005 and 2004

NOTE 7 - SUBSEQUENT EVENTS - CONTINUED

In March 2006, the Fund entered into a new two-year contract with the professional fundraiser described in Note 4 to perform professional management and fundraising services for the Fund. This contract, commencing on January 1, 2006 and ending December 31, 2007, requires a fee of \$25,500 to be paid on a monthly basis.

If additional development resources are hired by the fundraiser to assist the Fund in reaching its goals, the monthly fee paid by the Fund could be as much as \$34,000 per month. In addition to these monthly payments, the fundraiser is eligible to receive incentive fee payments based on helping the Fund reach certain fundraising goals. Total incentive fees paid to the professional fundraiser are limited to a total of \$300,000 per year, over the life of the contract.