

PENTAGON MEMORIAL FUND, INC.

Arlington, Virginia

Financial Statements

For the Year Ended December 31, 2004 and the Period
from May 21, 2003 (Inception) to December 31, 2003

PENTAGON MEMORIAL FUND, INC.

Financial Statements

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(Inception) to December 31, 2003

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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, 2004 and 2003, and the related statements of activities and cash flows for year ended December 31, 2004 and for the period from May 21, 2003 (inception) to December 31, 2003. 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 audit.

Except as discussed in the following paragraph, 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 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 the 2003 financial statements, it was not practicable for the Fund to establish control over contributions solicited by volunteer fundraisers prior to their initial entry in the accounting records, nor was it practicable for us to confirm possible contributions or perform other auditing procedures to satisfy ourselves that all contributions had been received and recorded. Accordingly, our audit procedures relating to contributions solicited by volunteer fundraisers were limited to the amounts recorded in the accounts of the Fund.

In our opinion, except for the effects on the 2003 financial statements of such adjustments, if any, that might have been required had the collections of voluntary contributions referred to above been susceptible to satisfactory audit tests, the financial statements referred to above present fairly, in all material respects, the financial position of Pentagon Memorial Fund, Inc. as of December 31, 2004 and 2003, and the changes in its net assets and its cash flows for the year ended December 31, 2004 and the period from May 21, 2003 (inception) to December 31, 2003 in conformity with U.S. generally accepted accounting principles.

Beers & Cutler PLLC

March 11, 2005

PENTAGON MEMORIAL FUND, INC.

Statements of Financial Position

December 31, 2004 and 2003

| | 2004 | 2003 |
|---|---------------------|-------------------|
| Assets | | |
| Cash | \$ 650,055 | \$ 127,167 |
| Unconditional promises to give, net | 2,345,635 | - |
| Prepaid expenses | 2,300 | - |
| Total Assets | \$ 2,997,990 | \$ 127,167 |
| Liabilities and Net Assets | | |
| Accrued expenses | \$ 51,659 | \$ 8,000 |
| Contributions payable - PRMR Fund | 890,000 | 50,000 |
| Total Liabilities | 941,659 | 58,000 |
| Net Assets | | |
| Unrestricted | 46,542 | 69,167 |
| Temporarily restricted | 2,009,789 | - |
| Total Net Assets | 2,056,331 | 69,167 |
| Total Liabilities and Net Assets | \$ 2,997,990 | \$ 127,167 |

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

PENTAGON MEMORIAL FUND, INC.

Statements of Activities

For the Year Ended December 31, 2004

| | 2004 | | |
|--|--------------|------------------------|--------------|
| | Unrestricted | Temporarily Restricted | Total |
| Contributions | | | |
| 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 contributed services | 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 | 322,110 | - | 322,110 |
| Other | 81,837 | - | 81,837 |
| Management & General | | | |
| Contributed services | 308,393 | - | 308,393 |
| Other | 46,807 | - | 46,807 |
| 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 Activities

For the Period from May 21, 2003 (Inception) to December 31, 2003

| | 2003 | | |
|--|--------------|------------------------|-----------|
| | Unrestricted | Temporarily Restricted | Total |
| Contributions | | | |
| Corporations | \$ 24,465 | \$ - | \$ 24,465 |
| Foundations | 8,775 | - | 8,775 |
| Individuals | 102,939 | - | 102,939 |
| Total contributions | 136,179 | - | 136,179 |
| Contributed services | 213,401 | - | 213,401 |
| Total contributions and contributed services | 349,580 | - | 349,580 |
| Expenses | | | |
| Program Services: | | | |
| Contributions expense - PRMR Fund | 50,000 | - | 50,000 |
| Other | 577 | - | 577 |
| Total program services | 50,577 | - | 50,577 |
| Supporting Services: | | | |
| Fundraising | | | |
| Contributed services - public relations | 21,809 | - | 21,809 |
| Other | 16,000 | - | 16,000 |
| Management & General | | | |
| Contributed services | 191,592 | - | 191,592 |
| Other | 435 | - | 435 |
| Total supporting services | 229,836 | - | 229,836 |
| Total expenses | 280,413 | - | 280,413 |
| Change in Net Assets | 69,167 | - | 69,167 |
| Net Assets, beginning of period | - | - | - |
| Net Assets, end of year | \$ 69,167 | \$ - | \$ 69,167 |

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

PENTAGON MEMORIAL FUND, INC.

Statements of Cash Flows

For the Year Ended December 31, 2004 and the Period from May 21, 2003
(Inception) to December 31, 2003

| | 2004 | 2003 |
|--|--------------|------------|
| Cash Flow from Operating Activities | | |
| Increase in net assets | \$ 1,987,164 | \$ 69,167 |
| Reconciling adjustments | | |
| Changes in net assets and liabilities: | | |
| Unconditional promises to give, net | (2,345,635) | - |
| Prepaid expenses | (2,300) | - |
| Contributions payable - PRMR Fund | 840,000 | 50,000 |
| Accrued expenses | 43,659 | 8,000 |
| Net cash provided by operating activities | 522,888 | 127,167 |
| Increase in Cash | 522,888 | 127,167 |
| Cash, at beginning of year | 127,167 | - |
| Cash, end of year | \$ 650,055 | \$ 127,167 |

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

PENTAGON MEMORIAL FUND, INC.

Notes to the Financial Statements

For the Year Ended December 31, 2004 and the Period from May 21, 2003
(Inception) to December 31, 2003

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 the Fund is not exposed to any significant risks 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

For the Year Ended December 31, 2004 and the Period from May 21, 2003
(Inception) to December 31, 2003

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, 2004 and 2003.

Contributed Services - Pursuant to the criterion enumerated by Statement of Financial Accounting Standards (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.

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

PENTAGON MEMORIAL FUND, INC.

Notes to the Financial Statements

For the Year Ended December 31, 2004 and the Period from May 21, 2003 (Inception) to December 31, 2003

NOTE 3 - PROMISES TO GIVE

Unconditional promises to give as of December 31, 2004 are as follows:

| | |
|--------------------------------------|--------------|
| Receivable in 2005 | \$ 1,249,846 |
| 2006 | 765,500 |
| 2007 | 230,084 |
| 2008 | 210,000 |
| Total unconditional promises to give | 2,455,430 |
| Less discounts to net present value | (109,795) |
| Net unconditional promises to give | \$ 2,345,635 |

Discount rates used on long-term promises to give ranged from 2.3% to 3.9% in 2004.

NOTE 4 - COMMITMENTS

The Fund has entered into a contract with a professional fund raiser to perform professional management and fundraising services for the Fund. This contract, which expires in December 2005, requires total fixed payments of \$480,000, to be paid in monthly payments of \$20,000. In addition to these monthly payments, the fund raiser is 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 are limited to a total of \$570,000 over the life of the contract.

Total amounts paid under this contract total \$259,000 for the year ending December 31, 2004, which include \$19,000 in incentive fee payments. In addition, the fund raiser was reimbursed \$28,400 for registration costs incurred to become the professional fund raising counsel for the Fund in states outside the Washington DC metropolitan area. These amounts are included in professional fundraising costs.

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, 2004 and 2003, 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

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(Inception) to December 31, 2003

NOTE 6 - CONTRIBUTED SERVICES

For the year ended December 31, 2004 and the period from May 21, 2003 (inception) to December 31, 2003, the Fund received donated executive management and professional services as follows:

| | 2004 | 2003 |
|--|------------|------------|
| Contributed Services - Program Services | | |
| Executive management (Accenture) | \$ 45,000 | \$ - |
| Total contributed services - program services | 45,000 | - |
| Contributed Services - Fundraising | | |
| Public relations (Edelman) | 157,411 | 21,809 |
| Total contributed services - fundraising | 157,411 | 21,809 |
| Contributed Services - Management and General | | |
| Legal (Sonnenschein Nath & Rosenthal, LLP) | 225,939 | 166,592 |
| Executive management (Accenture) | 45,000 | 20,000 |
| Accounting (Langan Associates, PC) | 1,050 | 5,000 |
| Audit (Beers & Cutler PLLC) | 18,700 | - |
| Website, logo, and other (Bates Creative Group, LLC) | 17,704 | - |
| Total contributed services - management and general | 308,393 | 191,592 |
| Total Contributed Services | \$ 510,804 | \$ 213,401 |

As of December 31, 2004 and 2003, 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 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.

Since January 1, 2005, the Fund has received several significant pledges, totaling approximately \$1.25 million, which are receivable in 2005.