

Vietnam Veterans Memorial Fund, Inc.

Financial Report
December 31, 2013

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Independent Auditor's Report

To the Board of Directors
Vietnam Veterans Memorial Fund, Inc.
Washington, D.C.

Report on the Financial Statements

We have audited the accompanying financial statements of Vietnam Veterans Memorial Fund, Inc. (the Fund) which comprise the balance sheet as of December 31, 2013, the related statements of activities, functional expenses, and cash flows for the year 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 audit. 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 from 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.

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 Vietnam Veterans Memorial Fund, Inc. as of December 31, 2013, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited the Fund's 2012 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated May 22, 2013. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2012, is consistent, in all material respects, with the audited financial statements from which it has been derived.

McGladrey LLP

McLean, Virginia
May 23, 2014

Vietnam Veterans Memorial Fund, Inc.

Balance Sheet

December 31, 2013

(With Comparative Totals for 2012)

	2013	2012
Assets		
Cash and Cash Equivalents		
Unrestricted	\$ 301,865	\$ 62,899
Designated for Education Center	528,729	43,215
Designated for memorial maintenance	23,429	2,762
	<u>854,023</u>	<u>108,876</u>
Investments		
Unrestricted	3,527,025	3,938,483
Designated for Education Center	4,445,848	5,355,200
Designated for memorial maintenance	1,166,831	1,301,937
Deferred compensation	467,171	347,267
	<u>9,606,875</u>	<u>10,942,887</u>
Promises to Give, Bequests and Other Receivables, net	4,727,493	5,409,925
Prepaid Expenses and Deposits	196,301	198,118
Property and Equipment, net	401,114	391,903
Construction in Progress – Education Center	12,928,115	11,092,855
	<u>18,253,023</u>	<u>17,092,801</u>
	<u>\$ 28,713,921</u>	<u>\$ 28,144,564</u>
Liabilities and Net Assets		
Liabilities		
Accounts payable	\$ 410,324	\$ 644,980
Accrued expenses and other liabilities	695,629	787,207
Deferred revenue	50,400	12,500
Deferred rent	356,761	389,510
Deferred compensation	467,171	347,267
	<u>1,980,285</u>	<u>2,181,464</u>
Commitments (Note 11)		
Net Assets		
Unrestricted	15,080,766	13,295,268
Temporarily restricted	11,452,870	12,467,832
Permanently restricted	200,000	200,000
	<u>26,733,636</u>	<u>25,963,100</u>
	<u>\$ 28,713,921</u>	<u>\$ 28,144,564</u>

See Notes to Financial Statements.

Vietnam Veterans Memorial Fund, Inc.

Statement of Activities
Year Ended December 31, 2013
(With Comparative Totals for 2012)

	2013			Total	2012 Total
	Unrestricted	Temporarily Restricted	Permanently Restricted		
Support and Revenue					
Contributions	\$ 5,241,797	\$ 3,628,277	\$ -	\$ 8,870,074	\$ 6,744,693
Donated goods and services	100,390	5,183,491	-	5,283,881	9,379,355
Investment income, net	300,907	253,854	-	554,761	1,097,202
Special events:					
Special event gross receipts	-	421,988	-	421,988	297,313
Cost of direct benefit to donors	-	(327,373)	-	(327,373)	(120,440)
Site fees	107,174	-	-	107,174	94,000
Other	106,899	-	-	106,899	62,107
Federal grant	-	-	-	-	138,138
Net assets released from restriction	10,175,199	(10,175,199)	-	-	-
Total support and revenue	16,032,366	(1,014,962)	-	15,017,404	17,692,368
Expenses					
Program services:					
Memorial maintenance	90,682	-	-	90,682	134,366
Ceremonies and events	226,688	-	-	226,688	427,868
The Wall That Heals	302,603	-	-	302,603	273,470
Memorial legacy	3,586,037	-	-	3,586,037	2,097,396
Education programs	72,755	-	-	72,755	84,478
Education center	5,985,299	-	-	5,985,299	12,974,792
Project RENEW	-	-	-	-	126,892
	10,264,064	-	-	10,264,064	16,119,262
Support services:					
Fundraising	2,171,507	-	-	2,171,507	2,256,174
General and administrative	249,857	-	-	249,857	130,553
Indirect costs	1,561,440	-	-	1,561,440	1,336,504
	3,982,804	-	-	3,982,804	3,723,231
Total expenses	14,246,868	-	-	14,246,868	19,842,493
Change in net assets	1,785,498	(1,014,962)	-	770,536	(2,150,125)
Net Assets					
Beginning	13,295,268	12,467,832	200,000	25,963,100	28,113,225
Ending	\$ 15,080,766	\$ 11,452,870	\$ 200,000	\$ 26,733,636	\$ 25,963,100

See Notes to Financial Statements.

Vietnam Veterans Memorial Fund, Inc.

Statement of Functional Expenses
Year Ended December 31, 2013
(With Comparative Totals for 2012)

	2013												2012 Total
	Program Services						Support Services					Total	
	Memorial Maintenance	Ceremonies and Events	The Wall That Heals	Memorial Legacy	Education Programs	Education Center	Total Program Services	Fundraising	General and Administrative	Indirect Costs	Total Support Services		
Public relations	\$ -	\$ -	\$ 50	\$ 1,508,799	\$ -	\$ 4,853,127	\$ 6,361,976	\$ 2,539	\$ 393	\$ 13,156	\$ 16,088	\$ 6,378,064	\$ 11,968,558
Direct mail expenses	-	-	-	1,544,877	-	320,446	1,865,323	1,629,521	-	-	1,629,521	3,494,844	3,376,405
Salaries and benefits	34,975	114,352	168,965	240,960	65,414	530,104	1,154,770	204,387	54,665	820,850	1,079,902	2,234,672	1,769,182
Professional fees	-	-	5,960	6,948	-	17,160	30,068	8,497	100,310	247,094	355,901	385,969	363,525
Facility and equipment rental	-	-	23,807	52	2,381	893	27,133	-	3,635	247,114	250,749	277,882	328,384
Consulting	4,450	1,413	1,200	25,138	3,000	100,634	135,835	100,646	12,500	26,473	139,619	275,454	391,938
Communication campaigns	-	-	-	173,393	-	10,377	183,770	81,252	-	-	81,252	265,022	325,843
Special events	-	40,884	-	70	-	2,737	43,691	-	-	-	-	43,691	380,053
Travel and lodging	46	8,707	23,737	14,485	746	82,796	130,517	8,390	10,147	13,932	32,469	162,986	106,059
Depreciation and amortization	-	1,520	29,265	-	-	-	30,785	-	-	119,366	119,366	150,151	128,247
Caging	-	-	-	-	-	-	-	121,759	-	-	121,759	121,759	124,461
Photos and video	-	32,226	2,100	13,110	74	37,974	85,484	1,512	-	18,639	20,151	105,635	86,115
Printing and postage	-	21,562	5,594	13,277	591	17,829	58,853	6,859	480	25,728	33,067	91,920	91,143
Bank charges	-	-	-	-	-	-	-	-	-	64,299	64,299	64,299	24,473
Insurance	-	-	5,572	-	-	-	5,572	-	16,350	32,010	48,360	53,932	52,152
Website	-	1,880	906	38,551	266	338	41,941	4,240	7,468	-	11,708	53,649	89,245
Memorial maintenance name additions	51,211	-	-	-	-	15	51,226	-	-	-	-	51,226	99,146
Supplies	-	-	4,564	1,407	-	1,084	7,055	90	-	43,400	43,490	50,545	38,077
Meals and entertainment	-	3,287	4,696	4,970	283	5,600	18,836	1,815	10,141	6,788	18,744	37,580	32,201
Other	-	857	806	-	-	79	1,742	-	18,553	4,303	22,856	24,598	30,576
Telephone	-	-	764	-	-	3,951	4,715	-	-	19,769	19,769	24,484	18,851
Gasoline	-	-	18,000	-	-	-	18,000	-	-	-	-	18,000	16,451
Service provider fees	-	-	-	-	-	-	-	-	-	16,349	16,349	16,349	14,143
Taxes, licenses and filings	-	-	210	-	-	155	365	-	15,215	-	15,215	15,580	17,205
Repairs and maintenance	-	-	6,407	-	-	-	6,407	-	-	6,796	6,796	13,203	8,010
Vietnam program	-	-	-	-	-	-	-	-	-	-	-	-	48,585
Capitalized costs for Education Center	-	-	-	-	-	-	-	-	-	(164,626)	(164,626)	(164,626)	(86,535)
	90,682	226,688	302,603	3,586,037	72,755	5,985,299	10,264,064	2,171,507	249,857	1,561,440	3,982,804	14,246,868	19,842,493
Indirect expense allocation	15,952	140,192	198,963	412,032	75,160	451,975	1,294,274	219,792	47,374	(1,561,440)	(1,294,274)	-	-
Total expenses	\$ 106,634	\$ 366,880	\$ 501,566	\$ 3,998,069	\$ 147,915	\$ 6,437,274	\$ 11,558,338	\$ 2,391,299	\$ 297,231	\$ -	\$ 2,688,530	\$ 14,246,868	\$ 19,842,493

See Notes to Financial Statements.

Vietnam Veterans Memorial Fund, Inc.

Statement of Cash Flows
Year Ended December 31, 2013
(With Comparative Totals for 2012)

	2013	2012
Cash Flows from Operating Activities		
Change in net assets	\$ 770,536	\$ (2,150,125)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation and amortization	150,151	128,247
Loss on disposal of property and equipment	22,432	-
Unrealized and realized gain on investments, net	(321,096)	(768,072)
Increase in allowance for doubtful accounts	3,400	-
(Increase) decrease in present value discount	(57,514)	362,869
Deferred rent	(32,749)	(26,501)
Change in assets and liabilities:		
(Increase) decrease in:		
Promises to give, bequests and other receivables	(1,830,733)	892,049
Prepaid expenses and deposits	1,817	(86,017)
Increase (decrease) in:		
Accounts payable	141,026	(659,968)
Accrued expenses and other liabilities	(91,578)	372,314
Deferred revenue	37,900	(7,500)
Deferred compensation	119,904	89,606
Net cash used in operating activities	(1,086,504)	(1,853,098)
Cash Flows from Investing Activities		
Proceeds from sales of investments	4,668,345	3,025,965
Purchase of investments	(3,011,237)	(678,075)
Purchases of property and equipment	(745,683)	(116,682)
Construction in progress – Education Center	(1,647,053)	(3,368,317)
Net cash used in investing activities	(735,628)	(1,137,109)
Cash Flows from Financing Activities		
Contributions restricted to building	2,567,279	1,560,448
Net cash provided by financing activities	2,567,279	1,560,448
Net increase (decrease) in cash and cash equivalents	745,147	(1,429,759)
Cash and Cash Equivalents		
Beginning	108,876	1,538,635
Ending	\$ 854,023	\$ 108,876
Supplemental Schedule of Noncash Investing Activities		
Construction in process included in accounts payable	\$ 188,207	\$ 563,889

See Notes to Financial Statements.

Vietnam Veterans Memorial Fund, Inc.

Notes to Financial Statements

Note 1. Nature of Activities and Significant Accounting Policies

Nature of Activities: Vietnam Veterans Memorial Fund, Inc. (the Fund) is a not-for-profit and non-ideological organization authorized by Congress in 1979 to build a memorial dedicated to honoring those who served with the U.S. Armed Forces in the Vietnam War. As described in Note 12, the Fund conveyed the memorial to the United States Department of the Interior in 1984.

Today the Fund continues to work with the National Park Service to preserve the sanctity of the Vietnam Veterans Memorial (the Wall) by maintaining the site, making name additions and status changes, and hosting annual Memorial and Veterans Day observances. The Fund has developed a series of outreach programs dedicated to education about the Vietnam War and promoting the Wall's legacy. This includes a secondary school curriculum; a nationwide teacher's network and annual summer conference; and a traveling half scale replica and museum.

The Fund is currently in the design stage of a construction project to build the Education Center (the Center) at the Wall, a visitor center to be built adjacent to the Vietnam Veterans Memorial which will further promote and conserve the legacy of the Wall. Upon completion of the Center, the Fund will donate the building to the United States Department of the Interior and will take on responsibility for the maintenance of the Center and its exhibits.

A summary of the Fund's significant accounting policies follows:

Basis of Accounting: The accompanying financial statements are presented in accordance with the accrual basis of accounting, whereby, revenue is recognized when earned and expenses are recognized when incurred.

Basis of Presentation: The financial statement presentation follows the recommendations of the Financial Accounting Standards Board (FASB) *Accounting Standards Codification* (ASC). As required by the Non-Profit Entities Topic of the FASB ASC, the Fund is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Cash and Cash Equivalents: For the purpose of reporting cash flows, the Fund considers all money market accounts to be cash equivalents.

Investments: Investments with readily determinable fair values are reflected at fair market value. To adjust the carrying value of these investments, the change in fair market value is charged or credited to current operations.

Financial Risk: The Fund maintains its cash and cash equivalents in bank deposit accounts, which, at times, may exceed federally insured limits. The Fund has not experienced any losses in such accounts.

The Fund invests in a professionally managed portfolio that contains mutual funds and exchange traded funds. Such investments are exposed to various risks such as market and credit. Due to the level of risk associated with such investments, and the level of uncertainty related to changes in the value of such investments, it is at least reasonably possible that changes in risks in the near term could materially affect investment balances and the amounts reported in the financial statements.

Receivables: Receivables, including promises to give, are carried at original invoice amounts less an estimate for doubtful receivables based on an annual review of all outstanding amounts. Management determines the allowance for doubtful accounts by identifying troubled accounts and by using historical experience applied to an aging of accounts. Receivables are written off when deemed uncollectible. Recoveries of receivables previously written off are recorded when received. At December 31, 2013, management has determined that all receivables are considered fully collectible.

Vietnam Veterans Memorial Fund, Inc.

Notes to Financial Statements

Note 1. Nature of Activities and Significant Accounting Policies (Continued)

Unconditional Promises to Give: Unconditional promises to give are recognized as revenue or gains in the period acknowledged. Conditional promises to give are recognized when the conditions on which they depend are substantially met. Management has established an allowance for doubtful accounts totaling \$3,400 at December 31, 2013.

The Fund recognizes bequests as receivables and revenue when the probate court declares the will valid.

Property and Equipment: The Fund capitalizes all property and equipment purchased with a cost of \$1,000 or more. Property and equipment are stated at cost and are being depreciated on a straight-line basis over the estimated useful lives of the assets, ranging from three to ten years. Leasehold improvements are amortized over the shorter of the remaining lease term or the estimated useful lives of the improvements.

Construction in Progress – Education Center: The Fund is in the process of designing and constructing an Education Center which will be located on the National Mall adjacent to the Vietnam Veterans Memorial. Direct and indirect costs associated with the design and construction of the Education Center have been capitalized.

Valuation of Long-Lived Assets: The Fund requires that long-lived assets and certain identifiable intangible assets be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of the long-lived asset is measured by a comparison of the carrying amount of the asset to future undiscounted net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the estimated fair value of the assets. Assets to be disposed of are reportable at the lower of the carrying amount or fair value, less costs to sell. The Fund had no impairments of long-lived assets during the year ended December 31, 2013.

Deferred Rent: The Fund has a lease agreement for rental space in Washington, D.C. Rent expense is being recognized on a straight-line basis over the life of the lease. The difference between rent expense recognized and rental payments, as stipulated in the lease, is reflected as deferred rent in the balance sheet. In addition, rent abatement was provided, as well as a landlord improvement allowance for leasehold improvements. This benefit is being recognized on a straight-line basis over the life of the lease agreement.

Support and Revenue: Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions. Grants limited to a particular program or future time period are recorded as temporarily restricted. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed based on market trends for interest rates applicable to the years in which the promises are received. Amortization of the discounts is included in contribution revenue.

Permanently restricted net assets represent endowment funds that are not available for use by the Fund. Earnings on the endowment funds are either temporarily restricted for program purposes or available for operations as specified by the donor.

Vietnam Veterans Memorial Fund, Inc.

Notes to Financial Statements

Note 1. Nature of Activities and Significant Accounting Policies (Continued)

Classification of Expenses: The Fund categorizes expenses as follows:

Memorial maintenance – costs related to the Fund's work in cooperation with the National Park Service to provide for special maintenance needs of the Vietnam Veterans Memorial in Washington, D.C., including the adjacent Three Servicemen statue, flagpole and the three-acre site where the Vietnam Veterans Memorial is located, to maintain the site's function as a place of reflection on the Vietnam War, a place of honor, recognition and remembrance of those who served and those who died, a place of spiritual connection with lost comrades and loved ones, and a symbol of healing for our nation. The Memorial has been visited by more than 80 million people, making it one of the most visited memorials on the National Mall.

Ceremonies and events – Costs associated with planning, organizing and conducting a number of ceremonies at the Memorial and elsewhere to bring people together to remember and honor the men and women who served in the Vietnam War and those who died. Ceremonies are conducted each year on Memorial Day, Veterans Day, Father's Day, Mother's Day, In Memory Day and Christmas to recognize, remember and honor those who served and died as well as to bring healing to their families, their friends and our nation.

The Wall That Heals – Costs incurred to promote healing and provide education about the impact of the Vietnam War through its traveling Memorial called "The Wall That Heals." The Fund exhibits a half-scale replica of the Vietnam Veterans Memorial in cities and locations throughout the United States, making it possible for millions of individuals who are unable to travel to Washington, D.C. to recognize, remember and honor those who served and died, and to experience a connection with lost comrades and loved ones. The traveling memorial also includes an educational museum and an information center to assist visitors in finding names on the Memorial.

Memorial legacy – Costs related to preserving the legacy of the Memorial and promoting healing through public outreach, and promoting visitation of the Memorial by the general public. The Fund provides information about the history of the Memorial and responds to questions from potential visitors. The Fund maintains a commemorative web site called the Virtual Wall that allows families, friends and veterans to post remembrances to those whose names are inscribed on the Memorial, extending the healing power and emotional impact of The Wall to millions of people through the Internet. More than 100,000 messages have been posted on the Virtual Wall. The Fund is also conducting a national Call for Photos to preserve the memory of those whose names are inscribed on the Memorial. The photos will be displayed in the Education Center.

Education programs – Costs incurred to educate students about the impact of the Vietnam War and preserve the legacy of the Vietnam Veterans Memorial through programs related to the education of students and teachers regarding the Vietnam War, the Vietnam Veterans Memorial and the Memorial's legacy in culture and society. The Fund's education programs reach teachers and students from grades 7 to 12, as well as higher education. The Hometown Heroes program, developed to promote a greater understanding of the Vietnam War, the Vietnam era and the personal sacrifice of the individuals whose names are inscribed on the Memorial, provides program information to schools and community organizations encouraging students to write biographies of men and women from their community whose names are inscribed on the Memorial. The information gathered by the students will be included in the Education Center being built.

Education Center – Costs associated with promoting future visitation by the general public to the Education Center once construction is complete. The Fund provides information about the important role the Education Center will play in preserving the legacy of those whose names are inscribed on the Memorial.

Vietnam Veterans Memorial Fund, Inc.

Notes to Financial Statements

Note 1. Nature of Activities and Significant Accounting Policies (Continued)

Fundraising – Costs associated with raising money to support the Fund's programs and activities, including the design and construction of the Education Center.

General and administrative – Costs related to maintaining the corporate entity and corporate governance.

Indirect costs – Costs that relate to the Fund's programs but are not specifically identified with any one program. Indirect costs are allocated to the Fund's programs and activities based on the level of effort in the Statement of Functional Expenses.

Functional Allocation of Expenses: The costs of providing the various programs and other activities have been summarized on a functional basis in the accompanying statement of activities. Indirect costs are unallocated in the statement of activities. For the year ended December 31, 2013, \$1,294,274 of indirect costs was allocated to program services and \$267,166 was allocated to supporting services in the Statement of Functional Expenses.

Donated Goods and Services: The Fund receives contributions of services and goods from businesses and other organizations toward the fulfillment of program objectives and general operations. Those services, which are objectively measurable, have been included in both revenue and the related functional expense categories and are recorded as contributions at their fair value at the date of donation.

Income Taxes: The Fund is generally exempt from federal income taxes under Section 501(c)(3) of the U.S. Internal Revenue Code. In addition, the Fund qualifies for charitable contribution deductions and has been classified as an organization that is not a private foundation. Business income, which is not related to exempt purposes, less applicable deductions, is subject to federal and state corporate income taxes. The Fund had no net unrelated business income for the year ended December 31, 2013. Management evaluated the Fund's tax positions and concluded that the Fund had taken no uncertain tax positions that require adjustment to the financial statements. Generally, the Fund is no longer subject to income tax examinations by the U.S. federal, state or local tax authorities for years before 2010.

Use of Estimates: The preparation of financial statements 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.

Prior Year Information: The financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. The prior year's summarized comparative information has been derived from the financial statements for the year ended December 31, 2012.

Vietnam Veterans Memorial Fund, Inc.

Notes to Financial Statements

Note 1. Nature of Activities and Significant Accounting Policies (Continued)

Reclassifications: Certain amounts in the 2012 summarized comparative information have been reclassified to conform to the 2013 financial statements, with no effect on previously reported change in net assets or net assets.

Subsequent Events: The Fund evaluated subsequent events through May 23, 2014, which is the date the financial statements were available to be issued.

Note 2. Investments

Investments at December 31, 2013, consist of the following:

Mutual funds	\$ 8,785,049
Mutual funds – deferred compensation	467,171
Exchange traded funds	354,655
	<hr/>
	\$ 9,606,875

Investment income for the year ended December 31, 2013, consists of the following:

Unrealized and realized gain on investments, net	\$ 321,096
Interest and dividends	286,797
Investment fees	(53,132)
	<hr/>
	\$ 554,761

Note 3. Promises to Give, Bequests and Other Receivables

Promises to give and other at December 31, 2013, consist of the following:

Promises to give	\$ 3,693,833
Site fees, dividends, and other	55,294
Bequests	978,366
	<hr/>
	\$ 4,727,493

Promises to give in one year or more are measured using the present value of future cash flows. Promises to give made during 2012 and 2013 are discounted based on a rate of 2%. Promises to give made prior to 2011 are discounted based on a rate of approximately 4.49%.

Vietnam Veterans Memorial Fund, Inc.

Notes to Financial Statements

Note 3. Promises to Give, Bequests and Other Receivables (Continued)

Unconditional promises to give at December 31, 2013, consist of the following:

Promises to give in less than one year	\$ 1,991,504
Promises to give in one to five years	1,623,000
Promises to give in six years	300,000
Total promises to give	3,914,504
Less allowance for doubtful accounts	3,400
Less discount to net present value	217,271
Net promises to give	\$ 3,693,833

Note 4. Property and Equipment

Property and equipment and accumulated depreciation at December 31, 2013, and depreciation expense for the year ended December 31, 2013, are as follows:

Asset Category	Estimated Useful Lives	Cost	Accumulated Depreciation	Net	Depreciation and Amortization
Trailer Exhibit	10 Years	\$ 404,603	\$ 315,706	\$ 88,897	\$ 18,099
Traveling Wall	3 – 10 Years	87,983	59,388	28,595	11,165
Furniture and Equipment	3 Years	89,516	23,848	65,668	22,189
Leasehold Improvements	6 years	278,420	197,213	81,207	46,404
TV World Wide Web	5 Years	107,478	17,913	89,565	17,913
Website	3 Years	94,315	47,133	47,182	34,381
		\$ 1,062,315	\$ 661,201	\$ 401,114	\$ 150,151

Note 5. Fair Value Measurements

The Fair Value Measurement Topic of the FASB ASC established a fair value hierarchy that is based on the valuation inputs used in the fair value measurements. This topic applies to all assets and liabilities that are being measured and reported on a fair value basis. This topic requires disclosure that establishes a framework for measuring fair value in GAAP and expands disclosure used to develop those measurements by establishing a hierarchy for ranking the quality and reliability of the information used to determine fair values. This topic requires that assets and liabilities carried at fair value be classified and disclosed in one of the following three categories:

Level 1 – Quoted market prices in active markets for identical assets or liabilities

Level 2 – Observable market-based inputs or unobservable inputs that are corroborated by market data

Level 3 – Unobservable inputs that are not corroborated by market data

To determine the appropriate levels, the Fund performs a detailed analysis of the assets and liabilities that are subject to the Fair Value Measurement Topic. At each reporting period, all assets and liabilities for which the fair value measurement is based on significant unobservable inputs are classified as Level 3. There were no Level 3 inputs for any assets held by the Fund at December 31, 2013.

Vietnam Veterans Memorial Fund, Inc.

Notes to Financial Statements

Note 5. Fair Value Measurements (Continued)

The table below presents the balances of assets and liabilities measured at fair value on a recurring basis by level within the hierarchy:

	Level 1	Level 2	Level 3	Total
Assets:				
Mutual funds:				
Fixed income:				
Multisector Bond	\$ 1,242,838	\$ -	\$ -	\$ 1,242,838
Short Term Bond	981,036	-	-	981,036
World Allocation	661,661	-	-	661,661
World Bond (Medium)	639,550	-	-	639,550
Bank Loan (Fixed income)	487,925	-	-	487,925
Nontraditional Bond	241,763	-	-	241,763
High Yield Bond	32,154	-	-	32,154
Miscellaneous	25,146	-	-	25,146
Floating Rate Income Trust	16,339	-	-	16,339
Total fixed income	4,328,412	-	-	4,328,412
Equities:				
Market Neutral Funds (medium)	896,246	-	-	896,246
World Stock (Large)	601,018	-	-	601,018
Mid-Cap Blend	383,837	-	-	383,837
Small Growth	254,718	-	-	254,718
Mid Cap Blend (Medium)	254,513	-	-	254,513
Large Value	108,990	-	-	108,990
Foreign Large Growth	86,834	-	-	86,834
Diversified Emerging Markets (Large)	69,177	-	-	69,177
Real Estate (Medium)	66,343	-	-	66,343
Mid Cap Growth (Medium)	54,461	-	-	54,461
Mid Cap Value (Medium)	52,280	-	-	52,280
Large Growth	48,404	-	-	48,404
Utilities – Large Value	35,374	-	-	35,374
VIP Contrafund	27,147	-	-	27,147
International equity	16,405	-	-	16,405
Small Value	11,998	-	-	11,998
Commodities Precious Metals	6,171	-	-	6,171
Total equities	2,973,916	-	-	2,973,916
Blended (Fixed, equities and short term):				
World Allocation – Large	826,287	-	-	826,287
Long/Short Equity – Large	711,659	-	-	711,659
Large Blend	230,725	-	-	230,725
Foreign Large Blend	76,660	-	-	76,660
Small Blend	54,699	-	-	54,699
Capital Convertible	49,862	-	-	49,862
Total blended	1,949,892	-	-	1,949,892
Total mutual funds	9,252,220	-	-	9,252,220
Exchange traded funds:				
High Yield Bond	95,911	-	-	95,911
Large Growth	85,420	-	-	85,420
Preferred Stock	74,213	-	-	74,213
Large Value	50,327	-	-	50,327
World Allocation Large	48,784	-	-	48,784
Total exchange traded funds	354,655	-	-	354,655
Total assets	\$ 9,606,875	\$ -	\$ -	\$ 9,606,875
Liabilities:				
Deferred compensation	\$ -	\$ 467,171	\$ -	\$ 467,171
Total liabilities	\$ -	\$ 467,171	\$ -	\$ 467,171

Vietnam Veterans Memorial Fund, Inc.

Notes to Financial Statements

Note 5. Fair Value Measurements (Continued)

The fair value of the deferred compensation liability is based on observable market data, as the underlying assets are comprised of Level 1 investments; however, the liability is not actively traded and as a result, deferred compensation is considered a Level 2 item. The fair value of mutual funds and exchange trade funds is determined based on quoted market prices, when available, or market prices provided by a recognized broker dealer; thus, they are categorized as Level 1.

Note 6. Temporarily Restricted Net Assets

Temporarily restricted net assets include donor-restricted which are only available for specific program activities or supporting services or designated for future years. Temporarily restricted net assets were released from restrictions during the year ended December 31, 2013, due to the expiration of time restrictions or the satisfaction of purpose restrictions.

Changes in temporarily restricted net assets during the year ended December 31, 2013, are as follows:

	Balance December 31, 2012	Additions	Released	Transferred	Investment Income	Balance December 31, 2013
Purpose restricted:						
Education Center	\$ 5,055,659	\$ 5,471,757	\$ (9,778,262)	\$ 3,735,996	\$ 102,333	\$ 4,587,483
Memorial maintenance and additional name:	2,087,629	1,003,788	(116,275)	-	140,455	3,115,597
The Wall That Heals	33,457	173,624	(207,081)	-	-	-
Endowment earnings:						
Humanities program	13,581	-	(13,581)	-	-	-
Education in Chair	44,891	-	-	-	11,066	55,957
Humanities program	-	60,000	(60,000)	-	-	-
Time restricted:						
Time Warner	1,168,717	-	-	(1,168,717)	-	-
Education Center	4,063,898	2,197,214	-	(2,567,279)	-	3,693,833
	<u>\$ 12,467,832</u>	<u>\$ 8,906,383</u>	<u>\$ (10,175,199)</u>	<u>\$ -</u>	<u>\$ 253,854</u>	<u>\$ 11,452,870</u>

Vietnam Veterans Memorial Fund, Inc.

Notes to Financial Statements

Note 7. Permanently Restricted Net Assets

Interpretation of Relevant Law: The Board of Directors of the Fund has interpreted the Washington, D.C. enacted version of the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Fund classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the Fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Fund in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Fund considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the fund
- The purposes of the Fund and the donor-restricted endowment fund
- General economic conditions
- The possible effects of inflation and deflation

Return Objective and Risk Parameters: The Fund's objective is to earn a respectable, long-term, risk-adjusted total rate of return to support the designated programs. We recognize and accept that pursuing a respectable rate of return involves risk and potential volatility. The generation of current income will be a secondary consideration. The Fund targets a diversified asset allocation that places a greater emphasis on equity securities investments to achieve its long-term return objectives within prudent risk constraints. The Fund has established a policy portfolio or normal asset allocation. While the policy portfolio can be adjusted from time to time, it is designed to serve for long-term horizons based upon long-term expected returns. The Fund has a preference for simple investment structures which will have lower cost, easier oversight, and less complexity for internal financial management and auditing.

Spending Policy: The Fund will appropriate for expenditure in its annual budget a maximum of 100% of the earnings. There may be times when the Fund may opt not to take the maximum spending rate but rather to reinvest some of the annual return.

At December 31, 2013, the Fund's permanently restricted net assets consist of \$200,000, the Time Warner Chair in Education.

The following table summarizes the changes in the permanently restricted endowment funds:

	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ 58,472	\$ 200,000	\$ 258,472
Additions			
Investment income	11,066	-	11,066
Amount appropriated for expenditure	(13,581)	-	(13,581)
Endowment net assets, end of year	\$ 55,957	\$ 200,000	\$ 255,957

Vietnam Veterans Memorial Fund, Inc.

Notes to Financial Statements

Note 8. Donated Goods and Services

The Fund uses advertising to educate the general public about the legacy of the Vietnam Veterans Memorial and the project to build the Education Center at the Wall. The production costs of advertising are expensed as incurred. Advertising expense for the year ended December 31, 2013, was \$5,640,653. This is included in public relations expense on the accompanying statement of functional expenses, and \$5,158,940 of that amount is donated advertising.

The fair value of donated goods and services support included in the statement of activities for the year ended December 31, 2013, is as follows:

Advertising – Education Center	\$	3,663,212
Advertising – Memorial Legacy		1,495,728
Legal services – general and administrative		100,015
Equipment rental – The Wall That Heals		23,648
Volunteers – Memorial Legacy		375
Donated goods – Ceremonies		903
	\$	<u>5,283,881</u>

Note 9. Allocation of Joint Costs

The Fund conducts activities that include a request for contributions, as well as a program component, such as information promoting the legacy of the Wall, recognizing and honoring those who served and died, gathering photos and stories to preserve their legacy, bringing healing to their loved ones, or educating the public about the need to build the Education Center. During the year ended December 31, 2013, these activities included a direct mail and a digital media campaign. The costs of conducting those campaigns include a total of \$3,401,819 of joint costs that are not directly attributable to either the program or fundraising component of the activities. Those costs were allocated as follows:

	Direct Mail	Digital Media	Total
Memorial legacy	\$ 1,524,520	\$ 173,393	\$ 1,697,913
Education Center	315,536	10,377	325,913
Fundraising	1,296,741	81,252	1,377,993
Total	<u>\$ 3,136,797</u>	<u>\$ 265,022</u>	<u>\$ 3,401,819</u>

Vietnam Veterans Memorial Fund, Inc.

Notes to Financial Statements

Note 10. Employee Benefits

401(k) Plan: The Fund has a 401(k) profit sharing plan (the Plan) covering all employees. Employees may participate in the plan after completing one month of service; however, employees are not eligible for employer contributions until completion of one full year and 500 hours of service. The Plan provides for safe harbor contributions of 3% of compensation, regardless of employee contribution to the Plan, and a matching contribution equal to 100% of each participant's elective deferrals up to a maximum of 2% of compensation. Additionally, the employer may make a discretionary profit sharing contribution not to exceed 25% of all eligible employees' compensation. Plan participants vest, for purposes of employer contributions, after two years of service. Total employer contributions to the Plan for the year ended December 31, 2013, were \$140,956.

Deferred Compensation Plans: The Fund has two deferred compensation plans in effect. The first is a supplemental executive retirement plan for executives who have been designated by the Board of Directors as eligible to participate. The second is tandem executive deferral plan under IRC Section 457(f) (the Plan) for the President of the Fund. Benefits are determined based on both a fixed amount to be determined annually by the Board and potential additional allocation for an excess benefit amount. Total contributions of \$78,357 were made by the Fund for the year ended December 31, 2013. The Fund will contribute another \$136,072 to the tandem executive deferral plan over a three-year period with a minimum payment of \$45,357 required annually. The contributions to the plans are held in a professionally managed investment account and included in total investments on the balance sheet. The investment gains, net of fees, were \$41,547 during the year ended December 31, 2013, and at December 31, 2013, the deferred compensation investment and liability was \$467,171.

Note 11. Commitments

Office Lease: The Fund has a non-cancelable operating lease agreement for office space, which expires in January 2020. At the beginning of the lease term, the lessor granted the Fund an allowance for leasehold improvements and rent abatement. In addition to base rent, the Fund is responsible for annual increases, as specified in the lease agreement and its proportionate share of increases in operating expenses. Rent expense, included in facility and equipment rental on the accompanying statement of functional expenses for the year ended December 31, 2013, was \$238,271.

Future minimum lease payments due under this lease agreement at December 31, 2013, are as follows:

Years Ending December 31,	
2014	\$ 263,100
2015	269,703
2016	276,439
2017	283,353
2018	290,430
2019 – 2020	373,456
	<u>\$ 1,756,481</u>

The Fund has a one-time right to terminate the lease as of October 4, 2015, with written notice to the landlord 12 months prior to the termination date. Upon termination, the Fund would be subject to a termination fee of approximately \$111,500.

Vietnam Veterans Memorial Fund, Inc.

Notes to Financial Statements

Note 11. Commitments (Continued)

Direct Mail Contract: The Fund engages an outside third party to distribute educational materials to the public, which describes the purpose of the Fund and how the general public can participate in honoring Vietnam Veterans. The educational mailings also provide space for a fundraising appeal. This agreement renews annually and can be terminated upon 60 days written notice by either party. The contract calls for a fixed monthly fee of approximately \$29,000, plus the cost of materials and postage.

Construction Contract: The Fund has a contract for the construction of the Education Center and the development and design of an exhibition program. The commitment in the contract for the design of the exhibition programs is approximately \$5,000,000. The contract is cancellable for any reason with 30 days written notice. Total expenses incurred to date on this contract are \$4,672,652. The Education Center's anticipated completion date is during the year ending December 31, 2016.

Note 12. Memorandum of Conveyance

On November 13, 1984, the Fund and the U.S. Department of the Interior entered into a Memorandum of Conveyance, which governs the conditions under which the Fund conveyed all rights, title, and interest in the Vietnam Veterans Memorial to the U.S. Department of the Interior.

Under the Memorandum of Conveyance, the Fund has the rights and responsibilities of:

- Participating with the National Park Service in ceremonies at the memorial on Memorial Day and Veterans Day.
- From time to time, adding names of those determined by proper process who have died as a result of injuries sustained in the Vietnam War.
- Maintaining residual funds to assist with repairs in the event of catastrophic damage to the memorial, requiring more than ordinary maintenance to restore the memorial to its original completed condition.

The obligation to provide ordinary maintenance and care for the memorial was previously given to the Secretary of the Interior under Section 4 of the Joint Congressional Resolution, authorizing the Fund to establish a memorial.