

Vietnam Veterans Memorial Fund, Inc.

Financial Report
December 31, 2012

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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, 2012, and 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 of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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, 2012, 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 2011 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated May 8, 2012. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2011, is consistent, in all material respects, with the audited financial statements from which it has been derived.

McGladrey LLP

Vienna, Virginia
May 22, 2013

Vietnam Veterans Memorial Fund, Inc.

Balance Sheet

December 31, 2012

(With Comparative Totals For 2011)

Assets	2012	2011
Cash And Cash Equivalents		
Unrestricted	\$ 62,899	\$ 436,521
Designated for Education Center	43,215	1,100,024
Designated for memorial maintenance	2,762	2,090
	<u>108,876</u>	<u>1,538,635</u>
Investments		
Unrestricted	3,938,483	4,439,449
Designated for Education Center	5,355,200	6,539,756
Designated for memorial maintenance	1,301,937	1,285,839
Deferred compensation	347,267	257,661
	<u>10,942,887</u>	<u>12,522,705</u>
Promises To Give, Bequests, And Other Receivables	5,409,925	8,225,291
Prepaid Expenses and Deposits	198,118	112,101
Property And Equipment, net	391,903	403,468
Construction In Progress – Education Center	11,092,855	7,160,649
	<u>17,092,801</u>	<u>15,901,509</u>
	<u>\$ 28,144,564</u>	<u>\$ 29,962,849</u>
Liabilities And Net Assets		
Liabilities		
Accounts payable	\$ 644,980	\$ 741,059
Accrued expenses and other liabilities	787,207	414,893
Deferred revenue	12,500	20,000
Deferred rent	389,510	416,011
Deferred compensation	347,267	257,661
	<u>2,181,464</u>	<u>1,849,624</u>
Commitments And Contingency (Notes 11 and 12)		
Net Assets		
Unrestricted	13,295,268	9,581,211
Temporarily restricted	12,467,832	16,632,014
Permanently restricted	200,000	1,900,000
	<u>25,963,100</u>	<u>28,113,225</u>
	<u>\$ 28,144,564</u>	<u>\$ 29,962,849</u>

See Notes To Financial Statements.

Vietnam Veterans Memorial Fund, Inc.

Statement Of Activities
Year Ended December 31, 2012
(With Comparative Totals For 2011)

	2012			Total	2011 Total
	Unrestricted	Temporarily Restricted	Permanently Restricted		
Support and revenue:					
Contributions	\$ 4,788,129	\$ 1,956,564	\$ -	\$ 6,744,693	\$ 6,708,502
Donated goods and services	9,269,283	110,072	-	9,379,355	3,724,110
Federal grant	138,138	-	-	138,138	629,394
Special events:					
Special event gross receipts	-	297,313	-	297,313	253,460
Cost of direct benefit to donors	-	(120,440)	-	(120,440)	(74,029)
Site fees	94,000	-	-	94,000	119,000
Other	62,107	-	-	62,107	53,884
Investment income (loss), net	726,110	371,092	-	1,097,202	(33,231)
Transfer from permanently restricted	-	1,700,000	(1,700,000)	-	-
Net assets released from restriction	8,478,783	(8,478,783)	-	-	-
Total support and revenue	23,556,550	(4,164,182)	(1,700,000)	17,692,368	11,381,090
Expenses:					
Program services	17,340,570	-	-	17,340,570	9,966,885
Support services	2,501,923	-	-	2,501,923	2,079,132
Total expenses	19,842,493	-	-	19,842,493	12,046,017
Change in net assets	3,714,057	(4,164,182)	(1,700,000)	(2,150,125)	(664,927)
Net assets:					
Beginning	9,581,211	16,632,014	1,900,000	28,113,225	28,778,152
Ending	\$ 13,295,268	\$ 12,467,832	\$ 200,000	\$ 25,963,100	\$ 28,113,225

See Notes To Financial Statements.

Vietnam Veterans Memorial Fund, Inc.

Statement Of Functional Expenses
 Year Ended December 31, 2012
 (With Comparative Totals For 2011)

	2012													2011 Total	
	Program Services							Support Services					Total Support Service		Total
	Memorial Maintenance	Ceremonies And Events	The Wall That Heals	Memorial Legacy	Education Programs	Education Center	Project RENEW	Total Program	Fundraising	General And Administrative	Indirect Costs				
Public relations	\$ -	\$ 667	\$ -	\$ 79,481	\$ -	\$ 11,871,791	\$ -	\$ 11,951,939	\$ -	\$ 3,302	\$ 13,317	\$ 16,619	\$ 11,968,558	\$ 4,030,432	
Direct mail expenses	-	-	-	1,665,945	-	148,205	-	1,814,150	1,562,255	-	-	1,562,255	3,376,405	3,358,632	
Salaries and benefits	30,309	137,919	159,641	143,824	76,351	413,970	11,776	973,790	102,055	20,953	672,384	795,392	1,769,182	1,574,500	
Consulting	4,250	38,573	4,550	12,947	4,859	184,581	11,367	261,127	122,116	-	8,695	130,811	391,938	568,968	
Professional fees	-	-	34	35,952	-	19,316	-	55,302	12,421	49,361	246,441	308,223	363,525	364,894	
Communication campaigns	-	-	-	62,700	-	100,647	-	163,347	162,496	-	-	162,496	325,843	166,160	
Special events	-	108,817	-	3,908	-	122,510	-	235,235	144,818	-	-	144,818	380,053	133,310	
Facility and equipment rental	-	-	23,648	771	2,765	250	53,048	80,482	-	5,397	242,505	247,902	328,384	371,272	
Depreciation and amortization	-	1,046	31,703	-	-	-	-	32,749	-	-	95,498	95,498	128,247	119,099	
Caging	-	-	-	-	-	-	-	-	124,461	-	-	124,461	124,461	183,879	
Travel and lodging	654	16,825	16,162	15,939	8	48,046	2,116	99,750	1,331	3,212	1,766	6,309	106,059	162,470	
Memorial maintenance, name additions	99,146	-	-	-	-	-	-	99,146	-	-	-	-	99,146	97,299	
Printing and postage	-	36,299	1,658	12,480	81	13,443	-	63,961	5,072	1,815	20,295	27,182	91,143	147,797	
Website	-	8,959	847	52,204	249	10,507	-	72,766	9,493	6,986	-	16,479	89,245	152,647	
Photos and video	-	50,713	-	2,225	-	24,865	-	77,803	7,498	-	814	8,312	86,115	66,335	
Insurance	-	-	5,250	-	-	-	-	5,250	-	17,795	29,107	46,902	52,152	38,983	
Vietnam program	-	-	-	-	-	-	48,585	48,585	-	-	-	-	48,585	309,703	
Supplies	-	-	3,553	6,778	144	953	-	11,428	-	233	26,416	26,649	38,077	33,366	
Meals and entertainment	7	15,126	6,013	1,601	21	3,459	-	26,227	100	1,732	4,142	5,974	32,201	30,953	
Other	-	12,924	37	641	-	984	-	14,586	2,058	435	13,497	15,990	30,576	68,494	
Bank charges	-	-	-	-	-	7,454	-	7,454	-	-	17,019	17,019	24,473	16,316	
Telephone	-	-	734	-	-	3,811	-	4,545	-	-	14,306	14,306	18,851	20,473	
Taxes, licenses, filings	-	-	-	-	-	-	-	-	-	17,205	-	17,205	17,205	13,888	
Gasoline	-	-	15,449	-	-	-	-	15,449	-	1,002	-	1,002	16,451	23,281	
Service provider fees	-	-	-	-	-	-	-	-	-	-	14,143	14,143	14,143	12,749	
Capitalized costs for education center	-	-	-	-	-	-	-	-	-	-	(86,535)	(86,535)	(86,535)	(29,912)	
Repairs and maintenance	-	-	4,191	-	-	-	-	4,191	-	1,125	2,694	3,819	8,010	10,029	
	134,366	427,868	273,470	2,097,396	84,478	12,974,792	126,892	16,119,262	2,256,174	130,553	1,336,504	3,723,231	19,842,493	12,046,017	
Indirect expense allocation	13,595	194,800	209,454	232,952	89,022	463,319	18,166	1,221,308	105,283	9,913	(1,336,504)	(1,221,308)	-	-	
Total expenses	\$ 147,961	\$ 622,668	\$ 482,924	\$ 2,330,348	\$ 173,500	\$ 13,438,111	\$ 145,058	\$ 17,340,570	\$ 2,361,457	\$ 140,466	\$ -	\$ 2,501,923	\$ 19,842,493	\$ 12,046,017	

See Notes To Financial Statements.

Vietnam Veterans Memorial Fund, Inc.

Statement Of Cash Flows
Year Ended December 31, 2012
(With Comparative Totals For 2011)

	2012	2011
Cash Flows From Operating Activities		
Change in net assets	\$ (2,150,125)	\$ (664,927)
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:		
Depreciation and amortization	128,247	119,099
Loss on disposals of property and equipment	-	22,379
Unrealized and realized (gain) loss on investments, net	(768,072)	434,860
Decrease in present value discount	362,869	319,522
Deferred rent	(26,501)	18,367
Change in assets and liabilities:		
Decrease (increase) in:		
Promises to give, bequests and other receivables	892,049	1,272,461
Prepaid expenses and deposits	(86,017)	17,665
(Decrease) increase in:		
Accounts payable	(659,968)	(305,453)
Accrued expenses and other liabilities	372,314	(57,366)
Deferred revenue	(7,500)	9,500
Net cash (used in) provided by operating activities	(1,942,704)	3,532,107
Cash Flows From Investing Activities		
Proceeds from sales of investments	3,025,965	8,030,554
Purchase of investments	(588,469)	(10,949,594)
Purchases of property and equipment	(116,682)	(3,257)
Construction in progress – Education Center	(3,368,317)	(2,430,803)
Net cash used in investing activities	(1,047,503)	(5,353,100)
Cash Flows From Financing Activities		
Contributions restricted to buliding	1,560,448	2,346,000
Net cash provided by financing activities	1,560,448	2,346,000
Net decrease in cash and cash equivalents	(1,429,759)	(1,820,993)
Cash And Cash Equivalents		
Beginning	1,538,635	3,359,628
Ending	\$ 108,876	\$ 1,538,635
Supplemental Schedule Of Noncash Investing Activities		
Construction in process included in accounts payable	\$ 563,889	\$ 172,135

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 13, 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; a traveling half scale replica and museum; and a mine action program operating in Vietnam.

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 and money market funds held in investment 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. 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. As of December 31, 2012, 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 considers all promises to give to be collectible and therefore no allowance for doubtful accounts at December 31, 2012.

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 lease term of 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, 2012.

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. Federal grants received in advance for program support are recorded as a liability when received. Federal grant income is recognized when funds are used for allowable expenses. Other grants which may be used at the Fund's discretion to support any of its programs or supporting activities are recorded as unrestricted support. 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.

National 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)

Project RENEW – costs incurred to promote healing from the effects of the Vietnam War through Project RENEW, a humanitarian program designed to reduce the threat of landmines and unexploded ordnance in Vietnam. The project focuses on the removal of unexploded ordnance, and mine awareness in Quang Tri and Quang Binh Provinces, the most heavily bombed and shelled areas of Vietnam. This program ended in May 2012.

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.

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. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Donated services: The Fund receives contributions of services 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. Donated services to be received in future years are reflected as temporarily restricted revenue.

Donated assets: Donated assets 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, 2012.

The accounting standard on accounting for uncertainty in income taxes addresses the determination of whether tax benefits claimed or expected to be claimed on a tax return should be recorded in the financial statements. Under this guidance, the Fund may recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by taxing authorities, based on the technical merits of the position. The tax benefits recognized in the financial statements from such a position are measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement. The guidance on accounting for uncertainty in income taxes also addresses de-recognition, classification, interest and penalties on income taxes, and accounting in interim periods. 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 to comply with the provisions of this guidance. Generally, the Fund is no longer subject to income tax examinations by the U.S. federal, state or local tax authorities for years before 2009.

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.

Vietnam Veterans Memorial Fund, Inc.

Notes To Financial Statements

Note 1. Nature Of Activities And Significant Accounting Policies (Continued)

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, 2011.

Reclassifications: Certain amounts in the 2011 financial statements have been reclassified to conform to the 2012 financial statements, with no effect on previously reported change in net assets.

Subsequent events: The Fund evaluated subsequent events through May 22, 2013, which is the date the financial statements were available to be issued.

Note 2. Investments

Investments at December 31, 2012, consist of the following:

Mutual funds	\$ 10,550,223
Mutual funds – deferred compensation	347,267
Alternatives	45,397
	<u>\$ 10,942,887</u>

Investment loss for the year ended December 31, 2012, consists of the following:

Unrealized and realized loss on investments, net	\$ 768,072
Interest and dividends	400,787
Investment fees	(71,657)
	<u>\$ 1,097,202</u>

Note 3. Promises To Give, Bequests, And Other Receivables

Promises to give and other at December 31, 2012, consist of the following:

Promises to give	\$ 5,232,615
Bequests	151,431
Site fees, dividends, and other	25,879
	<u>\$ 5,409,925</u>

Promises to give in one year or more are measured using the present value of future cash flows. Promises to give made during 2011 and 2012 are discounted based on a rate of 2.00%. 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, 2012, consist of the following:

Promises to give in less than one year	\$ 3,883,217
Promises to give in one to five years	1,509,155
Total promises to give	5,392,372
Less discount to net present value	159,757
Net promises to give	\$ 5,232,615

Note 4. Property And Equipment

Property and equipment and accumulated depreciation at December 31, 2012, and depreciation expense for the year ended December 31, 2012, are as follows:

Asset Category	Estimated Useful Lives	Cost	Accumulated Depreciation	Net	Depreciation
Trailer exhibit	10 years	\$ 395,328	\$ 297,607	\$ 97,721	\$ 16,995
Traveling wall	3 to 10 years	140,806	101,356	39,450	14,708
Leasehold improvements	6 years	278,420	150,810	127,610	46,403
Furniture and equipment	3 to 7 years	216,168	170,609	45,559	18,786
Website	3 years	116,295	34,732	81,563	23,021
TV World Wide Web	3 years	43,000	43,000	-	8,334
		\$ 1,190,017	\$ 798,114	\$ 391,903	\$ 128,247

Note 5. Fair Value Measurements

The *Fair Value Measurements and Disclosures* Topic of the FASB ASC establishes a single authoritative definition of fair value, sets out a framework for measuring fair value, and requires additional disclosures about fair value measurements. This topic applies to all assets and liabilities that are being measured and reported on a fair value basis. The topic requires disclosure that establishes a framework for measuring fair value in GAAP and expands disclosure about fair value measurements. It enables the reader of the financial statements to assess the inputs 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 corroborated by market data
- Level 3 – Unobservable inputs that are not corroborated by market data

In determining the appropriate levels, the Fund performs a detailed analysis of the assets and liabilities that are subject to the standard. 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.

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:				
Equities:				
World stock large growth	\$ 553,762	\$ -	\$ -	\$ 553,762
Market neutral	521,602	-	-	521,602
Small cap growth	209,928	-	-	209,928
Large growth	114,174	-	-	114,174
Foreign large growth	97,239	-	-	97,239
Large value	91,080	-	-	91,080
Diversified emerging markets	62,111	-	-	62,111
Real estate	60,644	-	-	60,644
Equity precious metals	47,271	-	-	47,271
Mid-cap value	45,505	-	-	45,505
Mid-cap growth	43,896	-	-	43,896
Other	97,944	-	-	97,944
Total equities	1,945,156	-	-	1,945,156
Fixed income:				
World allocation	2,305,248	-	-	2,305,248
Short-term bond	1,387,012	-	-	1,387,012
Multisector bond	1,166,831	-	-	1,166,831
World bond	926,119	-	-	926,119
Nontraditional bond	622,801	-	-	622,801
Conservative allocation	554,229	-	-	554,229
Bank loan	506,486	-	-	506,486
Intermediate-term bond	485,257	-	-	485,257
Inflation protected bond	253,747	-	-	253,747
Long-term bond	110,282	-	-	110,282
Other	77,835	-	-	77,835
Total fixed income	8,395,847	-	-	8,395,847
Blended (fixed, equities, and short term):				
Mid-cap blend	224,536	-	-	224,536
Large blend	206,041	-	-	206,041
Foreign large blend	80,308	-	-	80,308
Small blend	45,602	-	-	45,602
Total blended	556,487	-	-	556,487
Total mutual funds	10,897,490	-	-	10,897,490
Alternative Investments				
Private equity commodities – agriculture	-	-	45,397	45,397
Total assets	\$ 10,897,490	\$ -	\$ 45,397	\$ 10,942,887
Liabilities:				
Deferred compensation	\$ -	\$ 347,267	\$ -	\$ 347,267
Total liabilities	\$ -	\$ 347,267	\$ -	\$ 347,267

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 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. The alternative investments are considered Level 3 because they are not actively traded and do not have observable inputs that are corroborated by market data. There were no transfers between levels for the investments.

A summary of the activity for the alternative investments for the year ended December 31, 2012, is as follows:

Alternative investments:	
Beginning	\$ 39,151
Purchases	5,823
Unrealized gain	423
Ending	<u>\$ 45,397</u>

The gain is included in unrealized and realized gain on investments, net on the statement of activities.

Note 6. Temporarily Restricted Net Assets

Temporarily restricted net assets include donor-restricted and other funds, which are only available for program activities, or supporting services designated for future years. Temporarily restricted net assets were released from restrictions during the year ended December 31, 2012, due to the expiration of time restrictions or the satisfaction of purpose restrictions.

Temporarily restricted net assets at December 31, 2012, are available for the following programs:

	Balance December 31, 2011	Additions	Released	Transferred	Investment Income	Balance December 31, 2012
Purpose restricted:						
Education Center	\$ 6,458,539	\$ 754,943	\$ (8,161,011)	\$ 5,853,795	\$ 149,393	\$ 5,055,659
Memorial maintenance and additional names	2,042,851	3,795	(147,961)	-	188,944	2,087,629
The Wall that Heals	-	50,000	(16,543)	-	-	33,457
Endowment earnings:						
Humanities program	153,268	-	(153,268)	-	13,581	13,581
Education in Chair	25,717	-	-	-	19,174	44,891
Time restricted:						
Time Warner	3,553,745	110,072	-	(2,495,100)	-	1,168,717
Education Center	4,397,894	1,324,699	-	(1,658,695)	-	4,063,898
	<u>\$ 16,632,014</u>	<u>\$ 2,243,509</u>	<u>\$ (8,478,783)</u>	<u>\$ 1,700,000</u>	<u>\$ 371,092</u>	<u>\$ 12,467,832</u>

Vietnam Veterans Memorial Fund, Inc.

Notes To Financial Statements

Note 7. Permanently Restricted Net Assets

At December 31, 2011, the Fund's permanently restricted endowment held \$1,900,000, contributed by three donors. During the year ended December 31, 2012, the Fund sought and obtained approval from two of the original donors to modify the nature of the restriction placed on the value of the original gift. The donor modifications allow the Fund to release the value of the original gifts from permanently restricted to temporarily restricted. Consequently \$1,700,000 was released during the year ended December 31, 2012. At December 31, 2012, the Fund's remaining 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	\$ 178,985	\$ 1,900,000	\$ 2,078,985
Investment return:			
Investment income, net of fees	9,826	-	9,826
Net realized and unrealized gain	22,929	-	22,929
Total investment return	32,755	-	32,755
Release of restriction to temporarily restricted	-	(1,700,000)	(1,700,000)
Amount appropriated for expenditure	(153,268)	-	(153,268)
Endowment net assets, end of year	\$ 58,472	\$ 200,000	\$ 258,472

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 (DCMIFA) 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 DCMIFA. In accordance with DCMIFA, 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

Vietnam Veterans Memorial Fund, Inc.

Notes To Financial Statements

Note 7. Permanently Restricted Net Assets (Continued)

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.

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, 2012, was \$11,747,895. This is included in public relations expense on the accompanying statement of functional expenses, and \$11,704,402 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, 2012, is as follows:

Advertising – Education Center	\$	9,319,374
Legal services – general and administrative		30,274
Equipment rental – The Wall That Heals		23,648
Donated goods – Ceremonies		6,059
	\$	<u>9,379,355</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, 2012, these activities included a direct mail and a digital media campaign. The costs of conducting those campaigns include a total of \$3,373,611 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	\$ 1,665,945	\$ 62,700	\$ 1,728,645
Education Center	148,205	100,647	248,852
Fundraising	1,306,195	89,919	1,396,114
Total	<u>\$ 3,120,345</u>	<u>\$ 253,266</u>	<u>\$ 3,373,611</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, 2012, were \$98,593.

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 \$69,837 were made by the Fund for the year ended December 31, 2012. The Fund will contribute another \$181,429 to the tandem executive deferral plan over a four-year period with a minimum payment of \$45,357 required annually. The contributions to the plans are held in a professionally managed investment accounts and included in total investments on the balance sheet. The investment gains, net of fees, were \$36,270 during the year ended December 31, 2012, and at December 31, 2012, the deferred compensation investment and liability was \$347,267.

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, 2012, was \$234,868.

Future minimum lease payments due under this lease agreement at December 31, 2012, are as follows:

Years Ending December 31,	
2013	\$ 256,704
2014	263,100
2015	269,703
2016	276,439
2017	283,353
2018 – 2020	663,885
	<u>\$ 2,013,184</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 \$111,461.

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 \$27,000, 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. These costs will be payable throughout the construction period, which has not commenced as of December 31, 2012. The Education Center's anticipated completion date is during the year ending December 31, 2016.

Note 12. Contingency

The Fund participates in a federally-assisted grant program, which is subject to a financial and compliance audit by the federal agency or their representatives. As such, there exists a contingent liability for potential questioned costs that may result from such an audit. Management does not anticipate any significant adjustments as a result of such an audit.

Note 13. 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.