

# **Vietnam Veterans Memorial Fund, Inc.**

Financial Report  
September 30, 2015

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RSM US LLP

## **Independent Auditor's Report**

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

### **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 September 30, 2015, 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 the Fund as of September 30, 2015, 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.

*RSM US LLP*

McLean, Virginia  
April 13, 2016

**Vietnam Veterans Memorial Fund, Inc.**

**Balance Sheet  
September 30, 2015**

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**Assets**

Cash and cash equivalents:

Unrestricted	\$ 263,366
Restricted for Education Center	438,868
Restricted for memorial maintenance	302,610
	<u>1,004,844</u>

Investments:

Unrestricted	1,890,989
Restricted for Education Center	3,680,307
Restricted for memorial maintenance	2,521,100
Deferred compensation	554,992
	<u>8,647,388</u>

Promises to give and other receivables, net	3,406,801
Prepaid expenses, deposits and other	302,523
Property and equipment, net	157,540
Construction in progress – Education Center	13,964,519
	<u>17,831,383</u>
	<u>\$ 27,483,615</u>

**Liabilities and Net Assets**

Liabilities:

Accounts payable	\$ 604,262
Accrued expenses and other liabilities	232,146
Deferred revenue	169,025
Deferred compensation	554,992
	<u>1,560,425</u>

Commitments (Note 11)

Net assets:

Unrestricted	15,430,399
Temporarily restricted	10,292,791
Permanently restricted	200,000
	<u>25,923,190</u>
	<u>\$ 27,483,615</u>

See notes to financial statements.

Vietnam Veterans Memorial Fund, Inc.

Statement of Activities  
Year Ended September 30, 2015

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Support and revenue:				
Contributions	\$ 6,255,898	\$ 1,739,806	\$ -	\$ 7,995,704
Donated goods and services	1,191,814	-	-	1,191,814
Site fees	156,900	-	-	156,900
Special events:				
Special event gross receipts	-	266,570	-	266,570
Cost of direct benefit to donors	-	(138,610)	-	(138,610)
Investment loss, net	(156,828)	(205,360)	-	(362,188)
Other support and revenue	108,060	-	-	108,060
Other gains (losses) (Notes 1 and 11)	291,819	(92,000)	-	199,819
Net assets released from restriction	1,028,997	(1,028,997)	-	-
<b>Total support and revenue</b>	<b>8,876,660</b>	<b>541,409</b>	<b>-</b>	<b>9,418,069</b>
Expenses:				
Program services:				
Memorial legacy	2,105,965	-	-	2,105,965
Education center	1,410,979	-	-	1,410,979
Ceremonies and events	252,283	-	-	252,283
The Wall That Heals	557,767	-	-	557,767
Education programs	143,728	-	-	143,728
Memorial maintenance	199,170	-	-	199,170
	<b>4,669,892</b>	<b>-</b>	<b>-</b>	<b>4,669,892</b>
Support services:				
Fundraising	2,411,244	-	-	2,411,244
Indirect costs	1,610,385	-	-	1,610,385
General and administrative	239,336	-	-	239,336
	<b>4,260,965</b>	<b>-</b>	<b>-</b>	<b>4,260,965</b>
<b>Total expenses</b>	<b>8,930,857</b>	<b>-</b>	<b>-</b>	<b>8,930,857</b>
<b>Change in net assets</b>	<b>(54,197)</b>	<b>541,409</b>	<b>-</b>	<b>487,212</b>
Net assets:				
Beginning	15,484,596	9,751,382	200,000	25,435,978
Ending	<b>\$ 15,430,399</b>	<b>\$ 10,292,791</b>	<b>\$ 200,000</b>	<b>\$ 25,923,190</b>

See notes to financial statements.

**Vietnam Veterans Memorial Fund, Inc.**

**Statement of Functional Expenses  
Year Ended September 30, 2015**

	Program Services						Support Services					Total
	Memorial Legacy	Education Center	Ceremonies and Events	The Wall That Heals	Education Programs	Memorial Maintenance	Total Program Services	Fundraising	General and Administrative	Indirect Costs	Total Support Services	
Direct mail and digital media	\$ 1,526,700	\$ 169,200	\$ -	\$ -	\$ -	\$ -	\$ 1,695,900	\$ 1,769,433	\$ -	\$ -	\$ 1,769,433	\$ 3,465,333
Salaries and benefits	254,077	360,171	161,382	213,191	125,354	46,496	1,160,671	351,514	95,208	794,243	1,240,965	2,401,636
Public relations	111,134	828,227	-	63,900	-	-	1,003,261	-	-	19,497	19,497	1,022,758
Consulting	127,835	17,450	569	4,400	12,250	17,919	180,423	3,717	52,242	101,473	157,432	337,855
Facility and equipment rental	1,599	1,910	-	65,056	96	-	68,661	-	-	248,735	248,735	317,396
Professional fees	265	19,293	2,200	8,226	-	2,168	32,152	5,927	5,175	234,194	245,296	277,448
Travel and lodging	20,470	8,548	7,526	102,893	1,810	-	141,247	24,213	2,957	15,076	42,246	183,493
Depreciation and amortization	-	-	854	27,895	-	-	28,749	-	-	122,214	122,214	150,963
Special events	4,500	-	31,727	-	-	-	36,227	90,788	-	-	90,788	127,015
Other	-	108	2,826	1,014	100	47,575	51,623	392	44,062	8,491	52,945	104,568
Caging	-	-	-	-	424	-	424	108,952	-	-	108,952	109,376
Name additions	-	-	-	-	-	84,889	84,889	-	-	-	-	84,889
Website	50,156	1,703	1,586	1,073	145	123	54,786	3,911	6,151	-	10,062	64,848
Printing and postage	5,232	1,350	24,347	5,038	1,087	-	37,054	4,627	88	20,258	24,973	62,027
Bank charges	-	-	-	-	-	-	-	-	-	61,664	61,664	61,664
Insurance	-	-	-	2,790	-	-	2,790	-	16,272	32,311	48,583	51,373
Photos and video	550	-	19,068	20,499	-	-	40,117	-	1,000	80	1,080	41,197
Communication campaigns	-	-	-	-	-	-	-	40,630	-	-	40,630	40,630
Supplies	1,086	922	-	13,648	1,857	-	17,513	3,186	-	19,697	22,883	40,396
Telephone	-	1,315	-	1,092	-	-	2,407	-	-	24,502	24,502	26,909
Meals and entertainment	2,361	782	198	9,324	605	-	13,270	3,954	941	6,988	11,883	25,153
Service provider fees	-	-	-	-	-	-	-	-	-	17,829	17,829	17,829
Repairs and maintenance	-	-	-	15,143	-	-	15,143	-	-	1,056	1,056	16,199
Taxes, licenses and filings	-	-	-	-	-	-	-	-	15,240	-	15,240	15,240
Gasoline	-	-	-	2,585	-	-	2,585	-	-	-	-	2,585
Capitalized costs for Education Center	-	-	-	-	-	-	-	-	-	(117,923)	(117,923)	(117,923)
	<u>2,105,965</u>	<u>1,410,979</u>	<u>252,283</u>	<u>557,767</u>	<u>143,728</u>	<u>199,170</u>	<u>4,669,892</u>	<u>2,411,244</u>	<u>239,336</u>	<u>1,610,385</u>	<u>4,260,965</u>	<u>8,930,857</u>
Indirect expense allocation	403,402	217,392	197,751	246,545	159,135	36,013	1,260,238	253,043	97,104	(1,610,385)	(1,260,238)	-
<b>Total expenses</b>	<u>\$ 2,509,367</u>	<u>\$ 1,628,371</u>	<u>\$ 450,034</u>	<u>\$ 804,312</u>	<u>\$ 302,863</u>	<u>\$ 235,183</u>	<u>\$ 5,930,130</u>	<u>\$ 2,664,287</u>	<u>\$ 336,440</u>	<u>\$ -</u>	<u>\$ 3,000,727</u>	<u>\$ 8,930,857</u>

See notes to financial statements.

**Vietnam Veterans Memorial Fund, Inc.**

**Statement of Cash Flows**  
**Year Ended September 30, 2015**

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Cash flows from operating activities:	
Change in net assets	\$ 487,212
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation and amortization	150,963
Loss on change in provision for doubtful promises to give	92,000
Loss on disposal of property and equipment	1,914
Loss on sale of donated property	36,795
Unrealized and realized loss on investments, net	658,444
Increase in present value discount	23,404
Deferred rent	(328,635)
Change in assets and liabilities:	
(Decrease) increase in:	
Promises to give and other receivables	(210,942)
Prepaid expenses, deposits and other	31,990
Increase (decrease) in:	
Accounts payable	107,157
Accrued expenses and other liabilities	(232,036)
Deferred revenue	27,680
Deferred compensation	48,261
<b>Net cash provided by operating activities</b>	<u>894,207</u>
Cash flows from investing activities:	
Proceeds from sales of investments	1,330,935
Purchase of investments	(1,506,706)
Purchases of property and equipment	(19,962)
Construction in progress – Education Center	(386,389)
<b>Net cash used in investing activities</b>	<u>(582,122)</u>
<b>Net increase in cash and cash equivalents</b>	312,085
Cash and cash equivalents:	
Beginning	<u>692,759</u>
Ending	<u>\$ 1,004,844</u>
Supplemental schedule of noncash investing activities:	
Construction in process included in accounts payable	<u>\$ 81,871</u>

See notes to financial statements.



## Vietnam Veterans Memorial Fund, Inc.

### Notes to Financial Statements

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#### Note 1. Nature of Activities and Significant Accounting Policies

**Nature of activities:** Vietnam Veterans Memorial Fund, Inc. (the Fund) is a nonprofit 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 unconditional support is recognized when notification of the contribution is received, 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 purposes of reporting cash flows, the Fund considers cash equivalents to be all highly-liquid investments with maturities of three months or less when purchased, other than those held as part of the Fund's long-term investments.

**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 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. 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.

## Vietnam Veterans Memorial Fund, Inc.

### Notes to Financial Statements

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

**Receivables:** Receivables, including unconditional promises to give, are carried at original invoice or promise amounts less an estimate for doubtful receivables based on a 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 September 30, 2015, management has determined that all receivables are considered fully collectible. The loss on the provision for doubtful accounts for the year ended September 30, 2015 was \$92,000 and is included in other gains (losses) in the statement of activities.

**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.

**Construction in progress – Education Center:** The Fund is in the process of designing an Education Center which will be located on the National Mall adjacent to the Vietnam Veterans Memorial. Direct and indirect costs associated with the architectural and pre-construction services, curator services, and layout and exhibit design 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 September 30, 2015.

**Support and revenue:** Unconditional promises to give are recognized as contributions in the period acknowledged. Conditional promises to give are recognized when the conditions on which they depend are substantially met. Contributions received are recorded as unrestricted, temporarily restricted or permanently restricted support, depending on the existence and/or nature of any donor restrictions. If a restriction is fulfilled in the same time period in which the contribution is received, the fund reports the support as unrestricted. 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.

Special event fees are recognized at the time of the event. Amounts received in advance of the event are recorded as deferred 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

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

**Classification of expenses:** The Fund categorizes expenses as follows:

**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 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.

**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 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.

**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.

**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.

## Vietnam Veterans Memorial Fund, Inc.

### Notes to Financial Statements

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#### 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 September 30, 2015, \$1,260,238 of indirect costs was allocated to program services and \$350,147 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 September 30, 2015.

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 2012.

**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.

**Recent accounting pronouncement:** In February 2016, the FASB issued Accounting Standards Update (ASU) 2016-02, *Leases (Topic 842)*. The guidance in this ASU supersedes the leasing guidance in Topic 840, *Leases*. Under the new guidance, lessees are required to recognize lease assets and lease liabilities on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. The new standard is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. A modified retrospective transition approach is required for lessees for capital and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, with certain practical expedients available. The Fund is currently evaluating the impact of the pending adoption of the new standard on the financial statements.

**Subsequent events:** The Fund evaluated subsequent events through April 13, 2016, which is the date the financial statements were available to be issued.

**Vietnam Veterans Memorial Fund, Inc.**

**Notes to Financial Statements**

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**Note 2. Investments**

Investments at September 30, 2015, consist of the following:

Mutual funds	\$ 7,800,599
Mutual funds – deferred compensation	554,992
Cash	291,797
	<u>\$ 8,647,388</u>

Investment loss for the year ended September 30, 2015, consists of the following:

Unrealized and realized loss on investments, net	\$ (658,444)
Interest and dividends	369,112
Investment fees	(72,856)
	<u>\$ (362,188)</u>

**Note 3. Promises to Give and Other Receivables**

Promises to give and other receivables at September 30, 2015, consist of the following:

Promises to give	\$ 3,390,182
Site fees and other	16,619
	<u>\$ 3,406,801</u>

Promises to give in one year or more are measured using the present value of future cash flows. Promises to give made during 2012 through 2015 are discounted based on a rate of 2 percent. Promises to give made prior to 2011 are discounted based on a rate of approximately 4.49 percent.

Unconditional promises to give at September 30, 2015, consist of the following:

Promises to give in less than one year	\$ 2,180,361
Promises to give in one to five years	1,253,000
Promises to give in six years	100,000
Total promises to give	<u>3,533,361</u>
Less discount to net present value	143,179
Net promises to give	<u>\$ 3,390,182</u>

## Vietnam Veterans Memorial Fund, Inc.

### Notes to Financial Statements

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#### Note 4. Property and Equipment

Property and equipment and accumulated depreciation at September 30, 2015, and depreciation expense for the year ended September 30, 2015, are as follows:

Asset Category	Estimated Useful Lives	Cost	Accumulated Depreciation	Net	Depreciation and Amortization
Trailer exhibit	10 years	\$ 404,603	\$ 347,766	\$ 56,837	\$ 18,320
TV world wide web	5 years	107,478	80,609	26,869	35,826
Website	3 years	107,206	93,962	13,244	23,250
Furniture and equipment	3 years	94,276	45,387	48,889	17,588
Traveling wall	3-10 years	86,953	75,252	11,701	9,575
Leasehold improvements	6 years	-	-	-	46,404
		800,516	642,976	157,540	150,963
Construction in progress – Education Center	N/A	13,964,519	-	13,964,519	-
		<u>\$ 14,765,035</u>	<u>\$ 642,976</u>	<u>\$ 14,122,059</u>	<u>\$ 150,963</u>

#### 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 and 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 generally accepted accounting principles in the United States 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. Assets and liabilities carried at fair value are 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 or liabilities held by the Fund at September 30, 2015.

**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
<b>Assets:</b>				
Mutual funds:				
Fixed income:				
High yield bond	\$ 1,225,556	\$ -	\$ -	\$ 1,225,556
Bank loan (fixed income)	392,832	-	-	392,832
Short government	333,118	-	-	333,118
Preferred stock	92,910	-	-	92,910
Short-term bond	89,486	-	-	89,486
Intermediate-term bond	58,844	-	-	58,844
Convertibles	57,331	-	-	57,331
Total fixed income	2,250,077	-	-	2,250,077
Equities:				
Large blend	1,281,558	-	-	1,281,558
Mid cap growth	524,579	-	-	524,579
Mid cap blend	245,677	-	-	245,677
Large growth	174,997	-	-	174,997
Foreign large blend	139,629	-	-	139,629
Large value	119,743	-	-	119,743
World stock (large)	87,165	-	-	87,165
Diversified emerging markets (large)	84,181	-	-	84,181
Real estate	72,765	-	-	72,765
Small value	70,190	-	-	70,190
Small growth	63,150	-	-	63,150
Utilites (large value)	38,123	-	-	38,123
Foreign large growth	28,998	-	-	28,998
Total equities	2,930,755	-	-	2,930,755
Other:				
Market neutral	492,229	-	-	492,229
Tactical allocation	128,297	-	-	128,297
Long/short equity (large)	54,985	-	-	54,985
World allocation (large)	2,264,223	-	-	2,264,223
Tactical allocation (large)	208,432	-	-	208,432
Foreign large blend	26,593	-	-	26,593
Total other	3,174,759	-	-	3,174,759
Total investments	\$ 8,355,591	\$ -	\$ -	\$ 8,355,591
Liabilities:				
Deferred compensation	\$ -	\$ 554,992	\$ -	\$ 554,992
Total liabilities	\$ -	\$ 554,992	\$ -	\$ 554,992

## Vietnam Veterans Memorial Fund, Inc.

### Notes to Financial Statements

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#### Note 5. Fair Value Measurements (Continued)

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 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.

#### Note 6. Temporarily Restricted Net Assets

Changes in temporarily restricted net assets during the year ended September 30, 2015, are as follows:

	Balance September 30, 2014	Additions	Released	Transferred	Investment Loss	Balance September 30, 2015
Purpose restricted:						
Education Center	\$ 3,452,971	\$ 119,396	\$ (732,515)	\$ 1,441,144	\$ (79,853)	\$ 4,201,143
Memorial maintenance and additional names	3,041,984	10	(223,039)	-	(117,489)	2,701,466
Endowment earnings:						
Education in Chair	60,057	-	(52,039)	-	(8,018)	-
Time restricted:						
Ceremonies and events	-	25,000	-	-	-	25,000
Education Center	3,196,370	1,723,360	(113,404)	(1,441,144)	-	3,365,182
	<u>\$ 9,751,382</u>	<u>\$ 1,867,766</u>	<u>\$ (1,120,997)</u>	<u>\$ -</u>	<u>\$ (205,360)</u>	<u>\$ 10,292,791</u>

#### Note 7. Permanently Restricted Net Assets

**Interpretation of relevant law:** The Board of Directors of the Fund has interpreted the 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



## Vietnam Veterans Memorial Fund, Inc.

### Notes to Financial Statements

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#### 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 and 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 percent 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 September 30, 2015, 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 and temporarily restricted endowment funds during the year ended September 30, 2015:

	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ 60,057	\$ 200,000	\$ 260,057
Investment loss	(8,018)	-	(8,018)
Appropriated for expenditure	(52,039)	-	(52,039)
Endowment net assets, end of year	\$ -	\$ 200,000	\$ 200,000

#### 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 September 30, 2015, was \$1,022,758. This is included in public relations expense on the accompanying statement of functional expenses, and \$924,010 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 September 30, 2015, is as follows:

Advertising – Education Center	\$ 821,874
Advertising – Memorial legacy	102,136
Consulting services – general and administrative	101,473
Equipment rental – The Wall That Heals	63,135
Media – The Wall That Heals	60,682
Legal services – general and administrative	34,074
Other	8,440
	<u>\$ 1,191,814</u>

## Vietnam Veterans Memorial Fund, Inc.

### Notes to Financial Statements

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#### 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 September 30, 2015, these activities included a direct mail and a digital media campaign. The costs of conducting those campaigns include a total of \$3,571,686 of joint costs that are not directly attributable to either the program or fundraising component of the activities. Those costs are included on the statement of functional expenses in direct mail and digital media, caging and communication campaigns expenses, and were allocated as follows:

	Direct Mail	Digital Media	Total
Memorial legacy	\$ 1,433,277	\$ 58,195	\$ 1,491,472
Education Center	164,142	5,058	169,200
Fundraising	1,870,384	40,630	1,911,014
	<u>\$ 3,467,803</u>	<u>\$ 103,883</u>	<u>\$ 3,571,686</u>

#### 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 percent of compensation, regardless of employee contribution to the Plan, and a matching contribution equal to 100 percent of each participant's elective deferrals up to a maximum of 2 percent of compensation. Additionally, the employer may make a discretionary profit sharing contribution not to exceed 25 percent 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 September 30, 2015, were \$99,904.

**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 a tandem executive deferral plan under Internal Revenue Code Section 457(f) (the Plan) for the former 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 \$49,482 were made by the Fund for the year ended September 30, 2015. The Fund will contribute another \$60,821 to the tandem executive deferral plan. The contributions to the plans are held in a professionally managed investment account and included in total investments on the balance sheet. At September 30, 2015, the deferred compensation investment and liability was \$554,992.

## Vietnam Veterans Memorial Fund, Inc.

### Notes to Financial Statements

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#### Note 11. Commitments

**Office lease:** The Fund had a non-cancellable operating lease agreement for office space and a one-time right to terminate it as of October 4, 2015, with written notice to the landlord 12 months prior to the termination date, which the Fund exercised during the year ended September 30, 2014. At the beginning of the lease term, the lessor granted the Fund an allowance for leasehold improvements and rent abatement. The deferred rent liability on the termination date was \$291,819, which was recognized as revenue during the year ended September 30, 2015, and is included in other gains (losses) in the statement of activities. In addition to base rent, the Fund was 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 September 30, 2015, was \$248,735.

In June 2015, the Fund entered into a new lease for office space effective October 1, 2015. The monthly rental expense is approximately \$14,000 with the first 15 months of rent payments abated, and the first payment is due during the year ending September 30, 2017. 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. The lease expires on October 31, 2026. The Fund has a one-time right to terminate the lease as of September 30, 2022, with written notice to the landlord 12 months prior to the termination date, and subject to a penalty payment.

Future minimum payments are as follows:

Years ending September 30:	
2017	\$ 130,322
2018	178,106
2019	182,559
2020	187,123
2021	191,801
Thereafter	1,051,908
	<u>\$ 1,921,819</u>

**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 \$30,000, 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 construction includes a pre-construction fee of \$22,000 per month. It is cancellable at any time prior to the start of construction. 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 costs incurred to date on this contract are \$4,739,045. The Education Center's anticipated construction start date is during the year ending September 30, 2019.

**Vietnam Veterans Memorial Fund, Inc.**

**Notes to Financial Statements**

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**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.