



Financial Statements and Report of
Independent Certified Public Accountants

The Pentagon Federal Credit Union Foundation

December 31, 2015 and 2014

The Pentagon Federal Credit Union Foundation

Contents

Report of Independent Certified Public Accountants	3–4
---	-----

Financial Statements

Statements of Financial Position	5
Statements of Activities and Changes in Net Assets	6
Statements of Cash Flows	7
Notes to Financial Statements	8–15

Supplemental Information

Schedule of Functional Expenses	17
---------------------------------	----

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Board of Directors
The Pentagon Federal Credit Union Foundation

Report on the Financial Statements

We have audited the accompanying financial statements of The Pentagon Federal Credit Union Foundation (the “Foundation”) which comprise the statements of financial position as of December 31, 2015 and 2014, and the related statements of activities and changes in net assets and cash flows for the years 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 audits. We conducted our audits 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 Foundation’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 Foundation’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 Pentagon Federal Credit Union Foundation as of December 31, 2015 and 2014, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the basic financial statements as a whole. The schedule of functional expenses as of and for the years ended December 31, 2015 and 2014, are presented for purposes of additional analysis and are not a required part of the financial statements. Such supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures. These additional procedures included comparing and reconciling the information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the financial statements as a whole.



McLean, Virginia
July 5, 2016

The Pentagon Federal Credit Union Foundation

Statements of Financial Position

<i>December 31,</i>	2015	2014
Assets		
Cash and cash equivalents	\$ 1,607,982	\$ 2,435,629
Contributions receivable	27,223	41,960
Prepaid expenses and other	51,405	39,489
Property and equipment, net	866	1,925
Total Assets	\$ 1,687,476	\$ 2,519,003
Liabilities and Net (Deficit) Assets		
Liabilities		
Accounts payable and accrued expenses	\$ 50,382	\$ 64,520
ARK loan liability	142,201	115,928
Deferred revenue	—	204,403
Notes payable	5,000,000	7,202,921
Total Liabilities	5,192,583	7,587,772
Net Assets		
Unrestricted net deficit	(4,156,750)	(6,397,088)
Temporarily restricted net assets	651,643	1,328,319
Total Net Deficit	(3,505,107)	(5,068,769)
Total Liabilities and Net Deficit	\$ 1,687,476	\$ 2,519,003

The accompanying notes are an integral part of these statements.

The Pentagon Federal Credit Union Foundation

Statements of Activities and Changes in Net Assets

<i>Years ended December 31,</i>	2015	2014
Unrestricted revenues and other support:		
Contributions	\$ 819,832	\$ 393,148
Donated services	1,012,590	938,049
Special event revenue	1,493,602	1,423,959
Less: costs of direct benefits to donors	(125,700)	(116,378)
Gross profit on special events	1,367,902	1,307,581
Interest income	929	352
Total unrestricted revenues	3,201,253	2,639,130
Net assets released from restrictions	2,210,293	3,074,813
Total Unrestricted Revenues and Support	5,411,546	5,713,943
Expenses		
Program services	1,631,847	1,792,775
Supporting services:		
Management and general	328,778	488,144
Fundraising – direct	1,139,164	848,629
Fundraising – other	71,419	177,692
Total Expenses	3,171,208	3,307,240
Change in Unrestricted Net Assets	2,240,338	2,406,703
Temporarily restricted net assets:		
Contributions	1,533,617	3,778,428
Grant revenue – restricted	—	186,330
Net assets released from restriction	(2,210,293)	(3,074,813)
Change in Temporarily Restricted Net Assets	(676,676)	889,945
Change in Net Assets	1,563,662	3,296,648
Net Deficit, beginning of year	(5,068,769)	(8,365,417)
Net Deficit, end of year	\$ (3,505,107)	\$ (5,068,769)

The accompanying notes are an integral part of these statements.

The Pentagon Federal Credit Union Foundation

Statements of Cash Flows

<i>Years ended December 31,</i>	2015	2014
Operating Activities		
Change in net assets	\$ 1,563,662	\$ 3,296,648
Adjustments to reconcile change in net assets to net cash from operating activities:		
Depreciation and amortization	1,059	1,390
Changes in:		
Contributions receivable	14,737	6,970
Prepaid expenses and other	(11,916)	(29,156)
Accounts payable and accrued expenses	(14,138)	(389,144)
ARK loan liability	26,273	24,000
Deferred revenue	(204,403)	135,165
Net Cash Provided by Operating Activities	1,375,274	3,045,873
Investing Activities		
Purchases of property and equipment	—	(962)
Net Cash Used in Investing Activities	—	(962)
Financing Activities		
Payments on notes payable	(2,202,921)	(1,257,019)
Net Cash Used In Financing Activities	(2,202,921)	(1,257,019)
Net (Decrease) Increase in Cash and Cash Equivalents	(827,647)	1,787,892
Cash and Cash Equivalents, beginning of year	2,435,629	647,737
Cash and Cash Equivalents, end of year	\$ 1,607,982	\$ 2,435,629
Interest paid	\$ 168,241	\$ 227,662

The accompanying notes are an integral part of these statements.

The Pentagon Federal Credit Union Foundation

Notes to Financial Statements

December 31, 2015 and 2014

NOTE A—NATURE OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

The Pentagon Federal Credit Union Foundation (the “Foundation”) is a nonprofit organization formed to support the members of the United States defense community by offering programs that instill financial literacy and by providing accessible thrift and credit services. The Foundation’s goal is to ensure that members of the United States defense community have the skills and resources they need to secure a sound financial future for themselves and their families. The Foundation also assists injured soldiers returning from overseas conflicts through its Military Heroes programs, which are further described below.

Presentation

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP).

Classification of Net Assets

Net assets and revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Foundation and changes therein are classified and reported as follows:

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

Temporarily restricted net assets — Net assets subject to donor-imposed stipulations that may or will be met, either by actions of the Foundation and/or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Temporarily restricted net assets as of December 31, 2015 and 2014, were related to the Asset Recovery Kit Loan (“ARK”), Military Heroes programs, and Defenders Lodge, which are further described below. Temporarily restricted net assets as of December 31, 2015 and 2014 for ARK were \$0 and \$27,003, respectively. Temporarily restricted net assets for the Military Heroes program as of December 31, 2015 and 2014 were \$430,526 and \$264,483, respectively. Temporarily restricted net assets for Defenders Lodge as of December 31, 2015 and 2014 were \$221,116 and \$1,036,833, respectively.

The Pentagon Federal Credit Union Foundation

Notes to Financial Statements—Continued

December 31, 2015 and 2014

NOTE A—NATURE OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES—Continued

Classification of Net Assets—Continued

Permanently restricted net assets — Net assets subject to donor-imposed stipulations that they be maintained permanently by the Foundation. Generally, the donors of these assets permit the Foundation to use all or part of the income earned on any related investments for general or specific purposes. There were no permanently restricted assets as of December 31, 2015 and 2014.

Cash and Cash Equivalents

Cash and cash equivalents consist of cash and money market funds held at financial institutions. The Foundation considers all highly liquid investments with an original maturity of three months or less to be cash equivalents.

Concentration of Credit Risk

The Foundation maintains a significant amount of its cash balance at one financial institution. Accounts at this institution are insured by the National Credit Union Administration up to \$250,000. Uninsured balances aggregate to \$1,355,487 at December 31, 2015. The Foundation has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash and cash equivalents.

Programs

The Foundation maintains three programs designed to benefit individuals who devote their lives to the defense of our country. The ARK program is designed to combat payday lending, offering our soldiers a more cost effective alternative to meet their short-term cash flow needs, as well as educational programs to instill financial literacy. Through the ARK program, the Foundation guarantees the repayment of ARK loans made to military personnel by the Pentagon Federal Credit Union, as well as other participating defense credit unions. ARK guarantees resulting in repayment to participating credit unions are recorded as loan subsidy expense when identified, based on actual and anticipated losses.

The Pentagon Federal Credit Union Foundation

Notes to Financial Statements—Continued

December 31, 2015 and 2014

NOTE A—NATURE OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES—Continued

Programs—Continued

The Foundation also works directly with military healthcare providers and other military support groups to fulfill the unmet needs of wounded personnel and their families through our Military Heroes program. As part of the Military Heroes program, the Foundation is committed to raising \$12.5 million for the building of the Defender's Lodge, completed in 2013 for wounded warriors and veterans where they can stay for free while receiving poly-trauma care at the Veterans Administration hospital in Palo Alto, California.

The Dream Makers program is a first-time homebuyers program for those in the service of our country's national security. The program is designed to assist those eligible persons who do not qualify for a mortgage due to the required down payment and/or closing costs. Grants are available up to \$5,000 in closing or down payment costs toward a home purchase.

Allocation of Expenses

Certain costs have been allocated among the programs and supporting services benefited. The Foundation allocates its costs among three categories: Programs, Management and General, and Fundraising, based on man hours expended within said services.

Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make certain estimates and assumptions that affect the amounts reported in the financial statements and in the accompanying notes. Actual results could differ from those estimates.

The Pentagon Federal Credit Union Foundation

Notes to Financial Statements—Continued

December 31, 2015 and 2014

NOTE A—NATURE OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES—Continued

Property and Equipment, Net

Property and equipment are stated at cost less accumulated depreciation and amortization. Depreciation and amortization is calculated and recorded using the straight-line method over the estimated useful lives of the assets.

Furniture and fixtures	8 years
Computer equipment	3 – 5 years
Computer software	3 – 5 years
Office equipment	5 years

Advertising Costs

Advertising costs are expensed as incurred. For the years ended December 31, 2015 and 2014, advertising expense totaled \$3,145 and \$53,186, respectively.

Tax Status

The Foundation is a nonprofit organization incorporated under the laws of Virginia on December 4, 2001. It is exempt from income taxes under Section 501(c)(3) of the U.S. Internal Revenue Code. No material taxable unrelated business income was generated and accordingly, no provision for income taxes has been made in the accompanying financial statements.

The Foundation follows the accounting guidance that creates a single model to address uncertainty in tax positions and clarifies the accounting for income taxes by prescribing the minimum recognition threshold a tax position is required to meet before being recognized in its financial statements. Under the requirements of this guidance, organizations could now be required to record an obligation as the result of tax positions they have historically taken on various tax exposure items. The Foundation is not required to record such an obligation.

The Pentagon Federal Credit Union Foundation

Notes to Financial Statements—Continued

December 31, 2015 and 2014

NOTE A—NATURE OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES—Continued

Contributions

The Foundation receives unconditional contributions from private donors and from related affiliated organizations. Unconditional contributions are recorded as income when received, as applicable, and are available for unrestricted use unless restricted by the donor. Those that are restricted by the donor are recognized as either temporarily or permanently restricted support. When a donor restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Special activities revenue is recognized as revenue at the time that the activity occurs. Amounts received for events not yet held are reported as deferred revenue.

Donated Services

Donated services are recognized as contributions, if the services (a) create or enhance nonfinancial assets or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased by the Foundation.

Employees of the Pentagon Federal Credit Union donate services to the Foundation. The Foundation has recorded the estimated value of services related to administration, fundraising and consulting services as contributions and related expenses, as reflected in the Foundation's financial statements.

The Pentagon Federal Credit Union Foundation

Notes to Financial Statements—Continued

December 31, 2015 and 2014

NOTE B—PROPERTY AND EQUIPMENT

Property and equipment at December 31, 2015 and 2014, are summarized as follows:

<i>December 31,</i>	2015	2014
Furniture and fixtures	\$ 1,600	\$ 1,600
Computer equipment	16,688	16,688
Computer software	9,137	9,137
Office equipment	1,011	1,011
	<u>28,436</u>	<u>28,436</u>
Less accumulated depreciation	<u>(27,570)</u>	<u>(26,511)</u>
Property and equipment, net	<u>\$ 866</u>	<u>\$ 1,925</u>

Depreciation expense for the years ending December 31, 2015 and 2014, totaled \$1,059 and \$1,390, respectively.

NOTE C—RELATED-PARTY TRANSACTIONS

Contributions

The Foundation receives cash contributions and donated services and support from The Pentagon Federal Credit Union. For the years ended December 31, 2015 and 2014 the Foundation received cash contributions of \$500,000 and \$1,500,000, respectively. Also, for the years ended December 31, 2015 and 2014 the Foundation received donated services and support of \$1,012,590 and \$938,049, respectively.

The Pentagon Federal Credit Union Foundation

Notes to Financial Statements—Continued

December 31, 2015 and 2014

NOTE C—RELATED-PARTY TRANSACTIONS—Continued

Financing

Additionally, the Foundation entered into a promissory note and line of credit agreement with The Pentagon Federal Credit Union during July 2012. The Foundation had the ability to borrow up to \$10 million for the purpose of construction of the Defender's Lodge. The loan bears interest on the principal balance outstanding at a rate of 2.75%, and will mature on February 1, 2029. As of December 31, 2015 and 2014, the Foundation had an outstanding principal balance of \$5,000,000 and \$7,202,921, respectively. The Foundation grants a security interest to and assigns, transfers to, and pledges with The Pentagon Federal Credit Union all money and property that is acquired in relation to the Defender's Lodge.

The Foundation notified The Pentagon Federal Credit Union that no further draws would be made and principal payments for the loan commenced in March 2014. Principal and interest payments are due monthly.

The minimum future maturities under the promissory note are as follows:

<i>Year ending December 31,</i>	Principal Amount
2016	\$ 301,770
2017	301,770
2018	301,770
2019	301,770
2020	301,770
Thereafter	<u>3,491,150</u>
Total	<u>\$5,000,000</u>

The Pentagon Federal Credit Union Foundation

Notes to Financial Statements—Continued

December 31, 2015 and 2014

NOTE D—RESTRICTED GRANTS

In 2014 The Pentagon Federal Credit Union (“PenFed”) participated in the Federal Home Loan Bank (“FHLB”) of Atlanta Affordable Housing Program (“AHP”) as a member of the FHLB Atlanta. PenFed utilizes the Foundation to manage the funds within this program and to identify qualified recipients. These funds are restricted for use in the AHP. For the year December 31, 2015 and 2014, temporarily restricted revenue related to this program was recognized in the amounts of \$0 and \$186,330, respectively.

NOTE E—CONTRIBUTIONS RECEIVABLE

As of December 31, 2015 and 2014, contributions receivable includes unconditional promises to give due in less than one year in the amounts of \$27,223 and \$41,960, respectively. These receivables are recorded at their unpaid balances which approximate fair value.

NOTE F—ARK LOAN LIABILITY

As part of the Foundation’s ARK program, the Foundation accrues a liability related to loans guaranteed by the program that must be repaid in the event the borrower defaults. The Foundation estimates the accrual based on historical charge-offs. As of December 31, 2015 and 2014 the Foundation recorded a liability of \$142,201 and \$115,928, respectively.

NOTE G—SUBSEQUENT EVENTS

The Foundation has evaluated all events and transactions through July 5, 2016 the date these financial statements were available to be issued. The Foundation is not aware of any subsequent events which would require recognition or disclosure in the financial statements.

Supplemental Information



The Pentagon Federal Credit Union Foundation

Schedule of Functional Expenses

For the Years Ended December 31, 2015 and 2014

	Program Expenses				Total Program Expenses	Direct Fundraising		Total Direct Fundraising Expenses	Support Services		2015 Expenses	2014 Expenses
	ARK Loans Program	Dream Makers	Military Heroes	Defenders Lodge		Programs	Special Events		Management and General	Fund-raising		
Public relations	\$ 900	\$ —	\$ —	\$ —	\$ 900	\$ 73	\$ —	\$ 73	\$ 498	\$ 1,340	\$ 2,811	\$ 26,708
Special events	—	—	—	—	—	—	539,133	539,133	—	27	539,160	493,402
Professional and outside services	8,022	7,123	20,651	—	35,796	151,578	—	151,578	72,266	653	260,293	194,067
Professional donated services	100,060	153,199	139,070	—	392,329	185,137	244,098	429,235	131,732	29,364	982,660	909,874
Travel and conference	—	3,488	—	—	3,488	15,607	—	15,607	8,716	18,496	46,307	46,308
Business meetings	—	187	—	—	187	3,441	—	3,441	17,215	1,214	22,057	17,496
Rental of furniture and equipment	—	—	—	—	—	—	—	—	52,107	—	52,107	50,481
Office occupancy	—	—	—	—	—	—	—	—	29,600	—	29,600	27,846
Postage	1,005	1,005	1,005	—	3,015	—	—	—	—	225	3,240	2,770
Telephone and telecommunications	—	—	—	—	—	—	—	—	4,365	—	4,365	2,640
Personal property taxes	—	—	—	—	—	—	—	—	160	—	160	160
Office supplies	—	—	—	—	—	—	—	—	4,377	—	4,377	4,634
Purchases	—	—	—	—	—	—	—	—	1,745	—	1,745	3,008
Printing and publications	(61)	—	233	—	172	97	—	97	4,923	589	5,781	57,287
Credit card processing fees	—	—	—	—	—	—	—	—	15	19,511	19,526	15,676
Military Heroes support	—	—	269,699	—	269,699	—	—	—	—	—	269,699	278,529
Dream Makers Grants	—	469,450	—	—	469,450	—	—	—	—	—	469,450	792,747
Defenders Lodge Building	—	—	—	21,854	21,854	—	—	—	—	—	21,854	(67,894)
Interest expense	—	—	—	163,192	163,192	—	—	—	—	—	163,192	224,409
Depreciation/Amortization	—	—	—	—	—	—	—	—	1,059	—	1,059	1,390
Loan Subsidy	271,765	—	—	—	271,765	—	—	—	—	—	271,765	225,702
Total Expenses	\$ 381,691	\$ 634,452	\$ 430,658	\$ 185,046	\$ 1,631,847	\$ 355,933	\$ 783,231	\$ 1,139,164	\$ 328,778	\$ 71,419	\$ 3,171,208	\$ 3,307,240