



The Pentagon Federal Credit Union Foundation

Financial Statements and
Supplementary Information
Years Ended December 31, 2016 and 2015

**The Pentagon Federal Credit Union
Foundation**

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The Pentagon Federal Credit Union Foundation

Financial Statements and Supplementary Information

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Independent Auditor's Report

Board of Directors
The Pentagon Federal Credit Union Foundation
Alexandria, Virginia

We have audited the accompanying financial statements of The Pentagon Federal Credit Union Foundation (the "Foundation"), which comprise the statement of financial position as of December 31, 2016, and the related statements of activities and changes in net assets 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.

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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, 2016, 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.

Other Matter - 2015 Financial Statements

The 2015 financial statements of the Foundation were audited by other auditors, whose report dated July 5, 2016, expressed an unmodified opinion on those statements.

Other Matter - Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of functional expenses is presented for purposes of additional analysis and is not a required part of the financial statements. The schedule of functional expenses 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. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of functional expenses is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

BDO USA, LLP

June 28, 2017

Financial Statements

The Pentagon Federal Credit Union Foundation

Statements of Financial Position

<i>December 31,</i>	2016	2015
Assets		
Cash and cash equivalents	\$ 1,773,106	\$ 1,607,982
Contributions receivable	54,512	27,223
Prepaid expenses and other	1,375	51,405
Property and equipment, net	401	866
Total assets	\$ 1,829,394	\$ 1,687,476
Liabilities and net assets (deficit)		
Liabilities		
Accounts payable and accrued expenses	\$ 47,968	\$ 50,382
ARK loan liability	116,996	142,201
Notes payable	-	5,000,000
Total liabilities	164,964	5,192,583
Commitments and contingencies		
Net assets (deficit)		
Unrestricted net assets (deficit)	785,054	(4,156,750)
Temporarily restricted net assets	879,376	651,643
Total net assets (deficit)	1,664,430	(3,505,107)
Total liabilities and net assets	\$ 1,829,394	\$ 1,687,476

See accompanying notes to financial statements.

The Pentagon Federal Credit Union Foundation

Statements of Activities and Changes in Net Assets

<i>Years ended December 31,</i>	2016			2015		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Revenues						
Contributions	\$ 996,189	\$ 4,248,352	\$ 5,244,541	\$ 819,832	\$ 1,533,617	\$ 2,353,449
Donated services	608,968	-	608,968	1,012,590	-	1,012,590
Grant revenue	-	772,020	772,020	-	-	-
Special events revenue:						
Gross revenue	1,887,846	-	1,887,846	1,493,602	-	1,493,602
Costs of direct benefits to donors	(147,169)	-	(147,169)	(125,700)	-	(125,700)
Interest income	857	-	857	929	-	929
Net assets released from restrictions	4,792,639	(4,792,639)	-	2,210,293	(2,210,293)	-
Total revenues	8,139,330	227,733	8,367,063	5,411,546	(676,676)	4,734,870
Expenses						
Program services	1,994,999	-	1,994,999	1,631,847	-	1,631,847
Supporting services:						
Management and general	382,001	-	382,001	328,778	-	328,778
Fundraising - direct	787,308	-	787,308	1,139,164	-	1,139,164
Fundraising - other	33,218	-	33,218	71,419	-	71,419
Total expenses	3,197,526	-	3,197,526	3,171,208	-	3,171,208
Change in net assets	4,941,804	227,733	5,169,537	2,240,338	(676,676)	1,563,662
Net (deficit) assets, beginning of year	(4,156,750)	651,643	(3,505,107)	(6,397,088)	1,328,319	(5,068,769)
Net assets (deficit), end of year	\$ 785,054	\$ 879,376	\$ 1,664,430	\$ (4,156,750)	\$ 651,643	\$ (3,505,107)

See accompanying notes to financial statements.

The Pentagon Federal Credit Union Foundation

Statements of Cash Flows

<i>Years ended December 31,</i>	2016	2015
Cash flows from operating activities		
Change in net assets	\$ 5,169,537	\$ 1,563,662
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	465	1,059
Decrease (increase) in assets		
Contributions receivable	(27,289)	14,737
Prepaid expenses and other	50,030	(11,916)
Increase (decrease) in liabilities		
Accounts payable and accrued expenses	(2,414)	(14,138)
ARK loan liability	(25,205)	26,273
Deferred revenue	-	(204,403)
Net cash provided by operating activities	5,165,124	1,375,274
Cash flows from financing activities		
Payments on notes payable	(5,000,000)	(2,202,921)
Net cash used in financing activities	(5,000,000)	(2,202,921)
Increase (decrease) in cash and cash equivalents	165,124	(827,647)
Cash and cash equivalents, beginning of year	1,607,982	2,435,629
Cash and cash equivalents, end of year	\$ 1,773,106	\$ 1,607,982
Supplemental cash flow disclosure		
Cash paid for interest	\$ 139,002	\$ 168,241

See accompanying notes to financial statements.

The Pentagon Federal Credit Union Foundation

Notes to Financial Statements

1. Organization and Summary of Significant Accounting Policies

Organization

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.

Basis of 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).

Cash and Cash Equivalents

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

Contribution Receivable

Unconditional promises to give are recognized as revenue and contribution receivable in the period the promises are made. Unconditional promises to give that are expected to be collected within one year are recorded at their net realizable value. 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. Management considers all promises to give to be fully collectible, therefore no allowance for uncollectible pledges has been established.

Property and Equipment

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 following 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

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:

The Pentagon Federal Credit Union Foundation

Notes to Financial Statements

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.

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, 2016 and 2015.

Revenue Recognition

The Foundation receives contributions and grants from private donors and from related affiliated organizations. Contributions and grants, including unconditional promises to give, are recognized as revenue 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.

Revenue from special events is recognized when the events occur. Expenses that directly benefit the donors are recorded as an offset to revenue in the year of the event.

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.

Concentration of Credit Risk

The Foundation maintains all 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 \$1,545,267 at December 31, 2016. 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.

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

Programs

The Foundation maintains three programs designed to benefit individuals who devote their lives to the defense of our country. The Asset Recovery Kit Loan (“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 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 its Military Heroes program. As part of the Military Heroes program, the Foundation committed to raise \$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. Upon completion, the Defender’s Lodge was donated by the Foundation to U.S. Department of Veteran Affairs.

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.

Advertising Costs

Advertising costs are expensed as incurred. For the years ended December 31, 2016 and 2015, advertising expense totaled \$8,512 and \$3,145, respectively.

Income Taxes

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

Recently Adopted Accounting Pronouncement

The Foundation adopted Accounting Standards Update (ASU) No. 2014-15, *Presentation of Financial Statements- Going Concern: Disclosure of Uncertainties About an Entity's Ability to Continue as a Going Concern*. ASU 2014-15 requires management to perform interim and annual assessments as to whether there are conditions or events that raise substantial doubt about the entity's ability to continue as a going concern within one year of the date the financial statements are issued and provides guidance on determining when and how to disclose going concern uncertainties in the financial statements. The adoption of this standard did not have a material effect on the Foundation's financial statements.

Accounting Pronouncement Not Yet Adopted

In August 2016, the Financial Accounting Standards Board (FASB) issued ASU 2016-15, *Classification of Certain Cash Receipts and Cash Payments*. ASU 2016-15 clarifies how certain cash receipts and cash payments are presented and classified in the statement of cash flows. The ASU contains additional guidance clarifying when an entity should separate cash receipts and cash payments and classify them into more than one class of cash flows (including when reasonable judgment is required to estimate and allocate cash flows) versus when an entity should classify the aggregate amount into one class of cash flows on the basis of predominance. The amendments are effective for public business entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2017. For all other entities, the amendments in this ASU are effective for fiscal years beginning after December 15, 2018, and interim periods within fiscal years beginning after December 15, 2019. Early adoption is permitted. The Foundation is currently evaluating the impact of this ASU on its financial statements.

In August 2016, the FASB issued ASU 2016-14, *Not-for-Profit Entities (Topic 958) and Health Care Entities (Topic 954) - Presentation of Financial Statements of Not-for-Profit Entities*. The ASU amends the current reporting model for nonprofit organizations and enhances their required disclosures. The major changes include: (a) requiring the presentation of only two classes of net assets now entitled "net assets without donor restrictions" and "net assets with donor restrictions", (b) modifying the presentation of underwater endowment funds and related disclosures, (c) requiring the use of the placed in service approach to recognize the expirations of restrictions on gifts used to acquire or construct long-lived assets absent explicit donor stipulations otherwise, (d) requiring that all nonprofits present an analysis of expenses by function and nature in either the statement of activities, a separate statement, or in the notes and disclose a summary of the allocation methods used to allocate costs, (e) requiring the disclosure of quantitative and qualitative information regarding liquidity and availability of resources, (f) presenting investment return net of external and direct expenses, and (g) modifying other financial statement reporting requirements and disclosures intended to increase the usefulness of nonprofit financial statements. The amendments in ASU 2016-14 are effective for annual financial statements issued for fiscal years beginning after December 15, 2017, and for interim periods within fiscal years beginning after December 15, 2018. Early adoption is permitted. The provisions of the ASU must be applied on a retrospective basis for all years presented although certain optional practical expedients are available for periods prior to adoption. The Foundation is currently evaluating the impact of this ASU on its financial statements.

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Notes to Financial Statements

In August 2015, the FASB issued ASU 2015-14, *Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date*, which defers the effective date of ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*, for all entities by one year. ASU 2014-09 will now be effective for annual periods beginning after December 15, 2018, and allows adoption either under a full retrospective or a modified retrospective approach. Early adoption is permitted for annual periods beginning after December 15, 2016. The Foundation is currently evaluating the impact of this ASU on its financial statements.

2. Property and Equipment

Property and equipment at December 31, 2016 and 2015, are summarized as follows:

<i>December 31,</i>		2016		2015
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 and amortization		(28,035)		(27,570)
Property and equipment, net	\$	<u>401</u>	\$	<u>866</u>

Depreciation and amortization expense for the years ended December 31, 2016 and 2015, totaled \$465 and \$1,059, respectively.

3. 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, 2016 and 2015, the Foundation received cash contributions of \$4,500,000 and \$500,000, respectively. Also, for the years ended December 31, 2016 and 2015, the Foundation received donated services and support of \$608,968 and \$1,012,590, respectively.

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 Foundation notified The Pentagon Federal Credit Union that no further draws would be made and principal payments for the loan commenced in March 2014 with payments due monthly. The loan bears interest on the principal balance outstanding at a rate of 3.00%, and was scheduled to mature on February 1, 2029. In December 2016, the Foundation paid the entire remaining outstanding principal balance of the loan. As of December 31, 2016 and 2015, the Foundation had an outstanding principal balance of \$0 and \$5,000,000, respectively. For the year ended December 31, 2016 and 2015, interest expense totaled \$127,544 and \$163,192, respectively.

The Pentagon Federal Credit Union Foundation

Notes to Financial Statements

4. Restricted Grants

In 2016 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, 2016, temporarily restricted revenue related to this program was recognized in the amount of \$22,020. There was no restricted revenue related to this program in 2015.

Also in 2016, the Foundation agreed with the U.S. Department of Veterans Affairs to accept funds from private industry to then use to assist veterans. Thereto, the Foundation received \$750,000 from a third party donor, which stipulated that the funds be distributed where the need is greatest for veterans in certain specified geographic areas in the U.S. For 2016, the amount of funds that have been released from their restriction was \$452,035 which is included in the total net assets released from restrictions amount for Military Heroes program.

5. Contributions Receivable

As of December 31, 2016 and 2015, contributions receivable includes unconditional promises to give due in less than one year in the amounts of \$54,512 and \$27,223, respectively. These receivables are recorded at their unpaid balances which approximate fair value.

6. 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, 2016 and 2015, the Foundation recorded a liability of \$116,996 and \$142,201, respectively.

7. Temporarily Restricted Net Assets

Temporarily restricted net assets are available for the following purposes at:

<i>December 31,</i>		2016		2015
Military Heroes	\$	475,694	\$	430,526
Defender's Lodge		403,682		221,117
	\$	879,376	\$	651,643

The Pentagon Federal Credit Union Foundation

Notes to Financial Statements

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of the passage of time or other events specified by donors. The net assets released from restrictions are as follows:

<i>Years ended December 31,</i>	2016	2015
Defender's Lodge	\$ 3,895,110	\$ 1,791,853
Military Heroes	860,509	291,589
Dream Makers	15,000	1,489
Other	22,020	-
Defender's Lodge - Gala	-	98,359
Asset Recovery Kit Loan	-	27,003
	\$ 4,792,639	\$ 2,210,293

8. Subsequent Events

The Foundation has evaluated subsequent events through June 28, 2017, which is the date the financial statements were available to be issued. There were no events noted that required adjustment to or disclosure in these financial statements.

Supplementary Information

The Pentagon Federal Credit Union Foundation

Schedule of Functional Expenses

For the years ended December 31,

	2016										2015
	Program Services			Total Program Services	Direct Fundraising		Total Direct Fundraising Expenses	Support Services		Total Expenses	Total Expenses
	ARK Loans Program	Dream Makers	Military Heroes		Programs	Special Events		Management and General	Fundraising		
Public relations	\$ -	\$ -	\$ 406	\$ 406	\$ -	\$ -	\$ -	\$ 115,100	\$ -	\$ 115,506	\$ 2,811
Special events	-	-	-	-	-	561,417	561,417	-	-	561,417	539,160
Professional and outside services	720	972	720	2,412	22,000	13,560	35,560	45,550	-	83,522	260,293
Professional donated services	58,483	96,369	102,773	257,625	60,288	125,176	185,464	129,720	6,230	579,039	982,660
Travel and conference	-	-	-	-	-	1,065	1,065	946	2,904	4,915	46,307
Business meetings	-	-	-	-	-	879	879	4,338	-	5,217	22,057
Rental of furniture and equipment	-	-	-	-	-	-	-	37,330	-	37,330	52,107
Office occupancy	-	-	-	-	-	-	-	29,600	-	29,600	29,600
Postage	250	250	354	854	-	225	225	158	-	1,237	3,240
Telephone and telecommunications	-	-	-	-	-	-	-	4,708	-	4,708	4,365
Personal property taxes	-	-	-	-	-	-	-	139	-	139	160
Office supplies	-	-	311	311	-	-	-	106	77	494	4,377
Purchases	-	-	-	-	-	-	-	395	-	395	1,745
Printing and publications	450	-	-	450	-	2,698	2,698	13,360	100	16,608	5,781
Credit card processing fees	-	20	-	20	-	-	-	86	23,907	24,013	19,526
Military Heroes support	-	-	859,534	859,534	-	-	-	-	-	859,534	269,699
Dream Makers grants	-	560,067	-	560,067	-	-	-	-	-	560,067	469,450
Defender's Lodge building	-	-	-	-	-	-	-	-	-	-	21,854
Interest expense	-	-	127,544	127,544	-	-	-	-	-	127,544	163,192
Depreciation and amortization	-	-	-	-	-	-	-	465	-	465	1,059
Loan subsidy	185,776	-	-	185,776	-	-	-	-	-	185,776	271,765
Total expenses	\$ 245,679	\$ 657,678	\$ 1,091,642	\$ 1,994,999	\$ 82,288	\$ 705,020	\$ 787,308	\$ 382,001	\$ 33,218	\$ 3,197,526	\$ 3,171,208