



The Pentagon Federal Credit Union Foundation

Consolidated Financial Statements
Years Ended December 31, 2022 and 2021

**The Pentagon Federal Credit
Union Foundation**

Consolidated Financial Statements
Years Ended December 31, 2022 and 2021

The Pentagon Federal Credit Union Foundation

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Independent Auditor's Report

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

Opinion

We have audited the consolidated financial statements of The Pentagon Federal Credit Union Foundation (the "Foundation"), which comprise the consolidated statements of financial position as of December 31, 2022 and 2021, and the related consolidated statements of activities and changes in net assets, functional expenses and cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Foundation as of December 31, 2022 and 2021, 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.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are required to be independent of the Foundation and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Foundation's ability to continue as a going concern within one year after the date that the consolidated financial statements are available to be issued.



Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit 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, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Foundation's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

BDO USA, P.C.

May 3, 2024

Consolidated Financial Statements

The Pentagon Federal Credit Union Foundation

Consolidated Statements of Financial Position

<i>December 31,</i>	2022	2021
Assets		
Cash and cash equivalents	\$ 6,708,016	\$ 3,967,668
Contributions receivable, net	1,278,664	6,162
Investments	5,794,432	2,757,764
Prepaid expenses and other	97,119	149,434
Total assets	\$ 13,878,231	\$ 6,881,028
Liabilities and Net Assets		
Liabilities		
Accounts payable and accrued expenses	\$ 196,606	\$ 173,373
ARK loan liability	-	6,926
Total liabilities	196,606	180,299
Commitments and contingencies		
Net assets		
Net assets without donor restrictions:		
Without restrictions	6,489,266	3,100,774
Noncontrolling interest in VEFB LP	5,435,872	1,720,382
Total net assets without donor restrictions	11,925,138	4,821,156
Net assets with donor restrictions	1,756,487	1,879,573
Total net assets	13,681,625	6,700,729
Total liabilities and net assets	\$ 13,878,231	\$ 6,881,028

See accompanying notes to the consolidated financial statements.

The Pentagon Federal Credit Union Foundation

Consolidated Statements of Activities and Changes in Net Assets

Years ended December 31,	2022			2021		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Revenues						
Contributions	\$ 3,513,423	\$ 1,243,314	\$ 4,756,737	\$ 1,563,905	\$ 2,075,784	\$ 3,639,689
Contributed nonfinancial assets	1,387,259	2,383	1,389,642	2,661,996	-	2,661,996
Grant revenue	110,200	240,050	350,250	52,350	171,350	223,700
Special events revenue:						
Gross revenue	2,836,206	-	2,836,206	2,748,091	300,000	3,048,091
Costs of direct benefits to donors	(137,617)	-	(137,617)	(121,035)	-	(121,035)
Interest income	59,544	25,504	85,048	4,932	33,000	37,932
Net assets released from restrictions	1,634,337	(1,634,337)	-	2,261,660	(2,261,660)	-
Total revenues	9,403,352	(123,086)	9,280,266	9,171,899	318,474	9,490,373
Expenses						
Program services	4,035,998	-	4,035,998	4,778,977	-	4,778,977
Supporting services:						
Management and general	936,397	-	936,397	582,270	-	582,270
Fundraising - direct	1,111,187	-	1,111,187	1,275,687	-	1,275,687
Fundraising - other	65,788	-	65,788	264,522	-	264,522
Total expenses	6,149,370	-	6,149,370	6,901,456	-	6,901,456
Change in net assets	3,253,982	(123,086)	3,130,896	2,270,443	318,474	2,588,917
Change in noncontrolling interest	134,510	-	134,510	29,618	-	29,618
Change in net assets after noncontrolling interest	3,388,492	(123,086)	3,265,406	2,300,061	318,474	2,618,535
Net assets, beginning of year	4,821,156	1,879,573	6,700,729	800,713	1,561,099	2,361,812
Capital additions from noncontrolling interest	3,850,000	-	3,850,000	1,750,000	-	1,750,000
Net assets, end of year	\$ 11,925,138	\$ 1,756,487	\$ 13,681,625	\$ 4,821,156	\$ 1,879,573	\$ 6,700,729

See accompanying notes to consolidated financial statements.

The Pentagon Federal Credit Union Foundation

Consolidated Statement of Functional Expenses

Year ended December 31,

2022

	Program Services					Direct Fundraising			Support Services			Total Expenses
	Dream Makers	Military Heroes	Defenders Lodge	Veteran Entrepreneur Investment Program	Outreach	Total Program Services	Programs	Special Events	Total Direct Fundraising Expenses	Management and General	Fundraising	
Grants given	\$ 9,964	\$ 2,156,023	\$ 33,354	\$ 163,450	\$ 24,081	\$ 2,386,872	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,386,872
Donated - professional services	13	262,336	-	464,847	64,348	791,544	175,684	62,541	238,225	248,406	53,755	1,331,930
Special events	-	6,777	-	63,928	-	70,705	-	629,703	629,703	3,788	-	704,196
Professional and outside services	-	256,831	-	267,436	-	524,267	-	-	-	141,773	-	666,040
Travel and conference	-	8,177	-	52,930	19,703	80,810	212	10,978	11,190	4,710	45	96,755
Bank and merchant service fees	-	2,506	-	37	-	2,543	42,315	44,267	86,582	100	683	89,908
Sponsorships	-	50,000	-	28,014	6,015	84,029	-	-	-	-	-	84,029
Donated - office space	-	-	-	-	-	-	-	-	-	55,329	-	55,329
Instructors/speakers/performers	-	-	-	7,900	-	7,900	-	43,694	43,694	-	-	51,594
Legal fees	-	-	-	39,663	-	39,663	-	-	-	11,503	-	51,166
Printing and publications	-	362	-	625	1,150	2,137	41,759	4,044	45,803	319	-	48,259
Computer and software	-	10,000	-	8,620	-	18,620	6,351	5,700	12,051	200	8,916	39,787
Marketing and public relations	-	2,358	-	11,654	1,775	15,787	-	-	-	-	-	15,787
Postage and shipping	-	3,715	-	424	-	4,139	9,019	-	9,019	210	77	13,445
Memberships and subscriptions	-	996	-	6,131	-	7,127	-	-	-	495	-	7,622
Training and learning materials	-	-	-	3,500	-	3,500	-	-	-	-	-	3,500
Office supplies	-	76	-	1,209	-	1,285	-	-	-	857	374	2,516
Donated - other	-	2,383	-	-	-	2,383	-	-	-	-	-	2,383
Business meetings	-	156	-	534	-	690	-	-	-	327	122	1,139
Rental of furniture and equipment	-	-	-	850	-	850	-	206	206	-	-	1,056
Other miscellaneous expenses	-	(9,612)	-	759	-	(8,853)	34,714	-	34,714	468,380	1,816	496,057
Total expenses	\$ 9,977	\$ 2,753,084	\$ 33,354	\$ 1,122,511	\$ 117,072	\$ 4,035,998	\$ 310,054	\$ 801,133	\$ 1,111,187	\$ 936,397	\$ 65,788	\$ 6,149,370

See accompanying notes to consolidated financial statements.

The Pentagon Federal Credit Union Foundation

Consolidated Statement of Functional Expenses

Year ended December 31,

2021

	Program Services					Direct Fundraising			Support Services		Total Expenses	
	Dream Makers	Military Heroes	Defenders Lodge	Veteran Entrepreneur Investment Program	Outreach	Total Program Services	Programs	Special Events	Total Direct Fundraising Expenses	Management and General		Fundraising
Grants given	\$ 800,468	\$ 1,449,615	\$ 31,775	\$ 365,940	\$ -	\$ 2,648,798	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,648,798
Donated - professional services	249,791	344,107	-	637,421	141,834	1,379,050	489,096	154,958	644,054	332,635	250,928	2,606,667
Special events	-	-	-	28,645	-	28,645	20,000	373,345	393,345	40,000	-	461,990
Professional and outside services	37,264	128,546	-	274,559	-	440,369	14,608	28,323	42,931	88,300	1,050	572,650
Travel and conference	-	2,058	1,249	42,057	3,266	48,630	-	14,023	14,023	25,175	3,170	90,998
Bank and merchant service fees	128	1,270	-	-	-	1,398	60,916	-	60,916	-	-	62,314
Sponsorships	12,000	25,000	-	16,500	27,800	81,300	-	30,800	30,800	-	-	112,100
Donated - office space	-	-	-	-	-	-	-	-	-	55,329	-	55,329
Instructors/speakers/performers	-	-	-	16,000	-	16,000	-	6,065	6,065	-	-	22,065
Legal fees	-	-	-	64,084	-	64,084	-	-	-	9,976	-	74,060
Printing and publications	-	400	-	538	-	938	27,940	3,164	31,104	-	-	32,042
Computer and software	-	8,567	-	2,371	-	10,938	114	2,395	2,509	1,650	5,514	20,611
Marketing and public relations	-	-	-	39,181	-	39,181	-	5,706	5,706	22,170	3,355	70,412
Postage and shipping	-	229	-	69	-	298	9,992	854	10,846	1,357	454	12,955
Memberships and subscriptions	-	-	-	100	-	100	-	-	-	-	-	100
Training and learning materials	-	-	-	2,500	-	2,500	-	-	-	-	-	2,500
Office supplies	-	-	43	(102)	-	(59)	-	176	176	39	26	182
Telephone and communications	-	97	-	-	-	97	-	-	-	-	-	97
Business meetings	-	-	-	891	111	1,002	-	-	-	1,723	-	2,725
Rental of furniture and equipment	-	-	-	444	-	444	-	38,617	38,617	-	-	39,061
Loan subsidy	-	-	-	-	-	10,202	-	-	-	-	-	10,202
Other miscellaneous expenses	-	1,335	-	3,727	-	5,062	621	(6,026)	(5,405)	3,916	25	3,598
Total expenses	\$ 1,099,651	\$ 1,961,224	\$ 33,067	\$ 1,494,925	\$ 173,011	\$ 4,778,977	\$ 623,287	\$ 652,400	\$ 1,275,687	\$ 582,270	\$ 264,522	\$ 6,901,456

See accompanying notes to consolidated financial statements.

The Pentagon Federal Credit Union Foundation

Consolidated Statements of Cash Flows

Years ended December 31,	2022	2021
Cash flows from operating activities		
Change in net assets	\$ 3,130,896	\$ 2,588,917
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Provision for investment losses	455,854	-
Change in discount on contributions receivable	21,337	-
Donated stock	-	(13,343)
Decrease (increase) in assets:		
Contributions receivable	(1,293,839)	5,297
Prepaid expenses and other	(3,539)	803
Increase (decrease) in liabilities:		
Accounts payable and accrued expenses	23,233	81,179
ARK loan liability	(6,926)	(9,857)
Net cash provided by operating activities	2,327,016	2,652,996
Cash flows from investing activities		
Capital additions from noncontrolling interest	3,850,000	1,750,000
Proceeds from return of investments	313,327	-
Purchases of investments	(3,749,995)	(1,810,000)
Net cash provided by (used in) investing activities	413,332	(60,000)
Net increase in cash and cash equivalents	2,740,348	2,592,996
Cash and cash equivalents, beginning of year	3,967,668	1,374,672
Cash and cash equivalents, end of year	\$ 6,708,016	\$ 3,967,668

See accompanying notes to consolidated financial statements.

The Pentagon Federal Credit Union Foundation

Notes to Consolidated Financial Statements

1. Organizations and Summary of Significant Accounting Policies

Organizations

The Pentagon Federal Credit Union Foundation (“PFCUF”) is a nonprofit organization formed to support the members of the United States defense community by offering programs that instill financial literacy and provide military members, veterans and their communities with the skills and resources to realize financial stability and opportunity. PFCUF’s vision is that all service members are able to serve the nation free of financial worry and that every veteran has a strong financial future.

On March 16, 2021, PenFed Foundation VEIP GP LLC (“VEIP GP LLC”) was formed as a limited liability company under the Delaware Limited Liability Company Act. VEIP GP LLC’s primary purpose is to serve as a general partner to a limited partnership as below. PFCUF is the sole member of VEIP GP LLC.

On March 16, 2021, the Veteran Entrepreneur Fund Bravo LP (“VEFB LP”), a Delaware limited partnership, was formed in accordance with the Limited Partnership Agreement (the “LPA”) and commenced operations in 2021 with its first capital call. The VEFB LP has determined that it is an investment company in accordance with Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) Topic 946 (“ASC 946”) and follows the guidance in ASC 946. The primary purpose of the VEFB LP is to make investments in emerging, post-traction growth companies with scalable businesses where the majority of equity is owned by a military veteran or military spouse. VEFB LP is managed by the general partner, VEIP GP LLC, who is considered as the primary beneficiary of VEIP LP. The interest owned by the limited partners are reflected as noncontrolling interest in the accompanying consolidated statements of financial position.

Principles of Consolidation

The accompanying consolidated financial statements include PFCUF and its wholly-owned subsidiary, VEIP GP LLC. VEIP GP LLC has the power to direct the activities of VEIP LP, therefore, the consolidated financial statements also include VEIP LP. Unless otherwise noted, PFCUF and the consolidated entities are collectively referred to herein as “the Foundation”. All significant inter-organizational accounts and transactions have been eliminated in consolidation.

Basis of Presentation

The accompanying consolidated 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).

Measure of Operations

The Foundation’s operating income includes contributions, contributed nonfinancial assets, grant revenue, special events revenue and interest income, and expenses for program and supporting services which supports the Foundation’s mission.

The Pentagon Federal Credit Union Foundation

Notes to Consolidated Financial Statements

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.

Contributions Receivable

Unconditional promises to give (pledges 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.

Investments

The Foundation holds investments in companies under the Veteran Entrepreneur Investment Program (VEIP). These investments take the form of convertible debt, simple agreements for equity (SAFEs), preferred shares, and common stock. Investment transactions are accounted for on a trade date basis. Investment transactions outside conventional channels, such as private transactions, are recorded as of the date the Foundation obtains the right to demand the securities purchased or to collect the proceeds from a sale and incurs an obligation to pay for securities purchased or to deliver securities sold, respectively. Gains and losses on the sale of investments are determined using the specific identification method. Periodic changes in the fair value of investments are reported as a change in unrealized gains or losses. Distributions from investments are recorded as dividends, capital gains or return of capital depending upon the circumstances as reported by the portfolio company.

Valuation of Investments

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (i.e., the exit price) in an orderly transaction between market participants at the measurement date.

In accordance with the authoritative guidance on fair value measurements and disclosures under U.S. GAAP, the Foundation discloses and recognizes the fair value of its assets and liabilities using a hierarchy that prioritizes the inputs to valuation approaches used to measure fair value. The hierarchy gives the highest priority to valuations based upon unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to valuations based upon unobservable inputs that are significant to the valuation (Level 3 measurements). The guidance establishes three levels of the fair value hierarchy as follows:

- Level 1 - Inputs that reflect unadjusted quoted prices in active markets for identical assets or liabilities that the Foundation has the ability to access at the measurement date;
- Level 2 - Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly, including inputs in markets that are not considered to be active;
- Level 3 - Inputs that are unobservable.

The Pentagon Federal Credit Union Foundation

Notes to Consolidated Financial Statements

Inputs are used in applying the various valuation approaches and broadly refer to the assumptions that market participants use to make valuation decisions, including assumptions about risk. Inputs may include price information, volatility statistics, specific and broad credit data, liquidity statistics, and other factors. An investment's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. However, the determination of what constitutes "observable" requires significant judgment by the Foundation. The Foundation considers observable data to be market data which is readily available, regularly distributed or updated, reliable and verifiable, not proprietary, and provided by multiple, independent sources that are actively involved in the relevant market. The categorization of an investment within the hierarchy is based upon the pricing transparency of the investment and does not necessarily correspond to the Foundation's perceived risk of that investment.

The Foundation's investments have been classified within Level 3 as they have unobservable inputs. Level 3 investments may include common and preferred equity securities, simple agreements for future equity ("SAFE"), convertible notes, warrants and other financial instruments. When observable prices are not available for these securities, the Foundation uses one or more valuation approaches (e.g., cost, the market approach (including recent financing rounds), the income approach for which sufficient and reliable data is available). Within Level 3, the use of the market approach generally consists of using the use of comparable market data or recent/pending transactions in the same or similar securities of the issuer. The use of the income approach generally consists of calculating the net present value of estimated future cash flows, adjusted as appropriate for liquidity, credit, market and/or other risk factors. The selection of appropriate valuation approaches may be affected by the availability and reliability of relevant inputs. In some cases, one valuation approach may provide the best indication of fair value while in other circumstances, multiple valuation approaches may be appropriate. The results from applying various approaches may not be representative of fair value, due to factors such as assumptions made in the valuation. In some situations, the Foundation may determine it is appropriate to evaluate and weigh the results to develop a range of possible values, with the fair value based on the Foundation's assessment of the most representative point within the range.

The inputs considered by the Foundation in estimating the fair value of Level 3 investments include the original transaction price, completed or pending third-party transactions in the underlying investment or comparable issuers, recapitalizations or other transactions undertaken by the issuer, offerings in the equity or debt capital markets, changes in financial ratios or cash flows, historical and projected revenues, public market or private market transactions, valuations for comparable companies, information obtained from independent appraisal of the fair market value of a portfolio company's common stock, and other measures which, in many cases, are unaudited at the time received. Valuations may be derived by reference to observable valuation measures for comparable companies or transactions (e.g., multiplying a key performance metric of the investee company such as revenues by a relevant valuation multiple observed in the range of comparable companies or transactions), adjusted by management for differences between the investment and the referenced comparable, and in some instances by reference to option pricing models or other similar methods. The Foundation has valued such investments on the premise that they may not be sold without registration under the Securities Act of 1933. Level 3 investments may also be adjusted to reflect liquidity and/or non-transferability, with the amount of such discount estimated by the Foundation in the absence of market information. Assumptions used by the Foundation due to the lack of observable inputs may significantly impact the resulting fair value and therefore the Foundation's results of operations.

The Pentagon Federal Credit Union Foundation

Notes to Consolidated Financial Statements

Investments may be classified as Level 2 when market information is available, yet the investment is not traded in an active market and/or the investment is subject to transfer restrictions, or the valuation is adjusted to reflect the illiquidity and/or non-transferability of the securities. Investments whose values are based on quoted market prices in active markets are therefore classified in Level 1 of the fair value hierarchy, and include actively-traded, listed equity securities.

Investments are recorded at fair value (see Note 6) as determined in good faith by the Foundation.

Noncontrolling Interest

For noncontrolling interest, the consolidated financial statements are presented as if the parent (controlling interest) and other minority interest (noncontrolling interest) in partially owned subsidiaries have similar economic interests in a single entity. As a result, investment in noncontrolling interest is reported as net assets in the consolidated financial statements. Furthermore, the consolidated financial statements include 100% of a controlled subsidiary's earnings, rather than only the Foundation's share. Lastly, transactions between the Foundation and noncontrolling interests are reported in net assets as transactions between entities provided that these transactions do not create a change in control.

Classification of Net Assets

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

- ***Net Assets Without Donor Restrictions***

Net assets available for use in general operations and not subject to donor restrictions.

- ***Net Assets With Donor Restrictions***

Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

Functional Allocation of Expenses

The costs of program and supporting services activities have been summarized on a functional basis in the consolidated statements of activities. The consolidated statements of functional expenses present the natural classification detail of expenses by function. Accordingly, certain costs have been allocated among the programs and supporting services benefited. Expenses require allocation on a reasonable basis that is consistently applied. Professional donated services are allocated on the basis of actual time and effort.

The Pentagon Federal Credit Union Foundation

Notes to Consolidated Financial Statements

Revenue Recognition

Contributions and Grants

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 in the period received or pledged, as applicable, and are available for use in general operations unless restricted by the donor. Those that are restricted by the donor are recognized as increase in net assets with donor restrictions. When a donor restriction expires, net assets with donor restrictions are reclassified to net assets without restrictions and reported in the consolidated statements of activities as net assets released from restrictions.

Conditional contributions that are those with a measurable performance or other barrier and right of return, are recognized as revenue when the conditions on which they depend have been substantially met.

Contributed Nonfinancial Assets

The Foundation receives contributed nonfinancial assets in the form of donated services and donated goods. 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 consolidated financial statements.

Special Events

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

Concentrations of Credit Risk

The Foundation maintains all cash balance at financial institutions. Accounts at these institutions are insured by the National Credit Union Administration up to \$250,000. Uninsured balances aggregate \$6,090,730 at December 31, 2022. 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 consolidated financial statements in conformity with U.S. GAAP requires management to make certain estimates and assumptions that affect the amounts reported in the consolidated financial statements and in the accompanying notes. Actual results could differ from those estimates.

The Pentagon Federal Credit Union Foundation

Notes to Consolidated Financial Statements

Programs

The Foundation maintains three programs that benefit veterans, active-duty service members, military families, and caregivers.

The Military Heroes Program provides financial assistance to meet the individual and collective needs of our military community. The Foundation provides high-impact financial assistance to prevent a significant crisis or improve quality of life for veterans. In 2011, the Foundation embarked on a \$17 million partnership with the U.S. Department of Veterans Affairs to open a lodge to provide home and respite to veterans and their families undergoing outpatient treatment at the Palo Alto, California. The Lee and Penny Anderson Defenders Lodge opened in 2014 and has provided more than 140,000 free nights' stay to military families since then. The Foundation provides emergency response to crises. In 2017, the Foundation provided emergency financial assistance to victims of hurricanes in Puerto Rico. In 2020, the Foundation were the first Veteran Service Organization (VSO) to provide COVID-19 relief for veterans and service members affected by the pandemic. As part of the Military Heroes Program, the outreach program involves meetings with potential beneficiaries of the Foundation's programs to educate them on programs that are available and accessible to them, along with meeting other veteran service organizations regarding how they can work together with the Foundation to serve the military community.

In 2018, Veteran Entrepreneur Investment Program (VEIP) was launched as part of the Foundation's mission to provide financial opportunities for veterans. First, VEIP offers entrepreneurship training through workshops and webinars, in which the curriculum contains start-up financials, pitch preparation, and various sources of capital. Second, VEIP's Master's Program is the flagship fundraising accelerator that prepares growth-stage, veteran-owned start-ups to raise investor funds. Third, through its two investment funds, VEIP invests seed capital in veteran-owned businesses and connects entrepreneurs to other funders.

Whereas VEIP's Fund Alpha is financed through a \$1 million contribution by the Pentagon Federal Credit Union, the successor Fund Bravo is supported by four limited partners as well as an additional contribution from the Pentagon Federal Credit Union. The latter fund has raised \$6.6 million. At exit, returns on all investments are distributed back to limited partners and the remainder of proceeds are reinvested into the program to support future veteran-owned business ventures.

In 2021, the Foundation launched its Afghan Rescue and Resettlement Program to support Afghan refugee allies as part of the Military Heroes program. The Foundation provides food, clothing, housing, transportation, childcare, and other essentials to vetted Afghan families who bravely fought alongside U.S. service members as they resettle in the United States. The program has a focus on resettling Afghan women and their families who worked alongside U.S. Army women soldiers through the Army's Cultural Support Team.

Advertising Costs

Advertising costs are expensed as incurred. For the years ended December 31, 2022 and 2021, advertising expense totaled \$15,787 and \$70,412, respectively.

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Income Taxes

PFCUF is a nonprofit organization incorporated under the laws of the Commonwealth 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 consolidated financial statements. VEIP GP LLC and VEFB LP's earnings or losses are allocated to the partners for inclusion in each partner's separate tax return. As such, no provision for income taxes is included in the consolidated financial statements related to VEIP GP LLC and VEFB LP.

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 consolidated 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 Foundation is no longer subject to income tax examination by federal, state or local tax authorities for tax years before 2019.

Recent Accounting Pronouncement Adopted

In September 2020, the FASB issued Accounting Standards Update (ASU) 2020-07, *Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*. ASU 2020-07 improves the transparency of contributed nonfinancial assets through enhancements to presentation and disclosures. The ASU requires that a nonprofit present contributed nonfinancial assets as a separate line item in the consolidated statements of activities apart from contributions of cash or other financial assets. Information that shows the contributed nonfinancial assets disaggregated by category will be required to be disclosed. The ASU requires that for each type of contributed nonfinancial asset the following will be disclosed: (a) policy (if any) on liquidating rather than using the contributed nonfinancial assets, (b) qualitative considerations on whether the contributed nonfinancial assets were liquidated or used during the reporting period and, if used, a description of how the asset was employed should be included, (c) any donor imposed restrictions related to contributed nonfinancial assets, (d) valuation methods and inputs utilized to determine a fair value measure at initial recognition, and (e) the principal or most advantageous market utilized to calculate fair value if it is a market in which the NFP is restricted by the donor from selling or utilizing the contributed nonfinancial assets. The Foundation adopted the new guidance for the year ending December 31, 2022, on a retrospective basis. Further disclosure of the impact of adopting ASU 2020-07 is described in Note 5 of the consolidated financial statements.

2. VEFB LP Terms and Related Party Transactions

VEFB LP

VEFB LP (the "Partnership") is determined to be a variable interest entity and is managed by VEIP GP LLC (the "General Partner"), the primary beneficiary of VEFB LP.

Management Fee

The General Partner (or its designee) shall be compensated on a quarterly basis for services rendered during the term of the Partnership by the payment of a management fee in advance by the

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Partnership in cash to the General Partner (or its designee) on the first day of each fiscal quarter (or portion thereof) (each a “*Management Fee Payment Date*”), of a management fee. Notwithstanding the foregoing, the first payment shall be due upon the date on which the Limited Partners’ initial capital contributions are due and shall be for the amount accrued since the initial closing date plus the amount due from the period from such initial drawdown date to the beginning of the subsequent management fee payment date of the Partnership.

The management fee for each fiscal quarter during the investment period shall be an amount equal to the aggregate capital commitments of all Limited Partners as of the first day of each such quarter multiplied by 0.5% (or 2.0% per annum) and after the Investment Period shall be 0.4375% (or 1.75% per annum) of the Partnership’s invested capital (the “*Management Fee Percentage*”).

Beginning with the first full fiscal quarter following the end of the investment period and thereafter for the balance of the term of the Partnership, the quarterly management fee payable (prior to the adjustments) shall be set to an amount equal to the value of the Partnership’s aggregate invested capital as of the first day of each such quarter (with the value of any securities and other assets of the Partnership determined in the sole discretion of the General Partner and subject to review and approval of the LPA Committee) multiplied by the management fee percentage.

Allocation of Profits and Losses

The Partnership’s profits and losses are allocated as follows:

Profit and loss of the Partnership for each accounting period shall initially be apportioned among the Partners in proportion to their Partnership percentages as an interim step in determining final allocations. The amount of such profit and loss so apportioned to the General Partner shall be and remain allocated to the capital account of the General Partner.

Any profit of the Partnership initially allocated to each Limited Partner for such accounting period shall be reallocated between such Limited Partner and the General Partner as follows: first, to the capital account of such Limited Partner to the extent that such Limited Partner was previously allocated an amount of management fee or Partnership expense (net of Idle funds income) that has not been restored by previous allocations; Second, to the capital account of such Limited Partner to the extent that such Limited Partner was previously allocated an amount of loss that have not been restored by previous allocations; and thereafter, (1) twenty percent (20%) to the capital account of the General Partner and (2) eighty percent (80%) to capital account of such Limited Partner.

Any loss of the Partnership initially allocated to each Limited Partner for such accounting period shall be reallocated between such Limited Partner and the General Partner as follows: first, twenty percent (20%) to the capital account of the General Partner and eighty percent (80%) to the capital account of such Limited Partner until the cumulative Loss allocated for the current accounting period and all prior accounting periods equals the cumulative profit allocated with respect to such Limited Partner for the current accounting period and all prior accounting periods; and thereafter, one hundred percent (100%) to the capital account of such Limited Partner.

All expense items in respect of the payment by the Partnership of the management fee owed shall be allocated to the capital accounts of the Limited Partners in accordance with their respective Partnership percentages.

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All idle funds income and expenses of the Partnership (other than management fees) for each accounting period shall be allocated to the capital accounts of the partners in proportion to respective Partnership percentages.

Contributions and Withdrawals

Each partner admitted to the Partnership committed a specific dollar amount to be drawn down according to the terms of the LPA. Capital contributions by a partner for the purpose of acquiring investments or payment of management fees and partnership expenses reduce such partner's remaining capital commitment.

Capital contributions are recorded when received. As of December 31, 2022, committed capital of the Limited Partners is \$7,000,000, of which, \$5,600,000 has been called and collected with no intention to collect further. As of December 31, 2021, committed capital of the Limited Partners is \$7,000,000, of which \$1,750,000 has been called and collected.

As of December 31, 2022, committed capital of the General Partner is \$1,000,000, of which \$800,000 has been called and collected with no intention to collect further. The Partnership owed the General Partner the amount of \$200,000 as of December 31, 2022 for the capital collected in advance. As of December 31, 2021, committed capital of the General Partner is \$1,000,000, of which \$250,000 has been called and \$1,000,000 has been collected.

Except for specific circumstances described in the LPA, a Limited Partner is not permitted to withdraw any amount from its capital account.

Other Related Party Transactions

The Foundation receives cash contributions and donated services and support from the Pentagon Federal Credit Union. For the year ended December 31, 2022, the Foundation received donated services and support of \$1,387,259. For the year ended December 31, 2021, the Foundation received cash contributions of \$1,000,000 and received donated services and support of \$2,661,996.

3. Restricted Grants

During the years ended December 31, 2022 and 2021, the Foundation received \$121,931 and \$409,384, respectively, from third party donors to support the Military Heroes Program. For the years ended December 31, 2022 and 2021, the amount of funds utilized for the Military Heroes program was \$9,630 and \$318,429, respectively, which is included in total net assets released from restrictions amount for the Veteran Entrepreneur Investment program.

Additionally, the Foundation received \$452,281 and \$248,844 from third party donors to support the Veteran Entrepreneur Investment Program during the years ended December 31, 2022 and 2021, respectively. For the years ended December 31, 2022 and 2021, the amount of funds utilized for the Veteran Entrepreneur Investment program was \$330,965 and \$264,968, respectively, which is included in total net assets released from restrictions amount for the Veteran Entrepreneur Investment program.

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Last, the Foundation received \$913,113 and \$583,910 to support the Afghan Rescue and Resettlement Program during the years ended December 31, 2021 and 2022, respectively. For the years ended December 31, 2022 and 2021, the amount of funds utilized for the Afghan Rescue and Resettlement Program was \$722,761 and \$203,266, respectively, which is included in total net assets released from restrictions amount for the Afghan Rescue and Resettlement Program.

4. Contributions Receivable

As of December 31, 2022 and 2021, contributions receivable amounted to \$1,278,664 and \$6,162, respectively, net of allowance for discount of \$21,337 and \$0, respectively. Out of the total contributions receivable balance as of December 31, 2022, unconditional promises to give due in more than one year amounted to \$650,000 which was discounted using 4.79% rate. These receivables are recorded at their unpaid balances which approximate fair value.

5. Contributed Nonfinancial Assets

The Foundation received contributed nonfinancial assets in the form of donated clothing, professional services and office rent. For the years ended December 31, 2022 and 2021, contributed nonfinancial assets recognized within the consolidated statements of activities included:

Type of Donation	Valuation Techniques	Donor Restrictions	2022	2021
Donated clothing	Value of similar items using the Salvation Army Donation Value Guide	Donor restricted for Afghan Rescue and Resettlement Program beneficiaries.	\$ 2,383	\$ -
Professional services provided by Pentagon Federal Credit Union	Salaries of Pentagon Federal Credit Union employees allocated based on estimated time spent dedicated to the Foundation responsibilities	None	1,331,930	2,606,667
Office rent	Fair value per square foot of the entire office space multiplied by the number of square feet occupied by the Foundation	None	55,329	55,329
			\$ 1,389,642	\$ 2,261,996

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6. Fair Value of Financial Instruments

Assets recorded at fair value have been categorized based upon a fair value hierarchy in accordance with the provisions of ASC Topic 820.

The following tables present the investments carried by level within the fair value hierarchy as of December 31, 2022 and 2021:

<i>Description</i>	Investment Assets at Fair Value at December 31, 2022			
	Level 1	Level 2	Level 3	Total
Common stocks	\$ 16	\$ -	\$ 500,000	\$ 500,016
Convertible notes	-	-	1,350,000	1,350,000
Preferred stocks	-	-	1,834,416	1,834,416
SAFEs	-	-	2,110,000	2,110,000
Total	\$ 16	\$ -	\$ 5,794,416	\$ 5,794,432

<i>Description</i>	Investment Assets at Fair Value at December 31, 2021			
	Level 1	Level 2	Level 3	Total
Common stocks	\$ 13,343	\$ -	\$ -	\$ 13,343
Convertible notes	-	-	700,000	700,000
Preferred stocks	-	-	934,421	934,421
SAFEs	-	-	1,110,000	1,110,000
Total	\$ 13,343	\$ -	\$ 2,744,421	\$ 2,757,764

The following tables outline transactions of Level 3 assets for the years ended December 31, 2022 and 2021:

	Fair Value Measurements Using Level 3 Inputs at December 31, 2022				
	Common Stocks	Convertible Notes	Preferred Stocks	SAFEs	Total
Purchases	\$ 500,000	\$ 1,350,000	\$ 399,995	\$ 1,500,000	\$ 3,749,995
Return of investments	\$ -	\$ (300,000)	\$ -	\$ -	\$ (300,000)
Provision for investment losses	\$ -	\$ (400,000)	\$ -	\$ -	\$ (400,000)
Transfers in/out	\$ -	\$ -	\$ 500,000	\$ (500,000)	\$ -

	Fair Value Measurements Using Level 3 Inputs at December 31, 2021				
	Common Stocks	Convertible Notes	Preferred Stocks	SAFEs	Total
Purchases	\$ -	\$ 100,000	\$ 700,000	\$ 1,010,000	\$ 1,810,000

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The following tables summarize the quantitative inputs and assumptions used for investments categorized in Level 3 of the fair value hierarchy as of December 31, 2022 and 2021. The disclosure below includes financial instruments for which fair value is based on unobservable but non-quantitative inputs. Such items include financial instruments for which the determination of fair value is based on cost, prices from last transactions or third-party pricing information without adjustment, or net asset value.

	Fair Value at December 31, 2022	Valuation Techniques	Significant Unobservable Inputs
Common stocks	\$ 500,000	Market Approach: Current value	Face value of note
Convertible notes	1,350,000	Market Approach: Current value	Face value of note
Preferred stocks	1,834,416	Market Approach: Last round price	Recent financing activity
SAFEs	2,110,000	Market Approach: Current value	Face value of note
Total fair value	\$ 5,794,416		

	Fair Value at December 31, 2021	Valuation Techniques	Significant Unobservable Inputs
Convertible notes	\$ 700,000	Market Approach: Current value	Face value of note
Preferred stocks	934,421	Market Approach: Last round price	Recent financing activity
SAFEs	1,110,000	Market Approach: Current value	Face value of note
Total fair value	\$ 2,744,421		

7. Net Assets With Donor Restrictions

Net assets with donor restrictions are available for the following purposes at:

<i>December 31,</i>	2022	2021
Military Heroes	\$ 702,364	\$ 501,540
Defender's Lodge	-	28,173
Veteran Entrepreneur Investment Program	904,123	1,049,860
2022 and 2023 Night of Heroes Gala and Golf Tournament	150,000	300,000
	\$ 1,756,487	\$ 1,879,573

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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>	2022	2021
Military Heroes	\$ 784,220	\$ 838,725
Veteran Entrepreneur Investment Program	671,944	1,314,968
Defender's Lodge	28,173	33,067
Dream Makers	-	5,000
2022 Night of Heroes Gala and Golf Event	150,000	69,900
	\$ 1,634,337	\$ 2,261,660

8. Noncontrolling Interest in VEFB LP

Noncontrolling interest represents the ownership interests of VEFB LP by the Limited Partners. The amount shown in the consolidated statement of activities represents the noncontrolling owners' share of net loss of VEFB LP for the years ended December 31, 2022 and 2021. The amount shown in the consolidated statements of financial position represents contributions of limited partners to VEFB LP's capital net of share of accumulated net loss allocated to limited partners.

The noncontrolling interest balance for the years ended December 31, 2022 and 2021 consists of the following:

<i>December 31,</i>	2022	2021
Beginning balance, noncontrolling interest	\$ 1,720,382	\$ -
Capital additions from noncontrolling interest	3,850,000	1,750,000
Share in net loss of VEFB LP during the year	(134,510)	(29,618)
Ending balance, noncontrolling interest	\$ 5,435,872	\$ 1,720,382

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9. Liquidity and Availability of Resources

The Foundation's financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the consolidated statements of financial position date, comprise the following:

<i>December 31,</i>	2022	2021
Cash and cash equivalents	\$ 6,708,016	\$ 3,967,668
Contributions receivable	1,278,664	6,162
Total financial assets	7,986,680	3,973,830
Less amount unavailable for general expenditure within one year, due to:		
Restricted by donors with time or purpose restrictions	(1,756,487)	(1,879,573)
Total financial assets available to meet cash needs for general expenditure within one year	\$ 6,230,193	\$ 2,094,257

As part of the Foundation's liquidity management, financial assets are structured to provide availability to meet the needs of the general expenditure and liabilities as they come due. The Foundation's financial assets profile is reviewed in detail during the annual budget process and financial assets are aligned to meet the operational needs of the Foundation. The Foundation keeps cash in excess of daily requirements in money market funds.

10. Subsequent Events

The Foundation evaluated subsequent events through May 3, 2024, which is the date the consolidated financial statements were available to be issued. There are no events that require adjustments to, or disclosure in, these consolidated financial statements.