

THE ARCA FOUNDATION
STATEMENTS OF FINANCIAL POSITION
AS OF DECEMBER 31, 2008 and 2007

	2008	2007
Assets		
Cash	\$ 42,322	\$ 102,384
Interest and dividends receivable	474,053	92,173
Federal excise tax refund receivable	40,000	44,075
Investments, at fair value	40,822,640	59,035,375
Prepaid assets and deposits	22,304	15,940
Property and equipment, net	1,809,886	1,830,929
Total Assets	\$ 43,211,205	\$ 61,120,876
 Liabilities and Net Assets		
Liabilities		
Accounts payable and accrued liabilities	\$ 30,628	\$ 34,725
Grants payable	-	250,000
Deferred federal excise tax liability	-	63,428
Total Liabilities	30,628	348,153
Net Assets - Unrestricted	43,180,577	60,772,723
Total Liabilities and Net Assets	\$ 43,211,205	\$ 61,120,876

The accompanying notes are an integral part of these financial statements.

THE ARCA FOUNDATION
STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED DECEMBER 31, 2008 and 2007

	2008	2007
Revenue, (Losses) Gains, and Other Support		
Realized (losses) gains from sale of investments, net	\$ (2,123,129)	\$ 2,269,713
Dividends	842,663	968,401
Interest	950,880	633,305
Rental income	21,993	21,930
Other	32,450	2,880
Unrealized losses on investments, net	<u>(13,791,578)</u>	<u>(1,342,001)</u>
Total revenue, (losses) gains and other support	(14,066,721)	2,554,228
Expenses:		
Salaries and benefits	311,552	305,142
Investment advisory fees	71,214	91,742
Travel costs	41,277	36,471
Depreciation	52,971	63,695
Board stipend	32,500	40,000
Property taxes	26,510	22,712
Meetings and conferences	22,537	20,021
Auditing and accounting	16,418	16,773
Repairs and maintenance	16,532	17,892
Payroll taxes	15,968	14,713
Legal	15,335	15,320
Office supplies and expenses	15,087	10,275
Insurance	13,399	13,588
Utilities	12,845	14,253
Furniture and equipment rental	11,540	9,581
Annual reports	9,150	13,363
Computer service fees	8,480	9,719
Miscellaneous	7,918	23,640
Telephone	5,113	4,712
Dues and postage	<u>3,648</u>	<u>2,515</u>
Total expenses	709,994	746,127
Change in Unrestricted Net Assets Before Grant and Federal Excise Tax Benefit		
Grant expenses	(14,776,715)	1,808,101
	<u>(2,878,859)</u>	<u>(3,637,859)</u>
Change in Unrestricted Net Assets Before Federal Excise Tax		
Federal excise tax (expense)/benefit	(17,655,574)	(1,829,758)
	<u>63,428</u>	<u>(24,598)</u>
Change in Unrestricted Net Assets		
	(17,592,145)	(1,854,356)
Unrestricted Net Assets, beginning of year	<u>60,772,723</u>	<u>62,627,079</u>
Unrestricted Net Assets, end of year	<u>\$ 43,180,577</u>	<u>\$ 60,772,723</u>

The accompanying notes are an integral part of these financial statements.

THE ARCA FOUNDATION
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007

	2008	2007
Cash Flows from Operating Activities		
Change in unrestricted net assets	\$(17,592,146)	\$ (1,854,356)
<i>Adjustments to reconcile change in unrestricted net assets to net cash used in operating activities:</i>		
Depreciation	52,971	63,695
Net realized and unrealized gains on investments	15,914,707	(927,712)
(Decrease) in deferred tax liability	(63,428)	(13,446)
Increase in receivables	(377,805)	106,091
Decrease (Increase) in prepaid expenses and deposits	(6,364)	10,665
(Decrease) Increase in accounts payable and accrued liabilities	(4,097)	(8,069)
Increase (Decrease) in grants payable	(250,000)	250,000
Total adjustments	15,265,984	(518,776)
Net Cash Used In Operating Activities	(2,326,162)	(2,373,132)
Cash Flows from Investing Activities		
Purchase of investments	(31,661,039)	(25,586,481)
Proceeds from sale of investments	33,959,067	27,935,544
Purchases of property and equipment	(31,928)	(12,751)
Net Cash Provided by Investing Activities	2,266,100	2,336,312
Net increase (decrease) in cash	(60,062)	(36,820)
Cash, beginning of year	102,384	139,204
Cash, end of year	\$ 42,322	\$ 102,384

The accompanying notes are an integral part of these financial statements.

THE ARCA FOUNDATION
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2008 AND 2007

NOTE 1. NATURE OF OPERATIONS

The Arca Foundation, formerly known as the Nancy Reynolds Bagley Foundation (the Foundation), is a private, not-for-profit, charitable organization based in Washington, D.C. The Foundation was established in 1952.

The purpose of the Foundation is to support not-for-profit organizations in the United States whose work encourages a more open foreign policy based on respect for international law, human rights and the sovereignty of all nations. The Foundation also supports projects concerned with domestic social change. The Foundation's main source of revenue is investment income.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies followed are described below to enhance the usefulness of the financial statements to the reader.

- ***Basis of Presentation***

Financial presentation follows the recommendations of the Financial Accounting Standards Board. Under those standards for Not-for-profit Organizations, the Foundation is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted net assets, and permanently restricted net assets.

- ***Basis of Accounting***

The financial statements of the Foundation have been prepared on the accrual basis of accounting. Under this basis, revenue is recognized when accrued and expenses are recognized as incurred.

- ***Cash***

Cash represents demand deposits on hand at financial institutions.

- ***Investments***

Investments are carried at fair value. Fair value is determined by quoted market prices. Unrealized gains and losses on investments resulting in market fluctuations are included in the statement of activities in the period in which the fluctuations occur. Realized gains and losses on the sale of securities are determined on the basis of cost of certificates delivered from specific lots, or the "identified cost" basis. Dividend income is recorded on the dividend date. Interest income is recorded on the accrual basis of accounting.

- ***Financial Instruments and Credit Risk***

Financial instruments that potentially subject the Foundation to concentrations of credit risk consist principally of investments held at a creditworthy financial institution. By policy, these investments are kept within limits designed to prevent risks caused by concentration.

- ***Risks and Uncertainties***

Investment securities are exposed to various risks, such as interest rate, credit and overall market volatility. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in risks and values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the statements of financial position.

- ***Furniture and Equipment***

Furniture and equipment are recorded at cost. The Foundation capitalizes all expenditures for furniture and equipment over \$2,500. Depreciation is computed using the straight-line method over the estimated useful lives of the assets. When assets are sold or otherwise disposed of, the asset cost and related accumulated depreciation are removed from the accounts, and any gain or loss is included in the statement of activities. Repairs and maintenance are charged to expense when incurred.

Building and Building improvements	39 years
Furniture and equipment	3-5 years

- ***Unrestricted Net Assets***

Unrestricted net assets are available for use in general operations.

- ***Grants***

Grant awards are disbursed to organizations upon approval of the Board, and subsequent notification to the trustee. The Foundation records grants payable upon approval and fulfillment of conditions, if applicable.

- ***Tax-exempt Status***

The Foundation is classified as a private foundation exempt from Federal income taxes under Section 501(c)(3) of the Internal Revenue Code (IRC) and the applicable laws of the District of Columbia. As such, the Foundation is not subject to federal or state income taxes. However, the Foundation is subject to federal excise taxes on net investment income.

The Foundation follows the policy of providing for federal excise taxes on net appreciation (both realized and unrealized) on investments. The deferred provision for federal excise tax represents taxes provided on net unrealized appreciation (depreciation) on investments.

- ***Functional Allocation of Expenses***

The cost of providing various program and supporting services have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among program and supporting services benefited.

- ***Use of Estimates***

Management uses estimates and assumptions in preparing financial statements in conformity with generally accepted accounting principles in the United States of America. Those estimates and assumptions affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

NOTE 3. CONCENTRATION OF CREDIT RISK

Financial instruments which potentially subject the Foundation to concentrations of credit risk consist primarily of cash and investments.

The Foundation maintains cash balances which, at times, may exceed federally insured limits. The Foundation has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on its cash.

NOTE 4. INVESTMENTS

The estimated fair value and cost of the Foundation's investments as of December 31, 2008 and 2007 are as follows:

	2008		2007	
	Fair Value	Cost	Fair Value	Cost
Short-term investments	\$ 9,380,459	\$ 9,380,459	\$ 1,349,992	\$ 1,349,992
Treasury bonds and notes	818,884	680,639	1,974,330	1,933,926
U.S. agency bonds	6,204,451	6,043,674	6,520,737	6,479,247
U.S. corporate bonds	5,852,078	6,000,204	5,253,794	5,234,756
Other fixed income	1,330,847	1,507,218	229,937	227,016
Common stocks	632,899	1,010,465	18,212,623	16,333,718
Mutual Funds	16,603,022	23,648,801	25,493,962	21,163,961
Total	\$ 40,822,640	\$48,271,460	\$ 59,035,375	\$ 52,722,616

Subsequent to December 31, 2008 and through the date of this report, the stock market continued to experience a significant decline in value, which materially affected the value of the investments held by the Foundation. Such impact is not reflected in the fair values reported above at December 31, 2008.

NOTE 5. PROPERTY AND EQUIPMENT

Property and equipment consists of:

	2008	2007
Land	\$ 218,750	\$ 218,750
Building	656,250	656,250
Building improvements	1,247,531	1,247,531
Furniture and equipment	126,704	120,359
Total	2,249,235	2,242,890
Less: Accumulated depreciation	(439,349)	(411,961)
Total	\$ 1,809,886	\$ 1,830,929

Depreciation expense for the years ended December 31, 2008 and 2007 was \$52,971 and \$63,695, respectively.

NOTE 6. FUNCTIONAL EXPENSES

The following is a breakdown of the Foundation's functional expenses for the years ended December 31:

	<u>2008</u>	<u>2007</u>
Program:		
Grant programs	\$ 2,917,843	\$ 3,838,761
Support:		
Management and general	<u>607,582</u>	<u>569,823</u>
Total	<u>\$ 3,525,425</u>	<u>\$ 4,408,584</u>

Grant Program: The Foundation's general purpose is to support not-for-profit organizations within the United States whose work encourages a more open foreign policy based on respect for international law, human rights and the sovereignty of all nations. The Foundation also supports projects concerned with domestic social changes.

Management and General: This supporting service category includes the functions necessary to secure proper administrative functioning of the Foundation, maintain an adequate work environment, and manage the financial responsibilities of the Foundation.

NOTE 7. FEDERAL EXCISE TAXES

The Foundation is subject to federal excise tax imposed on private foundations on net investment income. The current excise tax rate is two percent. A reduction of the tax to 1% can be achieved by meeting qualifications under Section 4940(e) of the IRC. The Foundation qualified for a 1% excise tax rate for the year ended December 31, 2008.

The deferred tax liability arises from unrealized appreciation (depreciation) on investments. The deferred federal excise taxes on unrealized appreciation (depreciation) on investments were recorded at 1% excise tax rate in 2007 and 2008. The deferred portion of income tax expense will only be paid when the unrealized gains become realized. In fiscal year 2008, the Foundation incurred cumulative net unrealized losses which depleted the cumulative net unrealized gains and resulted in a deferred tax benefit as shown below.

Federal excise tax expense consists of the following at December 31:

<u>Federal Excise Tax Expense Benefit</u>	<u>2008</u>	<u>2007</u>
Current	\$ -	\$ 38,045
Change in Deferred	<u>(63,428)</u>	<u>(13,447)</u>
Total	<u>\$ (63,428)</u>	<u>\$ 24,598</u>

NOTE 8. PENSION PLAN

The Foundation maintains a defined contribution pension plan (the Plan) in accordance with Section 403(b) of the Internal Revenue Code. The Foundation contributes 5% of each eligible employee's annual compensation to the Plan. Foundation employees may also contribute to the Plan. Employees are immediately vested in employer contributions. The amount of employer pension expense was \$7,764 and \$10,305 for the year ended December 31, 2008 and 2007, respectively. The Plan is administered by Wachovia Securities.

NOTE 9. RELATED PARTY TRANSACTION

The Foundation entered into the following related party transaction during the year ended December 31, 2008 and 2007. The Brenn Foundation, a foundation with a common member of management, rents six hundred and eight square feet of the Foundation's headquarters for an indefinite term. The arrangement also includes utilities, cleaning service, and use of kitchens and conference rooms. The rent is paid on a monthly basis. The Foundation recognized, as a result of this arrangement, rental income of \$21,993 and \$21,930 as of December 31, 2008 and 2007, respectively.

During the year ended December 31, 2008 and 2007, the Foundation made grant disbursements of \$230,000 and \$300,000, respectively, to organizations that have common board members with the Foundation.

NOTE 10. SUPPLEMENTAL DISCLOSURE OF CASH FLOWS INFORMATION

	<u>2008</u>	<u>2007</u>
Cash paid during the year for income taxes	<u>\$ 40,000</u>	<u>\$ 82,120</u>