

Statement of Activities

Years Ended December 31, 2002 and 2001

	2002	2001
Revenue, Gains and Other Support		
Unrealized losses on investments	\$(11,290,775)	\$(4,840,626)
Realized (losses) gains from sale of investments	(663,681)	963,679
Interest	784,252	1,183,197
Dividends	780,384	780,814
Rental income	410	22,564
Total revenue, gains and other support	<u>(10,389,410)</u>	<u>(1,890,372)</u>
Expenses		
Salaries and benefits	280,800	255,745
Investment advisory fees	80,252	91,940
Travel costs	76,694	81,440
Anniversary Celebration	64,090	-----
Rent & utilities	59,506	76,643
Board stipend	57,500	37,500
Depreciation	49,415	19,872
Office supplies and expenses	40,093	11,626
Miscellaneous	33,420	34,148
Legal	20,998	19,359
Payroll taxes	14,583	13,007
Dues and postage	12,523	7,605
Auditing and accounting	11,755	15,586
Annual reports	10,683	9,684
Insurance	8,629	11,728
Telephone	7,674	6,839
Taxes - Property	6,463	5,015
Board books	2,367	3,612
Settlement Fees	-----	12,902
Total expenses	<u>837,445</u>	<u>714,251</u>
Change in Unrestricted Net Assets Before Grant and Federal Excise Tax Expense	(11,226,855)	(2,604,623)
Grant expenses	<u>2,944,164</u>	<u>3,060,917</u>
Change in Unrestricted Net Assets Before Federal Excise Tax (Expense) Benefit	(14,171,019)	(5,665,540)
Federal excise tax (expense) benefit	<u>242,492</u>	<u>43,633</u>
Change in Unrestricted Net Assets	(13,928,527)	(5,621,907)
Net Assets, beginning of year	<u>67,137,299</u>	<u>72,759,206</u>
Net Assets, end of year	<u>\$ 53,208,772</u>	<u>\$ 67,137,299</u>

The accompanying notes are an integral part of these financial statements

Statement of Financial Position December 31, 2002 and 2001

	2002	2001
Assets		
Cash	\$ 143,246	\$ 69,273
Accounts receivable	25,444	57,181
Investments	51,130,265	66,167,456
Prepaid expenses	27,969	103,697
Property and equipment	<u>2,140,241</u>	<u>1,278,720</u>
Total Assets	<u>\$ 53,467,165</u>	<u>\$ 67,676,327</u>
Liabilities and Net Assets		
Liabilities		
Accounts payable and accrued liabilities	\$ 52,454	\$ 107,277
Deferred tax liability	<u>205,939</u>	<u>431,751</u>
Total liabilities	258,393	539,028
Commitments and Contingencies	-----	-----
Net Assets - Unrestricted	<u>53,208,772</u>	<u>67,137,299</u>
Total Liabilities and Net Assets	<u>\$ 53,467,165</u>	<u>\$ 67,676,327</u>

The accompanying notes are an integral part of these financial statements

Statement of Cash Flows

Years Ended December 31, 2002 and 2001 Increase (Decrease) in Cash

	2002	2001
Cash Flows from Operating Activities		
Change in unrestricted net assets	\$(13,928,527)	\$(5,621,907)
Adjustments to reconcile change in unrestricted net assets to net cash used in operating activities:		
Depreciation	49,415	19,872
Net realized and unrealized losses on investments	11,954,456	3,876,947
Decrease in accounts receivable	31,737	38,817
Decrease (increase) in prepaid expenses	75,728	(95,492)
Decrease in deposit	----	75,000
(Decrease) increase in accounts payable and accrued liabilities	(54,823)	94,215
Decrease in deferred tax liability	(225,812)	(96,816)
Total adjustments	<u>11,830,701</u>	<u>3,912,543</u>
Net Cash Used In Operating Activities	<u>(2,097,826)</u>	<u>(1,709,364)</u>
Cash Flows from Investing Activities		
Purchase of investments	(18,396,244)	(22,702,553)
Proceeds from sale of investments	21,478,979	25,695,318
Purchases of property and equipment	(910,936)	(1,290,476)
Net Cash Provided by Investing Activities	<u>2,171,799</u>	<u>1,702,289</u>
Net increase (decrease) in cash	73,973	(7,075)
Cash, beginning of year	<u>69,273</u>	<u>76,348</u>
Cash, end of year	<u>\$ 143,246</u>	<u>\$ 69,273</u>

The accompanying notes are an integral part of these financial statements

Notes to the Financial Statements

1. General Information and Summary of Significant Accounting Policies

General Information

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.

Summary of Significant Accounting Policies

Basis of Accounting

The financial statements of the Foundation have been prepared on the accrual basis of accounting.

Cash

Cash represents demand deposits on hand at financial institutions.

Investments

Investments are carried at fair value. Unrealized gains and losses on investments are included in the statement of activities. 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.

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.

Furniture and Equipment

Furniture and equipment are recorded at cost. The Foundation capitalizes all expenditures for furniture and equipment over \$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.

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.

Functional Allocation of Expenses

The costs of providing various program and supporting services have been summarized on a functional basis in Note 8 to the financial statements. Accordingly, certain costs have been allocated to program services.

Pervasiveness of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

2. Tax 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, except for federal excise taxes on net investment income. The current excise tax rate is two percent.

A reduction of the tax to one percent can be achieved by meeting qualifications under Section 4940(e) of the IRC. The deferred tax liability arises from unrealized appreciation (depreciation) on investments. The deferred Federal excise taxes on unrealized appreciation (depreciation) is calculated using the two percent tax rate since the qualification for the one percent tax is not determinable until the year in which gains are realized. The deferred portion of income tax expense will only be paid when the unrealized gains become realized.

Federal income tax expense consists of the following at December 31,

	2002	2001
Federal excise tax expense (benefit)		
Current	\$ -----	\$ 53,183
Deferred	(242,492)	(96,816)
	<u>\$ (242,492)</u>	<u>\$ (43,633)</u>

3. Accounts Receivable

The components of accounts receivable are as follows at December 31,

	2002	2001
Other receivable	\$ 24,202	\$ 5,768
Interest receivable	2,243	5,996
Dividends receivable	-----	<u>45,417</u>
	<u>\$ 25,444</u>	<u>\$ 57,181</u>

4. Investments

The estimated fair value and cost of the Foundation's investments as of December 31, 2002 and 2001 are as follows:

	2002		2001	
	Fair Value	Cost	Fair Value	Cost
Short-term investments	\$ 2,979,317	\$ 2,979,317	\$ 3,683,004	\$ 3,683,004
Treasury bonds and notes	11,568,445	11,091,152	11,691,790	11,263,122
U.S. agency bonds	2,817,340	2,737,225	1,771,903	1,737,225
U.S. corporate bonds	480,395	484,140	468,210	484,140
Preferred stocks	-----	-----	562,500	526,140
Common Stocks	<u>33,284,768</u>	<u>23,541,474</u>	<u>47,990,049</u>	<u>26,886,094</u>
Total	<u>\$ 51,130,265</u>	<u>\$ 40,833,308</u>	<u>\$ 66,167,456</u>	<u>\$ 44,579,725</u>

5. Property and Equipment

Property and equipment consists of:

	2002	2001
Land	\$ 218,750	\$ 218,750
Building	656,250	656,250
Building improvements	1,234,781	415,158
Furniture and equipment	<u>106,774</u>	<u>38,938</u>
	2,216,555	1,329,096
Accumulated depreciation	76,314	50,376
	<u>\$ 2,140,241</u>	<u>\$ 1,278,720</u>

6. Grants

During the years ended December 31, 2002 and 2001, the Foundation made grant disbursements of \$75,000 and \$50,000, respectively, to organizations that have common board members to the Foundation.

7. Commitments

Operating Lease

The Foundation leased office space under a month-to-month operating lease. The Foundation incurred rental expense of \$47,772 and \$73,856 for the years ended December 31, 2002 and 2001, respectively. This lease was cancelled in 2002 because the Foundation purchased a building to be used for office space during 2001 and relocated to the building during 2002.

The Foundation subleased a portion of this office space. Rental income under this sublease was \$410 and \$22,564 for the years ended December 31, 2002 and 2001, respectively.

8. Functional Expenses

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

	2002	2001
Grant program	\$ 3,274,159	\$ 3,555,352
Management and general	<u>264,958</u>	<u>176,183</u>
	\$ 3,539,117	\$ 3,731,535

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.

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.

9. 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. The amount of employer pension expense was \$9,219 and \$8,621 for the years ended December 31, 2002 and 2001, respectively. The Plan is administered by Prudential Securities.