

## Statement of Activities

Years Ended December 31, 2003 and 2002

	2003	2002
<b>Revenue, Gains and Other Support</b>		
Unrealized gains (losses) on investments	\$ 4,549,061	\$(11,290,775)
Realized gains (losses) from sale of investments	2,628,648	(663,681)
Interest	850,860	784,252
Dividends	689,051	780,384
Rental income	21,530	410
Total revenue, gains and other support	<u>8,739,150</u>	<u>(10,389,410)</u>
<b>Expenses</b>		
Salaries and benefits	306,561	280,800
Investment advisory fees	77,236	80,252
Travel costs	66,399	76,694
Depreciation	65,114	49,415
Miscellaneous	38,048	33,420
Board stipend	37,500	57,500
Taxes - Property	23,618	6,463
Payroll taxes	15,852	14,583
Auditing and accounting	14,204	11,755
Legal	12,905	20,998
Insurance	12,362	8,629
Rent & utilities	12,203	59,506
Annual reports	10,357	10,683
Office supplies and expenses	8,494	40,093

**Statement of Activities cont.**

	2003	2002
Dues and postage	8,417	12,523
Board books	6,520	2,367
Telephone	4,210	7,674
Anniversary Celebration	---	64,090
Total expenses	<u>720,000</u>	<u>837,445</u>
Change in Unrestricted Net Assets Before Grant and		
Federal Excise Tax Expense	8,019,150	(11,226,855)
Grant expenses	<u>2,404,705</u>	<u>2,944,164</u>
Change in Unrestricted Net Assets Before Federal		
Excise Tax (Expense) Benefit	5,614,445	(14,171,019)
Federal excise tax (expense) benefit	<u>(137,780)</u>	<u>242,492</u>
Change in Unrestricted Net Assets	5,476,665	(13,928,527)
Net Assets, beginning of year	<u>53,208,772</u>	<u>67,137,299</u>
Net Assets, end of year	<u>\$ 58,685,437</u>	<u>\$ 53,208,772</u>

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

## Statement of Financial Position

December 31, 2003 and 2002

	2003	2002
<b>Assets</b>		
Cash	\$ 184,536	\$ 143,246
Accounts receivable	30,014	25,444
Investments	56,685,973	51,130,265
Prepaid expenses	25,014	27,969
Property and equipment	2,077,357	2,140,241
Total Assets	<u>\$ 59,002,894</u>	<u>\$ 53,467,165</u>
Liabilities and Net Assets		
<b>Liabilities</b>		
Accounts payable and accrued liabilities	\$20,453	\$ 32,454
Grants payable	---	20,000
Deferred tax liability	297,004	205,939
Total liabilities	<u>317,457</u>	<u>258,393</u>
Commitments and Contingencies	---	---
Net Assets - Unrestricted	58,685,437	53,208,772
Total Liabilities and Net Assets	<u>\$ 59,002,894</u>	<u>\$ 53,467,165</u>

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

## Statement of Cash Flows

Years Ended December 31, 2003 and 2002 Increase (Decrease) in Cash

	2003	2002
<b>Cash Flows from Operating Activities</b>		
Change in unrestricted net assets	\$ 5,476,665	\$ (13,928,527)
Adjustments to reconcile change in unrestricted net assets to net cash used in operating activities:		
Depreciation	65,114	49,415
Net realized and unrealized (gains)/ losses on investments	(7,177,709)	11,954,456
Increase (decrease) in deferred tax liability	91,065	(225,812)
(Increase) decrease in accounts receivable	(4,570)	31,737
Decrease in prepaid expenses	2,955	75,728
Decrease in accounts payable and accrued liabilities	(12,001)	(74,823)
(Decrease) increase in grants payable	(20,000)	20,000
Total adjustments	<u>(7,055,146)</u>	<u>11,830,701</u>
Net Cash Used In Operating Activities	<u>(1,578,481)</u>	<u>(2,097,826)</u>
<b>Cash Flows from Investing Activities</b>		
Purchase of investments	(28,966,931)	(18,396,244)
Proceeds from sale of investments	30,588,932	21,478,979
Purchases of property and equipment	<u>(2,230)</u>	<u>(910,936)</u>
Net Cash Provided by Investing Activities	<u>1,619,771</u>	<u>2,171,799</u>
Net increase in cash	41,290	73,973
Cash, beginning of year	<u>143,246</u>	<u>69,273</u>
Cash, end of year	<u>\$ 184,536</u>	<u>\$ 143,246</u>

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

## Notes to the Financial Statements

### Note 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.

## Notes to the Financial Statements cont.

### **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.

### **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.

## Reclassifications

Certain accounts in the 2002 financial statements have been reclassified to conform with the current year financial statement presentation.

## Note 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,

	2003	2002
Federal excise tax expense (benefit)		
Current	\$ 46,713	\$ ---
Deferred	91,067	(242,492)
	<u>\$ 137,780</u>	<u>\$ (242,492)</u>

## Notes to the Financial Statements cont.

### Note 3. Accounts Receivable

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

	2003		2002	
Other receivable	\$	9,640	\$	23,202
Interest receivable		<u>20,374</u>		<u>2,242</u>
	\$	30,014	\$	25,444

### Note 4. Investments

The estimated fair value and cost of the Foundation's investments as of December 31, 2003 and 2002 are as follows:

	2003		2002	
	Fair Value	Cost	Fair Value	Cost
Short-term investments	\$ 1,112,104	\$ 1,112,104	\$ 2,979,317	\$ 2,979,317
Treasury bonds and notes	6,581,903	6,390,399	11,568,445	11,091,152
U.S. agency bonds	2,006,890	2,000,000	2,817,340	2,737,225
U.S. corporate bonds	4,829,123	4,853,278	480,395	484,140
Common Stocks	<u>42,155,953</u>	<u>27,479,897</u>	<u>33,284,768</u>	<u>23,541,474</u>
Total	\$ 56,685,973	\$ 41,835,678	\$ 51,130,265	\$ 40,833,308

### Note 5. Property and Equipment

Property and equipment consists of:

	2003		2002	
Land	\$	218,750	\$	218,750
Building		656,250		656,250
Building improvements		<u>1,234,781</u>		<u>1,234,781</u>
Furniture and equipment	109,005	106,774	2,218,786	2,216,555
Accumulated depreciation	141,429	\$ 76,314	2,077,357	\$ 2,140,241

**Note 6. Grants**

During the years ended December 31, 2003 and 2002, the Foundation made grant disbursements of \$425,000 and \$75,000, respectively, to organizations that have common board members to the Foundation.

**Note 7. Commitments****Operating Lease**

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

**Note 8. Functional Expenses**

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

	2003	2002
Grant program	\$ 2,783,458	\$ 3,274,159
Management and general	<u>479,027</u>	<u>264,958</u>
	\$ 3,262,485	\$ 3,539,117

**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.

**Notes to the Financial Statements cont.**

**Note 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 \$10,876 and \$9,219 for the years ended December 31, 2003 and 2002, respectively. The Plan is administered by Prudential Securities.

**Note 10. Related Party Transaction**

The Foundation entered into the following related party transaction during the year ended December 31, 2003. The Brenn Foundation 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 room. The rent is paid on a monthly basis. The Foundation recognized \$21,530 of rental income as a result of this arrangement.

**Note 11. Supplemental Disclosure of Cash Flows Information**

		2003		2002
Cash paid during the year	\$	46,713	\$	---