

Statements of Activities

Years Ended December 31, 2004 and 2003

	2004	2003
Revenue, Gains and Other Support		
Realized gains from sale of investments	\$ 6,200,219	\$ 2,628,648
Dividends	674,609	689,051
Interest	671,296	850,860
Rental income	20,757	21,530
Miscellaneous	4,393	---
Unrealized (losses) gains on investments	(2,983,527)	4,549,061
Total revenue, gains and other support	4,587,747	8,739,150
Expenses		
Salaries and benefits	311,216	306,561
Investment advisory fees	76,684	77,236
Depreciation	67,609	65,114
Travel costs	62,055	66,399
Miscellaneous	57,118	38,048
Board stipend	40,000	37,500
Rent & utilities	19,729	12,203
Property taxes	17,726	23,618
Auditing and accounting	15,556	14,204
Legal	15,409	12,905
Payroll taxes	15,303	15,852
Annual reports	11,866	10,357
Insurance	10,876	12,362
Dues and postage	9,477	8,417
Board books	7,790	6,520
Office supplies and expenses	7,689	8,494
Telephone	4,848	4,210
Total expense	750,951	720,000

Statement of Activities cont.

Years Ended December 31, 2004 and 2003

	2004	2003
Change in Unrestricted Net Assets Before Grant and Federal Excise Tax Benefit (Expense)	3,836,796	8,019,150
Grant expenses	3,007,017	2,404,705
Change in Unrestricted Net Assets Before Federal Excise Tax Benefit (Expense)	829,779	5,614,445
Federal excise tax benefit (expense)	24,014	(137,780)
Change in Unrestricted Net Assets	853,793	5,476,665
Net Assets, beginning of year	58,685,437	53,208,772
Net Assets, end of year	\$ 59,539,230	\$ 58,685,437

Statements of Financial Position

December 31, 2004 and 2003

	2004	2003
Assets		
Cash	\$ 172,331	\$ 184,536
Accounts receivable	37,367	30,014
Investments	57,577,008	56,685,973
Prepaid expenses	26,099	25,014
Property and equipment	2,017,019	2,077,357
Total Assets	\$ 59,829,824	\$ 59,002,894

Liabilities and Net Assets

Liabilities

Accounts payable and accrued liabilities	\$ 29,857	\$ 20,453
Grants payable	25,000	
Deferred tax liability	235,737	297,004
Total liabilities	290,594	317,457
Commitments and Contingencies		
Net Assets - Unrestricted	59,539,230	58,685,437
Total Liabilities and Net Assets	\$ 59,829,824	\$ 59,002,894

The accompanying notes are an integral part of these financial statements

Statements of Cash Flows

Years Ended December 31, 2004 and 2003 Increase (Decrease) in Cash

	2004	2003
Cash Flows from Operating Activities		
Change in unrestricted net assets	\$ 853,793	\$ 5,476,665
Adjustments to reconcile change in unrestricted net assets to net cash used in operating activities:		
Depreciation	67,609	65,114
Net realized and unrealized gains on investments	(3,216,692)	(7,177,709)
(Decrease) increase in deferred tax liability	(61,267)	91,065
Decrease (increase) in accounts receivable	(7,353)	(4,570)
(Increase) decrease in prepaid expenses	(1,085)	2,955
Increase (decrease) in accounts payable and accrued liabilities	9,404	(12,001)
Increase (decrease) in grants payable	25,000	(20,000)
Total adjustments	(3,184,384)	(7,055,146)
Net Cash Used In Operating Activities	(2,330,591)	(1,578,481)
Cash Flows from Investing Activities		
Purchase of investments	(55,648,012)	(28,966,931)
Proceeds from sale of investments	57,973,669	30,588,932
Purchases of property and equipment	(7,271)	(2,230)
Net Cash Provided by Investing Activities	2,318,386	1,619,771
Net (decrease) increase in cash	(12,205)	41,290
Cash, beginning of year	184,536	143,246
Cash, end of year	\$ 172,331	\$ 184,5360

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.

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.

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,

	2004	2003
Federal excise tax (benefit) expense		
Current	\$ 37,255	\$ 46,713
Deferred	(61,269)	91,067
	\$ (24,014)	\$ 137,780

Notes to the Financial Statements cont.

Note 3. Concentration of Credit Risk

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. Accounts Receivable

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

	2004	2003
Other receivable	\$ 3,946	\$ 9,640
Interest receivable	33,421	20,374
	\$ 37,367	\$ 30,014

Note 5. Investments

The estimated fair value and cost of the Foundation's investments as of December 31, 2004 and 2003 are as follows:

	2004		2003	
	Fair Value	Cost	Fair Value	Cost
Short-term investments	\$ 364,257	\$ 364,257	\$ 1,112,104	\$ 1,112,104
Treasury bonds and notes	1,342,853	1,287,107	6,581,903	6,390,399
U.S. agency bonds	977,342	979,854	2,006,890	2,000,000
U.S. corporate bonds	11,264,432	11,349,060	4,829,123	4,853,278
Foreign government bond	94,011	98,046	- - -	- - -
Common stocks	43,534,113	31,711,843	42,155,953	27,479,897
Total	\$ 57,577,008	\$ 45,790,167	\$ 56,685,973	\$ 41,835,678

Note 6. Property and Equipment

Property and equipment consists of:

	2004	2003
Land	\$ 218,750	\$ 218,750
Building	656,250	656,250
Building improvements	1,234,781	1,234,781
Furniture and equipment	116,276	109,005
	2,226,057	2,218,786
Accumulated depreciation	209,038	141,429
	\$ 2,017,019	\$ 2,077,357

Depreciation expense for the years ended December 31, 2004 and 2003 was \$67,609 and \$65,114, respectively.

Note 7. Grants

During the years ended December 31, 2004 and 2003, the Foundation made grant disbursements of \$627,270 and \$425,000, respectively, to organizations that have common board members with the Foundation.

Note 8. Functional Expenses

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

	2004	2003
Grant program	\$ 3,461,945	\$ 2,783,458
Management and general	272,009	479,027
	\$ 3,733,954	\$ 3,262,485

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 change.

Notes to the Financial Statements cont.

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 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 \$9,675 and \$10,876 for the years ended December 31, 2004 and 2003, 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, 2004 and 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, as a result of this arrangement, rental income of \$20,757 and \$21,530 as of December 31, 2004 and 2003, respectively.

Note 11. Supplemental Disclosure of Cash Flows Information

	2004	2003
Cash paid during the year for income taxes	\$ 37,255	\$ 46,713