

# STATEMENT OF FINANCIAL POSITION

FOR THE YEAR ENDED DECEMBER 31, 2006 (WITH COMPARATIVE TOTALS FOR 2005)

|  | <b>2006</b>                | <b>2005</b>                |
|--|----------------------------|----------------------------|
| <b>Assets</b>                            |                            |                            |
| Cash                                     | \$139,204                  | \$89,749                   |
| Interest receivable                      | 152,463                    | 169,720                    |
| Federal excise tax refund receivable     | 89,876                     | ...                        |
| Other receivable                         | ...                        | 136,139                    |
| Investments, at fair value               | 60,456,726                 | 56,762,342                 |
| Prepaid assets and deposits              | 26,605                     | 26,439                     |
| Property and equipment, net              | <u>1,881,873</u>           | <u>1,951,104</u>           |
| <b>Total Assets</b>                      | <b><u>\$62,746,747</u></b> | <b><u>\$59,135,493</u></b> |
| <b>Liabilities and Net Assets</b>        |                            |                            |
| <b>Liabilities</b>                       |                            |                            |
| Accounts payable and accrued liabilities | \$42,794                   | \$32,238                   |
| Grants payable                           | ...                        | 25,000                     |
| Deferred federal excise tax liability    | <u>76,874</u>              | <u>77,635</u>              |
| <b>Total Liabilities</b>                 | <b><u>119,668</u></b>      | <b><u>134,873</u></b>      |
| <b>Net Assets - Unrestricted</b>         | <b><u>62,627,079</u></b>   | <b><u>59,000,620</u></b>   |
| <b>Total Liabilities and Net Assets</b>  | <b><u>\$62,746,747</u></b> | <b><u>\$59,135,493</u></b> |

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

# STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED DECEMBER 31, 2006 (WITH COMPARATIVE TOTALS FOR 2005)

|   | <b>2006</b>      | <b>2005</b>      |
|---|------------------|------------------|
| <b>Revenue, Gains, and Other Support</b>      |                  |                  |
| Realized gains from sale of investments, net  | \$6,066,186      | \$5,140,067      |
| Dividends                                     | 882,133          | 840,930          |
| Interest                                      | 698,745          | 586,142          |
| Rental income                                 | 21,730           | 22,080           |
| Miscellaneous                                 | 21,193           | ...              |
| Unrealized losses on investments, net         | (112,101)        | (3,402,714)      |
| <b>Total revenue, gains and other support</b> | <b>7,577,886</b> | <b>3,186,505</b> |
| <b>Expenses</b>                               |                  |                  |
| Salaries and benefits                         | 268,158          | 325,669          |
| Investment advisory fees                      | 104,574          | 77,000           |
| Travel costs                                  | 46,453           | 91,952           |
| Depreciation                                  | 69,231           | 69,998           |
| Miscellaneous                                 | 51,137           | 47,356           |
| Board stipend                                 | 45,075           | 45,000           |
| Utilities                                     | 14,953           | 14,706           |
| Property taxes                                | 24,927           | 18,359           |
| Auditing and accounting                       | 22,484           | 15,677           |
| Legal   | 15,309           | 15,300           |
| Payroll taxes                                 | 14,904           | 15,224           |

|  | <b>2006</b>                       | <b>2005</b>                       |
|--|-----------------------------------|-----------------------------------|
| Annual reports   | 14,962                            | 14,237                            |
| Insurance  | 13,094                            | 12,794                            |
| Dues and postage   | 8,718                             | 6,194                             |
| Furniture and equipment rental   | 11,581                            | 4,470                             |
| Office supplies and expenses   | 5,716                             | 7,697                             |
| Telephone  | <u>4,486</u>                      | <u>4,757</u>                      |
| <b>Total expenses</b>  | <b>735,762</b>                    | <b>786,390</b>                    |
| <b>Change in Unrestricted Net Assets Before Grant<br/>and Federal Excise Tax Benefit</b> | <b>6,842,124</b>                  | <b>2,400,115</b>                  |
| Grant expenses   | <u>(3,192,680)</u>                | <u>(2,990,713)</u>                |
| <b>Change in Unrestricted Net Assets Before Federal<br/>Excise Tax</b>                   | <b>3,649,444</b>                  | <b>(590,598)</b>                  |
| Federal excise tax (expense)/benefit   | <u>(22,985)</u>                   | <u>51,988</u>                     |
| <b>Change in Unrestricted Net Assets</b>   | <b>3,626,459</b>                  | <b>(538,610)</b>                  |
| <b>Net Assets, beginning of year</b>   | <b><u>59,000,620</u></b>          | <b><u>59,539,230</u></b>          |
| <b>Net Assets, end of year</b>   | <b><u><u>\$62,627,079</u></u></b> | <b><u><u>\$59,000,620</u></u></b> |

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

# STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31, 2006 (WITH COMPARATIVE TOTALS FOR 2005)

|   | <b>2006</b>               | <b>2005</b>               |
|---|---------------------------|---------------------------|
| <b>Cash Flows from Operating Activities</b>   |                           |                           |
| Change in unrestricted net assets   | \$3,626,459               | \$(538,610)               |
| <i>Adjustments to reconcile change in unrestricted net assets to net cash used in operating activities:</i> |                           |                           |
| Depreciation  | 69,231                    | 69,998                    |
| Net realized and unrealized gains on investments  | (5,954,085)               | (1,737,353)               |
| (Decrease) in deferred tax liability  | (761)                     | (158,102)                 |
| Decrease (increase) in receivables  | 63,521                    | (268,492)                 |
| (Increase) in prepaid expenses and deposits   | (166)                     | (340)                     |
| Increase in accounts payable and accrued liabilities  | 10,556                    | 2,381                     |
| (Decrease) in grants payable  | (25,000)                  | ...                       |
| <b>Total adjustments</b>  | <u>(5,836,704)</u>        | <u>(2,091,908)</u>        |
| <b>Net Cash Used In Operating Activities</b>  | <u><b>(2,210,245)</b></u> | <u><b>(2,630,518)</b></u> |

|   | <b>2006</b>             | <b>2005</b>            |
|---|-------------------------|------------------------|
| <b>Cash Flows from Investing Activities</b>     |                         |                        |
| Purchase of investments                         | <b>(49,922,266)</b>     | <b>(36,614,834)</b>    |
| Proceeds from sale of investments               | 52,181,966              | 39,166,853             |
| Purchases of property and equipment             | ...                     | (4,083)                |
| <b>Net Cash Provide by Investing Activities</b> | <u>2,259,700</u>        | <u>2,547,936</u>       |
| <b>Net Increase (decrease) in cash</b>          | <b>49,455</b>           | <b>(82,582)</b>        |
| <b>Cash, beginning of year</b>                  | <u>89,749</u>           | <u>172,331</u>         |
| <b>Cash, end of year</b>                        | <u><u>\$139,204</u></u> | <u><u>\$89,749</u></u> |

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

## NOTES TO

**FINANCIAL STATEMENTS**

FOR YEAR ENDED DECEMBER 31, 2006

**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 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. 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.

### **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.

### **Comparative Totals**

The financial statements include certain prior-year summarized comparative information. Such information does not include sufficient detail or reclassifications to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Foundation's financial statements for the year ended December 31, 2005, from which the summarized information was derived.

### 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

The preparation of financial statements in conformity with generally accepted accounting principles 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 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 | INVESTMENTS

The estimated fair value and cost of the Foundation's investments as of December 31, 2006 is as follows:

|                          | <b>Fair Value</b>          | <b>Cost</b>                |
|--------------------------|----------------------------|----------------------------|
| Short-term investments   | \$1,655,773                | \$1,655,773                |
| Treasury bonds and notes | 1,430,626                  | 1,445,451                  |
| U.S. agency bonds        | 6,423,550                  | 6,498,547                  |
| U.S. corporate bonds     | 5,302,359                  | 5,358,817                  |
| Common stocks            | <u>45,644,418</u>          | <u>37,810,698</u>          |
| <b>Total</b>             | <b><u>\$60,456,726</u></b> | <b><u>\$52,769,286</u></b> |

**NOTE 5 | PROPERTY AND EQUIPMENT**

Property and equipment as of December 31, 2006 consists of:

|                                | <b>2006</b>                       |
|--------------------------------|-----------------------------------|
| Land                           | \$218,750                         |
| Building                       | 656,250                           |
| Building Improvements          | 1,234,781                         |
| Furniture and Equipment        | <u>120,359</u>                    |
| Total                          | 2,230,140                         |
| Less: Accumulated depreciation | <u>(348,267)</u>                  |
| <b>Total</b>                   | <b><u><u>\$ 1,881,873</u></u></b> |

Depreciation expense for the years ended December 31, 2006 was \$69,231.

**NOTE 6 | FUNCTIONAL EXPENSES**

The following is a breakdown of the Foundation's functional expenses for the years ended December 31, 2006.

|                        | <b>2006</b>                       |
|------------------------|-----------------------------------|
| <b>Program:</b>        |                                   |
| Grant Programs         | \$3,408,198                       |
| <b>Support:</b>        |                                   |
| Management and general | <u>543,229</u>                    |
| <b>Total</b>           | <b><u><u>\$ 3,951,427</u></u></b> |

**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, 2006.

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 2006. The deferred portion of income tax expense will only be paid when the unrealized gains become realized.

Federal excise tax expense consists of the following at December 31, 2006.

| <b>Federal Excise Tax Expense</b> | <b>2006</b>                    |
|-----------------------------------|--------------------------------|
| Current                           | \$23,746                       |
| Deferred                          | (761)                          |
| <b>Total</b>                      | <b><u><u>\$ 22,985</u></u></b> |

### 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 \$7,878 for the year ended December 31, 2006. 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, 2006. 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 \$21,280 as of December 31, 2006.

During the year ended December 31, 2006, the Foundation made grant disbursements of \$705,000 to organizations that have common board members with the Foundation.

### NOTE 10 | SUPPLEMENTAL DISCLOSURE OF CASH FLOWS INFORMATION

|   | <b>2006</b>                    |
|---|--------------------------------|
| <b>Cash paid during the year for income taxes</b> | <b><u><u>\$113,622</u></u></b> |