

NAVAL HISTORICAL FOUNDATION

WASHINGTON, D.C.

FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2003



January 23, 2004

Independent Auditors' Report

Board of Directors
Naval Historical Foundation
Washington, D.C.

We have audited the accompanying statement of financial position of Naval Historical Foundation as of December 31, 2003, and the related statements of activities, changes in net assets, and cash flows for the year then ended. These financial statements are the responsibility of the Foundation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Naval Historical Foundation as of December 31, 2003, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Councilor, Buchanan + Mitchell, P.C.

Certified Public Accountants

Naval Historical Foundation

**Statement of Financial Position
December 31, 2003**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Assets			
Current Assets			
Cash			
Cash on Hand	\$ 1,262	\$ -	\$ 1,262
Checking Accounts	672	-	672
Money Market Accounts	<u>3,185</u>	<u>-</u>	<u>3,185</u>
Total Cash	5,119	-	5,119
Due from Operating Fund	-	48,834	- *
Accrued Interest Receivable	21,162	-	21,162
Inventory	72,158	-	72,158
Prepaid Expenses	<u>1,448</u>	<u>-</u>	<u>1,448</u>
Total Current Assets	<u>99,887</u>	<u>48,834</u>	<u>99,887</u> *
Investments	<u>2,832,664</u>	<u>-</u>	<u>2,832,664</u>
Property and Equipment			
Furniture, Fixtures, and Equipment	187,898	-	187,898
Less Accumulated Depreciation	<u>(107,042)</u>	<u>-</u>	<u>(107,042)</u>
Net Property and Equipment	<u>80,856</u>	<u>-</u>	<u>80,856</u>
Total Assets	<u><u>\$ 3,013,407</u></u>	<u><u>\$ 48,834</u></u>	<u><u>\$ 3,013,407</u></u> *
Liabilities and Net Assets			
Current Liabilities			
Accounts Payable and			
Accrued Expenses	\$ 43,464	\$ -	\$ 43,464
Deferred Revenue	68,000	-	68,000
Due to Other Funds	<u>48,834</u>	<u>-</u>	<u>-</u> *
Total Current Liabilities	160,298	-	111,464 *
Net Assets	<u>2,853,109</u>	<u>48,834</u>	<u>2,901,943</u>
Total Liabilities and Net Assets	<u><u>\$ 3,013,407</u></u>	<u><u>\$ 48,834</u></u>	<u><u>\$ 3,013,407</u></u> *

* Interfund Balances Eliminated from Totals.

See accompanying Notes to Financial Statements.

Naval Historical Foundation

**Statement of Activities
For the Year Ended December 31, 2003**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Revenues			
Departmental			
Museum Store Sales	\$ 156,218	\$ -	\$ 156,218
Cost of Sales - Museum Store	<u>(99,719)</u>	<u>-</u>	<u>(99,719)</u>
Gross Profit	56,499	-	56,499
Museum Store Operating Expenses	<u>72,596</u>	<u>-</u>	<u>72,596</u>
Excess of Museum Store Operating Expenses Over Museum Store Sales	<u>(16,097)</u>	<u>-</u>	<u>(16,097)</u>
Photo Reproduction Sales	121,689	-	121,689
Cost of Sales - Photo Reproduction	<u>(44,989)</u>	<u>-</u>	<u>(44,989)</u>
Gross Profit	76,700	-	76,700
Photo Reproduction Operating Expenses	<u>69,857</u>	<u>-</u>	<u>69,857</u>
Excess of Photo Reproduction Sales Over Photo Reproduction Operating Expenses	<u>6,843</u>	<u>-</u>	<u>6,843</u>
Total Departmental Excess of Expenses Over Sales	<u>(9,254)</u>	<u>-</u>	<u>(9,254)</u>
Support and Other Revenues			
Donations	224,833	-	224,833
Membership Dues	31,860	-	31,860
Royalties - Navy Book/Calendar	44,209	-	44,209
Other Revenues	3,600	-	3,600
Net Assets Released from Restrictions	<u>1,654</u>	<u>(1,654)</u>	<u>-</u>
Total Support and Other Revenues	<u>306,156</u>	<u>(1,654)</u>	<u>304,502</u>
Total Operating Revenues	<u>296,902</u>	<u>(1,654)</u>	<u>295,248</u>
Expenses			
Program Expenses			
Naval Historical Foundation	337,926	-	337,926
Museum Support	140,918	-	140,918
Naval Historical Center Support	<u>33,437</u>	<u>-</u>	<u>33,437</u>
Total Program Expenses	512,281	-	512,281
Office Administration and Management	98,888	-	98,888
Fund-Raising	<u>18,809</u>	<u>-</u>	<u>18,809</u>
Total Operating Expenses	<u>629,978</u>	<u>-</u>	<u>629,978</u>
Excess of Operating Expenses Over Operating Revenues	(333,076)	(1,654)	(334,730)
Investment Income			
Interest and Dividends	101,785	-	101,785
Net Investment Gain	<u>212,713</u>	<u>-</u>	<u>212,713</u>
Decrease in Net Assets	<u><u>\$ (18,578)</u></u>	<u><u>\$ (1,654)</u></u>	<u><u>\$ (20,232)</u></u>

See accompanying Notes to Financial Statements.

Naval Historical Foundation

Statement of Changes in Net Assets
For the Year Ended December 31, 2003

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Balance at January 1, 2003	\$ 2,871,687	\$ 50,488	\$ 2,922,175
Decrease in Net Assets	<u>(18,578)</u>	<u>(1,654)</u>	<u>(20,232)</u>
Balance at December 31, 2003	<u><u>\$ 2,853,109</u></u>	<u><u>\$ 48,834</u></u>	<u><u>\$ 2,901,943</u></u>

See accompanying Notes to Financial Statements.

Naval Historical Foundation

Statement of Cash Flows
For the Year Ended December 31, 2003

Cash Flows from Operating Activities

Decrease in Net Assets	\$	(20,232)
Adjustments to Reconcile Decrease in Net Assets to Net Cash Used in Operating Activities		
Depreciation		29,405
Net Investment Gain		(212,713)
<u>(Increase) Decrease in Assets</u>		
Accrued Interest Receivable		(1,414)
Inventory		25,395
Prepaid Expenses		452
<u>Increase in Liabilities</u>		
Accounts Payable and Accrued Expenses		43,464
Deferred Revenue		<u>68,000</u>
Net Cash Used in Operating Activities		<u>(67,643)</u>

Cash Flows from Investing Activities

Proceeds from Sales and Redemptions of Marketable Securities	\$	617,987	
Purchases of Marketable Securities		<u>(544,271)</u>	73,716
Purchases of Property and Equipment			<u>(12,397)</u>
Net Cash Used in Investing Activities			<u>61,319</u>
Net Decrease in Cash			(6,324)
Cash - Beginning of Year			<u>11,443</u>
Cash - End of Year			<u>\$ 5,119</u>

See accompanying Notes to Financial Statements.

Naval Historical Foundation

Notes to Financial Statements December 31, 2003

1. ORGANIZATION

Naval Historical Foundation (the "Foundation") was incorporated as a nonprofit organization in the District of Columbia on March 13, 1926.

The Foundation is organized for educational and literary purposes, to acquire and preserve artifacts and memorabilia pertaining to the history and traditions of the U.S. Navy, Marine Corps, Coast Guard, and Merchant Marines, and to diffuse knowledge respecting such history and traditions. The Foundation operates a store to provide support for the museum area at the Washington, D.C., Navy Yard.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from those estimates.

Inventory

Inventory of museum store merchandise is stated at cost, with cost being determined using the first-in, first-out (FIFO) method.

Investments

Investments in securities are reported at fair value, and, accordingly, gains or losses resulting from market fluctuations are recognized in the accompanying statement of activities in the period in which they occur.

Property and Equipment

Property and equipment are stated at cost and are being depreciated by the straight-line and declining-balance methods over their estimated useful lives ranging from five to seven years. Depreciation expense for 2003 was \$29,405.

Net Assets

To ensure observance of limitations and restrictions placed on the use of resources available to the Foundation, its accounts are maintained by classes of net assets. Consequently, resources are classified for accounting and reporting purposes into three classes of net assets: unrestricted, temporarily restricted, and permanently restricted net assets.

Naval Historical Foundation

Notes to Financial Statements December 31, 2003

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Donated Facilities

The Foundation occupies premises, without charge, located in a government-owned building. There is no clearly measurable or objective basis for determining the estimated fair rental value of the government-owned premises. Accordingly, no value has been reflected in the statement of activities.

Income Taxes

The Foundation is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. It is subject to federal and state income taxes only to the extent that it generates unrelated business income. The Foundation had no unrelated business income for the year ended December 31, 2003.

3. INVESTMENTS

Investments are composed of the following marketable securities:

Cash and U.S. Government Obligations	\$ 1,171,653
Corporate Obligations	491,637
Equities	806,552
Equity Mutual Funds	<u>362,822</u>
Total	\$ <u>2,832,664</u>

Net investment gain is composed of the following:

Net Realized Losses	\$ (23,834)
Net Unrealized Gains	<u>236,547</u>
Net Gain	\$ <u>212,713</u>

4. TEMPORARILY RESTRICTED NET ASSETS

At December 31, 2003, the Foundation had temporarily restricted net assets for the following projects:

Dillon Oral History Project	\$ <u>48,834</u>
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During 2003, temporarily restricted net assets were released for the following projects based on satisfaction of the purpose restrictions:

Dillon Oral History Project	\$ <u>1,654</u>
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Naval Historical Foundation

Notes to Financial Statements December 31, 2003

5. NAVY MUSEUM FOUNDATION

Navy Museum Foundation is a separate organization exempt from taxes under Internal Revenue Code Section 501(c)(3). Naval Historical Foundation holds certain assets in a board designated fund that may eventually be transferred to Navy Museum Foundation. As of December 31, 2003, no assets have been transferred from Naval Historical Foundation to Navy Museum Foundation.

Naval Historical Foundation's Board of Directors has held in abeyance a decision on whether the Museum operations will be transferred to the separate Navy Museum Foundation.

6. RETIREMENT PLAN

The Foundation has a 403(b) plan for all eligible employees who meet length of service requirements. The Foundation matches up to 9% of compensation deferred by employees. The retirement plan cost for the year ended December 31, 2003, was \$14,596.



January 23, 2004

Independent Auditors' Report on Supplementary Information

Board of Directors
Naval Historical Foundation
Washington, D.C.

Our report on our audit of the basic financial statements of Naval Historical Foundation for the year ended December 31, 2003, appears on the page preceding page 1. That audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The information in the accompanying pages 9 to 15 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Councilor, Buchanan + Mitchell, P.C.

Certified Public Accountants

Naval Historical Foundation

**Combining Schedule of Expenses
For the Year Ended December 31, 2003**

	Unrestricted		
	Operating	Board Designated Tingey House	Total
Naval Historical Foundation			
Salaries and Payroll Taxes	\$ 192,530	\$ -	\$ 192,530
Retirement Plan	9,887	-	9,887
Printing	9,187	-	9,187
Postage	5,232	-	5,232
Video Production	13,775	-	13,775
Conferences	4,830	-	4,830
Photo Service Fees	711	-	711
Advertising	4,738	-	4,738
Supplies	4,003	-	4,003
Equipment Expense	7,624	-	7,624
Awards	1,294	-	1,294
Telephone	4,684	-	4,684
WW II Oral History	2,727	-	2,727
Digitization	32,243	-	32,243
Publications	2,000	-	2,000
Renovation	-	146	146
Insurance	7,492	-	7,492
Bank Service Charges	1,845	-	1,845
Dues	2,612	-	2,612
Miscellaneous	8,230	-	8,230
Depreciation	22,136	-	22,136
Total Naval Historical Foundation	<u>\$ 337,780</u>	<u>\$ 146</u>	<u>\$ 337,926</u>
Museum Support			
Printing	\$ 8,119	\$ -	\$ 8,119
Postage	500	-	500
Exhibits - Submarine	93,800	-	93,800
Exhibits - Other	27,893	-	27,893
Bank Service Charges	1,754	-	1,754
Dues	1,985	-	1,985
Educational Programs	6,867	-	6,867
Total Museum Support	<u>\$ 140,918</u>	<u>\$ -</u>	<u>\$ 140,918</u>
Naval Historical Center Support			
Salaries	\$ 1,660	\$ -	\$ 1,660
Postage	10	-	10
Supplies	28,102	-	28,102
Miscellaneous	3,665	-	3,665
Total Naval Historical Center Support	<u>\$ 33,437</u>	<u>\$ -</u>	<u>\$ 33,437</u>

Naval Historical Foundation

**Combining Schedule of Expenses
For the Year Ended December 31, 2003**

	Unrestricted		Total
	Operating	Board Designated Tingey House	
Office Administration and Management			
Salaries	\$ 48,621	\$ -	\$ 48,621
Retirement Plan	2,472	-	2,472
Professional Services	18,955	-	18,955
Investment Fees	15,067	-	15,067
Insurance	1,873	-	1,873
Equipment Expense	1,906	-	1,906
Postage	1,307	-	1,307
Telephone	1,171	-	1,171
Supplies	1,002	-	1,002
Miscellaneous	980	-	980
Depreciation	5,534	-	5,534
Total Office Administration and Management	<u>\$ 98,888</u>	<u>\$ -</u>	<u>\$ 98,888</u>

Naval Historical Foundation

Schedules of Museum Store and Photo Reproduction Operating Expenses
For the Year Ended December 31, 2003

		Unrestricted	
	Operating	Board Designated Tingey House	Total
Museum Store Operating Expenses			
Salaries and Payroll Taxes	\$ 52,755	\$ -	\$ 52,755
Retirement Plan	1,137	-	1,137
Professional Fees	550	-	550
Telephone	1,766	-	1,766
Postage	2,707	-	2,707
Insurance	754	-	754
Supplies	2,197	-	2,197
Dues	200	-	200
Equipment	435	-	435
Bank Service Charges	4,492	-	4,492
Miscellaneous	2,525	-	2,525
Depreciation	1,735	-	1,735
Rent	1,000	-	1,000
Internet	343	-	343
Total Museum Store Operating Expenses	<u>\$ 72,596</u>	<u>\$ -</u>	<u>\$ 72,596</u>
Photo Reproduction Operating Expenses			
Salaries and Payroll Taxes	\$ 53,431	\$ -	\$ 53,431
Retirement Plan	1,100	-	1,100
Telephone	3,068	-	3,068
Postage	5,798	-	5,798
Insurance	3,203	-	3,203
Supplies	907	-	907
Equipment	344	-	344
Miscellaneous	2,006	-	2,006
Total Photo Reproduction Operating Expenses	<u>\$ 69,857</u>	<u>\$ -</u>	<u>\$ 69,857</u>

Naval Historical Foundation

**Combining Schedule of Financial Position
December 31, 2003**

	Unrestricted	
	Operating	Board Designated Tingey House
Assets		
Current Assets		
Cash		
Cash on Hand	\$ 1,262	\$ -
Checking Accounts	672	-
Money Market Accounts	3,185	-
Total Cash	5,119	-
Due from Other Fund	-	49,662
Accrued Interest Receivable	21,162	-
Inventory	72,158	-
Prepaid Expenses	1,448	-
Total Current Assets	99,887	49,662
Investments	2,832,664	-
Property and Equipment		
Furniture, Fixtures, and Equipment	187,898	-
Less Accumulated Depreciation	(107,042)	-
Net Property and Equipment	80,856	-
Total Assets	<u>\$ 3,013,407</u>	<u>\$ 49,662</u>
Liabilities and Net Assets		
Current Liabilities		
Accounts Payable and Accrued Expenses	\$ 43,464	\$ -
Deferred Revenue	68,000	-
Due to Other Funds	98,496	-
Total Current Liabilities	209,960	-
Net Assets	2,803,447	49,662
Total Liabilities and Net Assets	<u>\$ 3,013,407</u>	<u>\$ 49,662</u>

<u>Total Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
\$ 1,262	\$ -	\$ 1,262
672	-	672
<u>3,185</u>	<u>-</u>	<u>3,185</u>
5,119	-	5,119
- *	48,834	- *
21,162	-	21,162
72,158	-	72,158
<u>1,448</u>	<u>-</u>	<u>1,448</u>
<u>99,887 *</u>	<u>48,834</u>	<u>99,887 *</u>
<u>2,832,664</u>	<u>-</u>	<u>2,832,664</u>
187,898	-	187,898
<u>(107,042)</u>	<u>-</u>	<u>(107,042)</u>
<u>80,856</u>	<u>-</u>	<u>80,856</u>
<u>\$ 3,013,407 *</u>	<u>\$ 48,834</u>	<u>\$ 3,013,407 *</u>
\$ 43,464	\$ -	\$ 43,464
68,000	-	68,000
<u>48,834 *</u>	<u>-</u>	<u>- *</u>
160,298 *	-	111,464 *
<u>2,853,109</u>	<u>48,834</u>	<u>2,901,943</u>
<u>\$ 3,013,407 *</u>	<u>\$ 48,834</u>	<u>\$ 3,013,407 *</u>

Naval Historical Foundation

**Combining Schedule of Activities
For the Year Ended December 31, 2003**

	Unrestricted	
	<u>Operating</u>	<u>Board Designated Tingey House</u>
Revenues		
Departmental		
Museum Store Sales	\$ 156,218	\$ -
Cost of Sales - Museum Store	<u>(99,719)</u>	<u>-</u>
Gross Profit	56,499	-
Museum Store Operating Expenses	<u>72,596</u>	<u>-</u>
Excess of Museum Store Operating Expenses Over Museum Store Sales	<u>(16,097)</u>	<u>-</u>
Photo Reproduction Sales	121,689	-
Cost of Sales - Photo Reproduction	<u>(44,989)</u>	<u>-</u>
Gross Profit	76,700	-
Photo Reproduction Operating Expenses	<u>69,857</u>	<u>-</u>
Excess of Photo Reproduction Sales Over Photo Reproduction Operating Expenses	<u>6,843</u>	<u>-</u>
Total Departmental Excess of Expenses Over Sales	<u>(9,254)</u>	<u>-</u>
Support and Other Revenues		
Donations	224,833	-
Membership Dues	31,860	-
Royalties - Navy Book/Calendar	44,209	-
Other Revenues	3,600	-
Net Assets Released from Restrictions	<u>1,654</u>	<u>-</u>
Total Support and Other Revenues	<u>306,156</u>	<u>-</u>
Total Operating Revenues	<u>296,902</u>	<u>-</u>
Expenses		
Program Expenses		
Naval Historical Foundation	337,780	146
Museum Support	140,918	-
Naval Historical Center Support	<u>33,437</u>	<u>-</u>
Total Program Expenses	512,135	146
Office Administration and Management	98,888	-
Fund-Raising	<u>18,809</u>	<u>-</u>
Total Operating Expenses	<u>629,832</u>	<u>146</u>
Excess of Operating Expenses Over Operating Revenues	(332,930)	(146)
Investment Income		
Interest and Dividends	101,785	-
Net Investment Gain	<u>212,713</u>	<u>-</u>
Decrease in Net Assets	<u>\$ (18,432)</u>	<u>\$ (146)</u>

<u>Total Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
\$ 156,218	\$ -	\$ 156,218
(99,719)	-	(99,719)
56,499	-	56,499
72,596	-	72,596
(16,097)	-	(16,097)
121,689	-	121,689
(44,989)	-	(44,989)
76,700	-	76,700
69,857	-	69,857
6,843	-	6,843
(9,254)	-	(9,254)
224,833	-	224,833
31,860	-	31,860
44,209	-	44,209
3,600	-	3,600
1,654	(1,654)	-
306,156	(1,654)	304,502
296,902	(1,654)	295,248
337,926	-	337,926
140,918	-	140,918
33,437	-	33,437
512,281	-	512,281
98,888	-	98,888
18,809	-	18,809
629,978	-	629,978
(333,076)	(1,654)	(334,730)
101,785	-	101,785
212,713	-	212,713
<u>\$ (18,578)</u>	<u>\$ (1,654)</u>	<u>\$ (20,232)</u>

Naval Historical Foundation

Combining Schedule of Changes in Net Assets
For the Year Ended December 31, 2003

	Unrestricted				
	Board				
	Designated				
	Operating	Tingey House	Total	Temporarily Restricted	Total
Balance at January 1, 2003	\$ 2,821,879	\$ 49,808	\$ 2,871,687	\$ 50,488	\$ 2,922,175
Decrease in Net Assets	(18,432)	(146)	(18,578)	(1,654)	(20,232)
Balance at December 31, 2003	<u>\$ 2,803,447</u>	<u>\$ 49,662</u>	<u>\$ 2,853,109</u>	<u>\$ 48,834</u>	<u>\$ 2,901,943</u>

Naval Historical Foundation

Schedule of Changes in Investments For the Year Ended December 31, 2003

	<u>Cost</u>	<u>Unrealized Gain (Loss)</u>	<u>Fair Market Value</u>
Beginning of Year	\$ 2,783,802	\$ (90,135)	\$ 2,693,667
Interest and Dividends (A)	100,371	-	100,371
Realized Gains	15,226	-	15,226
Realized Losses	(39,060)	-	(39,060)
Unrealized Gains	-	236,547	236,547
Management Fees	(15,087)	-	(15,087)
Transfers to Operations	<u>(159,000)</u>	<u>-</u>	<u>(159,000)</u>
End of Year	<u>\$ 2,686,252</u>	<u>\$ 146,412</u>	<u>\$ 2,832,664</u>

(A) Interest and Dividends - Accrual Basis	\$ 101,785
Add Accrued Interest Receivable - December 31, 2002	19,748
Less Accrued Interest Receivable - December 31, 2003	<u>(21,162)</u>
Interest and Dividends - Cash Basis	<u>\$ 100,371</u>