

NAVAL HISTORICAL FOUNDATION

WASHINGTON, D.C.

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

FOR THE YEAR ENDED DECEMBER 31, 2006



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, 2006, 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. The prior year summarized comparative information has been derived from the Foundation's 2005 financial statements and, in our report dated February 28, 2006, we expressed an unqualified opinion on those financial statements.

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, 2006, 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.

Bethesda, Maryland
April 19, 2007

Certified Public Accountants

Naval Historical Foundation

Statement of Financial Position

December 31, 2006

(With Comparative Totals as of December 31, 2005)

	2006	2005
Assets		
Current Assets		
Cash		
Cash on Hand	\$ 572	\$ 523
Checking Accounts	68,030	80,905
Total Cash	68,602	81,428
Accrued Interest Receivable	10,766	15,582
Inventory	57,893	61,986
Prepaid Expenses	3,650	3,540
Total Current Assets	140,911	162,536
Investments	1,707,639	2,005,121
Property and Equipment		
Furniture, Fixtures, and Equipment	233,076	221,957
Less Accumulated Depreciation	(193,017)	(165,676)
Net Property and Equipment	40,059	56,281
Total Assets	\$ 1,888,609	\$ 2,223,938
Liabilities and Net Assets		
Current Liabilities		
Accounts Payable and Accrued Expenses	\$ 10,624	\$ 10,828
Deferred Revenue	71,927	73,901
Total Current Liabilities	82,551	84,729
Net Assets		
Unrestricted	1,789,699	2,115,104
Temporarily Restricted	16,359	24,105
Total Net Assets	1,806,058	2,139,209
Total Liabilities and Net Assets	\$ 1,888,609	\$ 2,223,938

See accompanying Notes to Financial Statements.

Naval Historical Foundation

**Statement of Activities
For the Year Ended December 31, 2006
(With Comparative Totals for the Year Ended December 31, 2005)**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total 2006</u>	<u>Total 2005</u>
Net Departmental Sales				
Museum Store Sales	\$ 111,496	\$ -	\$ 111,496	\$ 154,861
Cost of Sales - Museum Store	<u>73,713</u>	<u>-</u>	<u>73,713</u>	<u>79,001</u>
Gross Profit	37,783	-	37,783	75,860
Museum Store Operating Expenses	<u>71,070</u>	<u>-</u>	<u>71,070</u>	<u>56,885</u>
Net Museum Store Sales Over (Under) Operating Expenses	<u>(33,287)</u>	<u>-</u>	<u>(33,287)</u>	<u>18,975</u>
Photo Reproduction Sales	124,614	-	124,614	119,428
Cost of Sales - Photo Reproduction	<u>17,761</u>	<u>-</u>	<u>17,761</u>	<u>23,895</u>
Gross Profit	106,853	-	106,853	95,533
Photo Reproduction Operating Expenses	<u>77,168</u>	<u>-</u>	<u>77,168</u>	<u>70,407</u>
Net Photo Reproduction Sales Over Photo Reproduction Operating Expenses	<u>29,685</u>	<u>-</u>	<u>29,685</u>	<u>25,126</u>
Total Departmental Net Sales Over Expenses	<u>(3,602)</u>	<u>-</u>	<u>(3,602)</u>	<u>44,101</u>
Support and Other Revenues				
Donations	97,716	30,000	127,716	123,582
Fund-Raising	65,559	-	65,559	27,760
Membership Dues	38,770	-	38,770	26,583
Building 70 Support	1,974	-	1,974	1,790
Royalties - Navy Book/Calendar	29,457	-	29,457	20,504
Other Revenues	1,107	-	1,107	2,248
Net Assets Released from Restrictions	<u>37,746</u>	<u>(37,746)</u>	<u>-</u>	<u>-</u>
Total Support and Other Revenues	<u>272,329</u>	<u>(7,746)</u>	<u>264,583</u>	<u>202,467</u>
Total Operating Revenues	<u>268,727</u>	<u>(7,746)</u>	<u>260,981</u>	<u>246,568</u>
Expenses				
Program Expenses				
Naval Historical Foundation	273,671	-	273,671	360,347
Museum Support	241,420	-	241,420	153,725
Naval Historical Center Support	<u>103,380</u>	<u>-</u>	<u>103,380</u>	<u>41,805</u>
Total Program Expenses	618,471	-	618,471	555,877
Office Administration and Management	111,139	-	111,139	89,639
Fund-Raising	<u>86,454</u>	<u>-</u>	<u>86,454</u>	<u>41,168</u>
Total Operating Expenses	<u>816,064</u>	<u>-</u>	<u>816,064</u>	<u>686,684</u>
Excess of Operating Expenses Over Operating Revenues	<u>(547,337)</u>	<u>(7,746)</u>	<u>(555,083)</u>	<u>(440,116)</u>
Investment Income				
Interest and Dividends	71,856	-	71,856	80,613
Net Investment Gain	111,532	-	111,532	896
Other Income - Sale of Artifacts	<u>38,544</u>	<u>-</u>	<u>38,544</u>	<u>-</u>
Decrease in Net Assets	<u>\$ (325,405)</u>	<u>\$ (7,746)</u>	<u>\$ (333,151)</u>	<u>\$ (358,607)</u>

See accompanying Notes to Financial Statements.

Naval Historical Foundation

Statement of Changes in Net Assets
For the Year Ended December 31, 2006
(With Comparative Totals for the Year Ended December 31, 2005)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total 2006</u>	<u>Total 2005</u>
Balance at Beginning of Year	\$ 2,115,104	\$ 24,105	\$ 2,139,209	\$ 2,497,816
Decrease in Net Assets	<u>(325,405)</u>	<u>(7,746)</u>	<u>(333,151)</u>	<u>(358,607)</u>
Balance at End of Year	<u><u>\$ 1,789,699</u></u>	<u><u>\$ 16,359</u></u>	<u><u>\$ 1,806,058</u></u>	<u><u>\$ 2,139,209</u></u>

See accompanying Notes to Financial Statements.

Naval Historical Foundation

**Statement of Cash Flows
For the Year Ended December 31, 2006
(With Comparative Totals for the Year Ended December 31, 2005)**

	<u>2006</u>	<u>2005</u>
Cash Flows from Operating Activities		
Decrease in Net Assets	\$ (333,151)	\$ (358,607)
Adjustments to Reconcile Decrease in Net Assets to Net Cash Used in Operating Activities		
Depreciation	27,341	28,814
Net Investment Gain	(111,532)	(896)
<u>(Increase) Decrease in Assets</u>		
Accrued Interest Receivable	4,816	(2,673)
Inventory	4,093	(11,473)
Prepaid Expenses	(110)	(1,089)
<u>Increase (Decrease) in Liabilities</u>		
Accounts Payable and Accrued Expenses	(204)	(1,111)
Deferred Revenue	(1,974)	15,375
	<u>(410,721)</u>	<u>(331,660)</u>
Cash Flows from Investing Activities		
Proceeds from Sales and Redemptions of Marketable Securities	572,091	939,058
Purchases of Marketable Securities	(163,077)	(604,845)
Purchases of Property and Equipment	(11,119)	(6,149)
	<u>397,895</u>	<u>328,064</u>
Net Cash Provided by Investing Activities		
Net Decrease in Cash	(12,826)	(3,596)
Cash at Beginning of Year	<u>81,428</u>	<u>85,024</u>
Cash at End of Year	<u>\$ 68,602</u>	<u>\$ 81,428</u>

See accompanying Notes to Financial Statements.

Naval Historical Foundation

Notes to Financial Statements December 31, 2006

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 and Merchant Marine, and to diffuse knowledge respecting such history and traditions. The Foundation operates a gift shop in the U.S. Navy Museum and an historic photograph and document reproduction service as part of a support agreement with the Naval Historical Center in the Washington, D.C., Navy Yard.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Use 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 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 additions in excess of \$1,000 are capitalized. Depreciation is computed using the straight-line method over the estimated useful lives of assets ranging from five to seven years. Depreciation expense for 2006 was \$27,341.

Deferred Revenue

The Foundation has received fees for work on developing a Cold War Gallery for the Naval Historical Center's U.S. Navy Museum. The fees for the portion of the work not yet completed are included as deferred revenue on the statement of financial position.

Naval Historical Foundation

**Notes to Financial Statements
December 31, 2006**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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 generally exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. However, the Foundation is subject to federal and state income taxes to the extent that it generates unrelated business income. The Foundation had no unrelated business income for the year ended December 31, 2006.

Comparative Information

The financial statements include certain prior-year summarized comparative information in total, but not by net asset class. Such information does not include sufficient detail 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.

3. INVESTMENTS

Investments at December 31, 2006, consisted of the following marketable securities:

Cash and U.S. Government Obligations	\$ 307,409
Corporate Obligations	531,090
Equities	574,380
Equity Mutual Funds	<u>294,760</u>
Total	<u>\$ 1,707,639</u>

Naval Historical Foundation

**Notes to Financial Statements
December 31, 2006**

4. TEMPORARILY RESTRICTED NET ASSETS

At December 31, 2006, the Foundation had temporarily restricted net assets for the following project.

Crowe Oral History Project	\$ <u>16,359</u>
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During 2006, temporarily restricted net assets were released for the following project based on satisfaction of the purpose restrictions:

Dillon Oral History Project	\$ 24,105
Crowe Oral History Project	<u>13,641</u>
	\$ <u>37,746</u>

5. RETIREMENT PLAN

The Foundation has a 403(b) plan for all eligible employees who meet length of service requirements. The Foundation matches up to 5% of compensation deferred by employees. The retirement plan cost for the year ended December 31, 2006, was \$9,629.

6. HISTORICAL COLLECTION

The Foundation has catalogued approximately 4,000 documents and artifacts of historical interest, obtained as gifts several decades ago. The collection is not included in the financial accounts of the Foundation because its value is not determinable at a reasonable cost. A painting from the collection was sold during 2006 and proceeds, net of selling costs, is included as sale of artifacts on the statement of activities and designated by the Foundation Board to Collection Support.

The Foundation maintains the collection in a secured facility at the Washington Navy Yard in Washington, D.C. Expenses of maintaining the collection of approximately \$3,700 are included in Naval Historical Foundation program expenses on the statement of activities.



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 2006 appears 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 13 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.

Bethesda, Maryland
April 19, 2007

Certified Public Accountants

Naval Historical Foundation

**Combining Schedule of Museum Store and Photo Reproduction Operating Expenses
For the Year Ended December 31, 2006
(With Comparative Totals for the Year Ended December 31, 2005)**

	Unrestricted		Total 2006	Total 2005
	Operating	Board Designated Collection Support		
Museum Store Operating Expenses				
Advertising	\$ 208	\$ -	\$ 208	\$ 10
Bank Service Charges	3,907	-	3,907	4,847
Depreciation	1,738	-	1,738	2,095
Equipment	2,333	-	2,333	338
Insurance	-	-	-	416
Internet	-	-	-	337
Miscellaneous	40	-	40	454
Postage and Shipping	3,470	-	3,470	2,203
Salaries, Benefits, and Payroll Taxes	55,857	-	55,857	42,824
Supplies	1,890	-	1,890	2,225
Telephone	1,627	-	1,627	1,136
Total Museum Store Operating Expenses	\$ 71,070	\$ -	\$ 71,070	\$ 56,885
Photo Reproduction Operating Expenses				
Bank Service Charges	\$ 2,995	\$ -	\$ 2,995	\$ 3,344
Depreciation	871	-	871	263
Insurance	1,025	-	1,025	1,612
Miscellaneous	640	-	640	-
Postage and Shipping	7,494	-	7,494	3,392
Printing	-	-	-	39
Salaries, Benefits, and Payroll Taxes	59,600	-	59,600	55,953
Supplies	3,747	-	3,747	4,056
Telephone	796	-	796	1,748
Total Photo Reproduction Operating Expenses	\$ 77,168	\$ -	\$ 77,168	\$ 70,407

Naval Historical Foundation

Combining Schedule of Expenses
For the Year Ended December 31, 2006
(With Comparative Totals for the Year Ended December 31, 2005)

	Unrestricted		Total 2006	Total 2005
	Operating	Board Designated Collection Support		
Naval Historical Foundation				
Advertising	\$ 879	\$ -	\$ 879	\$ 4,634
Awards	1,429	-	1,429	1,524
Bank Service Charges	2,329	-	2,329	2,628
Conferences	3,749	-	3,749	2,773
Consultants	5,579	-	5,579	-
Depreciation	19,618	-	19,618	20,998
Equipment	5,447	-	5,447	5,386
Insurance	12,937	-	12,937	11,722
Internet	965	-	965	1,548
Miscellaneous	1,992	-	1,992	3,549
Oral History - Dillon	24,301	-	24,301	19,872
Oral History - Other	17,014	-	17,014	3,768
Photo Service Fees	-	-	-	1,062
Postage and Shipping	5,587	-	5,587	4,054
Printing	8,274	-	8,274	5,250
Publications	-	-	-	61
Salaries, Benefits, and Payroll Taxes	141,055	-	141,055	255,810
Special Events	390	-	390	3,217
Subscriptions	1,467	-	1,467	1,661
Supplies	11,648	-	11,648	6,414
Telephone	5,268	-	5,268	4,057
Collection Support	-	3,743	3,743	180
Video Production	-	-	-	179
Total Naval Historical Foundation	\$ 269,928	\$ 3,743	\$ 273,671	\$ 360,347
Museum Support				
Advertising	\$ 14,763	\$ -	\$ 14,763	\$ 5,440
Bank Service Charges	-	-	-	1,735
Cold War Gallery Support	87,177	-	87,177	77,972
Contractors	32,030	-	32,030	37,004
Depreciation	209	-	209	208
Educational Programs	9,573	-	9,573	7,076
Exhibits - Other	2,269	-	2,269	7,379
Intern Program	1,200	-	1,200	2,400
Miscellaneous	31,893	-	31,893	2,183
Printing	9,093	-	9,093	10,254
Salaries, Benefits, and Payroll Taxes	50,704	-	50,704	-
Subscriptions	2,509	-	2,509	2,074
Total Museum Support	\$ 241,420	\$ -	\$ 241,420	\$ 153,725

Naval Historical Foundation

Combining Schedule of Expenses
For the Year Ended December 31, 2006
(With Comparative Totals for the Year Ended December 31, 2005)

	Unrestricted		Total 2006	Total 2005
	Operating	Board Designated Collection Support		
Office Administration and Management				
Advertising	\$ 211	\$ -	\$ 211	\$ -
Bank Service Charges	339	-	339	657
Depreciation	4,905	-	4,905	5,250
Dues and Subscriptions	305	-	305	-
Equipment	992	-	992	1,346
Insurance	2,128	-	2,128	2,930
Internet	241	-	241	-
Investment Fees	10,686	-	10,686	12,144
Miscellaneous	194	-	194	800
Postage and Shipping	1,151	-	1,151	1,014
Printing	2,069	-	2,069	1,312
Professional Services	47,056	-	47,056	27,720
Salaries, Benefits, and Payroll Taxes	37,635	-	37,635	33,849
Supplies	2,124	-	2,124	1,603
Telephone	1,103	-	1,103	1,014
Total Office Administration and Management	<u>\$ 111,139</u>	<u>\$ -</u>	<u>\$ 111,139</u>	<u>\$ 89,639</u>
Fund-Raising				
Cold War Gallery Campaign	\$ 7,511	\$ -	\$ 7,511	\$ 11,587
NMF Mail-outs	-	-	-	4,042
Salaries, Benefits, and Payroll Taxes	78,943	-	78,943	25,539
Total Fund-Raising	<u>\$ 86,454</u>	<u>\$ -</u>	<u>\$ 86,454</u>	<u>\$ 41,168</u>

Naval Historical Foundation

**Combining Schedule of Changes in Net Assets
For the Year Ended December 31, 2006**

	<u>Unrestricted</u>				
	Board				
	<u>Designated</u>		Total	Temporarily	
	Collection		Unrestricted	Restricted	Total
	<u>Support</u>	<u>Operating</u>			
Balance at Beginning of Year	\$ 50,194	\$ 2,064,910	\$ 2,115,104	\$ 24,105	\$ 2,139,209
Decrease in Net Assets	<u>34,801</u>	<u>(360,206)</u>	<u>(325,405)</u>	<u>(7,746)</u>	<u>(333,151)</u>
Balance at End of Year	<u>\$ 84,995</u>	<u>\$ 1,704,704</u>	<u>\$ 1,789,699</u>	<u>\$ 16,359</u>	<u>\$ 1,806,058</u>

Naval Historical Foundation

**Schedule of Changes in Investments
For the Year Ended December 31, 2006**

	Cost	Unrealized Gain	Fair Market Value
Beginning of Year	\$ 1,887,609	\$ 117,512	\$ 2,005,121
Interest and Dividends (A)	76,672	-	76,672
Realized Gains	90,950	-	90,950
Realized Losses	(10,410)	-	(10,410)
Unrealized Gains	-	30,992	30,992
Investment Management Fees	(10,686)	-	(10,686)
Transfer to Operations	(475,000)	-	(475,000)
End of Year	\$ 1,559,135	\$ 148,504	\$ 1,707,639

(A) Interest and Dividends from Investments - Accrual Basis	\$ 71,856
Add Accrued Interest at Beginning of Year	15,582
Less Accrued Interest at End of Year	(10,766)
Interest and Dividends from Investments - Cash Basis	\$ 76,672