

**NAVAL HISTORICAL FOUNDATION**

**WASHINGTON, D.C.**

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**FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED DECEMBER 31, 2002**



March 18, 2003

### **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, 2002, 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 2001 financial statements and, in our report dated March 13, 2002, 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, 2002, 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, 2002 (With Comparative Totals for December 31, 2001)

	Unrestricted	Temporarily Restricted	2002 Total	2001 Total
<b>Assets</b>				
<b>Current Assets</b>				
Cash				
Cash on Hand	\$ 460	\$ -	\$ 460	\$ 443
Checking Accounts	7,815	-	7,815	54,759
Money Market Accounts	3,168	-	3,168	158,387
Total Cash	11,443	-	11,443	213,589
Due from Operating Fund	- *	50,488	- *	- *
Accrued Interest Receivable	19,748	-	19,748	1,582
Inventory	97,553	-	97,553	67,623
Prepaid Expenses	1,900	-	1,900	2,492
Total Current Assets	130,644 *	50,488	130,644 *	285,286 *
<b>Investments</b>	2,693,667	-	2,693,667	2,791,526
<b>Property and Equipment</b>				
Furniture, Fixtures and Equipment	175,502	-	175,502	72,388
Less Accumulated Depreciation	(77,638)	-	(77,638)	(52,541)
Net Property and Equipment	97,864	-	97,864	19,847
<b>Total Assets</b>	<u>\$ 2,922,175 *</u>	<u>\$ 50,488</u>	<u>\$ 2,922,175 *</u>	<u>\$ 3,096,659 *</u>
<b>Liabilities and Net Assets</b>				
<b>Current Liabilities</b>				
Accounts Payable and Accrued Expenses	\$ -	\$ -	\$ -	\$ 14,652
Due to Other Funds	50,488 *	-	- *	- *
Total Current Liabilities	50,488 *	-	- *	14,652 *
<b>Net Assets</b>	2,871,687	50,488	2,922,175	3,082,007
<b>Total Liabilities and Net Assets</b>	<u>\$ 2,922,175 *</u>	<u>\$ 50,488</u>	<u>\$ 2,922,175 *</u>	<u>\$ 3,096,659 *</u>

\* Interfund Balances Eliminated from Totals.

See accompanying Notes to Financial Statements.

**Naval Historical Foundation**

**Statement of Activities**  
**For the Year Ended December 31, 2002**  
**(With Comparative Totals for the Year Ended December 31, 2001)**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>2002 Total</u>	<u>2001 Total</u>
<b>Sales/Cost of Sales</b>				
Museum Store Sales	\$ 148,857	\$ -	\$ 148,857	\$ 144,181
Cost of Sales - Museum Store	<u>(68,588)</u>	<u>-</u>	<u>(68,588)</u>	<u>(67,254)</u>
Gross Profit	<u>80,269</u>	<u>-</u>	<u>80,269</u>	<u>76,927</u>
Photo Reproduction Sales	126,219	-	126,219	158,973
Cost of Sales - Photo Reproduction	<u>(52,104)</u>	<u>-</u>	<u>(52,104)</u>	<u>(71,956)</u>
Gross Profit	<u>74,115</u>	<u>-</u>	<u>74,115</u>	<u>87,017</u>
Total Gross Profit	154,384	-	154,384	163,944
<b>Support and Other Revenues</b>				
Donations	87,152	400	87,552	365,852
Membership Dues	33,406	-	33,406	34,247
Interest	78,457	-	78,457	7,737
Dividends	20,200	-	20,200	90,959
Net Investment Loss	(97,218)	-	(97,218)	(165,527)
Royalties - Navy Book/Calendar	161,413	-	161,413	108,828
Other Revenues	43,312	-	43,312	32,030
Net Assets Released from Restrictions	<u>97,412</u>	<u>(97,412)</u>	<u>-</u>	<u>-</u>
Total Gross Profit, Support and Other Revenues	<u>578,518</u>	<u>(97,012)</u>	<u>481,506</u>	<u>638,070</u>
<b>Expenses</b>				
Program Expenses				
Operations	485,476	-	485,476	445,702
Enterprise Project	<u>-</u>	<u>-</u>	<u>-</u>	<u>48,024</u>
Total Program Expenses	485,476	-	485,476	493,726
Office Administration and Management	139,196	-	139,196	144,977
Fund-Raising	<u>16,666</u>	<u>-</u>	<u>16,666</u>	<u>13,758</u>
Total Expenses	<u>641,338</u>	<u>-</u>	<u>641,338</u>	<u>652,461</u>
<b>Decrease in Net Assets</b>	<u>\$ (62,820)</u>	<u>\$ (97,012)</u>	<u>\$ (159,832)</u>	<u>\$ (14,391)</u>

See accompanying Notes to Financial Statements.



Naval Historical Foundation

Statement of Changes in Net Assets  
For the Year Ended December 31, 2002

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Balance at January 1, 2002	\$ 2,934,507	\$ 147,500	\$ 3,082,007
Decrease in Net Assets	<u>(62,820)</u>	<u>(97,012)</u>	<u>(159,832)</u>
<b>Balance at December 31, 2002</b>	<u><u>\$ 2,871,687</u></u>	<u><u>\$ 50,488</u></u>	<u><u>\$ 2,922,175</u></u>

See accompanying Notes to Financial Statements.

**Naval Historical Foundation**

**Statement of Cash Flows**  
**For the Year Ended December 31, 2002**  
**(With Comparative Totals for the Year Ended December 31, 2001)**

	<u>2002</u>	<u>2001</u>
<b>Cash Flows from Operating Activities</b>		
Decrease in Net Assets	\$ (159,832)	\$ (14,391)
Adjustments to Reconcile Decrease in Net Assets to		
Net Cash Provided by (Used in) Operating Activities		
Depreciation	25,097	7,320
Net Investment Loss	97,218	165,527
(Increase) in Accrued Interest Receivable	(18,166)	(876)
Decrease (Increase) in Inventory	(29,930)	1,400
Decrease in Prepaid Expenses	592	3,176
Increase (Decrease) in Accounts Payable		
and Accrued Expenses	<u>(14,652)</u>	<u>11,109</u>
Net Cash Provided by (Used in) Operating Activities	<u>(99,673)</u>	<u>173,265</u>
<b>Cash Flows from Investing Activities</b>		
Proceeds from Sales and Redemptions		
of Marketable Securities	3,229,220	245,417
Purchases of Marketable Securities	(3,228,579)	(186,882)
Purchases of Property and Equipment	(103,114)	(10,375)
Increase in Money Market		
Investment Funds	<u>-</u>	<u>(114,973)</u>
Net Cash (Used in) Investing Activities	<u>(102,473)</u>	<u>(66,813)</u>
Net Increase (Decrease) in Cash	(202,146)	106,452
Cash - Beginning of Year	<u>213,589</u>	<u>107,137</u>
<b>Cash - End of Year</b>	<u><u>\$ 11,443</u></u>	<u><u>\$ 213,589</u></u>

See accompanying Notes to Financial Statements.

# **Naval Historical Foundation**

## **Notes to Financial Statements December 31, 2002**

### **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 Marine, 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**

#### **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 2002 was \$25,097.

#### **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, 2002

### 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, 2002.

#### 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.

#### 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 generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Foundation's financial statements for the year ended December 31, 2001, from which the summarized information was derived.

### 3. INVESTMENTS

Investments are composed of the following marketable securities:

Cash and U.S. Government Obligations	\$ 1,284,799
Corporate Obligations	493,260
Equities	655,580
Equity Mutual Funds	<u>260,028</u>
Total	\$ <u>2,693,667</u>



# Naval Historical Foundation

## Notes to Financial Statements December 31, 2002

### 3. INVESTMENTS (CONTINUED)

Net investment revenue (loss) is composed of the following

Net Realized Losses	\$ (25,696)
Net Unrealized Losses	<u>(71,522)</u>
Total	\$ <u>(97,218)</u>

### 4. TEMPORARILY RESTRICTED NET ASSETS

At December 31, 2002, the Foundation had temporarily restricted net assets for the following projects:

Dillon Oral History Project	\$ <u>50,488</u>
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During 2002, temporarily restricted net assets were released for the following projects based on satisfaction of the purpose restrictions:

Dillon Oral History Project	\$ <u>97,412</u>
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### 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, 2002, 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, 2002, was \$19,511.

March 18, 2003

**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 2002 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 12 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, 2002 (With Comparative Totals for the Year Ended December 31, 2001)

	Unrestricted				
		Board Designated			
	Operating	Tingey House	Museum Fund	2002 Total	2001 Total
<b>Program Operations</b>					
Salaries and Payroll Taxes	\$ 279,139	\$ -	\$ -	\$ 279,139	\$ 290,770
Retirement Plan	15,609	-	-	15,609	7,795
Miscellaneous	21,349	-	26,174	47,523	25,308
Video Production	-	-	30,000	30,000	-
Printing and Publications	15,209	-	5,590	20,799	14,221
NHC Miscellaneous Support	20,347	-	-	20,347	12,860
Postage	6,406	-	2,826	9,232	10,328
Supplies	7,716	-	-	7,716	11,345
Equipment Expense	7,169	-	50	7,219	5,484
Meetings	-	-	6,387	6,387	5,471
Telephone	5,306	-	-	5,306	4,306
WW II Oral History	4,731	-	-	4,731	7,352
Renovation Costs	-	2,820	-	2,820	4,422
Bank Credit Card Fees	2,563	-	-	2,563	2,972
Exhibits	-	-	2,245	2,245	6,387
Educational Center/Programs	1,600	-	250	1,850	5,900
Insurance	853	-	-	853	1,721
Store Expansion	-	-	-	-	26,706
Depreciation	21,137	-	-	21,137	2,354
<b>Total Program Operations</b>	<b>\$ 409,134</b>	<b>\$ 2,820</b>	<b>\$ 73,522</b>	<b>\$ 485,476</b>	<b>\$ 445,702</b>
<b>Office Administration and Management</b>					
Salaries	\$ 42,319	\$ -	\$ -	\$ 42,319	\$ 44,835
Retirement Plan	3,902	-	-	3,902	1,983
Professional Services	19,165	-	-	19,165	17,716
Investment Fees	15,044	-	-	15,044	24,734
Insurance	11,673	-	-	11,673	10,004
Equipment Expense	7,169	-	-	7,169	5,380
Postage	5,895	-	-	5,895	4,761
Photo Service Fees	5,704	-	-	5,704	3,727
Telephone	3,841	-	-	3,841	3,028
Supplies	3,481	-	-	3,481	9,526
Miscellaneous	17,043	-	-	17,043	14,317
Depreciation	3,960	-	-	3,960	4,966
<b>Total Office Administration and Management</b>	<b>\$ 139,196</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 139,196</b>	<b>\$ 144,977</b>



**Naval Historical Foundation**

**Combining Schedule of Financial Position  
December 31, 2002  
(With Comparative Totals for December 31, 2001)**

Assets	Operating	Unrestricted	
		Board Designated	
		Tingey House	Museum Fund
<b>Current Assets</b>			
Cash			
Cash on Hand	\$ 460	\$ -	\$ -
Checking Accounts	2,192	-	5,623
Money Market Accounts	1,675	-	1,493
Total Cash	4,327	-	7,116
Due from Operating Fund	-	49,808	-
Accrued Interest Receivable	19,748	-	-
Inventory	97,553	-	-
Prepaid Expenses	1,900	-	-
Total Current Assets	123,528	49,808	7,116
<b>Investments</b>	2,693,667	-	-
<b>Property and Equipment</b>			
Furniture, Fixtures and Equipment	149,688	-	25,814
Less Accumulated Depreciation	(56,181)	-	(21,457)
Net Property and Equipment	93,507	-	4,357
<b>Total Assets</b>	<b>\$ 2,910,702</b>	<b>\$ 49,808</b>	<b>\$ 11,473</b>
<b>Liabilities and Net Assets</b>			
<b>Current Liabilities</b>			
Accounts Payable and Accrued Expenses	\$ -	\$ -	\$ -
Due to Other Funds	67,546	-	32,750
Total Current Liabilities	67,546	-	32,750
<b>Net Assets</b>	2,843,156	49,808	(21,277)
<b>Total Liabilities and Net Assets</b>	<b>\$ 2,910,702</b>	<b>\$ 49,808</b>	<b>\$ 11,473</b>

\* Interfund Balances Eliminated from Totals.



<u>Total Unrestricted</u>	<u>Temporarily Restricted</u>	<u>2002 Total</u>	<u>2001 Total</u>
\$ 460	\$ -	\$ 460	\$ 443
7,815	-	7,815	54,759
<u>3,168</u>	<u>-</u>	<u>3,168</u>	<u>158,387</u>
11,443	-	11,443	213,589
- *	50,488	- *	- *
19,748	-	19,748	1,582
97,553	-	97,553	67,623
<u>1,900</u>	<u>-</u>	<u>1,900</u>	<u>2,492</u>
<u>130,644 *</u>	<u>50,488</u>	<u>130,644 *</u>	<u>285,286 *</u>
<u>2,693,667</u>	<u>-</u>	<u>2,693,667</u>	<u>2,791,526</u>
175,502	-	175,502	72,388
<u>(77,638)</u>	<u>-</u>	<u>(77,638)</u>	<u>(52,541)</u>
<u>97,864</u>	<u>-</u>	<u>97,864</u>	<u>19,847</u>
<u>\$ 2,922,175 *</u>	<u>\$ 50,488</u>	<u>\$ 2,922,175 *</u>	<u>\$ 3,096,659 *</u>
\$ -	\$ -	\$ -	\$ 14,652
<u>50,488 *</u>	<u>-</u>	<u>- *</u>	<u>- *</u>
50,488 *	-	- *	14,652 *
<u>2,871,687</u>	<u>50,488</u>	<u>2,922,175</u>	<u>3,082,007</u>
<u>\$ 2,922,175 *</u>	<u>\$ 50,488</u>	<u>\$ 2,922,175 *</u>	<u>\$ 3,096,659 *</u>

**Naval Historical Foundation**

**Combining Schedule of Activities  
For the Year Ended December 31, 2002  
(With Comparative Totals for the Year Ended December 31, 2001)**

		Unrestricted	
		Board Designated	
	Operating	Tingey House	Museum Fund
<b>Sales/Cost of Sales</b>			
Museum Store Sales	\$ 148,857	\$ -	\$ -
Cost of Sales - Museum Store	(68,588)	-	-
Gross Profit	80,269	-	-
Photo Reproduction Sales	126,219	-	-
Cost of Sales - Photo Reproduction	(52,104)	-	-
Gross Profit	74,115	-	-
Total Gross Profit	154,384	-	-
<b>Support and Other Revenues</b>			
Donations	42,911	-	44,241
Membership Dues	33,406	-	-
Interest	78,316	-	141
Dividends	20,200	-	-
Net Investment Loss	(97,218)	-	-
Royalties - Navy Book/Calendar	161,413	-	-
Other Revenues	43,312	-	-
Net Assets Released from Restrictions	97,412	-	-
Total Gross Profit, Support and Other Revenues	534,136	-	44,382
<b>Expenses</b>			
Program Expenses			
Operations	409,134	2,820	73,522
Enterprise Project	-	-	-
Total Program Expenses	409,134	2,820	73,522
Office Administration and Management	139,196	-	-
Fund-Raising	-	-	16,666
Total Expenses	548,330	2,820	90,188
<b>Decrease in Net Assets</b>	<u>\$ (14,194)</u>	<u>\$ (2,820)</u>	<u>\$ (45,806)</u>

<u>Total Unrestricted</u>	<u>Temporarily Restricted</u>	<u>2002 Total</u>	<u>2001 Total</u>
\$ 148,857	\$ -	\$ 148,857	\$ 144,181
(68,588)	-	(68,588)	(67,254)
<u>80,269</u>	<u>-</u>	<u>80,269</u>	<u>76,927</u>
126,219	-	126,219	158,973
(52,104)	-	(52,104)	(71,956)
<u>74,115</u>	<u>-</u>	<u>74,115</u>	<u>87,017</u>
154,384	-	154,384	163,944
87,152	400	87,552	365,852
33,406	-	33,406	34,247
78,457	-	78,457	7,737
20,200	-	20,200	90,959
(97,218)	-	(97,218)	(165,527)
161,413	-	161,413	108,828
43,312	-	43,312	32,030
<u>97,412</u>	<u>(97,412)</u>	<u>-</u>	<u>-</u>
<u>578,518</u>	<u>(97,012)</u>	<u>481,506</u>	<u>638,070</u>
485,476	-	485,476	445,702
<u>-</u>	<u>-</u>	<u>-</u>	<u>48,024</u>
485,476	-	485,476	493,726
139,196	-	139,196	144,977
<u>16,666</u>	<u>-</u>	<u>16,666</u>	<u>13,758</u>
<u>641,338</u>	<u>-</u>	<u>641,338</u>	<u>652,461</u>
<u>\$ (62,820)</u>	<u>\$ (97,012)</u>	<u>\$ (159,832)</u>	<u>\$ (14,391)</u>

# Naval Historical Foundation

## Combining Schedule of Changes in Net Assets For the Year Ended December 31, 2002

	Unrestricted					
	Board					
	Designated					
	Operating	Tingey House	Museum Fund	Total	Temporarily Restricted	Total
Balance at January 1, 2002	\$ 2,857,350	\$ 52,628	\$ 24,529	\$ 2,934,507	\$ 147,500	\$ 3,082,007
Decrease in Net Assets	(14,194)	(2,820)	(45,806)	(62,820)	(97,012)	(159,832)
<b>Balance at December 31, 2002</b>	<u>\$ 2,843,156</u>	<u>\$ 49,808</u>	<u>\$(21,277)</u>	<u>\$ 2,871,687</u>	<u>\$ 50,488</u>	<u>\$ 2,922,175</u>