

NAVAL HISTORICAL FOUNDATION

WASHINGTON, D.C.

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

FOR THE YEAR ENDED DECEMBER 31, 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, 2004, 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 2003 financial statements and, in our report dated January 23, 2004, 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, 2004, 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
January 27, 2005

Certified Public Accountants

Naval Historical Foundation

Statement of Financial Position

December 31, 2004

(With Comparative Totals as of December 31, 2003)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total 2004</u>	<u>Total 2003</u>
Assets				
Current Assets				
Cash				
Cash on Hand	\$ 2,477	\$ -	\$ 2,477	\$ 1,262
Checking Accounts	79,341	-	79,341	672
Money Market Accounts	3,206	-	3,206	3,185
	<hr/>	<hr/>	<hr/>	<hr/>
Total Cash	85,024	-	85,024	5,119
Due from Operating Fund	-	43,977	-	-
Accrued Interest Receivable	12,909	-	12,909	21,162
Inventory	50,513	-	50,513	72,158
Prepaid Expenses	2,451	-	2,451	1,448
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Total Current Assets	150,897	43,977	150,897	99,887
Investments	<hr/>	<hr/>	<hr/>	<hr/>
	2,338,438	-	2,338,438	2,832,664
Property and Equipment				
Furniture, Fixtures, and Equipment	215,808	-	215,808	187,898
Less Accumulated Depreciation	(136,862)	-	(136,862)	(107,042)
	<hr/>	<hr/>	<hr/>	<hr/>
Net Property and Equipment	78,946	-	78,946	80,856
	<hr/>	<hr/>	<hr/>	<hr/>
Total Assets	\$ 2,568,281	\$ 43,977	\$ 2,568,281	\$ 3,013,407
	<hr/>	<hr/>	<hr/>	<hr/>
Liabilities and Net Assets				
Current Liabilities				
Accounts Payable and Accrued				
Expenses	\$ 11,939	\$ -	\$ 11,939	\$ 43,464
Deferred Revenue	58,526	-	58,526	68,000
Due to Other Funds	43,977	-	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
Total Current Liabilities	114,442	-	70,465	111,464
	<hr/>	<hr/>	<hr/>	<hr/>
Net Assets	2,453,839	43,977	2,497,816	2,901,943
	<hr/>	<hr/>	<hr/>	<hr/>
Total Liabilities and Net Assets	\$ 2,568,281	\$ 43,977	\$ 2,568,281	\$ 3,013,407
	<hr/>	<hr/>	<hr/>	<hr/>

* Interfund Balances Eliminated from Totals.

See accompanying Notes to Financial Statements.

Naval Historical Foundation
Statement of Activities
For the Year Ended December 31, 2004
(With Comparative Totals for the Year Ended December 31, 2003)

	Unrestricted	Temporarily Restricted	Total 2004	Total 2003
Revenues				
Departmental				
Museum Store Sales	\$ 178,120	\$ -	\$ 178,120	\$ 156,218
Cost of Sales - Museum Store	98,827	-	98,827	99,719
Gross Profit	79,293	-	79,293	56,499
Museum Store Operating Expenses	51,534	-	51,534	72,596
Excess of Museum Store Sales (Operating Expenses)	27,759	-	27,759	(16,097)
Photo Reproduction Sales	123,673	-	123,673	121,689
Cost of Sales - Photo Reproduction	35,139	-	35,139	44,989
Gross Profit	88,534	-	88,534	76,700
Photo Reproduction Operating Expenses	72,406	-	72,406	69,857
Excess of Photo Reproduction Sales Over Photo Reproduction Operating Expenses	16,128	-	16,128	6,843
Total Departmental Excess of Sales (Expenses)	43,887	-	43,887	(9,254)
Support and Other Revenues				
Donations	137,939	-	137,939	224,833
Membership Dues	30,827	-	30,827	31,860
Building 70 Support	17,774	-	17,774	-
Royalties - Navy Book/Calendar	72,503	-	72,503	44,209
Sale of Tingey House Furnishings	1,000	-	1,000	-
Other Revenues	606	-	606	3,600
Net Assets Released from Restrictions	4,857	(4,857)	-	-
Total Support and Other Revenues	265,506	(4,857)	260,649	304,502
Total Operating Revenues	309,393	(4,857)	304,536	295,248
Expenses				
Program Expenses				
Naval Historical Foundation	332,321	-	332,321	337,926
Tingey House Expenses	288	-	288	-
Museum Support	333,666	-	333,666	140,918
Naval Historical Center Support	24,200	-	24,200	33,437
Total Program Expenses	690,475	-	690,475	512,281
Office Administration and Management	111,891	-	111,891	98,888
Fund-Raising	67,915	-	67,915	18,809
Total Operating Expenses	870,281	-	870,281	629,978
Excess of Operating Expenses Over Operating Revenues	(560,888)	(4,857)	(565,745)	(334,730)
Investment Income				
Interest and Dividends	92,439	-	92,439	101,785
Net Investment Gain	69,179	-	69,179	212,713
Decrease in Net Assets	\$ (399,270)	\$ (4,857)	\$ (404,127)	\$ (20,232)

See accompanying Notes to Financial Statements.

Naval Historical Foundation

**Statement of Changes in Net Assets
For the Year Ended December 31, 2004**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Balance at Beginning of Year	\$ 2,853,109	\$ 48,834	\$ 2,901,943
Decrease in Net Assets	<u>(399,270)</u>	<u>(4,857)</u>	<u>(404,127)</u>
Balance at End of Year	<u><u>\$ 2,453,839</u></u>	<u><u>\$ 43,977</u></u>	<u><u>\$ 2,497,816</u></u>

See accompanying Notes to Financial Statements.

Naval Historical Foundation

Statement of Cash Flows

For the Year Ended December 31, 2004

(With Comparative Totals for the Year Ended December 31, 2003)

	<u>2004</u>	<u>2003</u>
Cash Flows from Operating Activities		
Decrease in Net Assets	\$ (404,127)	\$ (20,232)
Adjustments to Reconcile Decrease in Net Assets to Net Cash Used in Operating Activities		
Depreciation	29,820	29,405
Net Investment Gain	(69,179)	(212,713)
<u>(Increase) Decrease in Assets</u>		
Accrued Interest Receivable	8,253	(1,414)
Inventory	21,645	25,395
Prepaid Expenses	(1,003)	452
<u>Increase (Decrease) in Liabilities</u>		
Accounts Payable and Accrued Expenses	(31,525)	43,464
Deferred Revenue	(9,474)	68,000
	<u>(455,590)</u>	<u>(67,643)</u>
 Cash Flows from Investing Activities		
Proceeds from Sales and Redemptions of Marketable Securities	1,132,526	617,987
Purchases of Marketable Securities	(569,121)	(544,271)
Purchases of Property and Equipment	(27,910)	(12,397)
	<u>535,495</u>	<u>61,319</u>
 Net Cash Provided by Investing Activities		
	<u>79,905</u>	<u>(6,324)</u>
 Net Increase (Decrease) in Cash		
	<u>5,119</u>	<u>11,443</u>
 Cash at Beginning of Year		
	<u>5,119</u>	<u>11,443</u>
 Cash at End of Year	<u><u>\$ 85,024</u></u>	<u><u>\$ 5,119</u></u>

See accompanying Notes to Financial Statements.

Naval Historical Foundation

Notes to Financial Statements December 31, 2004

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 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 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 2004 was \$29,820.

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, 2004

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Deferred Revenue

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

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, 2004.

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, 2003, from which the summarized information was derived.

3. INVESTMENTS

Investments at December 31, 2004, consisted of the following marketable securities:

Cash and U.S. Government Obligations	\$ 690,090
Corporate Obligations	489,758
Equities	447,311
Equity Mutual Funds	<u>711,279</u>
Total	\$ <u>2,338,438</u>

Naval Historical Foundation

**Notes to Financial Statements
December 31, 2004**

4. TEMPORARILY RESTRICTED NET ASSETS

At December 31, 2004, the Foundation had temporarily restricted net assets for the following projects:

Dillon Oral History Project	\$ <u>43,977</u>
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During 2004, temporarily restricted net assets were released for the following projects based on satisfaction of the purpose restrictions:

Dillon Oral History Project	\$ <u>4,857</u>
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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 9% of compensation deferred by employees. The retirement plan cost for the year ended December 31, 2004, was \$14,479.



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 2004 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 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
January 27, 2005

Certified Public Accountants

Naval Historical Foundation

Combining Schedule of Museum Store and Photo Reproduction Operating Expenses
 For the Year Ended December 31, 2004
 (With Comparative Totals for the Year Ended December 31, 2003)

	Unrestricted		Total 2004	Total 2003
	Operating	Board Designated Tingey House		
Museum Store Operating Expenses				
Salaries and Payroll Taxes	\$ 35,283	\$ -	\$ 35,283	\$ 52,755
Retirement Plan	90	-	90	1,137
Professional Fees	550	-	550	550
Telephone	1,074	-	1,074	1,766
Postage	2,072	-	2,072	2,707
Insurance	182	-	182	754
Supplies	4,182	-	4,182	2,197
Dues	200	-	200	200
Equipment	920	-	920	435
Bank Service Charges	3,240	-	3,240	4,492
Miscellaneous	1,542	-	1,542	2,525
Depreciation	1,275	-	1,275	1,735
Rent	-	-	-	1,000
Internet	924	-	924	343
Total Museum Store Operating Expenses	<u>\$ 51,534</u>	<u>\$ -</u>	<u>\$ 51,534</u>	<u>\$ 72,596</u>
Photo Reproduction Operating Expenses				
Salaries and Payroll Taxes	\$ 55,372	\$ -	\$ 55,372	\$ 53,431
Retirement Plan	703	-	703	1,100
Telephone	2,481	-	2,481	3,068
Postage	6,933	-	6,933	5,798
Insurance	2,823	-	2,823	3,203
Supplies	1,545	-	1,545	907
Equipment	-	-	-	344
Miscellaneous	2,549	-	2,549	2,006
Total Photo Reproduction Operating Expenses	<u>\$ 72,406</u>	<u>\$ -</u>	<u>\$ 72,406</u>	<u>\$ 69,857</u>

Naval Historical Foundation

Combining Schedule of Expenses
For the Year Ended December 31, 2004
(With Comparative Totals for the Year Ended December 31, 2003)

	Unrestricted		Total 2004	Total 2003
	Operating	Board Designated Tingey House		
Naval Historical Foundation				
Salaries and Payroll Taxes	\$ 224,541	\$ -	\$ 224,541	\$ 192,530
Retirement Plan	10,949	-	10,949	9,887
Printing	12,309	-	12,309	9,187
Postage	4,040	-	4,040	5,232
Video Production	1,628	-	1,628	13,775
Conferences	4,458	-	4,458	4,830
Photo Service Fees	497	-	497	711
Advertising	7,119	-	7,119	4,738
Supplies	7,602	-	7,602	4,003
Equipment Expense	4,407	-	4,407	7,624
Awards	1,320	-	1,320	1,294
Telephone	4,175	-	4,175	4,684
WWII Oral History	3,553	-	3,553	2,727
Digitization	-	-	-	32,243
Publications	30	-	30	2,000
Renovation	-	157	157	146
Insurance	8,988	-	8,988	7,492
Bank Service Charges	2,014	-	2,014	1,845
Dues	1,628	-	1,628	2,612
Miscellaneous	12,617	131	12,748	8,230
Depreciation	20,446	-	20,446	22,136
Total Naval Historical Foundation	\$ 332,321	\$ 288	\$ 332,609	\$ 337,926
Museum Support				
Salaries	\$ 21,364	\$ -	\$ 21,364	\$ -
Depreciation	2,987	-	2,987	-
Printing	6,147	-	6,147	8,119
Postage	1,250	-	1,250	500
Exhibits - Submarine	-	-	-	93,800
Exhibits - Other	295,328	-	295,328	27,893
Bank Service Charges	2,372	-	2,372	1,754
Dues	1,534	-	1,534	1,985
Educational Programs	2,684	-	2,684	6,867
Total Museum Support	\$ 333,666	\$ -	\$ 333,666	\$ 140,918
Naval Historical Center Support				
Salaries	\$ 400	\$ -	\$ 400	\$ 1,660
Postage	-	-	-	10
Supplies	23,800	-	23,800	28,102
Miscellaneous	-	-	-	3,665
Total Naval Historical Center Support	\$ 24,200	\$ -	\$ 24,200	\$ 33,437

Naval Historical Foundation

**Combining Schedule of Expenses
For the Year Ended December 31, 2004
(With Comparative Totals for the Year Ended December 31, 2003)**

	Unrestricted		Total 2004	Total 2003
	Operating	Board Designated Tingey House		
Office Administration and Management				
Salaries	\$ 51,571	\$ -	\$ 51,571	\$ 48,621
Retirement Plan	2,737	-	2,737	2,472
Professional Services	29,685	-	29,685	18,955
Investment Fees	14,097	-	14,097	15,067
Insurance	2,247	-	2,247	1,873
Equipment Expense	1,993	-	1,993	1,906
Postage	1,011	-	1,011	1,307
Telephone	1,044	-	1,044	1,171
Supplies	1,901	-	1,901	1,002
Miscellaneous	494	-	494	980
Depreciation	5,111	-	5,111	5,534
Total Office Administration and Management	\$ 111,891	\$ -	\$ 111,891	\$ 98,888

Naval Historical Foundation

**Combining Schedule of Changes in Net Assets
For the Year Ended December 31, 2004**

		<u>Unrestricted</u>			
		<u>Board</u>			
		<u>Designated</u>			
		<u>Tingey</u>	<u>Total</u>	<u>Temporarily</u>	
	<u>Operating</u>	<u>House</u>	<u>Unrestricted</u>	<u>Restricted</u>	<u>Total</u>
Balance at Beginning of Year	\$ 2,803,447	\$ 49,662	\$ 2,853,109	\$ 48,834	\$ 2,901,943
Increase (Decrease) in Net Assets	<u>(399,982)</u>	<u>712</u>	<u>(399,270)</u>	<u>(4,857)</u>	<u>(404,127)</u>
Balance at End of Year	<u>\$ 2,403,465</u>	<u>\$ 50,374</u>	<u>\$ 2,453,839</u>	<u>\$ 43,977</u>	<u>\$ 2,497,816</u>

Naval Historical Foundation

**Schedule of Changes in Investments
For the Year Ended December 31, 2004**

	Cost	Unrealized Gain	Fair Market Value
Beginning of Year	\$ 2,686,252	\$ 146,412	\$ 2,832,664
Interest and Dividends (A)	100,692	-	100,692
Realized Gains	21,816	-	21,816
Realized Losses	(35,355)	-	(35,355)
Unrealized Gains	-	82,718	82,718
Investment Management Fees	(14,097)	-	(14,097)
Transfer to Operations	(650,000)	-	(650,000)
End of Year	\$ 2,109,308	\$ 229,130	\$ 2,338,438

(A) Interest and Dividends from Investments - Accrual Basis	\$ 92,439
Add Accrued Interest at Beginning of Year	21,162
Less Accrued Interest at End of Year	(12,909)
Interest and Dividends from Investments - Cash Basis	\$ 100,692