

NAVAL HISTORICAL FOUNDATION

WASHINGTON, D.C.

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

FOR THE YEAR ENDED DECEMBER 31, 2005



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, 2005, 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 2004 financial statements and, in our report dated January 27, 2005, 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, 2005, 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

Bethesda, Maryland
February 28, 2006

Naval Historical Foundation

Statement of Financial Position

December 31, 2005

(With Comparative Totals as of December 31, 2004)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total 2005</u>	<u>Total 2004</u>
Assets				
Current Assets				
Cash				
Cash on Hand	\$ 523	\$ -	\$ 523	\$ 2,477
Checking Accounts	80,905	-	80,905	79,341
Money Market Accounts	-	-	-	3,206
Total Cash	81,428	-	81,428	85,024
Due from Operating Fund	-	24,105	-	*
Accrued Interest Receivable	15,582	-	15,582	12,909
Inventory	61,986	-	61,986	50,513
Prepaid Expenses	3,540	-	3,540	2,451
Total Current Assets	<u>162,536</u>	<u>24,105</u>	<u>162,536</u>	<u>* 150,897</u>
Investments	<u>2,005,121</u>	<u>-</u>	<u>2,005,121</u>	<u>2,338,438</u>
Property and Equipment				
Furniture, Fixtures, and Equipment	221,957	-	221,957	215,808
Less Accumulated Depreciation	(165,676)	-	(165,676)	(136,862)
Net Property and Equipment	<u>56,281</u>	<u>-</u>	<u>56,281</u>	<u>78,946</u>
Total Assets	<u><u>\$ 2,223,938</u></u>	<u><u>\$ 24,105</u></u>	<u><u>\$ 2,223,938</u></u>	<u><u>* \$ 2,568,281</u></u>
Liabilities and Net Assets				
Current Liabilities				
Accounts Payable and Accrued Expenses	\$ 10,828	\$ -	\$ 10,828	\$ 11,939
Deferred Revenue	73,901	-	73,901	58,526
Due to Other Funds	24,105	-	-	*
Total Current Liabilities	108,834	-	84,729	* 70,465
Net Assets	<u>2,115,104</u>	<u>24,105</u>	<u>2,139,209</u>	<u>2,497,816</u>
Total Liabilities and Net Assets	<u><u>\$ 2,223,938</u></u>	<u><u>\$ 24,105</u></u>	<u><u>\$ 2,223,938</u></u>	<u><u>* \$ 2,568,281</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, 2005
(With Comparative Totals for the Year Ended December 31, 2004)

	Unrestricted	Temporarily Restricted	Total 2005	Total 2004
Net Departmental Revenues				
Museum Store Sales	\$ 154,861	\$ -	\$ 154,861	\$ 178,120
Cost of Sales - Museum Store	79,001	-	79,001	98,827
Gross Profit	75,860	-	75,860	79,293
Museum Store Operating Expenses	56,885	-	56,885	51,534
Excess of Museum Store Sales Over Operating Expenses	18,975	-	18,975	27,759
Photo Reproduction Sales	119,428	-	119,428	123,673
Cost of Sales - Photo Reproduction	23,895	-	23,895	35,139
Gross Profit	95,533	-	95,533	88,534
Photo Reproduction Operating Expenses	70,407	-	70,407	72,406
Excess of Photo Reproduction Sales Over Photo Reproduction Operating Expenses	25,126	-	25,126	16,128
Total Departmental Excess of Sales Over Expenses	44,101	-	44,101	43,887
Support and Other Revenues				
Donations	123,582	-	123,582	112,102
Fund-Raising	27,760	-	27,760	25,837
Membership Dues	26,583	-	26,583	30,827
Building 70 Support	1,790	-	1,790	17,774
Royalties - Navy Book/Calendar	20,504	-	20,504	72,503
Sale of Tingey House Furnishings	-	-	-	1,000
Other Revenues	2,248	-	2,248	606
Net Assets Released from Restrictions	19,872	(19,872)	-	-
Total Support and Other Revenues	222,339	(19,872)	202,467	260,649
Total Operating Revenues	266,440	(19,872)	246,568	304,536
Expenses				
Program Expenses				
Naval Historical Foundation	362,567	-	362,567	332,321
Tingey House Expenses	180	-	180	288
Museum Support	151,325	-	151,325	333,666
Naval Historical Center Support	41,805	-	41,805	24,200
Total Program Expenses	555,877	-	555,877	690,475
Office Administration and Management	89,639	-	89,639	111,891
Fund-Raising	41,168	-	41,168	67,915
Total Operating Expenses	686,684	-	686,684	870,281
Excess of Operating Expenses Over Operating Revenues	(420,244)	(19,872)	(440,116)	(565,745)
Investment Income				
Interest and Dividends	80,613	-	80,613	92,439
Net Investment Gain	896	-	896	69,179
Decrease in Net Assets	\$ (338,735)	\$ (19,872)	\$ (358,607)	\$ (404,127)

See accompanying Notes to Financial Statements.

Naval Historical Foundation

Statement of Changes in Net Assets
For the Year Ended December 31, 2005
(With Comparative Totals for the Year Ended December 31, 2004)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total 2005</u>	<u>Total 2004</u>
Balance at Beginning of Year	\$ 2,453,839	\$ 43,977	\$ 2,497,816	\$ 2,901,943
Decrease in Net Assets	<u>(338,735)</u>	<u>(19,872)</u>	<u>(358,607)</u>	<u>(404,127)</u>
Balance at End of Year	<u>\$ 2,115,104</u>	<u>\$ 24,105</u>	<u>\$ 2,139,209</u>	<u>\$ 2,497,816</u>

See accompanying Notes to Financial Statements.

Naval Historical Foundation

**Statement of Cash Flows
For the Year Ended December 31, 2005
(With Comparative Totals for the Year Ended December 31, 2004)**

	2005	2004
Cash Flows from Operating Activities		
Decrease in Net Assets	\$ (358,607)	\$ (404,127)
Adjustments to Reconcile Decrease in Net Assets to Net Cash Used in Operating Activities		
Depreciation	28,814	29,820
Net Investment Gain	(896)	(69,179)
<u>(Increase) Decrease in Assets</u>		
Accrued Interest Receivable	(2,673)	8,253
Inventory	(11,473)	21,645
Prepaid Expenses	(1,089)	(1,003)
<u>Increase (Decrease) in Liabilities</u>		
Accounts Payable and Accrued Expenses	(1,111)	(31,525)
Deferred Revenue	15,375	(9,474)
	(331,660)	(455,590)
 Cash Flows from Investing Activities		
Proceeds from Sales and Redemptions of Marketable Securities	939,058	1,132,526
Purchases of Marketable Securities	(604,845)	(569,121)
Purchases of Property and Equipment	(6,149)	(27,910)
	328,064	535,495
Net Cash Provided by Investing Activities		
	(3,596)	79,905
Net Increase (Decrease) in Cash		
Cash at Beginning of Year	85,024	5,119
 Cash at End of Year	\$ 81,428	\$ 85,024

See accompanying Notes to Financial Statements.

Naval Historical Foundation

Notes to Financial Statements

December 31, 2005

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 2005 was \$28,814.

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, 2005**

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 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, 2005.

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, 2004, from which the summarized information was derived.

3. INVESTMENTS

Investments at December 31, 2005, consisted of the following marketable securities:

Cash and U.S. Government Obligations	\$	347,639
Corporate Obligations		663,865
Equities		674,406
Equity Mutual Funds		<u>319,211</u>
Total	\$	<u>2,005,121</u>

Naval Historical Foundation

**Notes to Financial Statements
December 31, 2005**

4. TEMPORARILY RESTRICTED NET ASSETS

At December 31, 2005, the Foundation had temporarily restricted net assets for the following project:

Dillon Oral History Project	\$ <u>24,105</u>
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During 2005, temporarily restricted net assets were released for the following project based on satisfaction of the purpose restrictions:

Dillon Oral History Project	\$ <u>19,872</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 5% of compensation deferred by employees. The retirement plan cost for the year ended December 31, 2005, was \$13,062.



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 2005 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
February 28, 2006

Certified Public Accountants

Naval Historical Foundation

Combining Schedule of Museum Store and Photo Reproduction Operating Expenses
For the Year Ended December 31, 2005
(With Comparative Totals for the Year Ended December 31, 2004)

	Unrestricted		Total 2005	Total 2004
	Operating	Board Designated Tingey House		
Museum Store Operating Expenses				
Bank Service Charges	\$ 4,847	\$ -	\$ 4,847	\$ 3,240
Depreciation	2,095	-	2,095	1,275
Dues	-	-	-	200
Equipment	338	-	338	920
Insurance	416	-	416	182
Internet	337	-	337	924
Miscellaneous	464	-	464	1,542
Postage and Shipping	2,203	-	2,203	2,072
Professional Fees	-	-	-	550
Retirement Plan	-	-	-	90
Salaries and Payroll Taxes	42,824	-	42,824	35,283
Supplies	2,225	-	2,225	4,182
Telephone	1,136	-	1,136	1,074
Total Museum Store Operating Expenses	\$ 56,885	\$ -	\$ 56,885	\$ 51,534
Photo Reproduction Operating Expenses				
Bank Service Charges	\$ 3,344	\$ -	\$ 3,344	\$ 1,898
Depreciation	263	-	263	-
Insurance	1,612	-	1,612	2,823
Postage and Shipping	3,392	-	3,392	6,933
Printing	39	-	39	651
Retirement Plan	963	-	963	703
Salaries and Payroll Taxes	54,990	-	54,990	55,372
Supplies	4,056	-	4,056	1,545
Telephone	1,748	-	1,748	2,481
Total Photo Reproduction Operating Expenses	\$ 70,407	\$ -	\$ 70,407	\$ 72,406

Naval Historical Foundation

Combining Schedule of Expenses
For the Year Ended December 31, 2005
(With Comparative Totals for the Year Ended December 31, 2004)

	Unrestricted		Total 2005	Total 2004
	Operating	Board Designated Tingey House		
Naval Historical Foundation				
Advertising	\$ 4,634	\$ -	\$ 4,634	\$ 7,119
Awards	1,524	-	1,524	1,320
Bank Service Charges	2,628	-	2,628	2,014
Conferences	2,773	-	2,773	4,458
Depreciation	20,998	-	20,998	20,446
Equipment Expense	5,386	-	5,386	4,407
Insurance	11,722	-	11,722	8,988
Intern Program	2,400	-	2,400	400
Internet	1,548	-	1,548	-
Miscellaneous	3,549	-	3,549	12,617
Oral History - Dillon	19,872	-	19,872	-
Oral History - Other	3,768	-	3,768	3,553
Photo Service Fees	1,062	-	1,062	497
Postage and Shipping	4,054	-	4,054	4,040
Printing	5,250	-	5,250	12,309
Publications	61	-	61	30
Retirement Plan	9,679	-	9,679	10,949
Salaries and Payroll Taxes	246,131	-	246,131	224,141
Special Events	3,217	-	3,217	-
Subscriptions	1,661	-	1,661	1,628
Supplies	6,414	-	6,414	7,602
Telephone	4,057	-	4,057	4,175
Tingey House Support	-	180	180	288
Video Production	179	-	179	1,628
Total Naval Historical Foundation	\$ 362,567	\$ 180	\$ 362,747	\$ 332,609
Museum Support				
Advertising	\$ 5,440	\$ -	\$ 5,440	\$ 3,385
Bank Service Charges	1,735	-	1,735	2,372
Cold War Gallery Support	77,972	-	77,972	281,277
Contractors	37,004	-	37,004	21,364
Depreciation	208	-	208	2,987
Educational Programs	7,076	-	7,076	2,684
Exhibits - Other	7,379	-	7,379	5,589
Miscellaneous	2,183	-	2,183	5,077
Postage and Shipping	-	-	-	1,250
Printing	10,254	-	10,254	6,147
Subscriptions	2,074	-	2,074	1,534
Total Museum Support	\$ 151,325	\$ -	\$ 151,325	\$ 333,666

Naval Historical Foundation

Combining Schedule of Expenses
For the Year Ended December 31, 2005
(With Comparative Totals for the Year Ended December 31, 2004)

	Unrestricted		Total 2005	Total 2004
	Operating	Board Designated Tingey House		
Office Administration and Management				
Bank Service Charges	\$ 657	\$ -	\$ 657	\$ -
Depreciation	5,250	-	5,250	5,111
Equipment Expense	1,346	-	1,346	1,993
Insurance	2,930	-	2,930	2,247
Investment Fees	12,144	-	12,144	14,097
Miscellaneous	800	-	800	494
Postage and Shipping	1,014	-	1,014	1,011
Printing	1,312	-	1,312	-
Professional Services	27,720	-	27,720	29,685
Retirement Plan	1,815	-	1,815	2,737
Salaries and Payroll Taxes	32,034	-	32,034	51,571
Supplies	1,603	-	1,603	1,901
Telephone	1,014	-	1,014	1,044
	<u>\$ 89,639</u>	<u>\$ -</u>	<u>\$ 89,639</u>	<u>\$ 111,891</u>
Total Office Administration and Management				
Fund-Raising				
Cold War Gallery Campaign	\$ 11,587	\$ -	\$ 11,587	\$ 49,490
NMF Mail-outs	4,042	-	4,042	18,425
Retirement Plan	605	-	605	-
Salaries and Payroll Taxes	24,934	-	24,934	-
	<u>\$ 41,168</u>	<u>\$ -</u>	<u>\$ 41,168</u>	<u>\$ 67,915</u>
Total Fund-Raising				

Naval Historical Foundation

**Combining Schedule of Changes in Net Assets
For the Year Ended December 31, 2005**

	<u>Unrestricted</u>				
		<u>Board Designated</u>			
	<u>Operating</u>	<u>Tingey House</u>	<u>Total Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Balance at Beginning of Year	\$ 2,403,465	\$ 50,374	\$ 2,453,839	\$ 43,977	\$ 2,497,816
Increase (Decrease) in Net Assets	<u>(338,555)</u>	<u>(180)</u>	<u>(338,735)</u>	<u>(19,872)</u>	<u>(358,607)</u>
Balance at End of Year	<u><u>\$ 2,064,910</u></u>	<u><u>\$ 50,194</u></u>	<u><u>\$ 2,115,104</u></u>	<u><u>\$ 24,105</u></u>	<u><u>\$ 2,139,209</u></u>

Naval Historical Foundation

**Schedule of Changes in Investments
For the Year Ended December 31, 2005**

	Cost	Unrealized Gain	Fair Market Value
Beginning of Year	\$ 2,109,308	\$ 229,130	\$ 2,338,438
Interest and Dividends (A)	77,931	-	77,931
Realized Gains	137,134	-	137,134
Realized Losses	(24,620)	-	(24,620)
Unrealized Losses	-	(111,618)	(111,618)
Investment Management Fees	(12,144)	-	(12,144)
Transfer to Operations	(400,000)	-	(400,000)
End of Year	\$ 1,887,609	\$ 117,512	\$ 2,005,121

(A) Interest and Dividends from Investments - Accrual Basis	\$ 80,604
Add Accrued Interest at Beginning of Year	12,909
Less Accrued Interest at End of Year	(15,582)
Interest and Dividends from Investments - Cash Basis	\$ 77,931