

# **THE NATIONAL SECURITY ARCHIVE FUND, INC.**

**Financial Statements  
for the years ended December 31, 2005 and 2004**

**National Security Archive Fund, Inc.**  
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**December 31, 2005 and 2004**

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**Report of Independent Auditors**

To the Audit Committee of the  
National Security Archive Fund, Inc.

In our opinion, the accompanying statements of financial position and the related statements of activities, functional expenses, and cash flows present fairly, in all material respects, the financial position of the National Security Archive Fund, Inc. (the NSAF) as of December 31, 2005 and 2004, and the changes in net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the NSAF's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audit of these statements 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, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

*PricewaterhouseCoopers LLP*

May 15, 2006  
McLean, Virginia

**National Security Archive Fund, Inc.**  
**Statements of Financial Position**  
**As of December 31, 2005 and 2004**

	2005	2004
<b>ASSETS</b>		
Current assets		
Cash and cash equivalents	\$ 1,070,126	\$ 1,100,019
Foundation grants receivable - Unrestricted	150,000	933,000
Foundation grants receivable - Restricted	1,786,411	484,550
Total Foundation grants receivable (Note 5)	<u>1,936,411</u>	<u>1,417,550</u>
Royalties due from co-publishers	47,950	109,737
Other receivables	3,134	4,917
Prepaid expenses	36,291	5,283
Total current assets	<u>3,093,912</u>	<u>2,637,506</u>
Non-current assets		
Property, plant and equipment, net	46,084	60,813
Total assets	<u>\$ 3,139,996</u>	<u>\$ 2,698,319</u>
<b>LIABILITIES AND NET ASSETS</b>		
Current liabilities		
Accounts payable	\$ 2,879	\$ 7,971
Accrued expenses	7,958	10,530
Total liabilities	<u>10,837</u>	<u>18,501</u>
Net assets		
Unrestricted	1,045,704	1,547,220
Temporarily restricted (Note 7)	2,083,455	1,132,598
Total net assets	<u>3,129,159</u>	<u>2,679,818</u>
Total liabilities and net assets	<u>\$ 3,139,996</u>	<u>\$ 2,698,319</u>

*The accompanying notes are an integral part of these financial statements.*

**National Security Archive Fund, Inc.**  
**Statement of Activities**  
**For the year ended December 31, 2005**

	Unrestricted	Temporarily Restricted	Total
Revenue, gains, and other support			
Gifts from Individuals	\$ 3,000	\$ 2,500	\$ 5,500
Grants from Foundations:			
Paid in Current Year	60,000	835,822	895,822
Payable in Future Years	-	1,786,411	1,786,411
Royalties, Honoraria, and Sale of Materials	239,271	-	239,271
Interest Income	22,312	-	22,312
Net assets released from restriction	<u>1,673,876</u>	<u>(1,673,876)</u>	<u>-</u>
Total revenue, gains, and other support	<u>1,998,459</u>	<u>950,857</u>	<u>2,949,316</u>
Expenses			
Program expenses	2,246,373	-	2,246,373
Supporting services			
Management and general	202,250	-	202,250
Fund Raising	<u>51,352</u>	<u>-</u>	<u>51,352</u>
Total supporting services	253,602	-	253,602
Total expenses	<u>2,499,975</u>	<u>-</u>	<u>2,499,975</u>
Change in net assets	<u>(501,516)</u>	<u>950,857</u>	<u>449,341</u>
Net assets, beginning of year	<u>1,547,220</u>	<u>1,132,598</u>	<u>2,679,818</u>
Net assets, end of year	<u>\$ 1,045,704</u>	<u>\$ 2,083,455</u>	<u>\$ 3,129,159</u>

*The accompanying notes are an integral part of these financial statements.*

**National Security Archive Fund, Inc.**  
**Statement of Activities**  
**For the year ended December 31, 2004**

	Unrestricted	Temporarily Restricted	Total
Revenue, gains, and other support			
Gifts from Individuals	\$ 8,427	\$ 1,450	\$ 9,877
Grants from Foundations:			
Paid in Current Year	10,000	1,291,297	1,301,297
Payable in Future Years	-	397,050	397,050
Royalties, Honoraria, and Sale of Materials	263,898	12	263,910
Interest Income	4,122	-	4,122
Net assets released from restriction	1,060,388	(1,060,388)	-
Total revenue, gains, and other support	<u>1,346,835</u>	<u>629,421</u>	<u>1,976,256</u>
Expenses			
Program expenses	2,123,509	-	2,123,509
Supporting services			
Management and general	185,374	-	185,374
Fund Raising	53,670	-	53,670
Total supporting services	<u>239,044</u>	<u>-</u>	<u>239,044</u>
Total expenses	<u>2,362,553</u>	<u>-</u>	<u>2,362,553</u>
Change in net assets	<u>(1,015,718)</u>	<u>629,421</u>	<u>(386,297)</u>
Net assets, beginning of year	<u>2,562,938</u>	<u>503,177</u>	<u>3,066,115</u>
Net assets, end of year	<u>\$ 1,547,220</u>	<u>\$ 1,132,598</u>	<u>\$ 2,679,818</u>

*The accompanying notes are an integral part of these financial statements.*

**National Security Archive Fund, Inc.**  
**Statement of Functional Expenses**  
**For the year ended December 31, 2005**

	Program	Management and General	Fund Raising	Total 2005
Staff Salaries	\$ 1,428,612	\$ 124,300	\$ 35,400	\$ 1,588,312
Staff Benefits and General Insurance	425,991	40,067	9,013	475,071
Professional Fees, Consultants, and Honoraria	61,602	-	-	61,602
Grants and Fellowships	15,000	-	-	15,000
Travel, Meetings, and Conferences	95,280	3,025	3,086	101,391
Books, Subscriptions, Directories, and Dues	8,829	-	60	8,889
Printing and Publications	3,164	6,917	-	10,081
Rent, Document Storage, and Parking	90,802	1,956	-	92,758
Telephone Equipment and Services	25,137	-	-	25,137
Postage and Postage Meter Expense	1,286	208	-	1,494
Computer Equipment, Supplies, and Services	49,710	4,583	-	54,293
Office Equipment, Supplies, and Services	35,344	7,083	211	42,638
Depreciation	20,049	-	-	20,049
Fixed Assets write-off	3,260	-	-	3,260
Allocation of Administrative Support Services	(17,693)	14,111	3,582	-
	<u>\$ 2,246,373</u>	<u>\$ 202,250</u>	<u>\$ 51,352</u>	<u>\$ 2,499,975</u>

*The accompanying notes are an integral part of these financial statements*

**National Security Archive Fund, Inc.**  
**Statement of Functional Expenses**  
**For the year ended December 31, 2004**

	Program	Management and General	Fund Raising	Total 2004
Staff Salaries	\$ 1,385,796	\$ 124,300	\$ 35,400	\$ 1,545,496
Staff Benefits and General Insurance	412,410	34,332	9,118	455,860
Professional Fees, Consultants, and Honoraria	72,055	150	-	72,205
Grants and Fellowships	575	-	-	575
Travel, Meetings, and Conferences	41,290	2,122	4,269	47,681
Books, Subscriptions, Directories, and Dues	6,949	195	733	7,877
Printing and Publications	4,168	-	-	4,168
Rent, Document Storage, and Parking	84,406	1,884	-	86,290
Telephone Equipment and Services	22,971	-	-	22,971
Postage and Postage Meter Expense	2,205	227	74	2,506
Computer Equipment, Supplies, and Services	48,053	4,346	-	52,399
Office Equipment, Supplies, and Services	40,420	4,885	332	45,637
Depreciation	18,888	-	-	18,888
Allocation of Administrative Support Services	(16,677)	12,933	3,744	-
	<u>\$ 2,123,509</u>	<u>\$ 185,374</u>	<u>\$ 53,670</u>	<u>\$ 2,362,553</u>

*The accompanying notes are an integral part of these financial statements*



**National Security Archive Fund, Inc.**  
**Statements of Cash Flows**  
**For the years ended December 31, 2005 and 2004**

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	2005	2004
Cash flows from operating activities		
Change in net assets	\$ 449,341	\$ (386,297)
Adjustments to reconcile change in net assets to net cash and cash equivalents used in operating activities:		
Depreciation and amortization	20,049	18,888
(Increase) / Decrease in foundation grants receivable	(518,861)	191,950
Decrease in royalties due from co-publishers	61,787	49,897
Decrease in other receivables	1,783	3,318
Increase in prepaid expenses	(31,008)	(301)
Write-off of Property, plant and Equipment	3,260	-
Decrease in accounts payable	(7,664)	(14,411)
Net cash and cash equivalents used in operating activities	<u>(21,313)</u>	<u>(136,956)</u>
Cash flows from investing activities		
Payments for capital expenditures	<u>(8,580)</u>	<u>(50,000)</u>
Net cash and cash equivalents used in investing activities	<u>(8,580)</u>	<u>(50,000)</u>
Increase in cash and cash equivalents	(29,893)	(186,956)
Cash and cash equivalents, beginning of year	<u>1,100,019</u>	<u>1,286,975</u>
Cash and cash equivalents, end of year	<u>\$ 1,070,126</u>	<u>\$ 1,100,019</u>

*The accompanying notes are an integral part of these financial statements*

# **The National Security Archive Fund, Inc.**

## **Notes to Financial Statements**

**December 31, 2005 and 2004**

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### **1. Organization and Nature of Activities**

The National Security Archive Fund, Inc. (the NSAF) is a District of Columbia non-profit corporation. As of December 31, 2005 and 2004 respectively, the NSAF was the corporate base for two projects, the National Security Archive (the Archive) and the Center for National Security Studies (the CNSS).

The Archive (founded in 1985) collects, analyzes, and publishes unclassified and declassified documents bearing upon U.S. foreign policy and related topics in international affairs. Its collections are used by the students and faculty of colleges and universities in the U.S. and abroad, and by journalists, researchers, and non-governmental organizations throughout the world. It also undertakes research projects and conferences to facilitate the study and open discussion of world events and trends.

The CNSS (founded in 1973) conducts programs addressing the relationship between civil liberties and measures undertaken to protect national security. It is located in the Washington, DC office of the Open Society Institute.

Since 1995 the Archive has been located in the Gelman Library at The George Washington University (GWU) in Washington, DC. Although the NSAF and GWU are separate legal entities, the Archive provides many materials and services to GWU students and faculty (including direct access to Archive document collections; research-assistant positions and internships for GWU students; assistance in use of the Freedom of Information Act in scholarly research; and participation in frequent collaborative activities including seminars, conferences, and research projects) and receives access to various GWU facilities (Note 4) (including office space and telephone services; information-technology equipment and support; university library, on-campus parking, and athletic facilities; participation in the services of the Washington Research Library Consortium; and advice and assistance from GWU faculty in the formulation and undertaking of Archive research projects). The services and opportunities GWU and the Archive provide each other are significant and mutually beneficial, including many intangible elements. The fair value of the services provided and received is reflected in the NSAF's financial statements where appropriate.

### **2. Summary of Significant Accounting Policies**

#### **Basis of Accounting**

The accompanying financial statements of the NSAF have been prepared on the accrual basis, which conforms to accounting principles generally accepted in the United States of America.

#### **Basis of Presentation**

Financial statement presentation follows the recommendations of the Financial Accounting Standards Board in its Statement of Financial Accounting Standards No. 117, *Financial Statements of Not-for-Profit Organizations* ("SFAS 117"). Under SFAS 117, NSAF is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets; however, NSAF does not currently hold permanently restricted net assets.

# The National Security Archive Fund, Inc.

## Notes to Financial Statements

December 31, 2005 and 2004

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The NSAF's net assets have been grouped into the following two classes:

*Unrestricted net assets* - Unrestricted net assets represent resources that are not restricted, either temporarily or permanently, by donor-imposed stipulations. They are available for support of all organizational operations and services.

*Temporarily Restricted net assets* - Temporarily restricted net assets represent contributions and other inflows of assets whose use is limited by donor-imposed stipulations. These restrictions are temporary in that they expire either by the passage of time or by the fulfillment of certain actions of the NSAF pursuant to those stipulations. When the time period restriction is met, or the specific purpose is attained, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

### **Management Estimates and Uncertainties**

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 the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

### **Cash and Cash Equivalents**

Cash and cash equivalents consist of highly liquid bank accounts and overnight repurchase agreements with original maturities of three months or less. At December 31, 2005 and 2004, the NSAF's cash and cash equivalents were held by one bank; the balance on deposit at times may exceed the amount insured by federal agencies. The NSAF does not believe that, as a result of this concentration, it is subject to any unusual financial risk beyond the normal risk associated with commercial banking relationships.

### **Property, Plant and Equipment**

Property, plant, and equipment are recorded at cost or at fair market value at the date of donation. Computer and office equipment are depreciated using the straight-line method over their estimated useful lives of five years. Leasehold improvements are amortized using the straight-line method over the shorter of the estimated lives of the assets or the remaining life of the lease.

### **Revenue Recognition**

Foundation grants to the NSAF, whether restricted or unrestricted, are recorded as revenue when committed by the grantors. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of the amounts expected to be collected based on a risk free rate of return such as a T-bill rate.

Royalties due to the NSAF from publishers are recorded as revenue in the periods in which they are earned from sale of publications.

# The National Security Archive Fund, Inc.

## Notes to Financial Statements

December 31, 2005 and 2004

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### Income Taxes

The NSAF is exempt from Federal and state income taxes under Section 501(c)(3) of the Internal Revenue Code and the applicable state income tax regulations, except for taxes on unrelated business income. Because the NSAF had no unrelated business income for the years ended December 31, 2005 and 2004, no provision for income taxes has been made in the accompanying financial statements.

### Guarantees and Indemnifications

The NSAF may enter into service agreements with service providers in which it agrees to indemnify the service provider against certain losses and liabilities arising from the services provider's performance under the agreement. Generally, such indemnification obligations do not apply in situations in which the service provider is grossly negligent, engages in willful misconduct, or acts in bad faith. The NSAF was not aware of any liability under such service agreements for the years ended December 31, 2005 and 2004.

### **3. Defined Contribution Retirement Plan**

In April 2002 the NSAF established a defined-contribution retirement plan for its employees under Section 403(b) of the Internal Revenue Code. All non-temporary employees may make contributions to accounts under the plan on a pre-tax basis, subject to the maximums provided by law. In cases in which employees who are at least 21 years of age and who have been employed by the NSAF for at least two years without a break in service contribute five percent or more of their salaries, the NSAF makes contributions to their retirement accounts established under the plan equal to ten percent of their salaries. The NSAF's contributions to employees' accounts under the plan totaled \$ 124,925 and \$ 112,497 for the years ended December 31, 2005 and 2004 respectively.

### **4. Commitments**

Under the terms of a license agreement, the NSAF pays GWU \$50,000 a year for office space and certain related facilities and services. The agreement, which commenced in January 1995, runs in automatically renewable five-year periods and is cancelable upon nine months' notice by either party.

The NSAF leases computer and office equipment from commercial suppliers under non-cancelable leases; Future gross minimum rental payments to be made under these leases, as of December 31, 2005, are as follows:

2006	\$ 23,491
2007	12,012
2008	9,009
Total	<u>\$44,512</u>

**The National Security Archive Fund, Inc.**  
**Notes to Financial Statements**  
**December 31, 2005 and 2004**

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Rent expense for the years ended December 31, 2005 and 2004 was \$ 41,731 for both years.

**5. Foundation Grants Receivable**

As of December 31, 2005 and 2004, the NSAF held the following multi-year grant commitments:

	<b>2005</b>	<b>2004</b>
Amounts due in		
Less than one year	\$ 1,507,840	\$ 1,267,550
One to five years	450,000	150,000
Subtotal	<u>1,957,840</u>	<u>1,417,550</u>
Less discount	(21,429)	-
Total Grants Receivable	<u>\$ 1,936,411</u>	<u>\$ 1,417,550</u>

**6. Property, Plant, and Equipment**

As of December 31, 2005 and 2004, Property, Plant, and Equipment consisted of the following:

	<b>2005</b>	<b>2004</b>
Leasehold improvements	\$ 15,331	\$ 15,331
Computer and office equipment	<u>97,506</u>	<u>92,186</u>
	112,837	107,517
Accumulated depreciation and amortization	<u>(66,753)</u>	<u>(46,704)</u>
	<u>\$ 46,084</u>	<u>\$ 60,813</u>

Depreciation and amortization expense was \$20,049 and \$18,888 for the years ended December 31, 2005 and 2004, respectively.

**7. Composition of Temporarily Restricted Net Assets**

As of December 31, 2005 and 2004, NASF held temporarily restricted net assets for the

**The National Security Archive Fund, Inc.**  
**Notes to Financial Statements**  
**December 31, 2005 and 2004**

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following purposes:

	<b>2005</b>	<b>2004</b>
Latin America Programs	\$ 958,296	\$ 507,033
Russia/Former Soviet Union Programs	78,425	366,994
Arms Control Programs	104,640	43,830
East Timor Program	-	1,250
Iraq War Programs	487,083	-
“Freedominfo.org” Program	-	136,311
Center for National Security Studies	455,011	77,180
	<u>\$ 2,083,455</u>	<u>\$ 1,132,598</u>

Temporarily restricted net assets were released from restriction for the following purposes during the years ended December 31, 2005 and 2004:

	<b>2005</b>	<b>2004</b>
Latin America Programs	\$ 756,475	\$ 225,042
Russia/Former Soviet Union Programs	326,300	287,606
Arms Control Programs	92,870	23,770
East Timor Program	1,250	6,250
FOIA Litigation Program	53,500	42,500
“Freedominfo.org” Program	136,311	215,677
Center for National Security Studies	267,170	259,543
Military Transparency Program	40,000	-
	<u>\$ 1,673,876</u>	<u>\$ 1,060,388</u>