

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

Financial Statements

As of and for the years then ended

December 31, 2007 and 2006 and Report Thereon

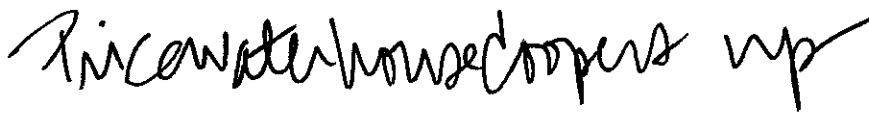
National Security Archive Fund, Inc.
Index
December 31, 2007 and 2006

	Page(s)
Report of Independent Auditors	1
Financial Statements	
Statements of Financial Position	2
Statement of Activities for the Year Ended December 31, 2007	3
Statement of Activities for the Year Ended December 31, 2006	4
Statement of Functional Expenses for the Year Ended December 31, 2007	5
Statement of Functional Expenses for the Year Ended December 31, 2006	6
Statements of Cash Flows	7
Notes to Financial Statements	8-13

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) at December 31, 2007 and 2006, and the changes in its 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 audits 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.



September 30, 2008

National Security Archive Fund, Inc.
Statements of Financial Position
As of December 31, 2007 and 2006

	2007	2006
ASSETS		
Current assets		
Cash and cash equivalents	\$ 2,337,433	\$ 1,785,236
Foundation grants receivable - Restricted	838,810	995,670
Royalties due from co-publishers	149,448	120,897
Other receivables	8,873	8,789
Prepaid expenses	28,394	31,964
Total current assets	<u>3,362,958</u>	<u>2,942,556</u>
Non-current assets		
Property, plant and equipment, net	39,207	36,597
Total assets	<u>\$ 3,402,165</u>	<u>\$ 2,979,153</u>
LIABILITIES AND NET ASSETS		
Current liabilities		
Accounts payable	\$ 11,051	\$ 11,203
Accrued expenses	102,680	18,980
Total liabilities	<u>113,731</u>	<u>30,183</u>
Net assets		
Unrestricted	1,175,672	793,443
Temporarily restricted	2,112,762	2,155,527
Total net assets	<u>3,288,434</u>	<u>2,948,970</u>
Total liabilities and net assets	<u>\$ 3,402,165</u>	<u>\$ 2,979,153</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, 2007

	Unrestricted	Temporarily Restricted	Total
Revenue, gains, and other support			
Gifts from individuals	\$ 25,905	\$ 23,050	\$ 48,955
Grants from foundations			
Paid in current year	95,000	2,261,460	2,356,460
Payable in future years	-	615,000	615,000
Royalties, honoraria, and sale of materials	753,913	-	753,913
Interest income	79,979	-	79,979
Net assets released from restriction	2,942,275	(2,942,275)	-
Total revenue, gains, and other support	<u>3,897,072</u>	<u>(42,765)</u>	<u>3,854,307</u>
Expenses			
Program expenses	3,162,362	-	3,162,362
Supporting services			
Management and general	300,375	-	300,375
Fund raising	52,106	-	52,106
Total supporting services	<u>352,481</u>	<u>-</u>	<u>352,481</u>
Total expenses	<u>3,514,843</u>	<u>-</u>	<u>3,514,843</u>
Change in net assets	<u>382,229</u>	<u>(42,765)</u>	<u>339,464</u>
Net assets, beginning of year	<u>793,443</u>	<u>2,155,527</u>	<u>2,948,970</u>
Net assets, end of year	<u>\$ 1,175,672</u>	<u>\$ 2,112,762</u>	<u>\$ 3,288,434</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, 2006

	Unrestricted	Temporarily Restricted	Total
Revenue, gains, and other support			
Gifts from individuals	\$ 5,284	\$ 43,000	\$ 48,284
Grants from foundations			
Paid in current year	10,000	964,639	974,639
Payable in future years	-	995,670	995,670
Royalties, honoraria, and sale of materials	353,559	-	353,559
Interest income	57,626	-	57,626
Net assets released from restriction	<u>1,931,237</u>	<u>(1,931,237)</u>	<u>-</u>
Total revenue, gains, and other support	<u>2,357,706</u>	<u>72,072</u>	<u>2,429,778</u>
Expenses			
Program expenses	2,287,855	-	2,287,855
Supporting services			
Management and general	270,809	-	270,809
Fund raising	<u>51,303</u>	<u>-</u>	<u>51,303</u>
Total supporting services	322,112	-	322,112
Total expenses	<u>2,609,967</u>	<u>-</u>	<u>2,609,967</u>
Change in net assets	<u>(252,261)</u>	<u>72,072</u>	<u>(180,189)</u>
Net assets, beginning of year	<u>1,045,704</u>	<u>2,083,455</u>	<u>3,129,159</u>
Net assets, end of year	<u>\$ 793,443</u>	<u>\$ 2,155,527</u>	<u>\$ 2,948,970</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, 2007

	Program	Management and General	Fund Raising	Total
Staff Salaries	\$ 1,608,812	\$ 137,150	\$ 36,200	\$ 1,782,162
Staff Benefits and General Insurance	471,485	43,117	9,584	524,186
Professional Fees, Consultants, and Honoraria	91,624	90,000	-	181,624
Grants and Special Projects	665,000	-	-	665,000
Travel, Meetings, and Conferences	116,662	1,570	2,321	120,553
Books, Subscriptions, Directories, and Dues	9,772	-	-	9,772
Printing and Publications	7,261	-	-	7,261
Rent, Document Storage, and Parking	103,122	2,160	-	105,282
Telephone Equipment and Services	23,609	-	-	23,609
Postage and Postage Meter Expense	586	117	-	703
Computer Equipment, Supplies, and Services	28,636	5,661	-	34,297
Office Equipment, Supplies, and Services	37,866	5,923	366	44,155
Depreciation and Amortization	16,239	-	-	16,239
Allocation of Administrative Support Services	(18,312)	14,677	3,635	-
	<u>\$ 3,162,362</u>	<u>\$ 300,375</u>	<u>\$ 52,106</u>	<u>\$ 3,514,843</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, 2006

	Program	Management and General	Fund Raising	Total
Staff Salaries	\$ 1,473,015	\$ 125,233	\$ 35,867	\$ 1,634,115
Staff Benefits and General Insurance	430,173	41,000	9,263	480,436
Professional Fees, Consultants, and Honoraria	78,053	70,000	-	148,053
Travel, Meetings, and Conferences	95,806	1,317	2,010	99,133
Books, Subscriptions, Directories, and Dues	10,371	-	110	10,481
Printing and Publications	8,082	-	-	8,082
Rent, Document Storage, and Parking	91,881	2,040	-	93,921
Telephone Equipment and Services	27,127	-	-	27,127
Postage and Postage Meter Expense	944	259	-	1,203
Computer Equipment, Supplies, and Services	40,058	5,155	-	45,213
Office Equipment, Supplies, and Services	38,614	6,911	474	45,999
Depreciation and Amortization	16,204	-	-	16,204
Allocation of Administrative Support Services	(22,473)	18,894	3,579	-
	<u>\$ 2,287,855</u>	<u>\$ 270,809</u>	<u>\$ 51,303</u>	<u>\$ 2,609,967</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, 2007 and 2006

	2007	2006
Cash flows from operating activities		
Change in net assets	\$ 339,464	\$ (180,189)
Adjustments to reconcile change in net assets to net cash and cash equivalents provided by operating activities:		
Depreciation and amortization	16,239	16,204
Decrease in foundation grants receivable	156,860	940,741
Increase in royalties due from co-publishers	(28,551)	(72,947)
Increase in other receivables	(84)	(5,655)
Decrease in prepaid expenses	3,570	4,327
Increase (decrease) in accounts payable	(152)	8,324
Increase in accrued expenses	83,700	11,022
Net cash and cash equivalents provided by operating activities	<u>571,046</u>	<u>721,827</u>
Cash flows from investing activities		
Payments for capital expenditures	<u>(18,849)</u>	<u>(6,717)</u>
Net cash and cash equivalents used in investing activities	<u>(18,849)</u>	<u>(6,717)</u>
Increase in cash and cash equivalents	552,197	715,110
Cash and cash equivalents, beginning of year	<u>1,785,236</u>	<u>1,070,126</u>
Cash and cash equivalents, end of year	<u>\$ 2,337,433</u>	<u>\$ 1,785,236</u>

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

The National Security Archive Fund, Inc.

Notes to Financial Statements

December 31, 2007 and 2006

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, 2007 and 2006 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, the 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, the NSAF does not currently hold permanently restricted net assets.

The National Security Archive Fund, Inc.

Notes to Financial Statements

December 31, 2007 and 2006

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 at date of purchase of three months or less. At December 31, 2007 and 2006, 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, 2007 and 2006

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, 2007 and 2006, 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 service 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, 2007 and 2006.

Audit Fees

The NSAF's accounts are audited biennially with each audit covering two years. In 2007, the NSAF adopted the practice of accruing the estimated audit fees as liabilities in the years to be audited.

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 \$ 126,400 and \$ 122,301 for the years ended December 31, 2007 and 2006 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 in 2008, as of December 31, 2007 totaled \$10,921. There are no future gross minimum rental payments committed to beyond 2008.

Rent expense under lease agreements for the years ended December 31, 2007 and 2006 totaled \$15,835 and \$25,402, respectively.

The National Security Archive Fund, Inc.

Notes to Financial Statements

December 31, 2007 and 2006

5. Foundation Grants Receivable

As of December 31, 2007 and 2006, the NSAF held the following multi-year grant commitments:

	2007	2006
Amounts due in		
Less than one year	\$ 850,000	\$ 771,860
One to five years	-	235,000
Subtotal	<u>850,000</u>	<u>1,006,860</u>
Less discount	<u>(11,190)</u>	<u>(11,190)</u>
Total Grants Receivable	<u>\$ 838,810</u>	<u>\$ 995,670</u>

At December 31, 2007 and 2006, the NSAF had outstanding conditional promises to give of approximately \$375,000 and \$500,000, respectively. These conditional promises are not recognized as assets and, if received, will be restricted for the purpose stipulated by the grantor, specifically the Center for National Security Studies.

6. Property, Plant, and Equipment

As of December 31, 2007 and 2006, Property, Plant, and Equipment consisted of the following:

	2007	2006
Leasehold improvements	\$ 15,331	\$ 15,331
Computer and office equipment	<u>123,072</u>	<u>104,223</u>
	138,403	119,554
Accumulated depreciation and amortization	<u>(99,196)</u>	<u>(82,957)</u>
	<u>\$ 39,207</u>	<u>\$ 36,597</u>

Depreciation and amortization expense was \$16,239 and \$16,204 for the years ended December 31, 2007 and 2006, respectively.

The National Security Archive Fund, Inc.

Notes to Financial Statements

December 31, 2007 and 2006

7. Composition of Temporarily Restricted Net Assets

As of December 31, 2007 and 2006, NASF held temporarily restricted net assets for the following purposes:

	2007	2006
Latin America Programs	\$ 768,678	\$ 306,000
Russia/Eurasia Programs	63,711	295,779
Arms Control Programs	89,200	129,680
Iraq War Programs	257,400	405,874
Freedom of Information Law Programs	485,697	779,643
U.S.-Iran Relations Program	63,995	-
Center for National Security Studies	384,081	238,551
	<u>\$ 2,112,762</u>	<u>\$ 2,155,527</u>

Temporarily restricted net assets were released from restriction for the following purposes during the years ended December 31, 2007 and 2006:

	2007	2006
Latin America Programs	\$ 644,822	\$ 793,058
Russia/Eurasia Programs	237,527	252,997
Arms Control Programs	125,480	118,680
Iraq War Programs	953,474	282,876
Freedom of Information Law Programs	511,947	154,167
U.S.-Iran Relations Program	76,505	-
Military Transparency Program	-	25,000
Center for National Security Studies	392,520	304,459
	<u>\$ 2,942,275</u>	<u>\$ 1,931,237</u>

8. New Accounting Standards

In September 2006, the FASB issued Statement of Financial Accounting Standard No. 157, *Fair Value Measurements* (FASB No. 157). FASB No. 157 provides a common definition of fair value and establishes a framework to make the measurement of fair value in generally accepted accounting principles more consistent and comparable. FASB No. 157 also requires expanded disclosures to provide information about the extent to which fair value is used to measure assets and liabilities, the methods and assumptions used to measure fair value, and the effect of fair value measures on earnings. FASB No. 157 is effective for the NSAF's fiscal year ending December 31, 2008. The Archive is currently assessing the potential effect of FASB No. 157 on its financial statements.

The National Security Archive Fund, Inc.

Notes to Financial Statements

December 31, 2007 and 2006

In February 2007, the FASB issued Statement of Financial Accounting Standard No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities -- including an amendment of FAS 115* (FASB No. 159). The fair value option established by FASB No. 159 permits all entities to choose to measure eligible items at fair value at specified election dates, with subsequent unrealized gains and losses reported in the entity's statement of activities. This Statement is effective for the NSAF's fiscal year ending December 31, 2008, provided the NSAF also elects to apply the provisions of FASB No. 157. The NSAF is currently evaluating the impact of SFAS 159 on its financial statements.