

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

Report of Independent Auditors on
Financial Statements
for the year ended December 31, 2002

Report of Independent Auditors

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

In our opinion, the accompanying statement 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, 2002, and the changes in net assets and its cash flows for the year 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 audit. We conducted our audit of these statements in accordance with auditing standards generally accepted in the United States of America, which 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 audit provides a reasonable basis for our opinion.

PricewaterhouseCoopers LLP

July 9, 2003

National Security Archive Fund, Inc.
Statement of Financial Position
as of December 31, 2002

ASSETS	Unrestricted	Temporarily Restricted	Total
Current assets			
Cash and cash equivalents	\$ 859,443	\$ 323,778	\$ 1,183,221
Foundation grants receivable (Note 5)	-	709,083	709,083
Royalties due from co-publishers	90,162	-	90,162
Other receivables	18,253	-	18,253
Prepaid expenses	3,074	-	3,074
Total current assets	970,932	1,032,861	2,003,793
Non-current assets			
Property, plant and equipment, net	34,021	-	34,021
Total assets	\$ 1,004,953	\$ 1,032,861	\$ 2,037,814
LIABILITIES AND NET ASSETS			
Current liabilities			
Accounts payable	\$ 6,687	\$ -	\$ 6,687
Accrued expenses	47,444	-	47,444
Total liabilities	54,131	-	54,131
Net assets			
Unrestricted	950,822	-	950,822
Temporarily restricted (Note 7)	-	1,032,861	1,032,861
Total net assets	950,822	1,032,861	1,983,683
Total liabilities and net assets	\$ 1,004,953	\$ 1,032,861	\$ 2,037,814

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, 2002

	Unrestricted	Temporarily Restricted	Total
Revenue, gains, and other support			
Gifts from Individuals	\$ 3,450	\$ 25,000	\$ 28,450
Grants from Foundations:			
Paid in Current Year	242,400	998,137	1,240,537
Payable in Future Years	-	577,083	577,083
Royalties, Honoraria, and Sale of Materials	210,290	26	210,316
Interest Income	10,459	-	10,459
Net assets released from restriction	<u>1,539,777</u>	<u>(1,539,777)</u>	<u>-</u>
Total revenue, gains, and other support	<u>2,006,376</u>	<u>60,469</u>	<u>2,066,845</u>
Expenses			
Program expenses	2,190,367	-	2,190,367
Supporting services			
Management and general	118,784	-	118,784
Fund Raising	<u>53,687</u>	<u>-</u>	<u>53,687</u>
Total supporting services	172,471	-	172,471
Total expenses	<u>2,362,838</u>	<u>-</u>	<u>2,362,838</u>
Change in net assets	<u>(356,462)</u>	<u>60,469</u>	<u>(295,993)</u>
Net assets, beginning of year	<u>1,307,284</u>	<u>972,392</u>	<u>2,279,676</u>
Net assets, end of year	<u>\$ 950,822</u>	<u>\$ 1,032,861</u>	<u>\$ 1,983,683</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, 2002

	Program	Management and General	Fund Raising	Total
Staff Salaries	\$ 1,340,388	74,175	\$ 37,335	\$ 1,451,898
Staff Benefits and General Insurance	336,860	23,851	8,675	369,386
Professional Fees, Consultants, and Honoraria	88,528	1,875	-	90,403
Grants and Fellowships	30,400	-	-	30,400
Travel, Meetings, and Conferences	148,264	638	3,359	152,261
Books, Subscriptions, Directories, and Dues	16,251	-	168	16,419
Printing and Publications	12,931	-	-	12,931
Rent, Document Storage, and Parking	80,951	1,674	-	82,625
Telephone Equipment and Services	25,808	-	-	25,808
Postage and Postage Meter Expense	2,447	75	-	2,522
Computer Equipment, Supplies, and Services	59,886	4,207	-	64,093
Office Equipment, Supplies, and Services	49,878	4,002	404	54,284
Depreciation	9,808	-	-	9,808
Allocation of Administrative Support Services	(12,033)	8,287	3,746	-
	<u>\$ 2,190,367</u>	<u>\$ 118,784</u>	<u>\$ 53,687</u>	<u>\$ 2,362,838</u>

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

National Security Archive Fund, Inc.
Statement of Cash Flows
for the year ended December 31, 2002

Cash flows from operating activities	
Change in net assets	\$ (295,993)
Adjustments to reconcile change in net assets to net cash and cash equivalents provided by operating activities:	
Depreciation and amortization	9,808
Decrease in foundation grants receivable	631,917
Increase in royalties due from co-publishers	(52,451)
Increase in other receivables	(17,492)
Increase in prepaid expenses	(1,442)
Increase in accounts payable	42,863
Net cash and cash equivalents provided by operating activities	<u>317,210</u>
 Cash flows from investing activities	
Payments for capital expenditures	<u>(4,346)</u>
Net cash and cash equivalents used in investing activities	<u>(4,346)</u>
 Increase in cash and cash equivalents	312,864
 Cash and cash equivalents, beginning of year	<u>870,357</u>
 Cash and cash equivalents, end of year	<u>\$ 1,183,221</u>

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

The National Security Archive Fund, Inc.

Notes to Financial Statements

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, 2002 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.

Net Assets

Unrestricted

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.

The National Security Archive Fund, Inc.

Notes to Financial Statements

Temporarily Restricted

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.

Permanently Restricted

The NSAF had no permanently restricted net assets at December 31, 2002.

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, 2002, 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. Royalties due to the NSAF from publishers are recorded as revenue in the periods in which they are earned from sale of publications.

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 year ended December 31, 2002, no provision for income taxes has been made in the accompanying financial statements.

The National Security Archive Fund, Inc.

Notes to 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 year ended December 31, 2002.

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 \$101,921 for the year ended December 31, 2002.

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 runs in automatically renewable five-year periods commencing in January 1995 and is cancelable upon nine months' notice by either party.

The NSAF leases computer and office equipment from commercial suppliers under non-cancelable leases; gross minimum rentals extending beyond December 31, 2002 (payable during the year ending December 31, 2003) total \$10,097. Rental expense related to these leases totaled \$48,481 during the year ended December 31, 2002.

5. Foundation Grants Receivable

As of December 31, 2002 the NSAF held the following multi-year grant commitments:

Receivable in the year ending December 31, 2003	\$ 621,583
Receivable in the year ending December 31, 2004	<u>87,500</u>
Total Grants Receivable	<u>\$ 709,083</u>

The National Security Archive Fund, Inc.
Notes to Financial Statements

6. Property, Plant, and Equipment

As of December 31, 2002, property, plant, and equipment consisted of the following:

Leasehold improvements	\$	15,331
Computer and office equipment		<u>35,721</u>
		51,052
Accumulated depreciation and amortization		<u>(17,031)</u>
	\$	<u>34,021</u>

Depreciation and amortization expense was \$9,808 for the year ended December 31, 2002.

7. Temporarily Restricted Net Assets

Temporarily restricted net assets were available for the following purposes as of December 31, 2002:

Latin America Programs	\$	260,927
Russia/Former Soviet Union Programs		296,438
Arms Control Programs		50,000
East Timor Program		4,354
Iran-U.S. Relations Program		4,771
"Freedominfo.org" Program		184,000
Center for National Security Studies		<u>232,371</u>
	\$	<u>1,032,861</u>

The National Security Archive Fund, Inc.

Notes to Financial Statements

Temporarily restricted net assets were released from restriction for the following purposes during the year ended December 31, 2002:

Latin America Programs	\$	526,000
Russia/Formal Soviet Union Programs		354,664
Arms Control Programs		98,366
East Timor Program		20,646
Iran-U.S. Relations Program		11,669
"Freedominfo.org" Program		166,000
Center for National Security Studies		<u>362,432</u>
	\$	<u>1,539,777</u>