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THE NATIONAL SECURITY ARCHIVE FUND, INC.

FINANCIAL STATEMENTS

AND

INDEPENDENT AUDITORS' REPORT

DECEMBER 31, 2012 AND 2011

MATTHEWS, CARTER & BOYCE

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THE NATIONAL SECURITY ARCHIVE FUND, INC.

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Independent Auditors' Report

The Board of Directors
The National Security Archive Fund, Inc.
Washington, DC

We have audited the accompanying financial statements of The National Security Archive Fund, Inc., which comprise the statements of financial position as of December 31, 2012 and 2011, and the related statements of activities, and changes in net assets, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America. This includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The National Security Archive Fund, Inc. as of December 31, 2012 and 2011, and the changes in its net assets and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Matthews, Carter and Boyce

Fairfax, Virginia
December 13, 2013

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THE NATIONAL SECURITY ARCHIVE FUND, INC.

STATEMENTS OF FINANCIAL POSITION

DECEMBER 31, 2012 AND 2011

	2012	2011
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 2,903,641	$ 3,294,085
Foundation grants receivable, short term - restricted	921,700	1,433,300
Royalties due from co-publishers	191,333	350,596
Other receivables	4,148	1,248
Prepaid expenses	58,693	63,863
Total Current Assets	$ 4,079,515	$ 5,143,092
NON-CURRENT ASSETS		
Foundation grants receivable, long term - restricted, net	$ -	$ 416,700
Property, plant and equipment, net	111,682	152,354
Total Non-Current Assets	$ 111,682	$ 569,054
TOTAL ASSETS	$ 4,191,197	$ 5,712,146
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	$ 7,287	$ 15,767
Accrued expenses	25,000	12,500
Total Current Liabilities	$ 32,287	$ 28,267
NET ASSETS		
Unrestricted	$ 2,258,446	$ 2,190,013
Temporarily restricted	1,900,464	3,493,866
Total Net Assets	$ 4,158,910	$ 5,683,879
TOTAL LIABILITIES AND NET ASSETS	$ 4,191,197	$ 5,712,146

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

THE NATIONAL SECURITY ARCHIVE FUND, INC.

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

FOR THE YEAR ENDED DECEMBER 31, 2012

(With comparative totals for the year ended December 31, 2011)

	Unrestricted	Temporarily Restricted	2012 Total	2011 Total
REVENUE AND OTHER SUPPORT				
Gifts from individuals	$ 4,300	$ -	$ 4,300	$ 10,067
Grants from foundations:				
Received in current years	103,000	712,000	815,000	1,419,908
Receivable in future years , net of discount	-	15,000	15,000	1,707,143
Royalties, honoraria, and sale of materials	655,049	-	655,049	452,777
Miscellaneous income	-	-	-	60,223
Net assets released from restriction	2,320,402	(2,320,402)	-	-
Total Revenue and Other Support	$ 3,082,751	$ (1,593,402)	$ 1,489,349	$ 3,650,118
EXPENSES				
Program expenses	$ 2,710,274	$ -	$ 2,710,274	$ 2,967,506
Supporting services:				
Management and general	247,238	-	247,238	255,363
Fund raising	56,806	-	56,806	58,227
Total Supporting Services	$ 304,044	$ -	$ 304,044	$ 313,590
Total Expenses	$ 3,014,318	$ -	$ 3,014,318	$ 3,281,096
CHANGE IN NET ASSETS	$ 68,433	$ (1,593,402)	$ (1,524,969)	$ 369,022
NET ASSETS, BEGINNING OF YEAR	2,190,013	3,493,866	5,683,879	5,314,857
NET ASSETS, END OF YEAR	$ 2,258,446	$ 1,900,464	$ 4,158,910	$ 5,683,879

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

THE NATIONAL SECURITY ARCHIVE FUND, INC.

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

FOR THE YEAR ENDED DECEMBER 31, 2011

	Unrestricted	Temporarily Restricted	Total
REVENUE AND OTHER SUPPORT			
Gifts from individuals	$ 10,067	$ -	$ 10,067
Grants from foundations:			
Received in current year	24,500	1,395,408	1,419,908
Receivable in future years, net of discount	-	1,707,143	1,707,143
Royalties, honoraria, and sale of materials	452,777	-	452,777
Miscellaneous income	60,223	-	60,223
Net assets released from restriction	2,560,230	(2,560,230)	-
Total Revenue and Other Support	$ 3,107,797	$ 542,321	$ 3,650,118
EXPENSES			
Program expenses	$ 2,967,506	$ -	$ 2,967,506
Supporting services:			
Management and general	255,363	-	255,363
Fund raising	58,227	-	58,227
Total Supporting Services	$ 313,590	$ -	$ 313,590
Total Expenses	$ 3,281,096	$ -	$ 3,281,096
CHANGE IN NET ASSETS	$ (173,299)	$ 542,321	$ 369,022
NET ASSETS, BEGINNING OF YEAR as previously stated	$ 2,199,508	$ 2,951,545	$ 5,151,053
Restatement to correct royalty income	163,804	-	163,804
NET ASSETS, BEGINNING OF YEAR as restated	$ 2,363,312	$ 2,951,545	$ 5,314,857
NET ASSETS, END OF YEAR	$ 2,190,013	$ 3,493,866	$ 5,683,879

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

THE NATIONAL SECURITY ARCHIVE FUND, INC.

STATEMENT OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED DECEMBER 31, 2012

	Program	Management and General	Fund Raising	Total
EXPENSE				
Staff salaries	$ 1,651,914	$ 155,700	$ 41,600	$ 1,849,214
Staff benefits and insurance	555,135	47,940	10,186	613,261
Professional fees, consultants, and honoraria	202,943	12,500	-	215,443
Rent, document storage, and parking	117,174	2,940	-	120,114
Travel, meetings, and conferences	70,879	1,330	1,013	73,222
Depreciation and amortization	43,726	-	-	43,726
Computer equipment, supplies, and services	26,837	6,934	-	33,771
Office equipment, supplies, and services	3,732	19,484	4,007	27,223
Telephone equipment and services	20,294	-	-	20,294
Books, subscriptions, directories, and dues	14,091	-	-	14,091
Printing and publications	3,026	160	-	3,186
Postage	523	250	-	773
TOTAL EXPENSES	$ 2,710,274	$ 247,238	$ 56,806	$ 3,014,318

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

THE NATIONAL SECURITY ARCHIVE FUND, INC.

STATEMENT OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED DECEMBER 31, 2011

	Program	Management and General	Fund Raising	Total
EXPENSE				
Staff salaries	$ 1,679,863	$ 155,700	$ 41,600	$ 1,877,163
Staff benefits and insurance	621,464	50,364	12,493	684,321
Professional fees, consultants, and honoraria	215,193	13,000	-	228,193
Travel, meetings, and conferences	224,480	2,225	-	226,705
Rent, document storage, and parking	110,454	2,760	-	113,214
Depreciation and amortization	45,205	-	-	45,205
Office equipment, supplies, and services	8,167	23,549	4,134	35,850
Computer equipment, supplies, and services	22,280	6,715	-	28,995
Telephone equipment and services	25,692	-	-	25,692
Books, subscriptions, directories, and dues	7,688	-	-	7,688
Printing and publications	6,478	950	-	7,428
Postage	542	100	-	642
TOTAL EXPENSES	$ 2,967,506	$ 255,363	$ 58,227	$ 3,281,096

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

THE NATIONAL SECURITY ARCHIVE FUND, INC.

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$ (1,524,969)	$ 369,022
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation and amortization	$ 43,726	$ 45,205
(Increase) Decrease In:		
Foundation grants receivable	928,300	(758,524)
Royalties due from co-publisher	159,263	11,048
Other receivables	(2,900)	(1,067)
Prepaid expenses	5,170	(18,487)
Increase (Decrease) In:		
Accounts payable and accrued expenses	4,020	(109,348)
Total adjustments	$ 1,137,579	$ (831,173)
Net Cash Used in Operating Activities	$ (387,390)	$ (462,151)
CASH FLOWS FROM INVESTING ACTIVITIES		
Payments for capital expenditures	$ (3,054)	$ (9,903)
DECREASE IN CASH AND CASH EQUIVALENTS	$ (390,444)	$ (472,054)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	3,294,085	3,766,139
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 2,903,641	$ 3,294,085

There were no non-cash investing or financing activities for the year ended December 31, 2012 or 2011.

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

Note 1. Organization and Nature of Activities

The National Security Archive Fund, Inc. (the NSAF) is a District of Columbia non-profit corporation. The NSAF is 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 published 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. The CNSS operations are 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 the 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 (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.

Note 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

NSAF follows Accounting Standards Codification Topic 958, *Not-for-Profit Entities* ("FASB ASC 958"). FASB ASC 958 specifies that financial statements provided by not-for-profit organizations include statements of financial position, statements of activities, and statements of cash flows. FASB ASC 958 further provides that net assets be classified as unrestricted, temporarily restricted, or permanently restricted based on the existence or absence of donor-imposed restrictions. However, the NSAF does not currently hold permanently restricted net assets.

Note 2. Summary of Significant Accounting Policies (Continued)

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. At December 31, 2012 and 2011, 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.

Grants Receivable

NSAF accounts for grants and contributions under FASB ASC 958. FASB ASC 958 requires NSAF to record a receivable to reflect the promises of donors to make future grants. Under Accounting Standards Codification Topic 820, *Fair Value Measurements and Disclosures* ("FASB ASC 820"), grants receivable are initially recorded at fair value and are discounted to their net present value using an appropriate market rate.

Property, Plant, and Equipment

Property, plant, and equipment are recorded at cost at the date of purchase or 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.

Note 2. Summary of Significant Accounting Policies (Concluded)

Revenue Recognition

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 market rate of return.

Royalties due to the NSAF from publishers are recorded as revenue in the periods in which they are earned from the sale of publications. Royalties due at December 31, 2012 and 2011 were $191,333 and $350,596, respectively.

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, 2012 or 2011, no provision for income taxes has been made in the accompanying financial statements.

FASB ASC 740 Income Taxes, prescribes a model for how an entity should recognize, measure, present and disclose in its financial statements uncertain tax positions that the entity has taken or expects to take on a tax return. FASB ASC 740 requires an entity to recognize the benefit of tax positions when it is "more likely than not" that the provision will be sustainable based on the merits of the position taken by an entity. NSAF has analyzed its tax positions, and has concluded that no liability should be recorded related to any uncertain tax positions. NSAF is not aware of any tax positions which it believes will change materially in the next twelve months. If this position changes, NSAF will assess the impact of any such matters on its financial position and results of operations.

Grantees 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 is not aware of any liability under such service agreements for the years ended December 31, 2012 and 2011.

Note 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 $157,100 and $142,500 for the years ended December 31, 2012 and 2011.

Note 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 office equipment from commercial suppliers under non-cancelable leases; future gross minimum annual rental payments to be paid under these leases as of December 31, 2012 totals $7,141 payable in 2013.

Rent expense under the lease agreements for the years ended December 31, 2012 and 2011 totaled $10,795 each year.

Note 5. Foundation Grants Receivable

As of December 31, 2012 and 2011, the NSAF held the following multi-year grant commitments:

	2012	2011
Amounts due in:		
Less than one year	$ 921,700	$ 1,443,300
One to five years	-	416,700
Subtotal	$ 921,700	$ 1,860,000
Less discount	-	(10,000)
Net Grants Receivable	$ 921,700	$ 1,850,000

At December 31, 2011, the NSAF held an outstanding conditional promise to give of $250,000. This conditional promise was not recognized as an asset at December 31, 2011. During 2012 the conditions attached to the promise were met and the grant was received and applied to the programs of the CNSS, as stipulated by the grantor.

Note 6. Property, Plant, and Equipment

As of December 31, 2012 and 2011, property, plant, and equipment consisted of the following:

	2012	2011
Leasehold improvements	$ 181,824	$ 178,771
Computer and office equipment	161,362	164,540
	$ 343,186	$ 343,311
Accumulated depreciation and amortization	(231,504)	(190,957)
	$ 111,682	$ 152,354

Depreciation and amortization expense was $43,726 and $45,205 for the years ended December 31, 2012 and 2011.

Note 7. Composition of Temporarily Restricted Net Assets

As of December 31, 2012 and 2011, the NSAF held temporarily restricted net assets for the following purposes:

	2012	2011
Latin America Programs	$ 164,132	$ 81,452
U.S.-Russia Relations and Nuclear Weapons Policy Programs	562,120	1,050,000
Freedom of Information Law Programs: United States	242,108	519,000
Freedom of Information Law Programs: International	46,913	415,416
U.S.-Iran Relations Program	512	34,141
Broadly-based Human Rights Programs	70,200	443,420
Smith Bagley Research Center	82,500	112,500
Center for National Security Studies	731,979	837,937
	$ 1,900,464	$ 3,493,866

Temporarily restricted net assets were released from restriction for the following purposes during the years ended December 31, 2012 and 2011:

	2012	2011
Latin America Programs	$ 269,319	$ 569,723
U.S.-Russia Relations and Nuclear Weapons Policy Programs	552,881	620,051
Freedom of Information Law Programs: United States	326,892	401,580
Freedom of Information Law Programs: International	368,503	134,584
U.S.-Iran Relations Program	33,629	124,092
Broadly-based Human Rights Programs	373,220	312,594
Smith Bagley Research Center (current year's amortization)	30,000	30,000
Center for National Security Studies	365,958	367,606
	$ 2,320,402	$ 2,560,230

Note 8. Prior Period Adjustment

Unrestricted net assets have been adjusted as of December 31, 2010 to record royalty revenue which had not been recorded in the previously issued financial statements (because of a delayed notification by the Archive's co-publishers). The effect of this adjustment was to increase both royalties due from co-publishers and royalties income by $163,804.

Note 9. Subsequent Events

NSAF has performed an evaluation of subsequent events through December 13, 2013, which is the date the financial statements were available to be issued, noting no events which affect the financial statements as of December 31, 2012.