

WORLD FEDERALIST ASSOCIATION
d.b.a.
CITIZENS FOR GLOBAL SOLUTIONS
EDUCATION FUND

Financial Statements and Independent Auditor's Report

June 30, 2005

DENBURG & LOW, PA
Certified Public Accountants
1350 Connecticut Avenue, NW, Suite 850
Washington, DC 20036

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d.b.a. Citizens for Global Solutions Education Fund

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DENBURG & LOW, PA

CERTIFIED PUBLIC ACCOUNTANTS
BUSINESS CONSULTANTS

1350 Connecticut Avenue, NW
Suite 850
Washington, DC 20036
voice: 202/785-5600
fax: 202/785-5605
e-mail: info@denburg.com

BALTIMORE OFFICE:
The World Trade Center
23rd Floor
Baltimore, Maryland 21202
410/539-7100

INDEPENDENT AUDITOR'S REPORT

Board of Directors
World Federalist Association
d.b.a. Citizens for Global Solutions Education Fund

We have audited the accompanying statement of financial position of the World Federalist Association, d.b.a. Citizens for Global Solutions Education Fund (a non-profit organization) as of June 30, 2005 and the related statements of activities, functional expenses and cash flows for the year then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audit.

World Federalist Association d.b.a. Citizens for Global Solutions Education Fund entered into a reorganization agreement with the Citizens for Global Solutions, Inc. that provides that the Organizations will operate as a strategic partnership to accomplish common goals. However the organizations continue to maintain their respective corporate identities and conduct related financial transactions in an arms length manner. As a result these financial statements report the activities of the educational component of the partnership.

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 from 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 the World Federalist Association as of June 30, 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.

Washington, DC
June 12, 2006

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STATEMENT OF FINANCIAL POSITION

World Federalist Association

d.b.a. Citizens for Global Solutions Education Fund

June 30, 2005

ASSETS

Cash (Note K)	\$	242,841
Investments (Note C)		2,400,375
Grant receivable		213,000
Contributions receivable		5,885
Prepaid expenses		10,121
Land, buildings, and equipment (Note D)		426,301
Unimproved real estate		<u>1,000</u>
Total assets	\$	<u><u>3,299,523</u></u>

LIABILITIES

Accounts payable and accrued expenses	\$	145,172
Due to Citizens for Global Solutions, Inc. (Note N)		8,605
Note payable (Note E)		200,000
Capital lease obligation (Note F)		19,548
Annuity reserve (Note G)		<u>10,836</u>
Total liabilities		<u>384,161</u>

COMMITMENTS (Note H)

NET ASSETS

Unrestricted		
Board designated (Note I)		1,796,703
Unrestricted		<u>166,680</u>
Total Unrestricted		1,963,383
Temporarily restricted (Note J)		<u>951,979</u>
Total net assets		<u>2,915,362</u>
Total liabilities and net assets	\$	<u><u>3,299,523</u></u>

The accompanying notes are an integral part of these financial statements

STATEMENT OF ACTIVITIES

World Federalist Association

d.b.a. Citizens for Global Solutions Education Fund

For the Year Ended June 30, 2005

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Revenues and support:			
Contributions	\$ 533,622	\$ 3,500	\$ 537,122
Foundation support	-	398,000	398,000
Other income	18,420	-	18,420
Net assets released from satisfaction of program restrictions	<u>232,366</u>	<u>(232,366)</u>	<u>-</u>
 Total revenues and support	 <u>784,408</u>	 <u>169,134</u>	 <u>953,542</u>
Expenses:			
Program services	849,715	-	849,715
Administration	178,994	-	178,994
Fund raising	<u>66,612</u>	<u>-</u>	<u>66,612</u>
 Total expenses	 <u>1,095,320</u>	 <u>-</u>	 <u>1,095,320</u>
 Net investment income after management fees and investment expenses (Note C)	 <u>207,084</u>	 <u>-</u>	 <u>207,084</u>
 Changes in net assets	 (103,828)	 169,134	 65,306
Net assets - July 1, 2004	<u>2,067,211</u>	<u>782,845</u>	<u>2,850,056</u>
 Net assets - June 30, 2005	 <u><u>\$ 1,963,383</u></u>	 <u><u>\$ 951,979</u></u>	 <u><u>\$ 2,915,362</u></u>

The accompanying notes are an integral part of these financial statements

STATEMENT OF FUNCTIONAL EXPENSES

World Federalist Association

d.b.a. Citizens for Global Solutions Education Fund

For the Year Ended June 30, 2005

	Program Services	Administration	Fund Raising	Total Program & Supporting Services
Expenses				
Communications	\$ 5,407	\$ 1,308	\$ 370	\$ 7,085
Conferences and meetings	14,453	872	333	15,658
Consulting fees and outside services	66,281	56,531	2,868	125,680
Depreciation	11,764	2,482	1,239	15,485
Dues and chapter expenses	18,233	-	-	18,233
Equipment rental and maintenance	4,773	1,479	600	6,852
Grants and allocations	160,000	-	-	160,000
Insurance	2,457	8,014	259	10,730
Interns	6,393	-	-	6,393
Interest and service charges	-	6,283	-	6,283
Miscellaneous	1,308	6,028	1,526	8,862
Occupancy	25,181	4,283	1,369	30,832
Office supplies and expense	9,275	2,723	487	12,485
Postage and delivery	12,823	2,724	4,433	19,980
Printing and publications	30,577	2,111	2,038	34,726
Salaries, taxes & benefits	432,630	83,159	45,696	561,485
Travel	27,723	905	5,394	34,022
Website expenses	20,437	92	-	20,529
Total expenses	<u>\$ 849,715</u>	<u>\$ 178,994</u>	<u>\$ 66,612</u>	<u>\$ 1,095,320</u>
Percentage of total expenses	<u>77.6%</u>	<u>16.3%</u>	<u>6.1%</u>	<u>100.0%</u>

The accompanying notes are an integral part of these financial statements

STATEMENT OF CASH FLOWS

World Federalist Association

d.b.a. Citizens for Global Solutions Education Fund

For the Year Ended June 30, 2005

Cash flows from operating activities	
Change in net assets	\$ 65,306
Adjustments to reconcile change in net cash used by operating activities:	
Depreciation and amortization	21,448
Realized and unrealized net gain on investments	(141,816)
Donated stock	(226,893)
Increase in receivables	(78,885)
Decrease in prepaid expenses	126
Due to/from Citizens for Global Solutions, Inc.	12,902
Increase in accounts payable and accrued expenses	60,511
	<hr/>
Net cash used by operations	(287,301)
	<hr/>
Cash flows from investing activities	
Purchase of land, buildings and equipment	(33,906)
Proceeds from sale of investments	634,232
Purchase of investments	(384,776)
	<hr/>
Net cash provided by investing activities	215,550
	<hr/>
Cash flows from financing activities	
Proceeds from loan payable	200,000
Capital lease proceeds, net of repayments	19,548
Decrease in annuity reserve	(15,664)
	<hr/>
Net cash provided by financing activities	203,884
	<hr/>
Net increase in cash	132,133
Cash balance - July 1, 2004	110,709
	<hr/>
Cash balance - June 30, 2005	\$ 242,842
	<hr/> <hr/>
Supplemental disclosure	
Cash paid during the period for interest	\$ 3,425
	<hr/> <hr/>

The accompanying notes are an integral part of these financial statements

NOTES TO THE FINANCIAL STATEMENTS

World Federalist Association
d.b.a. Citizens for Global Solutions Education Fund
June 30, 2005

NOTE A - ORGANIZATION

Exempt from income tax under Section 501(c)(3) of the Internal Revenue Code, the World Federalist Association d.b.a. the Citizens for Global Solutions Education Fund was founded in 1947 and incorporated as a non-profit organization in the District of Columbia in 1968. The purpose of the organization in cooperation with its strategic partner, Citizens for Global Solutions, Inc., is to promote a future in which nations work together to abolish war, protect our rights and freedoms, and solve the problems facing humanity that no nation can solve alone.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Organization have been prepared on the accrual basis. A summary follows of the Organization's significant accounting policies consistently applied in the preparation of the accompanying financial statements.

1. Audit procedures

This audit was performed in accordance with the guidelines included in "Audits of Certain Non-Profit Organizations" issued by the American Institute of Certified Public Accountants.

2. Promises To Give

Contributions are recognized when the donor makes a promise to give to the Organization that is, in substance, unconditional. All donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets. The Organization has not received any permanently restricted net assets. At June 30, 2005 the Organization did not have any promises to give that could be valued.

3. Financial Statement Presentation

The Organization has adopted Statement of Financial Accounting Standards (SFAS) No. 117, "Financial Statements of Not-for-Profit Organizations." Under SFAS No. 117, the Organization 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.

4. Grants, accounts and contributions receivable

No allowance for doubtful accounts is provided as all receivables are considered collectible.

NOTES TO THE FINANCIAL STATEMENTS

World Federalist Association
d.b.a. Citizens for Global Solutions Education Fund
June 30, 2005

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

5. Investments

The Organization has adopted SFAS No. 124, "Accounting for Certain Investments Held by Not-for-Profit Organizations." Under SFAS No. 124, investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at their fair values in the statement of financial position. Unrealized gains and losses are included in the change in net assets.

6. Contributions

The Organization also adopted SFAS No. 116, "Accounting for Contributions Received and Contributions Made." In accordance with SFAS No. 116, contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor restrictions.

7. Marketable securities

Marketable securities are recorded at cost and adjusted for net unrealized gains and losses.

8. Land, buildings and equipment

Land, buildings and equipment are recorded at cost less accumulated depreciation. Depreciation is determined by straight-line method based on an estimated useful life of five to seven years for furniture and equipment and thirty-one and a half years for the buildings.

9. Functional expenses

The Organization accounts for its expenses on a functional basis. Functional expenses include certain directly allocated overhead costs (telephone, depreciation, insurance, etc.).

10. Income taxes

The Organization is exempt from federal taxation under Section 501(c)(3) of the Internal Revenue Code and is not a private foundation. The Organization is also exempt from DC Corporate Franchise Tax.

NOTES TO THE FINANCIAL STATEMENTS

World Federalist Association
d.b.a. Citizens for Global Solutions Education Fund
June 30, 2005

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

11. Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

12. Statement of cash flows

For the purpose of reporting cash flows, cash consists of cash on hand and in the banks.

NOTE C - INVESTMENTS

The Organization's investments in marketable securities are reported at fair market value at June 30, 2005. At that date the Organization held \$74,195 in corporate bonds, \$40,177 in government securities, \$388,529 in corporate stock, \$1,831,019 in mutual funds, \$41,966 in real estate investment trusts and \$24,488 in partnership interests.

The Organization had realized gains from the sale of investments in marketable securities of \$17,125 for the year ended June 30, 2005. It paid management fees and investment expenses totaling \$16,358 for the same period.

NOTE D - LAND, BUILDINGS AND EQUIPMENT

Land, buildings and equipment consist of the following:

Land and buildings	\$ 613,795
Furniture, fixtures and equipment	<u>117,390</u>
	731,185
Accumulated depreciation	<u>304,884</u>
	<u>\$ 426,301</u>

NOTE E - NOTE PAYABLE

At June 30, 2005 the Organization was obligated on an unsecured loan payable to Edward Rawson in the amount of \$200,000. The loan is due on demand and bears interest at the rate of 5% payable quarterly on February 28, May 31, August 31 and November 30.

NOTES TO THE FINANCIAL STATEMENTS

World Federalist Association
d.b.a. Citizens for Global Solutions Education Fund
June 30, 2005

NOTE F- CAPITAL LEASE OBLIGATION

The Organization leases certain equipment under a capital lease. The economic substance of this lease is that the Organization is financing the acquisition of the equipment through the lease and accordingly, the equipment is recorded as an asset and the lease is recorded as a long-term liability.

Following is an analysis of the leased assets included in land buildings and equipment at June 30, 2005:

Equipment under capital lease	\$ 19,777
Less: Accumulated depreciation	<u>-</u>
	<u>\$ 19,777</u>

Future minimum lease payments under the capital lease as of June 30, 2005 for each of the remaining years and in the aggregate are as follows:

Year ended June 30,	
2006	\$ 5,529
2007	5,529
2008	5,529
2009	5,529
2009	<u>5,068</u>
Total	27,184
Less: Amount representing interest	<u>7,636</u>
Present value of minimum lease payments	<u>\$ 19,548</u>

NOTE G – ANNUITY RESERVE

The Organization has annuity contracts with three individuals as of June 30, 2005 that require payments for periods beyond that date. An estimated reserve in the amount of \$10,836 has been established to make payments on the contracts based on the life expectancies of the annuitants and the required annual payments. At June 30, 2005 the Organization was obligated to pay \$2,620 per year for the life of the annuitants. As of June 30, 2005 investments in the amount of \$66,272 have been set aside to make the payments on these contracts, with \$55,436 of that amount being classified as temporarily restricted. See Note J for details on temporary restriction.

NOTES TO THE FINANCIAL STATEMENTS

World Federalist Association
d.b.a. Citizens for Global Solutions Education Fund
June 30, 2005

NOTE H – COMMITMENTS

The Organization entered into a lease for office equipment on March 29, 2005 for a period of five years. The future minimum rental payments are as follows:

Year ended June 30,

2006	\$ 5,640
2007	5,640
2008	5,640
2009	5,640
2009	<u>3,760</u>
Total	<u>\$ 26,320</u>

The Organization entered into an agreement for long distance telephone service on April 1, 2005 for a period of three years with a monthly payment \$644.

NOTE I - ENDOWMENT FUND

An Endowment Fund was designated by the Board of Directors in 1982. This is a trusted endowment fund operated exclusively for the educational purposes in accordance with Section 501 (c) (3) of the Internal Revenue Code. The principal balance of the trust fund is to remain intact until such time as the Organization is dissolved. The net income earned by the trust fund is distributable to the Organization. In June of 1983, separate investment accounts from the general fund were opened. The market value of the account at June 30, 2005 including \$9,829 in cash was \$1,806,532.

NOTE J - RESTRICTIONS ON ASSETS

Restrictions on Assets are as follows:

Purpose restrictions	
Presidential Fund	\$ 289,561
Harlan M. Smith "Builders of a Better World" Scholarship Fund	140,342
Funsten Fund for Youth	62,396
Dr. Ray & Jeannette Short Scholarship Fund	14,493
Global to Local Project	253,000
International Criminal Court Project	36,553
Other Projects	<u>22,802</u>
Total purpose restrictions	<u>\$ 819,147</u>

NOTES TO THE FINANCIAL STATEMENTS

World Federalist Association
d.b.a. Citizens for Global Solutions Education Fund
June 30, 2005

NOTE J - RESTRICTIONS ON ASSETS (continued)

Time restrictions	
Raymond and Elizabeth Bloch Educational and Charitable Foundation	15,000
Funsten Fund for Youth	62,396
Annuity contracts	<u>55,436</u>
Total time restrictions	<u>132,832</u>
Total temporarily restricted net assets	<u>\$ 951,979</u>

NOTE K – CONCENTRATION OF CREDIT RISK

The Organization maintains cash balances in excess of \$100,000 in banks, which are insured by the Federal Deposit Insurance Corporation up to \$100,000. Further, they had cash balances in uninsured money market accounts. Uninsured cash balances totaled \$142,852 at June 30, 2005.

NOTE L - RETIREMENT PLAN

The Organization maintains and administers a retirement plan for all employees who have been employed for six months. An employee can contribute a maximum of \$13,000 per year, but not more than 100% of their salary. Starting with the first anniversary of employment, the Organization matches up to 3% of the employee's salary being contributed to the retirement plan; after two years the matching contribution rises to 4%; after three years it is 5%; and after four years the match is up to 6%. The contribution is based on the salaries allocated to the Organization resulting in an expense of \$10,732 related to the plan as part of employee benefits during the year ended June 30, 2005.

NOTE M – JOINT COSTS

The Organization engaged in a direct mail campaign that resulted in costs being allocated to program services, administration, and fund raising. The costs were allocated as follows:

	Program Services	Administration	Fund Raising	Total
Consultants	\$ 22,320	\$ 9,360	\$ 4,320	\$ 36,000
Postage and delivery	3,594	1,063	944	5,601
Printing and publications	<u>4,400</u>	<u>974</u>	<u>1,013</u>	<u>6,387</u>
Total	<u>\$ 30,314</u>	<u>\$ 11,397</u>	<u>\$ 6,277</u>	<u>\$ 47,988</u>

NOTES TO THE FINANCIAL STATEMENTS

World Federalist Association
d.b.a. Citizens for Global Solutions Education Fund
June 30, 2005

NOTE N - RELATED PARTIES

Effective January 1, 2004 the Organization entered into an agreement with Citizens for Global Solutions, Inc. (CGS) to reorganize the combined organizations into a closer working relationship. To that end, the Organization shares office space and staff with CGS. Expenses for salaries, related taxes and benefits, and occupancy costs are allocated between the organizations based on the hours required to conduct their respective activities. The Organization allocated \$258,272 for these expenses to CGS, including \$5,963 in depreciation expense in the year ended June 30, 2005. The Organization acted as the agent for both organizations' direct mail fund raising activities. In that capacity \$373,755 was collected on behalf of CGS with \$226,750 being allocated to them for the expenses related to these activities during the fiscal period. Other expenses totaling \$5,328 were paid by the Organization on behalf of CGS while \$11,502 was collected by CGS on behalf of the Organization in the year ended June 30, 2005. A grant in the amount of \$160,000 was provided by the Organization to support the effort to reorganize the activities the Organizations during the fiscal period. There is a balance due to CGS in the amount of \$8,605 at June 30, 2005.

On February 15, 2005 the Organization borrowed \$200,000 from Edward Rawson, a director of the Organization that continues to be outstanding at June 30, 2005. See Note E for a description of the note payable.

NOTE O – SUBSEQUENT EVENT

On August 8, 2005 the Organization amended the World Federalist Association Endowment Trust to position it as a fully operational separate supporting organization. The Trust has an application pending with the Internal Revenue Service to confirm this status. The activities of the Trust will be separated from the activities of the World Federalist Association d.b.a. Citizens for Global Solutions Education Fund. See Note I.

On August 10, 2005 the newly reorganized World Federalist Association Endowment Trust purchased real property from the Organization for \$1,750,000, and leased back the property to be used as office space through September 30, 2008 for the sum of \$9,000 per month. As part of the transaction, the Trust entered into a mortgage, secured by the property that is guaranteed by the Organization. A portion of the proceeds from the sale of the building, \$1,000,000, has been designated by the Board of Directors to be invested, and can only be used as directed by the Board. The remainder of the proceeds were to be used to expand the activities of the Organization as specified by the Board.