

Eisner

Eisner LLP
Accountants and Advisors

SECURITY COUNCIL REPORT, INC.

FINANCIAL STATEMENTS

DECEMBER 31, 2007 and 2006

INDEPENDENT AUDITORS' REPORT

Board of Directors
Security Council Report, Inc.
New York, New York

We have audited the accompanying statements of financial position of Security Council Report, Inc. (the "Organization") as of December 31, 2007 and 2006, and the related statements of activities, functional expenses and cash flows for the years 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 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 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. 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 audits provide a reasonable basis for our opinion.

In our opinion, the financial statements enumerated above present fairly, in all material respects, the financial position of Security Council Report, Inc. as of December 31, 2007 and 2006, and the results of its activities and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

New York, New York
_____, 2008

SECURITY COUNCIL REPORT, INC.

Statements of Financial Position

	December 31,	
	<u>2007</u>	<u>2006</u>
ASSETS		
Cash and cash equivalents	\$ 1,057,333	\$ 754,881
Grants receivable	2,060,903	1,101,451
Prepaid rent	<u>17,555</u>	<u>17,555</u>
	<u>\$ 3,135,791</u>	<u>\$ 1,873,887</u>
LIABILITIES AND NET ASSETS		
Accounts payable	\$ 36,963	\$ 28,242
Due to Columbia University	<u>79,459</u>	<u>30,955</u>
Total liabilities	<u>116,422</u>	<u>59,197</u>
Commitment (Note F)		
Net assets:		
Unrestricted	657,178	713,239
Temporarily restricted	<u>2,362,191</u>	<u>1,101,451</u>
Total net assets	<u>3,019,369</u>	<u>1,814,690</u>
	<u>\$ 3,135,791</u>	<u>\$ 1,873,887</u>

SECURITY COUNCIL REPORT, INC.

Statements of Activities

Year Ended December 31,

	2007			2006		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Support and revenue:						
Grants	\$ 756,460	\$ 2,362,191	\$ 3,118,651	\$ 507,374	\$ 303,179	\$ 810,553
Interest income	24,228		24,228	2,419		2,419
Net assets released from restrictions	<u>1,101,451</u>	<u>(1,101,451)</u>	<u>0</u>	<u>1,422,188</u>	<u>(1,422,188)</u>	<u>0</u>
Total support and revenue after release of restrictions	<u>1,882,139</u>	<u>1,260,740</u>	<u>3,142,879</u>	<u>1,931,981</u>	<u>(1,119,009)</u>	<u>812,972</u>
Expenses:						
Program services	1,623,879		1,623,879	1,353,127		1,353,127
Management and general	299,321		299,321	272,102		272,102
Fund-raising	<u>15,000</u>		<u>15,000</u>			
Total expenses	<u>1,938,200</u>		<u>1,938,200</u>	<u>1,625,229</u>		<u>1,625,229</u>
Change in net assets	(56,061)	1,260,740	1,204,679	306,752	(1,119,009)	(812,257)
Net assets - beginning of year	<u>713,239</u>	<u>1,101,451</u>	<u>1,814,690</u>	<u>406,487</u>	<u>2,220,460</u>	<u>2,626,947</u>
Net assets - end of year	<u>\$ 657,178</u>	<u>\$ 2,362,191</u>	<u>\$ 3,019,369</u>	<u>\$ 713,239</u>	<u>\$ 1,101,451</u>	<u>\$ 1,814,690</u>

SECURITY COUNCIL REPORT, INC.

Statements of Functional Expenses

Year Ended December 31,

	2007			2006			
	Program Services	Management and General	Fund-raising	Total	Program Services	Management and General	Total Expenses
Salaries and benefits	\$ 801,167	\$ 114,126	\$ 15,000	\$ 930,293	\$ 663,962	\$ 104,253	\$ 768,215
Professional fees		29,291		29,291		43,103	43,103
Independent contractors	188,641	10,262		198,903	212,508		212,508
Website maintenance	23,465			23,465	26,136		26,136
Rent and utilities	189,366	22,988		212,324	188,886	20,987	209,873
Meetings and travel	103,554	38,586		142,140	36,659	21,422	58,081
International Advisory Group	53,106			53,106	54,645		54,645
Printing and communications	259,269	2,580		261,849	155,281		155,281
Shipping and postage		7,956		7,956	11,263	1,000	12,263
Office supplies		8,755		8,755		11,276	11,276
Office maintenance	5,311	12,185		17,496		20,594	20,594
Dues & subscriptions	4,310			-	3,787		3,787
Telephone		19,615		19,615		18,921	18,921
General services		33,007		33,007		30,546	30,546
Total expenses	<u>\$ 1,623,879</u>	<u>\$ 299,321</u>	<u>\$ 15,000</u>	<u>\$ 1,938,200</u>	<u>\$ 1,353,127</u>	<u>\$ 272,102</u>	<u>\$ 1,625,229</u>

See notes to financial statements

SECURITY COUNCIL REPORT, INC.

Statements of Cash Flows

	<u>December 31,</u>	
	<u>2007</u>	<u>2006</u>
Cash flows from operating activities:		
Change in net assets	\$ 1,204,679	\$ (812,257)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Changes in:		
Due to Columbia University	48,504	83,559
Prepaid rent		(17,555)
Grants receivable	(959,452)	1,062,565
Accounts payable	8,721	(14,809)
Net increase in cash and cash equivalents	302,452	301,503
Cash and cash equivalents - beginning of year	<u>754,881</u>	<u>453,378</u>
Cash and cash equivalents - end of year	<u>\$ 1,057,333</u>	<u>\$ 754,881</u>

SECURITY COUNCIL REPORT, INC.

Notes to Financial Statements December 31, 2007 and 2006

NOTE A - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

[1] Organization:

Security Council Report, Inc. (the "Organization"), a not-for-profit organization, was established in 2004 to provide timely, accurate and objective information and analysis on the activities of the United Nations Security Council (the "Security Council"). This information and analysis is provided for the benefit of member states of the United Nations, particularly the ten elected members of the Security Council, but also the wider United Nations membership, the United Nations Secretariat, and the public.

The Organization is exempt from federal income taxes under Section 501(c)(3) of the U.S. Internal Revenue Code and from state and local taxes under comparable laws.

[2] Financial reporting:

(a) Basis of accounting:

The accompanying financial statements have been prepared using the accrual basis of accounting and conform to accounting principles generally accepted in the United States of America, as applicable to not-for-profit entities.

(b) Functional allocation of expenses:

The costs of providing the various programs and supporting services have been summarized on a functional basis in the accompanying statements of activities and of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services using reasonable ratios determined by management. The Organization performs minimal fund-raising activities.

(c) Use of estimates:

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses and the disclosure of contingencies. Actual results may differ from those estimates.

(d) Cash equivalents:

The Organization considers cash equivalents to be all highly liquid investments with a maturity of three months or less when purchased.

(e) Net assets:

The Organization's net assets, as well as its revenues, expenses, gains and losses, are classified in the financial statements based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets and changes therein are classified and reported as follows:

(i) *Unrestricted:*

Unrestricted net assets represent those resources available for current operations, with no donor restrictions.

(ii) *Temporarily restricted:*

Temporarily restricted net assets represent those resources subject to donor-imposed stipulations that will be met by either specific actions of the Organization or the passage of time.

SECURITY COUNCIL REPORT, INC.

Notes to Financial Statements December 31, 2007 and 2006

NOTE A - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

[3] Property and equipment:

Under the terms of an agreement with Columbia University ("Columbia") (see Note D), Columbia arranged for office furniture and equipment for use by the Organization. As this office furniture and equipment is owned by Columbia, they are not included as assets in the accompanying financial statements.

[4] Grants:

Grants are recorded as revenue upon the receipt of cash or unconditional grant agreements, and are considered available for unrestricted use unless specifically restricted by the grantor.

The Organization reports grants as temporarily restricted if they are received with grantor stipulations or time considerations as to their use. When a grantor's restriction is met (i.e., when a stipulated time restriction ends or the purpose of the restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the accompanying statement of activities as net assets released from restrictions.

NOTE B - GRANTS RECEIVABLE

At each year-end, grants receivable were due to be collected as follows:

	December 31,	
	2007	2006
Less than one year	\$ 948,712	\$ 1,101,451
One to three years	<u>1,250,000</u>	<u> </u>
Total grants receivable	2,198,712	1,101,451
Reduction of grants due in excess of one year to present value at a discount rate of 5%	<u>(137,809)</u>	<u> </u>
	<u>\$ 2,060,903</u>	<u>\$ 1,101,451</u>

The Organization's grants receivable consisted of grants the amounts of which had not been fully collected as of year-end. Amounts not due within one year have been discounted to present value. Grants receivable are from major institutional grantors, and management expects the grants receivable to be fully collected. Accordingly, no allowance for doubtful amounts has been established.

NOTE C - PROPERTY AND EQUIPMENT

At each year-end, property and equipment owned by Columbia and used by the Organization consisted of the following:

	December 31,	
	2007	2006
Furniture	\$ 103,315	\$ 103,315
Equipment	86,447	86,447
Leasehold improvements	<u>125,814</u>	<u>125,814</u>
	<u>\$ 315,576</u>	<u>\$ 315,576</u>

SECURITY COUNCIL REPORT, INC.

Notes to Financial Statements December 31, 2007 and 2006

NOTE D - DUE TO/FROM COLUMBIA UNIVERSITY

Pursuant to an agreement between the Organization and Columbia, Columbia provides office space, personnel, and supplies, in return for which the Organization reimburses Columbia and pays a general and administrative fee equipment, not to exceed 7% of the overall budget. The general and administrative fee was waived by Columbia in 2007 and 2006. The Organization's prospective charges are estimated and advanced to Columbia quarterly. Additionally, Columbia received certain start-up grants on behalf of the Organization prior to the Organization's establishing an administrative process. These funds are maintained by Columbia and disbursed to the Organization as needed. At December 31, 2007 and 2006, the net balance due to Columbia was \$79,459 and \$30,955 respectively.

NOTE E - TEMPORARILY RESTRICTED NET ASSETS

At each year-end, temporarily restricted net assets consisted of the following:

	<u>December 31,</u>	
	<u>2007</u>	<u>2006</u>
Time restricted	\$ 2,362,191	\$ 1,080,000
Program restricted		21,451
	<u>\$ 2,362,191</u>	<u>\$ 1,101,451</u>

During 2007 and 2006, net assets amounting to \$1,101,451 and \$1,422,188 respectively, in time and program-restricted funds were released from restrictions.

NOTE F - LEASE COMMITMENT

For its office space, the Organization has a lease with Columbia that commenced on August 1, 2005, and expires on July 31, 2010. Future minimum rent payments, exclusive of escalation charges, real estate taxes, and utilities, are as follows:

<u>Year</u>	<u>Amount</u>
2008	\$ 180,501
2009	186,915
2010	<u>93,458</u>
	<u>\$ 460,874</u>

Rent expense for 2007 and 2006 was \$194,769 and \$194,171 respectively.

SECURITY COUNCIL REPORT, INC.

Notes to Financial Statements December 31, 2007 and 2006

NOTE G - CONCENTRATION OF CREDIT RISK

The Organization deposits its cash in one financial institution in amounts which, at times, may exceed federally insured limits. Management believes the Organization is not exposed to any significant risk of loss due to the failure of the financial institution.

During 2007 and 2006, the Organization received 91% and 82%, respectively, of its support and revenue from three grantors.