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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, 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.

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 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 audit provides 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, 2005, and the results of its activities and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Eisner LLP

New York, New York
May 12, 2006

SECURITY COUNCIL REPORT, INC.

Statement of Financial Position December 31, 2005

ASSETS

Cash and cash equivalents	\$ 453,378
Grants receivable	2,164,016
Due from Columbia University	<u>52,604</u>
	<u>\$ 2,669,998</u>

Commitment (Note F)

LIABILITIES AND NET ASSETS

Accounts payable	\$ <u>43,051</u>
Net assets:	
Unrestricted	406,487
Temporarily restricted	<u>2,220,460</u>
Total net assets	<u>2,626,947</u>
	<u>\$ 2,669,998</u>

SECURITY COUNCIL REPORT, INC.

Statement of Activities Year Ended December 31, 2005

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Support and revenue:			
Grants	\$ 1,340,000	\$ 2,711,836	\$ 4,051,836
Net assets released from restrictions	<u>491,376</u>	<u>(491,376)</u>	<u> </u>
Total support and revenue	<u>1,831,376</u>	<u>2,220,460</u>	<u>4,051,836</u>
Expenses			
Program services	1,173,121		1,181,094
Management and general	<u>251,768</u>		<u>243,795</u>
Total expenses	<u>1,424,889</u>		<u>1,424,889</u>
Increase in net assets	406,487	2,220,460	2,626,947
Net assets - beginning of year	<u>0</u>	<u>0</u>	<u>0</u>
Net assets - end of year	<u>\$ 406,487</u>	<u>\$ 2,220,460</u>	<u>\$ 2,626,947</u>

SECURITY COUNCIL REPORT, INC.

Statement of Functional Expenses Year Ended December 31, 2005

	<u>Program Services</u>	<u>Management and General</u>	<u>Total Expenses</u>
Salaries and benefits	\$ 514,581	\$ 35,341	\$ 549,922
Professional fees		68,087	68,087
Independent contractors	90,910	5,649	96,559
Website maintenance	73,437		73,437
Rent and utilities	75,907	8,434	84,341
Meetings and travel	36,657	12,219	48,876
Launch reception	16,968		16,968
Printing and communications	56,134		56,134
Shipping and postage	4,040	213	4,253
Office supplies	8,746	458	9,204
Dues & subscriptions	2,381		2,381
Telephone	15,346	804	16,150
Administrative fees paid to Columbia		89,122	89,122
Miscellaneous	2,480	826	3,306
Property and equipment	<u>275,534</u>	<u>30,615</u>	<u>306,149</u>
Total expenses	<u>\$ 1,173,121</u>	<u>\$ 251,768</u>	<u>\$ 1,424,889</u>

See notes to financial statements

SECURITY COUNCIL REPORT, INC.

Statement of Cash Flows Year Ended December 31, 2005

Cash flows from operating activities:

Increase in net assets	\$ 2,626,947
Adjustments to reconcile increase in net assets to net cash provided by operating activities:	
Changes in:	
Due from Columbia University	(52,604)
Grants receivable	(2,164,016)
Accounts payable	<u>43,051</u>

Net increase in cash and cash equivalents

453,378

Cash and cash equivalents - beginning of year

0

Cash and cash equivalents - end of year

\$ 453,378

SECURITY COUNCIL REPORT, INC.

Notes to Financial Statements December 31, 2005

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.

(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, 2005

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

[3] Property and equipment:

Under the terms of an agreement (see Note C) with the Center of International Organization at Columbia University ("Columbia"), Columbia arranged for office furniture and equipment for use by the Organization. Effective control of this office furniture and equipment belongs to Columbia, and consequently this property is not included 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 year-end, grants receivable were due to be collected as follows:

Less than one year	\$ 1,165,495
One to three years	<u>1,080,000</u>
Total grants receivable	2,245,495
Reduction of grants due in excess of one year to present value at a discount rate of 4%	<u>(81,479)</u>
	<u>\$ 2,164,016</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 year end, property and equipment owned by Columbia and used by the Organization consisted of the following:

Furniture	\$ 101,817
Equipment	78,518
Leasehold improvements	<u>125,814</u>
	<u>\$ 306,149</u>

SECURITY COUNCIL REPORT, INC.

Notes to Financial Statements December 31, 2005

NOTE D - DUE FROM COLUMBIA UNIVERSITY

Pursuant to an agreement between the Organization and the Center on International Organization at Columbia University ("Columbia"), Columbia provides office space, personnel, and supplies, in return for which the Organization reimburses Columbia and pays a general and administrative fee not to exceed 7% of the overall budget. 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 year-end, the net balance due from Columbia was \$52,604.

NOTE E - TEMPORARILY RESTRICTED NET ASSETS

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

Time-restricted	\$ 2,097,382
Program-restricted	<u>123,078</u>
	<u>\$ 2,220,460</u>

During 2005, net assets amounting to \$491,376 in program-restricted funds were released from restrictions.

NOTE F - LEASE COMMITMENT

For its office space, the Organization has a lease 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:

2006	\$ 175,920
2007	175,920
2008	180,501
2009	186,915
2010	<u>93,458</u>
	<u>\$ 812,714</u>

Rent expense for 2005 was \$63,985.

NOTE G - CONCENTRATION OF CREDIT RISK

The Organization maintains 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 on cash and cash equivalents due to the failure of the financial institution.

During 2005, the Organization received 82% of its support and revenue from three grantors.