



Eisner LLP
Accountants and Advisors

DRAFT SUBJECT TO REVIEW AND REVISION

SECURITY COUNCIL REPORT, INC.

FINANCIAL STATEMENTS

DECEMBER 31, 2008 and 2007

SECURITY COUNCIL REPORT, INC

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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, 2008 and 2007, 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, 2008 and 2007, 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
April 23, 2009

SECURITY COUNCIL REPORT, INC.

Statements of Financial Position

	December 31,	
	2008	2007
ASSETS		
Cash and cash equivalents	\$ 962,717	\$ 1,057,333
Grants receivable	2,466,198	2,060,903
Prepaid rent		17,555
Due from Columbia University	<u>9,526</u>	<u></u>
	<u>\$ 3,438,441</u>	<u>\$ 3,135,791</u>
LIABILITIES AND NET ASSETS		
Accounts payable	\$ 30,734	\$ 36,963
Due to Columbia University	<u></u>	<u>79,459</u>
Total liabilities	<u>30,734</u>	<u>116,422</u>
Commitment (Note F)		
Net assets:		
Unrestricted	789,635	657,178
Temporarily restricted	<u>2,618,072</u>	<u>2,362,191</u>
Total net assets	<u>3,407,707</u>	<u>3,019,369</u>
	<u>\$ 3,438,441</u>	<u>\$ 3,135,791</u>

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Statements of Activities

	Year Ended December 31,					
	2008			2007		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Support and revenue:						
Grants	\$ 1,282,936	\$ 1,255,881	\$ 2,538,817	\$ 756,460	\$ 2,362,191	\$ 3,118,651
Contributions	49,156		49,156			
Interest income	13,629		13,629	24,228		24,228
Net assets released from restrictions	<u>1,000,000</u>	<u>(1,000,000)</u>	<u>0</u>	<u>1,101,451</u>	<u>(1,101,451)</u>	<u>0</u>
Total support and revenue after release of restrictions	<u>2,345,721</u>	<u>255,881</u>	<u>2,601,602</u>	<u>1,882,139</u>	<u>1,260,740</u>	<u>3,142,879</u>
Expenses:						
Program services	1,699,805		1,699,805	1,623,879		1,623,879
Management and general	493,459		493,459	299,321		299,321
Fund-raising	<u>20,000</u>		<u>20,000</u>	<u>15,000</u>		<u>15,000</u>
Total expenses	<u>2,213,264</u>		<u>2,213,264</u>	<u>1,938,200</u>		<u>1,938,200</u>
Change in net assets	132,457	255,881	388,338	(56,061)	1,260,740	1,204,679
Net assets - beginning 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>
Net assets - end of year	<u>\$ 789,635</u>	<u>\$ 2,618,072</u>	<u>\$ 3,407,707</u>	<u>\$ 657,178</u>	<u>\$ 2,362,191</u>	<u>\$ 3,019,369</u>

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Statements of Functional Expenses

Year Ended December 31,								
2008				2007				
	Program Services	Management and General	Fund- raising	Total	Program Services	Management and General	Fund- raising	Total
Salaries and benefits	\$ 821,387	\$ 250,000	\$ 20,000	\$ 1,091,387	\$ 801,167	\$ 114,126	\$ 15,000	\$ 930,293
Professional fees		40,764		40,764	275	29,291		29,566
Independent contractors	147,678			147,678	188,641	10,262		198,903
Website maintenance	24,598			24,598	23,193			23,193
Rent and utilities	199,010	22,113		221,123	189,366	22,958		212,324
Meetings and travel	153,527	7,000		160,527	103,554	38,586		142,140
International Advisory Group	48,973			48,973	53,106			53,106
Printing and communications	264,956	2,099		267,055	217,866	2,580		220,446
Shipping and postage	36,000	1,554		37,554		7,956		7,956
Office supplies		7,696		7,696		8,755		8,755
Office maintenance		9,643		9,643		12,185		12,185
Dues & subscriptions	3,676			3,676	43,10			4,310
Telephone		18,207		18,207		19,615		19,615
Temporary help		1,664		1,664	13,625			13,625
Other		5,214		5,214				-
Information technology		30,918		30,918	28,776			28,776
General services		96,586		96,586		32,987		32,987
Total expenses	<u>\$ 1,699,805</u>	<u>\$ 493,459</u>	<u>\$ 20,000</u>	<u>\$ 2,213,264</u>	<u>\$ 1,623,879</u>	<u>\$ 299,321</u>	<u>\$ 15,000</u>	<u>\$ 1,938,200</u>

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Statements of Cash Flows

	Year Ended December 31,	
	2008	2007
Cash flows from operating activities:		
Change in net assets	\$ 388,338	\$ 1,204,679
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Changes in:		
Due from/to Columbia University	(88,985)	48,504
Grants receivable	(405,295)	(959,452)
Prepaid rent	17,555	
Accounts payable	(6,229)	8,721
Net change in cash and cash equivalents	(94,616)	302,452
Cash and cash equivalents - beginning of year	<u>1,057,333</u>	<u>754,881</u>
Cash and cash equivalents - end of year	<u>\$ 962,717</u>	<u>\$ 1,057,333</u>

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Notes to Financial Statements December 31, 2008 and 2007

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, 2008 and 2007

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.

[5] New accounting pronouncements:

In July 2006, the Financial Accounting Standards Board (the "FASB") issued Interpretation No. 48, *Accounting for Uncertainty in Income Taxes—an Interpretation of FASB Statement No. 109* ("FIN 48"). FIN 48 establishes for all financial enterprises, including not-for-profit organizations to the extent applicable, a requirement for financial-statement recognition of any benefits that the enterprise may expect to receive as the result of a position taken with regard to income taxes, as well as expanded tax-related disclosures. A subsequent FASB release has permitted deferral of the application of FIN 48; management evaluates any material uncertain tax positions on an ongoing basis and has elected to defer application of FIN 48 to 2009. The adoption of FIN 48 is not expected to have a material effect on the Organization's consolidated financial statements.

In September 2006, the FASB also released Statement of Financial Accounting Standards No. 157, "Fair Value Measurement" (SFAS No. 157), applicable to all commercial and not-for-profit enterprises. SFAS No. 157 defines fair value, establishes a framework for the measurement of the fair value of an enterprise's assets and liabilities in various circumstances, and enhances disclosures about fair-value measurements. The Organization adopted SFAS No. 157 in 2008, but the adoption of this standard did not have a material effect on its financial statements.

SECURITY COUNCIL REPORT, INC.

Notes to Financial Statements December 31, 2008 and 2007

NOTE B - GRANTS RECEIVABLE

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

	December 31,	
	2008	2007
Less than one year	\$ 1,672,548	\$ 948,712
One to three years	<u>833,333</u>	<u>1,250,000</u>
Total grants receivable	2,505,881	2,198,712
Reduction of grants due in excess of one year to present value, at a discount rate of 5%	<u>(39,683)</u>	<u>(137,809)</u>
	<u>\$ 2,466,198</u>	<u>\$ 2,060,903</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,	
	2008	2007
Furniture	\$ 103,315	\$ 103,315
Equipment	<u>86,447</u>	<u>86,447</u>
Leasehold improvements	<u>125,814</u>	<u>125,814</u>
	<u>\$ 315,576</u>	<u>\$ 315,576</u>

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, not to exceed 7% of the overall budget. The general and administrative fee in 2008 was \$96,586 and in 2007, Columbia waived the fee. The Organization's prospective charges are estimated and advanced to Columbia quarterly. These funds are maintained by Columbia and disbursed to the Organization as needed. At December 31, 2008 and 2007, the net balance due from or to Columbia was \$9,526 and (\$79,459) respectively.

NOTE E - TEMPORARILY RESTRICTED NET ASSETS

At December 31, 2008 and 2007, net assets of \$2,618,072 and \$2,362,191, respectively, were temporarily restricted due to the timing of the grants received. During 2008 and 2007, time and program-restricted net assets amounting to \$1,000,000 and \$1,101,451 respectively, were released from restrictions.

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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>
2009	\$ 186,915
2010	<u>93,458</u>
	<u>\$ 280,373</u>

Rent expense for 2008 and 2007 was \$214,717 and \$194,769 respectively.

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 2008 and 2007, the Organization received 81% and 91%, respectively, of its support and revenue from three grantors.

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