

**EISNERAMPER**

**SECURITY COUNCIL REPORT, INC.**

**FINANCIAL STATEMENTS**

**DECEMBER 31, 2018 and 2017**



## INDEPENDENT AUDITORS' REPORT

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

### Report on the Financial Statements

We have audited the accompanying financial statements of Security Council Report, Inc. ("SCR"), which comprise the statements of financial position as of December 31, 2018 and 2017, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

### *Management's Responsibility for the Financial Statements*

SCR's 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.

### *Auditor's 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 evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's 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 auditor considers internal control relevant to SCR'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 organization'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 Security Council Report, Inc. as of December 31, 2018 and 2017, and the changes in its net assets and its cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.



EISNERAMPER LLP  
New York, New York  
April 23, 2019



# SECURITY COUNCIL REPORT, INC.

## Statements of Financial Position

	December 31,	
	2018	2017
<b>ASSETS</b>		
Cash and cash equivalents	\$ 755,874	\$ 544,962
Grants receivable, net	470,711	1,020,395
Security deposit	166,012	132,460
Prepaid expenses and other assets	28,767	1,712
	<u>\$ 1,421,364</u>	<u>\$ 1,699,529</u>
<b>LIABILITIES AND NET ASSETS</b>		
Liabilities:		
Accounts payable and accrued expenses	\$ 129,519	\$ 100,100
Deferred rent	117,589	14,731
Line-of-credit	17,413	1,534
	<u>264,521</u>	<u>116,365</u>
Total liabilities		
Commitments (Note E)		
Net assets:		
Without donor restrictions (including cumulative foreign currency losses of \$103,348 and \$100,448 in 2018 and 2017, respectively)	<u>863,892</u>	<u>549,232</u>
With donor restrictions:		
Time restricted for future periods	108,000	951,024
Purpose restrictions	184,951	82,908
	<u>292,951</u>	<u>1,033,932</u>
Total net assets with donor restrictions		
Total net assets	<u>1,156,843</u>	<u>1,583,164</u>
	<u>\$ 1,421,364</u>	<u>\$ 1,699,529</u>

# SECURITY COUNCIL REPORT, INC.

## Statements of Activities

	Year Ended December 31,					
	2018		2017			
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
<b>Public support:</b>						
Grants and contributions	\$ 1,846,648	\$ 268,241	\$ 2,114,889	\$ 1,551,697	\$ 1,766,209	\$ 3,317,906
Other income	<u>15,969</u>		<u>15,969</u>	<u>1,851</u>		<u>1,851</u>
Total public support	1,862,617	268,241	2,130,858	1,553,548	1,766,209	3,319,757
before release of restrictions	<u>1,009,222</u>	<u>(1,009,222)</u>	<u>0</u>	<u>877,021</u>	<u>(877,021)</u>	<u>0</u>
Net assets released from restrictions						
Total public support	<u>2,871,839</u>	<u>(740,981)</u>	<u>2,130,858</u>	<u>2,430,569</u>	<u>889,188</u>	<u>3,319,757</u>
<b>Expenses:</b>						
Program services	1,983,393		1,983,393	1,992,018		1,992,018
Management and general	433,540		433,540	373,309		373,309
Fund-raising	<u>137,346</u>		<u>137,346</u>	<u>126,138</u>		<u>126,138</u>
Total expenses	<u>2,554,279</u>		<u>2,554,279</u>	<u>2,491,465</u>		<u>2,491,465</u>
Change in net assets before foreign currency translation losses	317,560	(740,981)	(423,421)	(60,896)	889,188	828,292
Foreign currency translation losses	<u>(2,900)</u>		<u>(2,900)</u>	<u>(2,857)</u>		<u>(2,857)</u>
<b>Change in net assets</b>	314,660	(740,981)	(426,321)	(63,753)	889,188	825,435
Net assets, beginning of year	<u>549,232</u>	<u>1,033,932</u>	<u>1,583,164</u>	<u>612,985</u>	<u>144,744</u>	<u>757,729</u>
<b>Net assets, end of year</b>	<u>\$ 863,892</u>	<u>\$ 292,951</u>	<u>\$ 1,156,843</u>	<u>\$ 549,232</u>	<u>\$ 1,033,932</u>	<u>\$ 1,583,164</u>

See notes to financial statements.

# SECURITY COUNCIL REPORT, INC.

## Statements of Functional Expenses

	Year Ended December 31,							
	2018		2017					
	Informational Product Services	Management and General	Fund- raising	Total	Informational Product Services	Management and General	Fund- raising	Total
Salaries and benefits	\$ 1,361,891	\$ 269,735	\$ 103,435	\$ 1,735,061	\$ 1,398,065	\$ 218,539	\$ 100,250	\$ 1,716,854
Occupancy	324,444	61,603	24,641	410,688	278,458	43,477	19,967	341,902
Publications	119,210			119,210	142,245	3,889	972	147,106
Insurance	8,500	1,614	646	10,760	7,737	1,208	555	9,500
Professional fees	12,338	74,376		86,714	11,331	83,754		18,064
Telephone	16,691	3,164	1,239	21,094	18,255	3,051	1,150	22,456
Office expenses	14,524	2,141	856	17,521	20,452	2,383	1,094	23,929
Information technology	37,859	7,188	2,875	47,922	29,982	4,681	2,150	36,813
Governing board expenses		3,514		3,514		3,810		3,810
Travel	32,032	521	3,654	36,207	35,647	251		35,898
Meetings and conferences	53,884			53,884	44,807	318		45,125
Bad debt expense						5,583		5,583
Other	2,020	9,684		11,704	5,039	2,365		7,404
	<u>\$ 1,983,393</u>	<u>\$ 433,540</u>	<u>\$ 137,346</u>	<u>\$ 2,554,279</u>	<u>\$ 1,992,018</u>	<u>\$ 373,309</u>	<u>\$ 126,138</u>	<u>\$ 2,491,465</u>

See notes to financial statements.

## SECURITY COUNCIL REPORT, INC.

### Statements of Cash Flows

	Year Ended December 31,	
	2018	2017
<b>Cash flows from operating activities:</b>		
Change in net assets	\$ (426,321)	\$ 825,435
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Bad debt expense		5,583
Changes in:		
Grants receivable, net	549,684	(888,060)
Prepaid expense and other assets	(27,055)	7,960
Security deposit	(33,552)	(1,716)
Accounts payable and accrued expenses	29,419	5,726
Deferred rent	102,858	(15,371)
Net cash provided by (used in) operating activities	195,033	(60,443)
<b>Cash flows from financing activities:</b>		
Proceeds under line-of-credit agreement	115,159	42,224
Payments under line-of-credit agreement	(99,280)	(40,690)
Net cash provided by financing activities	15,879	1,534
<b>Net change in cash and cash equivalents</b>	<b>210,912</b>	<b>(58,909)</b>
Cash and cash equivalents, beginning of year	544,962	603,871
<b>Cash and cash equivalents, end of year</b>	<b>\$ 755,874</b>	<b>\$ 544,962</b>

## **SECURITY COUNCIL REPORT, INC.**

### **Notes to Financial Statements December 31, 2018 and 2017**

#### **NOTE A - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

##### **[1] Organization:**

Security Council Report, Inc. ("SCR"), a not-for-profit organization incorporated in New York, 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.

SCR is incorporated as a not-for-profit corporation and exempt from federal income taxes under Section 501(c)(3) of the U.S. Internal Revenue Code (the "Code") and from state and local taxes under comparable laws.

##### **[2] Basis of accounting:**

The financial statements of SCR have been prepared using the accrual basis of accounting and conform to accounting principles generally accepted in the United States of America ("U.S. GAAP"), as applicable to not-for-profit organizations.

##### **[3] Use of estimates:**

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses and the disclosure of contingent assets and liabilities. Actual results may differ from those estimates.

##### **[4] Cash and cash equivalents:**

For financial-reporting purposes, SCR considers all highly liquid investments, with maturities of three months or less, to be cash equivalents.

##### **[5] Property and equipment:**

Property and equipment are stated at their original costs at the dates of acquisition, or, if contributed, at their appropriate fair values at the dates of donation. SCR capitalizes items of property and equipment that have a cost of \$5,000 or more and a useful life greater than one year, of which there is none for 2018 and 2017, respectively.

##### **[6] Accrued vacation:**

SCR's employees are entitled to be paid for unused vacation time if they leave SCR. Accordingly, at each year-end, SCR must recognize a liability for the amount that would be incurred if employees with such unused vacation were to leave; the obligation is recalculated each year. The accrued vacation obligations for 2018 and 2017 were approximately \$85,000 and \$61,000, respectively, and are included in accounts payable and accrued expenses, respectively, in the accompanying statements of financial position.

##### **[7] Deferred rent:**

For financial statement purposes, the difference between rent expense incurred by SCR on an accrual basis and the rent amounts paid in cash, as well as the unamortized portion of rent concessions and landlord contributions to leasehold improvement projects, is reported as deferred rent payable in the accompanying statements of financial position.

## SECURITY COUNCIL REPORT, INC.

### Notes to Financial Statements December 31, 2018 and 2017

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

##### [8] Net assets:

SCR's net assets and changes therein are classified and reported as follows:

###### (i) *Net assets without donor restrictions:*

Net assets without donor restrictions represent those resources that are not subject to donor-imposed restrictions and are available for current operations.

###### (ii) *Net assets with donor restrictions:*

Net assets with donor restrictions represent those resources that are subject to donor imposed restrictions, such as specific purposes and/or the passage of time. When a donor restriction expires, that is, when a stipulated time restriction ends, or a purpose restriction is accomplished, net assets with donor restrictions are reclassified as net assets without donor restrictions and are reported in the accompanying statements of activities as "net assets released from restrictions."

##### [9] Revenue recognition:

The operations of SCR are financed principally by foundation grants and contributions received from foreign governments. Grants and contributions are recognized as revenue upon the receipt of either cash or other assets, or unconditional pledges. Grants and contributions are reported as "with donor restrictions" if they are received with donor stipulations or time considerations as to their use. Grants and contributions to be received over periods longer than a single year are discounted at an interest rate commensurate with the risk involved.

##### [10] Functional allocation of expenses:

SCR's financial statements report certain categories of expenses that are attributable to program and supporting services of SCR. These costs have been summarized on a functional and natural classification in the statements of functional expenses. Accordingly, certain costs that are directly attributable to a specific functional area of SCR are reported as an expense to the appropriate program or supporting service. Natural expenses attributable to more than one functional expense category have been allocated among the programs and supporting services based on the time and effort spent by employees and the nature of the expense. The expenses that are allocated include occupancy, publications, professional fees, information technology, and meetings and conferences.

##### [11] Income taxes:

SCR is subject to the provisions of the Financial Accounting Standards Board's (the "FASB") Accounting Standards Codification ("ASC") Topic 740, *Income Taxes*, relating to accounting and reporting for uncertainty in income taxes. SCR is subject to potential unrelated business income tax ("UBIT") relating to transportation benefits. Because of SCR's general tax-exempt status, management believes ASC Topic 740 has not had, and is not expected to have, a material impact on SCR's financial statements.

UBIT tax expense reported in the statements of functional expenses was approximately \$4,000 during 2018, which represents SCR's tax expense on transportation benefits, as required by the Tax Cuts and Job Act of 2017. There was no UBTI tax expense in 2017.



## SECURITY COUNCIL REPORT, INC.

### Notes to Financial Statements December 31, 2018 and 2017

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

##### [12] Foreign currency translation:

The gains or losses on foreign currency translations are the inherent result of the process of translating into U.S. dollars, for financial-reporting purposes, those foreign grants and contributions that SCR receives as stated in their respective functional currencies. Such annual translation adjustments are not included in determining the net change in assets from operations, but they are instead disclosed as a separate component in the accompanying statements of activities. Likewise, the cumulative translation gains or losses continue to be reported as an element of net assets without donor restrictions in the accompanying statements of financial position.

##### [13] Adoption of accounting pronouncement:

In August 2016, the FASB issued Accounting Standards Update ("ASU") No. 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*. ASU 2016-14 amends financial-statement presentations and disclosures. ASU 2016-14 includes qualitative and quantitative requirements in the following areas: (i) net asset classifications, (ii) investment returns, (iii) expense categorizations, and (iv) liquidity and availability of resources. ASU 2016-04 was effective for annual reporting periods beginning after December 15, 2017. Accordingly, SCR was required to adopt ASU 2016-14 during its year-ended December 31, 2018, which under U.S. GAAP was a change in accounting principle requiring retroactive application in the financial statement of certain areas, whereas, certain other areas were adopted on a prospective basis, as permitted. Although SCR's adoption of ASU 2016-14 had no effect on SCR's total net assets or its changes in net assets for 2018 and 2017, certain reclassifications were required. Accordingly, SCR changed the presentation of its net assets classes and expanded certain footnote disclosures.

##### [14] Reclassifications:

Certain information in the prior-year's financial statements has been reclassified to conform with current year's presentation.

##### [15] Subsequent events:

SCR evaluates subsequent events through April 23, 2019, the date at which the financial statements were available to be issued.

## SECURITY COUNCIL REPORT, INC.

### Notes to Financial Statements December 31, 2018 and 2017

#### NOTE B - GRANTS RECEIVABLE

At each year-end, grants receivable consisted of the following:

	December 31,	
	2018	2017
Due in less than one year	\$ 443,448	\$ 926,318
Due in one to five years	<u>30,000</u>	<u>108,000</u>
	473,448	1,034,318
Less discount to present value, at a rate of 4.9% and 4.1% in 2018 and 2017, respectively	<u>(2,737)</u>	<u>(8,340)</u>
	470,711	1,025,978
Less allowance for doubtful accounts	<u>                    </u>	<u>(5,583)</u>
	<u>\$ 470,711</u>	<u>\$ 1,020,395</u>

During 2018 and 2017, approximately 69% and 77%, respectively, of SCR's total gross grants receivable were due from three grantors.

#### NOTE C - NET ASSETS WITH DONOR RESTRICTIONS

At each year-end, net assets with donor restrictions consisted of the following:

	December 31,	
	2018	2017
Restricted for future periods	\$ 108,000	\$ 951,024
Restricted for the following purposes:		
Capacity Building Program	19,080	38,160
What's in Blue	39,165	44,748
Technical Assistance Program	<u>126,706</u>	<u>                    </u>
	184,951	82,908
	<u>\$ 292,951</u>	<u>\$ 1,033,932</u>

## SECURITY COUNCIL REPORT, INC.

### Notes to Financial Statements December 31, 2018 and 2017

#### NOTE C - NET ASSETS WITH DONOR RESTRICTIONS (CONTINUED)

During each year, net assets with donor restrictions were associated with the following:

	Year Ended December 31,	
	2018	2017
Time restrictions satisfied	<u>\$ 843,025</u>	<u>\$ 802,959</u>
Purpose restrictions satisfied:		
Capacity Building Program	38,160	
What's in Blue	50,000	74,062
Technical Assistance Program	<u>78,037</u>	
	<u>166,197</u>	<u>74,062</u>
	<u>\$ 1,009,222</u>	<u>\$ 877,021</u>

#### NOTE D - RELATED-PARTY TRANSACTIONS

Four and five members, respectively, of the SCR Board of Directors in 2018 and 2017, respectively, were also stewards of private foundations and/or foreign governments that are principal contributors of resources to SCR; the total amount contributed was approximately \$380,000 and \$1,285,000 for 2018 and 2017, respectively. Total contributions from these related parties represented 18% and 39% of total contribution revenues for 2018 and 2017, respectively.

#### NOTE E - COMMITMENT

During 2018, SCR entered into a new lease agreement for office space in New York City for a term that ends in January 2026. Future minimum non-cancelable annual lease payments for this space, excluding escalations for operating expense and real estate tax increases, are as follows:

Year Ending December 31,	Amount
2019	\$ 331,331
2020	342,451
2021	351,012
2022	359,787
2023	375,586
2024	405,386
2025	415,521
2026	<u>35,272</u>
Total	<u>\$ 2,616,346</u>

Rent expense for 2018 and 2017 was \$352,228 and \$341,900, respectively.

In 2018, SCR maintained a security deposit with the lessor. In 2017, SCR maintained a security deposit in an escrow account held at a financial institution.

## SECURITY COUNCIL REPORT, INC.

### Notes to Financial Statements December 31, 2018 and 2017

#### NOTE F - LINE-OF-CREDIT

SCR has a business line-of-credit agreement in the amount of \$35,000, subject to an annual percentage rate of 26.24%, with a bank and is secured by the general assets of SCR. At December 31, 2018 and 2017, the outstanding balances each year were approximately \$17,000 and \$1,500, respectively.

#### NOTE G - RISK CONSIDERATIONS

Financial instruments that potentially subject SCR to concentrations of credit risk consist principally of cash and cash-equivalent accounts deposited in high-credit-quality financial institutions, the balances of which, from time to time, may exceed federal insurance limits. However, due to the high credit quality of these institutions, management believes that SCR does not face a significant risk of loss on these accounts that would be due to the failure of these institutions.

In addition, as a percentage of its total public support in 2018 and 2017, SCR received 83% and 73%, respectively, from eight grantors.

#### NOTE H - LIQUIDITY AND AVAILABILITY OF RESOURCES

The following reflects SCR's financial assets as of the statement of financial position date, reduced by amounts not available for general use within one year of December 31, 2018 because of contractual or donor-imposed restrictions.

SCR's financial assets available for general use within one year of the statement of financial position date for general expenditure are as follows:

Cash and cash equivalents	\$ 755,874
Grants receivable, net	<u>470,711</u>
Total financial assets available within one year	<u>1,226,585</u>
Less:	
Amounts unavailable for general expenditures within one year, due to:	
Restricted by donors with purpose and time restrictions	<u>292,951</u>
Total financial assets available to meet cash needs for general expenditures within one year	<u>\$ 933,634</u>

#### Liquidity policy:

SCR has a policy to structure its financial assets to maintain a sufficient level of operating cash to be available as its general expenditures, liabilities, and other obligations come due as part of SCR's liquidity management.