

EISNERAMPER

SECURITY COUNCIL REPORT, INC.

FINANCIAL STATEMENTS

DECEMBER 31, 2019 and 2018



SECURITY COUNCIL REPORT, INC.

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INDEPENDENT AUDITORS' REPORT

The Board of Directors
Security Council Report, Inc.

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, 2019 and 2018, 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, 2019 and 2018, 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
June 4, 2020



SECURITY COUNCIL REPORT, INC.

Statements of Financial Position

	<u>December 31,</u>	
	<u>2019</u>	<u>2018</u>
ASSETS		
Cash and cash equivalents	\$ 895,299	\$ 755,874
Grants receivable, net	1,555,118	470,711
Security deposit	166,012	166,012
Prepaid expenses and other assets	<u>45,397</u>	<u>28,767</u>
	<u>\$ 2,661,826</u>	<u>\$ 1,421,364</u>
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable and accrued expenses	\$ 151,477	\$ 129,519
Deferred rent obligation	139,023	117,589
Line-of-credit	<u>10,110</u>	<u>17,413</u>
Total liabilities	<u>300,610</u>	<u>264,521</u>
Commitment and contingency (Note E and I)		
Net assets:		
Without donor restrictions (including cumulative foreign currency losses of \$91,861 and \$103,348 in 2019 and 2018, respectively)	<u>751,938</u>	<u>863,892</u>
With donor restrictions:		
Time restricted for future periods	461,330	108,000
Purpose restrictions	<u>1,147,948</u>	<u>184,951</u>
Total net assets with donor restrictions	<u>1,609,278</u>	<u>292,951</u>
Total net assets	<u>2,361,216</u>	<u>1,156,843</u>
	<u>\$ 2,661,826</u>	<u>\$ 1,421,364</u>

SECURITY COUNCIL REPORT, INC.

Statements of Activities

	Year Ended December 31,					
	2019			2018		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Public support:						
Grants and contributions	\$ 1,337,043	\$ 2,440,480	\$ 3,777,523	\$ 1,846,648	\$ 268,241	\$ 2,114,889
Other income	<u>16,478</u>	<u>-</u>	<u>16,478</u>	<u>15,969</u>	<u>-</u>	<u>15,969</u>
Total public support before release of restrictions	<u>1,353,521</u>	<u>2,440,480</u>	<u>3,794,001</u>	<u>1,862,617</u>	<u>268,241</u>	<u>2,130,858</u>
Net assets released from restrictions	<u>1,124,153</u>	<u>(1,124,153)</u>	<u>-</u>	<u>1,009,222</u>	<u>(1,009,222)</u>	<u>-</u>
Total public support	<u>2,477,674</u>	<u>1,316,327</u>	<u>3,794,001</u>	<u>2,871,839</u>	<u>(740,981)</u>	<u>2,130,858</u>
Expenses:						
Program services	<u>2,115,508</u>	<u>-</u>	<u>2,115,508</u>	<u>1,983,393</u>	<u>-</u>	<u>1,983,393</u>
Supporting services:						
Management and general	<u>359,685</u>	<u>-</u>	<u>359,685</u>	<u>433,540</u>	<u>-</u>	<u>433,540</u>
Fund-raising	<u>125,922</u>	<u>-</u>	<u>125,922</u>	<u>137,346</u>	<u>-</u>	<u>137,346</u>
Total supporting services	<u>485,607</u>	<u>-</u>	<u>485,607</u>	<u>570,886</u>	<u>-</u>	<u>570,886</u>
Total expenses	<u>2,601,115</u>	<u>-</u>	<u>2,601,115</u>	<u>2,554,279</u>	<u>-</u>	<u>2,554,279</u>
Change in net assets before foreign currency translation losses	<u>(123,441)</u>	<u>1,316,327</u>	<u>1,192,886</u>	<u>317,560</u>	<u>(740,981)</u>	<u>(423,421)</u>
Foreign currency translation gains/(losses)	<u>11,487</u>	<u>-</u>	<u>11,487</u>	<u>(2,900)</u>	<u>-</u>	<u>(2,900)</u>
Change in net assets	<u>(111,954)</u>	<u>1,316,327</u>	<u>1,204,373</u>	<u>314,660</u>	<u>(740,981)</u>	<u>(426,321)</u>
Net assets, beginning of year	<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>
Net assets, end of year	<u>\$ 751,938</u>	<u>\$ 1,609,278</u>	<u>\$ 2,361,216</u>	<u>\$ 863,892</u>	<u>\$ 292,951</u>	<u>\$ 1,156,843</u>

See notes to financial statements.

SECURITY COUNCIL REPORT, INC.

Statement of Functional Expenses

Year Ended December 31, 2019

(with summarized financial information for 2018)

	Program Services:	Supporting Services:		Total Expenses	
	Informational Product Services	Management and General	Fund- raising	2019	2018
Salaries and benefits	\$ 1,462,312	\$ 260,034	\$ 111,147	\$ 1,833,493	\$ 1,735,061
Occupancy	315,995	47,510	12,154	375,659	410,688
Publications	153,837	-	-	153,837	119,210
Insurance	10,500	1,579	403	12,482	10,760
Professional fees	48,901	12,011	-	60,912	86,714
Telephone	9,946	1,447	370	11,763	21,094
Office expenses	12,828	1,523	390	14,741	17,521
Information technology	32,110	4,828	1,235	38,173	47,922
Catering expenses	-	2,387	-	2,387	3,514
Travel	27,390	203	223	27,816	36,207
Meetings and conferences	40,689	-	-	40,689	53,884
Bad debt expense	-	25,159	-	25,159	-
Other	1,000	3,004	-	4,004	11,704
	\$ 2,115,508	\$ 359,685	\$ 125,922	\$ 2,601,115	\$ 2,554,279

See notes to financial statements.

SECURITY COUNCIL REPORT, INC.

Statement of Functional Expenses Year Ended December 31, 2018

	<u>Program Services:</u> <u>Informational Product Services</u>	<u>Supporting Services:</u> <u>Management and General</u>		<u>Fund- raising</u>	<u>Total Expenses</u>
Salaries and benefits	\$ 1,361,891	\$ 269,735	\$ 103,435	\$ 1,735,061	
Occupancy	324,444	61,603	24,641	410,688	
Publications	119,210	-	-	119,210	
Insurance	8,500	1,614	646	10,760	
Professional fees	12,338	74,376	-	86,714	
Telephone	16,691	3,164	1,239	21,094	
Office expenses	14,524	2,141	856	17,521	
Information technology	37,859	7,188	2,875	47,922	
Catering expenses	-	3,514	-	3,514	
Travel	32,032	521	3,654	36,207	
Meetings and conferences	53,884	-	-	53,884	
Other	<u>2,020</u>	<u>9,684</u>	<u>-</u>	<u>11,704</u>	
	<u>\$ 1,983,393</u>	<u>\$ 433,540</u>	<u>\$ 137,346</u>	<u>\$ 2,554,279</u>	

SECURITY COUNCIL REPORT, INC.

Statements of Cash Flows

	Year Ended December 31,	
	2019	2018
Cash flows from operating activities:		
Change in net assets	\$ 1,204,373	\$ (426,321)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Bad debt expense	25,159	-
Changes in:		
Grants receivable, net	(1,109,566)	549,684
Prepaid expense and other assets	(16,630)	(27,055)
Security deposit	-	(33,552)
Accounts payable and accrued expenses	21,958	29,419
Deferred rent obligation	21,434	102,858
Net cash provided by operating activities	<u>146,728</u>	<u>195,033</u>
Cash flows from financing activities:		
Proceeds under line-of-credit agreement	61,087	115,159
Principal payments under line-of-credit agreement	<u>(68,390)</u>	<u>(99,280)</u>
Net cash (used in) provided by financing activities	<u>(7,303)</u>	<u>15,879</u>
Increase in cash and cash equivalents	139,425	210,912
Cash and cash equivalents, beginning of year	<u>755,874</u>	<u>544,962</u>
Cash and cash equivalents, end of year	<u>\$ 895,299</u>	<u>\$ 755,874</u>

See notes to financial statements.

SECURITY COUNCIL REPORT, INC.

Notes to Financial Statements December 31, 2019 and 2018

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 2019 and 2018, 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 2019 and 2018 were approximately \$108,000 and \$85,000, 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, 2019 and 2018

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. 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.

Subsequent to year-end, the provision in the tax code requiring SCR to remit a tax attributable to transportation fringe benefits was repealed retroactively to December 31, 2017, therefore eliminating SCR's obligation for this tax. SCR will file for a claim of refund for any taxes paid subsequent to December 31, 2017 relating to transportation fringe benefits.

SECURITY COUNCIL REPORT, INC.

Notes to Financial Statements December 31, 2019 and 2018

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 principles:

(i) Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made:

In June 2018, the FASB issued ASU 2018-08, Not-for-Profit Entities, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. This standard provides a framework for evaluating whether grants should be accounted for as exchange transactions or as non-exchange transactions. For non-exchange transactions, the new guidance clarifies whether arrangements are conditional or unconditional. The standard is effective for years beginning after December 15, 2018 for entities receiving resources, and accordingly SCR adopted this for the year ending December 31, 2019. The standard for entities providing resources is effective for years beginning after December 15, 2019 and management is in the process of assessing the impact of this portion of the ASU on the financial statements.

(ii) Revenue from Contracts with Customers:

In May 2014, the FASB issued Accounting Standards Update ("ASU") 2014-09, *Revenue from Contracts with Customers (Topic 606)*, which outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. ASU 2014-09 requires an entity to recognize revenue depicting the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. ASU 2014-09 enhances revenue related disclosures. The new standard is effective for fiscal years beginning after December 15, 2019. Early adoption is permitted. SCR elected to adopt this pronouncement for its year ended December 31, 2019. Analysis of various provisions of this standard resulted in no significant changes in the way SCR recognizes revenue, and therefore SCR's adoption of this pronouncement had no effect on SCR's total net assets or its changes in net assets for 2019 and 2018.

[14] Upcoming accounting pronouncement:

In February 2016, the FASB issued its new lease accounting guidance in ASU 2016-02, *Leases*. The new ASU will require lessees to recognize for all leases (with terms of more than 12 months) at the commencement date the following: a) a lease liability, which is a lessee's obligation to make lease payments arising from a lease, measured on a discounted basis, and b) a right-of-use-asset, which is an asset that represents the lessee's right to use, or control the use of, a specified asset for the lease term. The new lease guidance also simplified the accounting for sale and leaseback transactions primarily because lessees must recognize lease assets and lease liabilities. Lessees will no longer be provided with a source of off-balance sheet financing. As a result of recent deferrals due to COVID-19, ASU 2016-02 will be effective for years beginning after December 15, 2021, including interim periods within fiscal years beginning after December 15, 2022. Early application will be permitted. SCR is currently evaluating the effect that this new guidance will have on the financial statements and related disclosures.

SECURITY COUNCIL REPORT, INC.

Notes to Financial Statements December 31, 2019 and 2018

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

[15] Subsequent events:

SCR evaluates subsequent events through June 4, 2020, the date at which the financial statements were available to be issued.

NOTE B - GRANTS RECEIVABLE

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

	December 31,	
	2019	2018
Due in less than one year	\$ 1,313,742	\$ 443,448
Due in one to five years	<u>295,536</u>	<u>30,000</u>
	1,609,278	473,448
Less allowance for doubtful collection	(25,159)	-
Less: discount to present value, at a rate of 5.3% and 4.9% in 2019 and 2018, respectively	<u>(29,001)</u>	<u>(2,737)</u>
	<u>\$ 1,555,118</u>	<u>\$ 470,711</u>

During 2019 and 2018, approximately 83% and 69%, 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,	
	2019	2018
Restricted for future periods	\$ <u>461,330</u>	\$ <u>108,000</u>
Restricted for the following purposes:		
Capacity Building Program	-	19,080
What's in Blue	311,619	39,165
Technical Assistance Program	77,159	126,706
Outreach	207,747	-
Monthly Forecast	<u>551,423</u>	<u>-</u>
	<u>1,147,948</u>	<u>184,951</u>
	<u>\$ 1,609,278</u>	<u>\$ 292,951</u>

SECURITY COUNCIL REPORT, INC.

Notes to Financial Statements December 31, 2019 and 2018

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,	
	2019	2018
Time restrictions satisfied	<u>\$ 613,261</u>	<u>\$ 843,025</u>
Purpose restrictions satisfied:		
Capacity Building Program	19,080	38,160
What's in Blue	243,646	50,000
Technical Assistance Program	111,846	78,037
Outreach	<u>136,320</u>	<u>-</u>
	<u>510,892</u>	<u>166,197</u>
	<u>\$ 1,124,153</u>	<u>\$ 1,009,222</u>

NOTE D - RELATED-PARTY TRANSACTIONS

Four and five members, respectively, of the SCR Board of Directors in 2019 and 2018, respectively, were also stewards of private foundations and/or foreign governments that are principal contributors of resources to SCR; the total amount contributed by these related parties was approximately \$1,019,000 and \$380,000 for 2019 and 2018, respectively. Total contributions from these related parties represented 27% and 18% of total contribution revenues for 2019 and 2018, 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. As discussed in Note A [7], the aggregate minimum lease payments are being amortized using the straight-line method over the lease term. The cumulative difference between rent expense attributable to SCR and amounts paid by SCR amounted to \$139,023 and \$117,589, as of December 31, 2019 and 2018, respectively, and has been reported as a deferred rent obligation in the accompanying statements of financial position. Future minimum non-cancelable annual lease payments for this space, excluding escalations for operating expense and real estate tax increases, are as follows:

<u>Year Ending December 31,</u>	<u>Amount</u>
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>\$ 2,285,015</u>

SECURITY COUNCIL REPORT, INC.

Notes to Financial Statements December 31, 2019 and 2018

NOTE E - COMMITMENT (CONTINUED)

Rent expense for 2019 and 2018 was \$375,659 and \$352,228, respectively.

SCR's lease security deposit is held by the lessor.

NOTE F - LINE-OF-CREDIT

SCR has a business line-of-credit agreement in the amount of \$35,000 with a bank and is secured by the general assets of SCR. Interest on the line is payable at a variable rate subject to the market rate and the prime rate, which at December 31, 2019 was equivalent to 26.24%. At December 31, 2019 and 2018, the outstanding balances each year were approximately \$10,000 and \$17,000, 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 2019 and 2018, SCR received 67% and 83%, respectively, from eight grantors.

NOTE H - LIQUIDITY AND AVAILABILITY OF RESOURCES

The following reflects the SCR's financial assets available for general use within one year of the statements of financial position date:

	<u>December 31,</u>	
	<u>2019</u>	<u>2018</u>
Cash and cash equivalents	\$ 895,299	\$ 755,874
Grants receivable, net	<u>1,555,118</u>	<u>470,711</u>
Total financial assets available within one year	<u>2,450,417</u>	<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>1,609,278</u>	<u>292,951</u>
Total financial assets available to meet cash needs for general expenditures within one year	<u>\$ 841,139</u>	<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. Additionally, SCR has access to a \$35,000 bank line of credit, as discussed in Note F, which is available for short-term liquidity needs.

SECURITY COUNCIL REPORT, INC.

Notes to Financial Statements December 31, 2019 and 2018

NOTE I - CONTINGENCIES AND OTHER UNCERTAINTIES

The extent of the impact of the coronavirus ("COVID-19") outbreak on the operational and financial performance of SCR's services will depend on the continued future developments, including the duration and spread of the outbreak and related travel advisories and restrictions, all of which are highly uncertain and cannot be predicted. Currently, both the City and State of New York have ordered the closure of all non-essential facilities including work-stoppages for all non-essential employees. In response, SCR's employees are working remotely and services continue to be provided electronically. If funding for SCR's services is impacted for an extended period, results of operations may be materially adversely affected.