



SECURITY COUNCIL REPORT, INC.

FINANCIAL STATEMENTS

DECEMBER 31, 2017 and 2016



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, 2017 and 2016, 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, 2017 and 2016, 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 18, 2018



SECURITY COUNCIL REPORT, INC.

Statements of Financial Position

| | December 31, | |
|---|---------------------|-------------------|
| | 2017 | 2016 |
| ASSETS | | |
| Cash and cash equivalents | \$ 544,962 | \$ 603,871 |
| Grants receivable, net | 1,020,395 | 137,918 |
| Security deposit | 132,460 | 130,744 |
| Prepaid expenses and other assets | 1,712 | 9,672 |
| | <u>\$ 1,699,529</u> | <u>\$ 882,205</u> |
| LIABILITIES AND NET ASSETS | | |
| Liabilities: | | |
| Accounts payable and accrued expenses | \$ 101,634 | \$ 94,374 |
| Deferred rent | 14,731 | 30,102 |
| | <u>116,365</u> | <u>124,476</u> |
| Total liabilities | | |
| Commitments (Note E) | | |
| Net assets: | | |
| Unrestricted (including cumulative foreign currency losses of \$100,448 and \$97,591 in 2017 and 2016, respectively) | 549,232 | 612,985 |
| Temporarily restricted | 1,033,932 | 144,744 |
| | <u>1,583,164</u> | <u>757,729</u> |
| Total net assets | <u>\$ 1,699,529</u> | <u>\$ 882,205</u> |

SECURITY COUNCIL REPORT, INC.

Statements of Activities

| | Year Ended December 31, | | | | | |
|---------------------------------------|-------------------------|------------------------|---------------------|-------------------|------------------------|--------------------|
| | 2017 | | | 2016 | | |
| | Unrestricted | Temporarily Restricted | Total | Unrestricted | Temporarily Restricted | Total |
| Public support: | | | | | | |
| Grants and contributions | \$ 1,551,697 | \$ 1,766,209 | \$ 3,317,906 | \$ 1,326,171 | \$ 280,483 | \$ 1,606,654 |
| Other income | <u>1,851</u> | | <u>1,851</u> | | | <u>0</u> |
| Total public support | | | | | | |
| before release of restrictions | 1,553,548 | 1,766,209 | 3,319,757 | 1,326,171 | 280,483 | 1,606,654 |
| Net assets released from restrictions | <u>877,021</u> | <u>(877,021)</u> | <u>0</u> | <u>1,030,474</u> | <u>(1,030,474)</u> | <u>0</u> |
| Total public support | <u>2,430,569</u> | <u>889,188</u> | <u>3,319,757</u> | <u>2,356,645</u> | <u>(749,991)</u> | <u>1,606,654</u> |
| Expenses: | | | | | | |
| Program services | 1,992,018 | | 1,992,018 | 2,305,299 | | 2,305,299 |
| Management and general | 373,309 | | 373,309 | 251,283 | | 251,283 |
| Fund-raising | <u>126,138</u> | | <u>126,138</u> | <u>75,978</u> | | <u>75,978</u> |
| Total expenses | <u>2,491,465</u> | | <u>2,491,465</u> | <u>2,632,560</u> | | <u>2,632,560</u> |
| Change in net assets before foreign | | | | | | |
| currency translation losses | (60,896) | 889,188 | 828,292 | (275,915) | (749,991) | (1,025,906) |
| Foreign currency translation losses | <u>(2,857)</u> | | <u>(2,857)</u> | <u>(13,415)</u> | | <u>(13,415)</u> |
| Change in net assets | (63,753) | 889,188 | 825,435 | (289,330) | (749,991) | (1,039,321) |
| Net assets, beginning of year | <u>612,985</u> | <u>144,744</u> | <u>757,729</u> | <u>902,315</u> | <u>894,735</u> | <u>1,797,050</u> |
| Net assets, end of year | \$ 549,232 | \$ 1,033,932 | \$ 1,583,164 | \$ 612,985 | \$ 144,744 | \$ 757,729 |

See notes to financial statements.

SECURITY COUNCIL REPORT, INC.

Statements of Functional Expenses

| | Year Ended December 31, | | | | | | | |
|----------------------------------|-------------------------|------------------------------|-------------------|---------------------|---------------------|------------------------------|------------------|---------------------|
| | 2017 | | | | 2016 | | | |
| | Program Services | Management and General | Fund- raising | Total | Program Services | Management and General | Fund- raising | Total |
| Salaries and benefits | \$ 1,398,065 | \$ 218,539 | \$ 100,250 | \$ 1,716,854 | \$ 1,487,065 | \$ 162,927 | \$ 51,075 | \$ 1,701,067 |
| Occupancy | 278,458 | 43,477 | 19,967 | 341,902 | 302,303 | 35,042 | 18,052 | 355,397 |
| Publications | 142,245 | 3,889 | 972 | 147,106 | 203,305 | | | 203,305 |
| Insurance | 7,737 | 1,208 | 555 | 9,500 | 14,190 | 2,233 | | 16,423 |
| Consultants | 11,288 | 6,776 | | 18,064 | 10,950 | 200 | | 11,150 |
| Telephone | 18,255 | 3,051 | 1,150 | 22,456 | 23,031 | 2,571 | 1,324 | 26,926 |
| Professional fees | 43 | 76,978 | | 77,021 | | 33,463 | | 33,463 |
| Office expenses | 20,452 | 2,383 | 1,094 | 23,929 | 26,307 | 3,855 | 1,986 | 32,148 |
| Information technology | 29,982 | 4,681 | 2,150 | 36,813 | 34,697 | 3,602 | 1,856 | 40,155 |
| Governing board expenses | | 3,810 | | 3,810 | | 1,685 | 1,685 | 3,370 |
| Travel | 35,647 | 251 | | 35,898 | 76,626 | | | 76,626 |
| Hosting meetings and seminars | 44,807 | 318 | | 45,125 | 126,825 | 1,337 | | 128,162 |
| Bad debt expense | | 5,583 | | 5,583 | | | | |
| Other | 5,039 | 2,365 | | 7,404 | | 4,368 | | 4,368 |
| | <u>\$ 1,992,018</u> | <u>\$ 373,309</u> | <u>\$ 126,138</u> | <u>\$ 2,491,465</u> | <u>\$ 2,305,299</u> | <u>\$ 251,283</u> | <u>\$ 75,978</u> | <u>\$ 2,632,560</u> |

See notes to financial statements.

SECURITY COUNCIL REPORT, INC.

Statements of Cash Flows

| | Year Ended December 31, | |
|--|----------------------------|--------------------------|
| | 2017 | 2016 |
| Cash flows from operating activities: | | |
| Change in net assets | \$ 825,435 | \$ (1,039,321) |
| Adjustments to reconcile change in net assets to net cash used in operating activities: | | |
| Bad debt expense | 5,583 | |
| Changes in: | | |
| Grants receivable, net | (888,060) | 603,918 |
| Prepaid expense and other assets | 7,960 | (9,273) |
| Security deposit | (1,716) | |
| Accounts payable and accrued expenses | 7,260 | (3,469) |
| Deferred rent | (15,371) | (15,372) |
| Net decrease in cash and cash equivalents | (58,909) | (463,517) |
| Cash and cash equivalents, beginning of year | <u>603,871</u> | <u>1,067,388</u> |
| Cash and cash equivalents, end of year | <u>\$ 544,962</u> | <u>\$ 603,871</u> |

SECURITY COUNCIL REPORT, INC.

Notes to Financial Statements December 31, 2017 and 2016

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 accompanying 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. Depreciation is provided using the straight-line method over the estimated useful life of the respective assets. All property and equipment have been fully depreciated.

[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 2017 and 2016 were approximately \$61,000 and \$50,000, 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, 2017 and 2016

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

[8] Net assets:

(i) *Unrestricted:*

Unrestricted net assets represent those net assets that are not subject to donor-imposed restrictions and are available for current operations.

(ii) *Temporarily restricted:*

Temporarily restricted net assets represent those resources the use of which has been restricted by donors or state law to 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, temporarily restricted net assets are reclassified as unrestricted net assets 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 recorded as either unrestricted or temporarily restricted support depending on the existence or absence of any donor restrictions. 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:

The costs of providing SCR's various programs and supporting services have been summarized on a functional basis in the accompanying statements of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services using reasonable ratios determined by management.

[11] Income taxes:

SCR follows 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.

[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 unrestricted net assets in the accompanying statements of financial position.

SECURITY COUNCIL REPORT, INC.

Notes to Financial Statements December 31, 2017 and 2016

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

[13] Subsequent events:

SCR evaluates subsequent events through June 18, 2018, the date at which the financial statements were available to be issued.

[14] Upcoming accounting change:

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, with the goal of assisting not-for-profit organizations in providing more relevant information about their resources (and the changes in those resources) to donors, grantors, creditors, and other users. ASU 2016-14 includes qualitative and quantitative requirements in the following areas: (i) net asset classifications, (ii) investment returns, (iii) expense categorizations, (iv) liquidity and the availability of resources, and (v) the presentation of operating cash flows. The new standard will be effective for annual reporting periods beginning after December 15, 2017. SCR will adopt the accounting pronouncement in 2018.

NOTE B - GRANTS RECEIVABLE

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

| | December 31, | |
|--|---------------------|-------------------|
| | 2017 | 2016 |
| Due in less than one year | \$ 926,318 | \$ 113,242 |
| Due in one to five years | <u>108,000</u> | <u>26,306</u> |
| | 1,034,318 | 139,548 |
| Less discount to present value, at a rate of 4.1% and 3.25% in 2017 and 2016, respectively | <u>(8,340)</u> | <u>(1,630)</u> |
| | 1,025,978 | 137,918 |
| Less allowance for doubtful accounts | <u>(5,583)</u> | <u> </u> |
| | <u>\$ 1,020,395</u> | <u>\$ 137,918</u> |

During 2017 and 2016, approximately 77% and 100%, respectively, of SCR's total gross grants receivable were due from three and two grantors, respectively.

SECURITY COUNCIL REPORT, INC.

Notes to Financial Statements December 31, 2017 and 2016

NOTE C - TEMPORARILY RESTRICTED NET ASSETS

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

| | December 31, | |
|--|---------------------|-------------------|
| | 2017 | 2016 |
| Restricted for future periods | <u>\$ 951,024</u> | <u>\$ 75,934</u> |
| Restricted for the following purposes: | | |
| Capacity Building Program | 38,160 | |
| What's in Blue | <u>44,748</u> | <u>68,810</u> |
| | <u>82,908</u> | <u>68,810</u> |
| | <u>\$ 1,033,932</u> | <u>\$ 144,744</u> |

During each year, net assets released from restrictions resulted from satisfying the following donor restrictions:

| | Year Ended December 31, | |
|---------------------------------------|----------------------------|---------------------|
| | 2017 | 2016 |
| Time restrictions satisfied | <u>\$ 802,959</u> | <u>\$ 546,435</u> |
| Restricted for the following purpose: | | |
| Capacity Building Program | | 175,000 |
| Executive Director Search | | 8,632 |
| Sanctions - UNSC Subsidiary Bodies | | 208,300 |
| What's in Blue | <u>74,062</u> | <u>92,107</u> |
| | <u>74,062</u> | <u>484,039</u> |
| | <u>\$ 877,021</u> | <u>\$ 1,030,474</u> |

NOTE D - RELATED-PARTY TRANSACTIONS

Five and four members, respectively, of the SCR Board of Directors in 2017 and 2016, 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 \$1,285,000 and \$415,000 for 2017 and 2016, respectively.

SECURITY COUNCIL REPORT, INC.

Notes to Financial Statements December 31, 2017 and 2016

NOTE E - COMMITMENTS

[1] Lease commitment:

SCR leases office space in New York City for a term that ends in August 2018. The future minimum non-cancelable annual lease payments for this space, excluding escalations for operating expense and real estate tax increases, is \$169,026 for 2018.

Rent expense for 2017 and 2016 was \$341,900 and \$355,397, respectively.

In 2017 and 2016, SCR maintained a security deposit in an escrow account held at a financial institution.

[2] Other contracts:

In the normal course of business, SCR enters into various contracts for professional and other services, which are typically renewable on a year-to-year basis.

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 24.74%, with a bank and is secured by SCR's assets. At December 31, 2017, there was approximately \$1,500 outstanding. There were no outstanding balances due at December 31, 2016.

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 support each year, SCR received 73% from eight grantors in 2017 and 49% from six grantors in 2016.