



# **SECURITY COUNCIL REPORT, INC.**

**FINANCIAL STATEMENTS**

**DECEMBER 31, 2011 and 2010**

## 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. ("SCR") as of December 31, 2011 and 2010, and the related statements of activities, functional expenses and cash flows for the years then ended. These financial statements are the responsibility of SCR'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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and 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, 2011 and 2010, 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  
July 20, 2012

# SECURITY COUNCIL REPORT, INC.

## Statements of Financial Position

	December 31,	
	2011	2010
<b>ASSETS</b>		
Cash and cash equivalents	\$ 1,087,239	\$ 624,143
Grants receivable, net	1,795,060	699,007
Security deposits	<u>130,744</u>	<u>156,894</u>
	<u><b>\$ 3,013,043</b></u>	<u><b>\$ 1,480,044</b></u>
<b>LIABILITIES AND NET ASSETS</b>		
Liabilities:		
Accounts payable	\$ 64,467	\$ 64,868
Deferred rent	80,476	10,627
Due to/from Columbia University	<u>100,379</u>	<u>473</u>
Total liabilities	<u>245,322</u>	<u>75,968</u>
Commitments (Note G)		
Net assets:		
Unrestricted (net of cumulative foreign currency losses of \$3,490 at 2011)	777,915	786,631
Temporarily restricted	<u>1,989,806</u>	<u>617,445</u>
	<u><b>2,767,721</b></u>	<u>1,404,076</u>
	<u><b>\$ 3,013,043</b></u>	<u><b>\$ 1,480,044</b></u>

# SECURITY COUNCIL REPORT, INC.

## Statements of Activities

	Year Ended December 31,					
	2011			2010		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
<b>Revenue and support:</b>						
Grants and contributions	\$ 2,225,364	\$ 2,251,406	\$ 4,476,770	\$ 1,095,767	\$ 854,229	\$ 1,949,996
Other income	<u>6,971</u>		<u>6,971</u>	<u>1,044</u>		<u>1,044</u>
Total revenue and support before release of restrictions	2,232,335	2,251,406	4,483,741	1,096,811	854,229	1,951,040
Net assets released from restrictions	<u>879,045</u>	<u>(879,045)</u>	<u>0</u>	<u>1,032,308</u>	<u>(1,032,308)</u>	<u>0</u>
Total revenue and support	<u>3,111,380</u>	<u>1,372,361</u>	<u>4,483,741</u>	<u>2,129,119</u>	<u>(178,079)</u>	<u>1,951,040</u>
<b>Expenses:</b>						
Program services	2,456,966		2,456,966	2,131,734		2,131,734
Management and general	494,733		494,733	456,274		456,274
Fund-raising	<u>164,907</u>		<u>164,907</u>	<u>111,756</u>		<u>111,756</u>
Total expenses	<u>3,116,606</u>		<u>3,116,606</u>	<u>2,699,764</u>		<u>2,699,764</u>
<b>Change in net assets before foreign currency translation loss</b>	(5,226)	1,372,361	1,367,135	(570,645)	(178,079)	(748,724)
Foreign currency loss for the year	<u>(3,490)</u>		<u>(3,490)</u>			<u>0</u>
<b>Change in net assets</b>	(8,716)	1,372,361	1,363,645	(570,645)	(178,079)	(748,724)
Net assets - beginning of year	<u>786,631</u>	<u>617,445</u>	<u>1,404,076</u>	<u>1,357,276</u>	<u>795,524</u>	<u>2,152,800</u>
<b>Net assets - end of year</b>	<u>\$ 777,915</u>	<u>\$ 1,989,806</u>	<u>\$ 2,767,721</u>	<u>\$ 786,631</u>	<u>\$ 617,445</u>	<u>\$ 1,404,076</u>

See notes to financial statements

# SECURITY COUNCIL REPORT, INC.

## Statements of Functional Expenses

	Year Ended December 31,							
	2011				2010			
	Program Services	Management and General	Fund- raising	Total	Program Services	Management and General	Fund- raising	Total
Salaries and benefits	\$ 1,469,756	\$ 172,913	\$ 86,456	\$ 1,729,125	\$ 1,177,929	\$ 149,384	\$ 47,315	\$ 1,374,628
Occupancy	253,748	29,853	14,926	298,527	153,325	18,038	9,019	180,382
Publication design	320,709			320,709	309,437			309,437
General services		27,299		27,299	65,436	7,698	3,849	76,983
Moving costs		6,998		6,998		205,241		205,241
Research consultants	55,869	5,000		60,869	79,100			79,100
Telephone	43,637	5,134	2,567	51,338	31,913	3,754	1,877	37,544
Professional fees		99,686	43,032	142,718		52,767	40,000	92,767
Office expenses	56,908	6,695	3,348	66,951	24,444	2,876	1,438	28,758
Information technology	69,633	8,663	4,331	82,627	133,360	15,690	7,845	156,895
International advisory group	47,576			47,576	43,811			43,811
Travel	33,258	131,998	10,000	175,256	155			155
Outreach	101,671			101,671	105,803			105,803
Postage	2,279	268	134	2,681	2,104	248	124	2,476
Other	1,922	226	113	2,261	4,917	578	289	5,784
	<u>\$ 2,456,966</u>	<u>\$ 494,733</u>	<u>\$ 164,907</u>	<u>\$ 3,116,606</u>	<u>\$ 2,131,734</u>	<u>\$ 456,274</u>	<u>\$ 111,756</u>	<u>\$ 2,699,764</u>

See notes to financial statements

## SECURITY COUNCIL REPORT, INC.

### Statements of Cash Flows

	Year Ended December 31,	
	2011	2010
<b>Cash flows from operating activities:</b>		
Change in net assets	\$ 1,363,645	\$ (748,724)
Adjustments to reconcile change in net assets to cash flows from operating activities:		
Foreign currency loss	3,490	
Changes in:		
Grants receivable	(1,099,543)	134,326
Security deposits	26,150	(156,894)
Accounts payable	(401)	48,003
Deferred rent	69,849	10,627
Due to/from Columbia University	99,906	2,887
<b>Net change in cash and cash equivalents</b>	<b>463,096</b>	<b>(709,775)</b>
Cash and cash equivalents - beginning of year	624,143	1,333,918
<b>Cash and cash equivalents - end of year</b>	<b><u>\$ 1,087,239</u></b>	<b><u>\$ 624,143</u></b>

## SECURITY COUNCIL REPORT, INC.

### Notes to Financial Statements December 31, 2011 and 2010

#### 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 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 organizations.

###### (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 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 contingent assets and liabilities. Actual results may differ from those estimates.

###### (d) Cash and cash equivalents:

For financial reporting purposes, SCR considers cash equivalents to be all highly liquid investments with a maturity of three months or less when purchased.

###### (e) Fair-value measurement:

SCR reports a fair-value measurement of all applicable financial assets and liabilities.

###### (f) Net assets:

SCR'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 that are not subject to donor-imposed restrictions.

## SECURITY COUNCIL REPORT, INC.

### Notes to Financial Statements December 31, 2011 and 2010

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

##### [2] Financial reporting: (continued)

(f) Net assets: (continued)

(ii) *Temporarily restricted:*

Temporarily restricted net assets represent those resources that have been restricted by donors for specific purposes. 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 reported in the accompanying statements of activities as net assets released from restrictions.

##### [3] Grants:

The operations of SCR are financed principally by foundation grants and contributions received from foreign governments. Grants and contributions received are recorded as unrestricted or temporarily restricted support depending on the existence or absence of any donor restrictions.

##### [4] Income taxes:

SCR follows the provisions of the Financial Accounting Standards Board's Accounting Standards Codification ("ASC") 740-10-05 relating to accounting and reporting for uncertainty in income taxes. Because of SCR's general tax-exempt status, the adoption of ASC 740-10-05 has not had, and is not expected to have, a material impact on SCR's financial statements.

##### [5] Deferred rent:

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.

##### [6] Foreign currency transaction:

Foreign currency transaction gains or losses are inherent result of the process of translating into U.S. dollars, for financial-reporting purposes, SCR's foreign operations as stated in their respective functional currencies. Such annual transaction 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 statement of activities. Likewise, the cumulative transaction gains or losses continue to be reported as an element of unrestricted net assets in the accompanying statements of financial position.

##### [7] Subsequent events:

SCR considers the accounting treatments and the related disclosures in the current year's financial statements that may be required as the result of all events or transactions that occur after the year-end through the date of the independent auditors' report.

##### [8] 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 accrued vacation obligation for 2011 was approximately \$26,000.



## SECURITY COUNCIL REPORT, INC.

### Notes to Financial Statements December 31, 2011 and 2010

#### NOTE B - GRANTS AND CONTRIBUTIONS RECEIVABLE

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

	December 31,	
	2011	2010
Less than one year	\$ 1,130,207	\$ 605,525
One to three years	<u>733,000</u>	<u>98,156</u>
Total grants receivable	1,863,207	703,681
Reduction of grants due in excess of one year to present value, at a discount rate of 5%	<u>(68,147)</u>	<u>(4,674)</u>
	<u>\$ 1,795,060</u>	<u>\$ 699,007</u>

SCR'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 - DUE TO/FROM COLUMBIA UNIVERSITY

Pursuant to an original agreement between SCR and Columbia University, Columbia provided office space, personnel and supplies, in return for which SCR reimbursed Columbia and paid a general and administrative fee not to exceed 7% of the overall budget. The general and administrative fee for 2011 and 2010 was \$27,299 and \$76,983, respectively. Effective August 31, 2011, Columbia University and SCR terminated the agreement, thus eliminating the provision of facilities by Columbia.

At December 31, 2011 and 2010, the net balance due to Columbia was \$100,379 and \$473, respectively.

#### NOTE D - TEMPORARILY RESTRICTED NET ASSETS

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

	December 31,	
	2011	2010
Restricted for future periods	<u>\$ 1,893,206</u>	<u>\$ 617,445</u>
Restricted for the following purpose:		
Capacity Building Program	56,600	
What's In Blue	<u>40,000</u>	
	<u>96,600</u>	
	<u>\$ 1,989,806</u>	<u>\$ 617,445</u>

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

## SECURITY COUNCIL REPORT, INC.

### Notes to Financial Statements December 31, 2011 and 2010

#### NOTE D - TEMPORARILY RESTRICTED NET ASSETS (CONTINUED)

	Year Ended December 31,	
	2011	2010
Time restrictions satisfied	<u>\$ 617,445</u>	<u>\$ 1,032,308</u>
Restricted for the following purpose:		
Capacity Building Program	56,600	
What's In Blue	175,000	
Improving the relationship between United Nation and the African Union	<u>30,000</u>	
	<u>261,600</u>	
	<u>\$ 879,045</u>	<u>\$ 1,032,308</u>

#### NOTE E - RELATED-PARTY TRANSACTIONS

Five members of the Board of Directors of SCR are also stewards of private foundations and/or foreign governments that are principal donors that contribute resources to SCR; the total amount contributed was approximately \$3,900,000 and \$1,600,000 for 2011 and 2010, respectively.

#### NOTE F - FOREIGN CURRENCY TRANSACTION

As described in Note A[6], the applicable exchange rates for 2011 were as follows:

0.9787 CAD/USD  
1.2952 EUR/USD  
0.1743 DKK/USD  
0.1672 NOK/USD  
0.1452 SEK/USD

#### NOTE G - LEASE COMMITMENT

SCR leases office space through December 2018. 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
2012	\$ 261,488
2013	261,488
2014	261,861
2015	270,440
2016	270,440
Thereafter	<u>540,880</u>
Total	<u>\$ 1,866,597</u>

Rent expense for 2011 and 2010 was \$298,527 and \$180,382, respectively.

In 2011, SCR maintained the security deposit in a letter of credit that is collateralized by an escrow account held at a financial institution.

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

### **Notes to Financial Statements December 31, 2011 and 2010**

#### **NOTE H - LINE-OF-CREDIT**

In 2011, SCR entered into a business line-of-credit in the amount of \$25,000 with JP Morgan Chase. The line-of-credit is secured by SCR's assets, and borrowings bear interest at 13.24%. At December 31, 2011, there was no outstanding balance due.

#### **NOTE I - CONCENTRATION OF CREDIT RISK**

SCR deposits its cash in one financial institution in amounts which, at times, may exceed federally insured limits. Management believes SCR is not exposed to any significant risk of loss due to the failure of the financial institution.

During 2011 and 2010, respectively, SCR received 82% and 75% of its support and revenue from three grantors.