



SECURITY COUNCIL REPORT, INC.

FINANCIAL STATEMENTS

DECEMBER 31, 2015 and 2014

INDEPENDENT AUDITORS' REPORT

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, 2015 and 2014, 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.

Auditors' 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 auditors' judgments, 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 auditors consider internal control relevant to the organization'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, 2015 and 2014, 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.



New York, New York
June 8, 2016

SECURITY COUNCIL REPORT, INC.

Statements of Financial Position

	December 31,	
	2015	2014
ASSETS		
Cash and cash equivalents	\$ 1,067,388	\$ 620,958
Grants receivable, net	741,836	1,646,368
Security deposits	130,744	130,744
Prepaid expenses	399	15,504
	<u>\$ 1,940,367</u>	<u>\$ 2,413,574</u>
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable and accrued expenses	\$ 97,843	\$ 120,457
Deferred rent	45,474	60,845
	<u>143,317</u>	<u>181,302</u>
Total liabilities		
Commitments (Note E)		
Net assets:		
Unrestricted (including cumulative foreign currency losses of \$38,995 and \$40,165 in 2015 and 2014, respectively)	902,315	516,458
Temporarily restricted	894,735	1,715,814
	<u>1,797,050</u>	<u>2,232,272</u>
	<u>\$ 1,940,367</u>	<u>\$ 2,413,574</u>

SECURITY COUNCIL REPORT, INC.

Statements of Activities

	Year Ended December 31,					
	2015			2014		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Revenue and support:						
Grants and contributions	\$ 1,151,447	\$ 986,403	\$ 2,137,850	\$ 948,212	\$ 2,820,559	\$ 3,768,771
Interest income				7		7
Total revenue and support before release of restrictions	1,151,447	986,403	2,137,850	948,219	2,820,559	3,768,778
Net assets released from restrictions	<u>1,807,482</u>	<u>(1,807,482)</u>	<u>0</u>	<u>1,417,868</u>	<u>(1,417,868)</u>	<u>0</u>
Total revenue and support	<u>2,958,929</u>	<u>(821,079)</u>	<u>2,137,850</u>	<u>2,366,087</u>	<u>1,402,691</u>	<u>3,768,778</u>
Expenses:						
Program services	2,273,302		2,273,302	2,395,940		2,395,940
Management and general	207,472		207,472	355,801		355,801
Fund-raising	<u>53,303</u>		<u>53,303</u>	<u>57,742</u>		<u>57,742</u>
Total expenses	<u>2,534,077</u>		<u>2,534,077</u>	<u>2,809,483</u>		<u>2,809,483</u>
Change in net assets before foreign currency translation losses	424,852	(821,079)	(396,227)	(443,396)	1,402,691	959,295
Foreign currency translation losses	<u>(38,995)</u>		<u>(38,995)</u>	<u>(40,165)</u>		<u>(40,165)</u>
Change in net assets	385,857	(821,079)	(435,222)	(483,561)	1,402,691	919,130
Net assets - beginning of year	<u>516,458</u>	<u>1,715,814</u>	<u>2,232,272</u>	<u>1,000,019</u>	<u>313,123</u>	<u>1,313,142</u>
Net assets - end of year	<u>\$ 902,315</u>	<u>\$ 894,735</u>	<u>\$ 1,797,050</u>	<u>\$ 516,458</u>	<u>\$ 1,715,814</u>	<u>\$ 2,232,272</u>

See notes to financial statements.

SECURITY COUNCIL REPORT, INC.**Statement of Functional Expenses
Year Ended December 31, 2015**

	Program Services	Management and General	Fund- raising	Total
Salaries and benefits	\$ 1,434,512	\$ 96,072	\$ 40,971	\$ 1,571,555
Occupancy	315,728	10,088	5,197	331,013
Publications	292,314			292,314
Insurance	15,100	1,609		16,709
Consultants	15,000	45,347		60,347
Telephone	18,655	1,597	823	21,075
Professional fees		37,511		37,511
Office expenses	21,226	1,618	835	23,679
Information technology	37,353	2,626	1,353	41,332
Governing board expenses		4,124	4,124	8,248
Travel	35,259			35,259
Hosting meetings and seminars	88,155	569		88,724
Other		6,311		6,311
	<u>\$ 2,273,302</u>	<u>\$ 207,472</u>	<u>\$ 53,303</u>	<u>\$ 2,534,077</u>

SECURITY COUNCIL REPORT, INC.**Statement of Functional Expenses
Year Ended December 31, 2014**

	Program Services	Management And General	Fund- raising	Total
Salaries and benefits	\$ 1,478,498	\$ 94,109	\$ 40,425	\$ 1,613,032
Occupancy	325,257	20,696	10,662	356,615
Publications	303,732			303,732
Insurance	14,703	1,279		15,982
Consultants	16,125	50,142		66,267
Telephone	22,172	1,921	990	25,083
Professional fees		171,455		171,455
Office expenses	23,742	1,201	619	25,562
Information technology	59,361	3,407	1,755	64,523
International advisory group	52,742			52,742
Governing board expenses		3,292	3,291	6,583
Travel	31,725			31,725
Hosting meetings and seminars	67,883	275		68,158
Other		8,024		8,024
	<u>\$ 2,395,940</u>	<u>\$ 355,801</u>	<u>\$ 57,742</u>	<u>\$ 2,809,483</u>

SECURITY COUNCIL REPORT, INC.

Statements of Cash Flows

	Year Ended December 31,	
	2015	2014
Cash flows from operating activities:		
Change in net assets	\$ (435,222)	\$ 919,130
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Foreign currency translation losses	38,995	40,165
Changes in:		
Grants receivable	865,537	(1,413,410)
Prepaid expense	15,105	4,391
Accounts payable	(22,614)	(24,286)
Deferred rent	(15,371)	(6,793)
Net change in cash and cash equivalents	446,430	(480,803)
Cash and cash equivalents - beginning of year	620,958	1,101,761
Cash and cash equivalents - end of year	<u>\$ 1,067,388</u>	<u>\$ 620,958</u>

SECURITY COUNCIL REPORT, INC.

Notes to Financial Statements December 31, 2015 and 2014

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 a not-for-profit corporation 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] 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, as applicable to not-for-profit organizations.

[3] 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.

[4] 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.

[5] 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.

[6] 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.

[7] 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 obligations for 2015 and 2014 were approximately \$55,000 and \$51,000, respectively.

SECURITY COUNCIL REPORT, INC.

Notes to Financial Statements December 31, 2015 and 2014

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

[8] 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.

[9] Net assets:

SCR's net assets 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 and are available for current operations.

(ii) *Temporarily restricted:*

Temporarily restricted net assets represent those resources that are subject to the requirements of the New York Prudent Management of Funds Act ("NYPMIFA") and 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."

[10] 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. Grants and contributions to be received over periods longer than a single year are discounted at an interest rate commensurate with the risk involved.

[11] Income taxes:

SCR follows the provisions of the Financial Accounting Standards Board's (the "FASB") Accounting Standards Codification ("ASC") Topic 740, *Income Taxes*, as it relates 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, 2015 and 2014

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

[12] Foreign currency translation: (continued)

The applicable exchange rates for 2015 were as follows:

1.0906 EUR/USD (Euro)
1.0073 CHF/USD (Swiss Franc)
0.1461 DKK/USD (Danish Krone)
0.1187 SEK/USD (Swedish Krona)
0.1134 NOK/USD (Norwegian Krone)

[13] 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 December 31, 2015 through June 8, 2016, the date at which the financial statements were available to be issued.

NOTE B - GRANTS AND CONTRIBUTIONS RECEIVABLE

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

	December 31,	
	2015	2014
Grants receivable due in less than one year	\$ 741,836	\$ 1,028,858
Grants receivable due in one to five years	<u> </u>	<u>658,300</u>
	741,836	1,687,158
Less discount to present value, at a rate of 3.25% in 2014	<u> </u>	<u>(40,790)</u>
	<u>\$ 741,836</u>	<u>\$ 1,646,368</u>

SCR's grants receivable consisted of grants from major institutional grantors, the balances of which had not been fully collected as of each year-end. In addition, based on prior experience with its donors, including the prior history of collections, management considers these receivables to be fully collectible. Accordingly, no allowance for doubtful amounts has been established.

During 2015 and 2014, approximately 82% and 83%, respectively, of SCR's total gross contributions receivable was provided by two donors in each year.

SECURITY COUNCIL REPORT, INC.

Notes to Financial Statements December 31, 2015 and 2014

NOTE C - TEMPORARILY RESTRICTED NET ASSETS

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

	December 31,	
	2015	2014
Restricted for future periods	<u>\$ 476,434</u>	<u>\$ 1,062,656</u>
Restricted for the following purposes:		
Capacity Building Program	175,000	100,000
Executive Director Search	8,632	28,656
Sanctions - UNSC Subsidiary Bodies	208,300	500,000
What's in Blue	26,369	14,102
Report	<u> </u>	<u>10,400</u>
	<u>418,301</u>	<u>653,158</u>
	<u>\$ 894,735</u>	<u>\$ 1,715,814</u>

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

	Year Ended December 31,	
	2015	2014
Time restrictions satisfied	<u>\$ 662,656</u>	<u>\$ 952,895</u>
Restricted for the following purpose:		
Capacity Building Program	113,600	157,249
Enhancing the implementation of United Nations Sanctions on Iran and the DPRK		5,000
Executive Director Search	20,024	121,344
Sanctions - UNSC Subsidiary Bodies	291,700	
What's in Blue	294,582	114,492
Report	424,920	41,600
Working Methods	<u> </u>	<u>25,288</u>
	<u>1,144,826</u>	<u>464,973</u>
	<u>\$ 1,807,482</u>	<u>\$ 1,417,868</u>

NOTE D - RELATED-PARTY TRANSACTIONS

Four members of the SCR Board of Directors in 2015 and 2014 were also stewards of private foundations and/or foreign governments that are principal contributors of resources to SCR; the total amount contributed was approximately \$1,040,000 and \$2,400,000 for 2015 and 2014, respectively.

SECURITY COUNCIL REPORT, INC.

Notes to Financial Statements December 31, 2015 and 2014

NOTE E - COMMITMENTS

[1] Lease commitment:

SCR leases office space in New York City for a term that ends in 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:

<u>Year Ending December 31,</u>	<u>Amount</u>
2016	\$ 270,440
2017	270,440
2018	<u>259,172</u>
Total	<u>\$ 800,052</u>

Rent expense for 2015 and 2014 was \$331,013 and \$356,615, respectively.

In 2015 and 2014, SCR maintained the security deposit in a letter of credit that is collateralized by 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

In 2014, SCR closed its existing business line of credit agreement in the amount of \$25,000 with JPMorgan Chase Bank, NA and entered into a new line of credit with the Bank of America Corporation for the same amount. Both lines of credit agreements were secured by SCR's assets. At December 31, 2015 and 2014, there were no outstanding balances due.

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 69% from five grantors in 2015 and 73% from four grantors in 2014.