



SECURITY COUNCIL REPORT, INC.

FINANCIAL STATEMENTS

DECEMBER 31, 2016 and 2015

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, 2016 and 2015, 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, 2016 and 2015, 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 13, 2017

SECURITY COUNCIL REPORT, INC.

Statements of Financial Position

	December 31,	
	2016	2015
ASSETS		
Cash and cash equivalents	\$ 603,871	\$ 1,067,388
Grants receivable, net	137,918	741,836
Security deposits	130,744	130,744
Prepaid expenses and other assets	<u>9,672</u>	<u>399</u>
	<u>\$ 882,205</u>	<u>\$ 1,940,367</u>
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable and accrued expenses	\$ 94,374	\$ 97,843
Deferred rent	<u>30,102</u>	<u>45,474</u>
Total liabilities	<u>124,476</u>	<u>143,317</u>
Commitments (Note E)		
Net assets:		
Unrestricted (including cumulative foreign currency losses of \$97,591 and \$84,176 in 2016 and 2015, respectively)	612,985	902,315
Temporarily restricted	<u>144,744</u>	<u>894,735</u>
Total net assets	<u>757,729</u>	<u>1,797,050</u>
	<u>\$ 882,205</u>	<u>\$ 1,940,367</u>

SECURITY COUNCIL REPORT, INC.

Statements of Activities

	Year Ended December 31,					
	2016			2015		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Public support:						
Grants and contributions	<u>\$ 1,326,171</u>	<u>\$ 280,483</u>	<u>\$ 1,606,654</u>	<u>\$ 1,151,447</u>	<u>\$ 986,403</u>	<u>\$ 2,137,850</u>
Total public support						
before release of restrictions	1,326,171	280,483	1,606,654	1,151,447	986,403	2,137,850
Net assets released from restrictions	<u>1,030,474</u>	<u>(1,030,474)</u>	<u>0</u>	<u>1,807,482</u>	<u>(1,807,482)</u>	<u>0</u>
Total public support	<u>2,356,645</u>	<u>(749,991)</u>	<u>1,606,654</u>	<u>2,958,929</u>	<u>(821,079)</u>	<u>2,137,850</u>
Expenses:						
Program services	2,305,299		2,305,299	2,273,302		2,273,302
Management and general	251,283		251,283	207,472		207,472
Fund-raising	<u>75,978</u>		<u>75,978</u>	<u>53,303</u>		<u>53,303</u>
Total expenses	<u>2,632,560</u>		<u>2,632,560</u>	<u>2,534,077</u>		<u>2,534,077</u>
Change in net assets before foreign						
currency translation losses	(275,915)	(749,991)	(1,025,906)	424,852	(821,079)	(396,227)
Foreign currency translation losses	<u>(13,415)</u>		<u>(13,415)</u>	<u>(38,995)</u>		<u>(38,995)</u>
Change in net assets	<u>(289,330)</u>	<u>(749,991)</u>	<u>(1,039,321)</u>	385,857	(821,079)	(435,222)
Net assets, beginning 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>
Net assets, end 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>

See notes to financial statements.

SECURITY COUNCIL REPORT, INC.

Statements of Functional Expenses

	Year Ended December 31,							
	2016				2015			
	Program Services	Management and General	Fund- raising	Total	Program Services	Management and General	Fund- raising	Total
Salaries and benefits	\$ 1,487,065	\$ 162,927	\$ 51,075	\$1,701,067	\$1,434,512	\$ 96,072	\$ 40,971	\$1,571,555
Occupancy	302,303	35,042	18,052	355,397	315,728	10,088	5,197	331,013
Publications	203,305			203,305	292,314			292,314
Insurance	14,190	2,233		16,423	15,100	1,609		16,709
Consultants	10,950	200		11,150	15,000	45,347		60,347
Telephone	23,031	2,571	1,324	26,926	18,655	1,597	823	21,075
Professional fees		33,463		33,463		37,511		37,511
Office expenses	26,307	3,855	1,986	32,148	21,226	1,618	835	23,679
Information technology	34,697	3,602	1,856	40,155	37,353	2,626	1,353	41,332
Governing board expenses		1,685	1,685	3,370		4,124	4,124	8,248
Travel	76,626			76,626	35,259			35,259
Hosting meetings and seminars	126,825	1,337		128,162	88,155	569		88,724
Other		4,368		4,368		6,311		6,311
	<u>\$ 2,305,299</u>	<u>\$ 251,283</u>	<u>\$ 75,978</u>	<u>\$2,632,560</u>	<u>\$2,273,302</u>	<u>\$ 207,472</u>	<u>\$ 53,303</u>	<u>\$2,534,077</u>

See notes to financial statements.

SECURITY COUNCIL REPORT, INC.

Statements of Cash Flows

	Year Ended December 31,	
	2016	2015
Cash flows from operating activities:		
Change in net assets	\$ (1,039,321)	\$ (435,222)
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:		
Changes in:		
Grants receivable	603,918	904,532
Prepaid expense and other assets	(9,273)	15,105
Accounts payable and accrued expenses	(3,469)	(22,614)
Deferred rent	<u>(15,372)</u>	<u>(15,371)</u>
Net change in cash and cash equivalents	(463,517)	446,430
Cash and cash equivalents, beginning of year	<u>1,067,388</u>	<u>620,958</u>
Cash and cash equivalents, end of year	<u>\$ 603,871</u>	<u>\$ 1,067,388</u>

SECURITY COUNCIL REPORT, INC.

Notes to Financial Statements December 31, 2016 and 2015

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] 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.

[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 2016 and 2015 were approximately \$50,000 and \$55,000, respectively, and is 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, 2016 and 2015

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*, 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, 2016 and 2015

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

[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 have occurred after December 31, 2016 through June 13, 2017, the date at which the financial statements were available to be issued.

[14] New 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, 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 is effective for fiscal years beginning after December 15, 2017. SCR will adopt ASU 2016-14 when it becomes effective.

NOTE B - GRANTS AND CONTRIBUTIONS RECEIVABLE

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

	December 31,	
	2016	2015
Grants receivable due in less than one year	\$ 113,242	\$ 741,836
Grants receivable due in one to five years	<u>26,306</u>	<u> </u>
	139,548	741,836
Less discount to present value, at a rate of 3.25% in 2016	<u>(1,630)</u>	<u> </u>
	<u>\$ 137,918</u>	<u>\$ 741,836</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 2016 and 2015, approximately 100% and 82%, respectively, of SCR's total gross contributions receivable was due from two grantors in each year.

SECURITY COUNCIL REPORT, INC.

Notes to Financial Statements December 31, 2016 and 2015

NOTE C - TEMPORARILY RESTRICTED NET ASSETS

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

	December 31,	
	2016	2015
Restricted for future periods	<u>\$ 75,934</u>	<u>\$ 476,434</u>
Restricted for the following purposes:		
Capacity Building Program		175,000
Executive Director Search		8,632
Sanctions - UNSC Subsidiary Bodies		0
What's in Blue	<u>68,810</u>	<u>26,369</u>
	<u>68,810</u>	<u>418,301</u>
	<u>\$ 144,744</u>	<u>\$ 894,735</u>

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

	Year Ended December 31,	
	2016	2015
Time restrictions satisfied	<u>\$ 546,435</u>	<u>\$ 662,656</u>
Restricted for the following purpose:		
Capacity Building Program	175,000	113,600
Executive Director Search	8,632	20,024
Sanctions - UNSC Subsidiary Bodies	208,300	291,700
What's in Blue	92,107	294,582
Report		424,920
	<u>484,039</u>	<u>1,144,826</u>
	<u>\$ 1,030,474</u>	<u>\$ 1,807,482</u>

NOTE D - RELATED-PARTY TRANSACTIONS

Four members of the SCR Board of Directors in 2016 and 2015 were also stewards of private foundations and/or foreign governments that are principal contributors of resources to SCR; the total amount contributed was approximately \$415,000 and \$1,040,000 for 2016 and 2015, respectively.

SECURITY COUNCIL REPORT, INC.

Notes to Financial Statements December 31, 2016 and 2015

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>
2017	\$ 270,440
2018	<u>259,172</u>
Total	<u>\$ 529,612</u>

Rent expense for 2016 and 2015 was \$355,397 and \$331,013, respectively.

In 2016 and 2015, 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

SCR has a business line of credit agreement in the amount of \$35,000, subject to an annual percentage rate of 24.74%, with the Bank of America Corporation and is secured by SCR's assets. At December 31, 2016 and 2015, 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 49% from six grantors in 2016 and 69% from five grantors in 2015.