



INTERNATIONAL RESCUE COMMITTEE, INC.

Financial Statements

September 30, 2006

(With Independent Auditors' Report Thereon)



KPMG LLP
345 Park Avenue
New York, NY 10154

Independent Auditors' Report

The Board of Directors
International Rescue Committee, Inc.:

We have audited the accompanying balance sheet of International Rescue Committee, Inc. (IRC) as of September 30, 2006, and the related statements of activities, functional expenses, and cash flows for the year then ended. These financial statements are the responsibility of IRC's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from IRC's 2005 financial statements and, in our report dated January 20, 2006, we expressed an unqualified opinion on those financial statements.

We conducted our audit 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 IRC's 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, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of International Rescue Committee, Inc. as of September 30, 2006, and the changes in its net assets and its cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

KPMG LLP

January 19, 2007

INTERNATIONAL RESCUE COMMITTEE, INC.

Balance Sheet

September 30, 2006

(With comparative financial information as of September 30, 2005)

(Amounts in thousands)

| Assets | 2006 | 2005 |
|--|------------|---------|
| Cash and cash equivalents (notes 7 and 13) | \$ 23,139 | 15,186 |
| Short-term investments (note 2) | — | 3,350 |
| Grants and contracts receivable (notes 7 and 8) | 13,350 | 15,002 |
| Inventory | 3,393 | 2,849 |
| Contributions receivable, net (note 9) | 18,793 | 3,609 |
| Loan program receivables | 152 | 93 |
| Other assets, net (note 14) | 5,210 | 5,091 |
| Long-term investments (notes 2, 10, and 13): | | |
| Endowment and emergency funds | 58,203 | 51,218 |
| Split-interest agreements | 8,919 | 8,896 |
| | 67,122 | 60,114 |
| Split-interest agreements – contributions receivable (note 10) | 580 | 748 |
| Property and equipment, net (note 4) | 6,840 | 2,317 |
| Total assets | \$ 138,579 | 108,359 |
| Liabilities and Net Assets | | |
| Accounts payable and accrued expenses (note 6) | \$ 8,609 | 6,635 |
| Accrued vacation and severance | 2,571 | 2,031 |
| Program advances (notes 7 and 8) | 12,159 | 9,863 |
| Deferred revenue and other liabilities | 1,374 | 1,863 |
| Loan program liability | 269 | 153 |
| Annuity liabilities related to split-interest agreements (note 10) | 5,730 | 6,004 |
| Deferred rent (note 5) | 4,502 | 2,152 |
| Total liabilities | 35,214 | 28,701 |
| Commitments and contingencies (notes 5, 6, 8, 15, and 16) | | |
| Net assets: | | |
| Unrestricted (notes 10 and 13): | | |
| Board-designated endowment | 37,521 | 31,522 |
| Undesignated | 4,286 | 6,067 |
| Renewals and replacement fund | 564 | 200 |
| Designated for special purpose fund | 2,285 | 1,906 |
| Total unrestricted | 44,656 | 39,695 |
| Temporarily restricted (notes 10, 11, and 13): | | |
| Donor contributions | 31,060 | 16,513 |
| Reinvested return on emergency funds | 347 | 109 |
| Split-interest agreements | 931 | 1,304 |
| Total temporarily restricted | 32,338 | 17,926 |
| Permanently restricted (notes 12 and 13): | | |
| Donor endowment and emergency funds | 23,268 | 19,774 |
| Contributions receivable and other | 3,103 | 2,263 |
| Total permanently restricted | 26,371 | 22,037 |
| Total net assets | 103,365 | 79,658 |
| Total liabilities and net assets | \$ 138,579 | 108,359 |

See accompanying notes to financial statements.

INTERNATIONAL RESCUE COMMITTEE, INC.

Statement of Activities

Year ended September 30, 2006

(With summarized financial information for the year ended September 30, 2005)

(Amounts in thousands)

| | 2006 | | | 2005 Total |
|---|------------------|---------------------------|---------------------------|----------------|
| | Unrestricted | Temporarily restricted | Permanently restricted | |
| Operating activities: | | | | |
| Operating revenues: | | | | |
| Contributions (note 11) | \$ 20,320 | 35,478 | — | 55,798 |
| Contributed goods and services | 3,952 | — | — | 3,952 |
| Grants and contracts (notes 7 and 11) | 164,477 | — | — | 164,477 |
| Investment return used for operations (note 3) | 2,415 | 207 | — | 2,622 |
| Loan administration fees and other income | 1,439 | — | — | 1,439 |
| Release from restrictions (note 11) | 21,165 | (21,165) | — | — |
| Total operating revenues | <u>213,768</u> | <u>14,520</u> | <u>—</u> | <u>228,288</u> |
| Operating expenses: | | | | |
| Program services: | | | | |
| International relief and assistance programs | 145,673 | — | — | 145,673 |
| Resettlement | 31,512 | — | — | 31,512 |
| Emergency preparedness, technical units, and other | 9,263 | — | — | 9,263 |
| Women's Commission | 3,159 | — | — | 3,159 |
| Total program services | <u>189,607</u> | <u>—</u> | <u>—</u> | <u>189,607</u> |
| Supporting services: | | | | |
| Management and general | 13,414 | — | — | 13,414 |
| Fund-raising | 7,438 | — | — | 7,438 |
| Total supporting services | <u>20,852</u> | <u>—</u> | <u>—</u> | <u>20,852</u> |
| Total operating expenses | <u>210,459</u> | <u>—</u> | <u>—</u> | <u>210,459</u> |
| Excess of operating revenues over operating expenses | <u>3,309</u> | <u>14,520</u> | <u>—</u> | <u>17,829</u> |
| Nonoperating activities: | | | | |
| Bequests and contributions (note 13) | 2,403 | — | 4,334 | 6,737 |
| Split-interest agreements | 444 | 29 | — | 473 |
| Investment return, net (note 3) | 1,886 | 314 | — | 2,200 |
| Expenses related to: | | | | |
| Split interest agreements and endowment – fundraising | (679) | — | — | (679) |
| Designated special purpose fund | (372) | — | — | (372) |
| Renewals and replacement fund | (114) | — | — | (114) |
| Minimum pension liability adjustment (note 6) | (2,367) | — | — | (2,367) |
| Reclassification of restrictions | 451 | (451) | — | — |
| Total nonoperating activities | <u>1,652</u> | <u>(108)</u> | <u>4,334</u> | <u>5,878</u> |
| Increase in net assets | 4,961 | 14,412 | 4,334 | 23,707 |
| Net assets at beginning of year | 39,695 | 17,926 | 22,037 | 79,658 |
| Net assets at end of year | <u>\$ 44,656</u> | <u>32,338</u> | <u>26,371</u> | <u>103,365</u> |

See accompanying notes to financial statements.

INTERNATIONAL RESCUE COMMITTEE, INC.

Statement of Functional Expenses

Year ended September 30, 2006

(With summarized financial information for the year ended September 30, 2005)

(Amounts in thousands)

| | Program services | | | | | | | | Supporting services | | | Total | |
|--|-------------------------------------|--------|---------------------------------------|---------|--------------|--|--------------------|------------------------|------------------------|--------------|---------------------------|---------|---------|
| | International relief and assistance | | | | Resettlement | Emergency preparedness, technical units, and other | Women's Commission | Total program services | Management and general | Fund-raising | Total supporting services | 2006 | 2005 |
| | Africa | Asia | Balkans, Caucasus, and other programs | Total | | | | | | | | | |
| Personnel | \$ 37,383 | 12,832 | 4,759 | 54,974 | 15,399 | 5,441 | 1,826 | 77,640 | 9,154 | 2,466 | 11,620 | 89,260 | 76,494 |
| Professional services | 1,229 | 548 | 354 | 2,131 | 418 | 681 | 198 | 3,428 | 672 | 933 | 1,605 | 5,033 | 4,472 |
| Travel, conferences, and events | 4,528 | 1,218 | 378 | 6,124 | 685 | 1,029 | 272 | 8,110 | 552 | 392 | 944 | 9,054 | 7,456 |
| Occupancy | 3,413 | 1,164 | 264 | 4,841 | 2,138 | 838 | 334 | 8,151 | 2,102 | 421 | 2,523 | 10,674 | 7,993 |
| Communications | 1,932 | 523 | 122 | 2,577 | 493 | 456 | 162 | 3,688 | 409 | 3,812 | 4,221 | 7,909 | 6,587 |
| Vehicles, equipment, and supplies | 9,985 | 2,768 | 608 | 13,361 | 1,186 | 234 | 70 | 14,851 | 523 | 125 | 648 | 15,499 | 17,906 |
| Subgrants | 5,175 | 12,507 | 1,413 | 19,095 | 948 | 109 | 274 | 20,426 | — | — | — | 20,426 | 11,747 |
| Program materials and direct assistance | 26,958 | 9,210 | 2,985 | 39,153 | 8,754 | 26 | 1 | 47,934 | — | — | — | 47,934 | 46,353 |
| Donated goods | 2,510 | 3 | 60 | 2,573 | 1,364 | 15 | — | 3,952 | — | — | — | 3,952 | 3,427 |
| Other | 566 | 271 | 24 | 861 | 150 | 583 | 22 | 1,616 | 117 | 150 | 267 | 1,883 | 2,711 |
| Total expenses | 93,679 | 41,044 | 10,967 | 145,690 | 31,535 | 9,412 | 3,159 | 189,796 | 13,529 | 8,299 | 21,828 | 211,624 | 185,146 |
| Nonoperating expenses, primarily personnel related to split-interest agreements and endowment, and brand promotion | (9) | (8) | — | (17) | (23) | (149) | — | (189) | (115) | (861) | (976) | (1,165) | (566) |
| Total operating expenses reported by function in the statement of activities | \$ 93,670 | 41,036 | 10,967 | 145,673 | 31,512 | 9,263 | 3,159 | 189,607 | 13,414 | 7,438 | 20,852 | 210,459 | 184,580 |
| 2005 Total | \$ 82,400 | 29,700 | 15,879 | 127,979 | 28,749 | 6,597 | 2,698 | 166,023 | 12,552 | 6,005 | 18,557 | | 184,580 |

See accompanying notes to financial statements.

INTERNATIONAL RESCUE COMMITTEE, INC.

Statement of Cash Flows

Year ended September 30, 2006

(With comparative financial information for the year ended September 30, 2005)

(Amounts in thousands)

| | <u>2006</u> | <u>2005</u> |
|---|-------------------------|-------------------------|
| Cash flows from operating activities: | | |
| Increase in net assets | \$ 23,707 | 19,758 |
| Adjustments to reconcile increase in net assets to net cash provided by operating activities: | | |
| Depreciation and amortization | 823 | 778 |
| Net realized and unrealized gains on investments | (2,983) | (6,459) |
| Gain on sale of property and equipment | (160) | (193) |
| Change in value of split-interest agreements | 59 | 378 |
| Contributions under split-interest agreements | (521) | (510) |
| Permanently restricted contributions | (4,334) | (1,775) |
| Changes in assets and liabilities: | | |
| Decrease (increase) in grants and contracts receivable | 1,652 | (7,321) |
| Increase in inventory | (544) | (936) |
| Increase in contributions receivable | (13,924) | (1,014) |
| Increase in loan program receivables | (59) | (22) |
| Increase in other assets | (119) | (2,106) |
| Increase (decrease) in accounts payable and accrued expenses | 1,300 | (169) |
| Increase in accrued vacation and severance | 640 | 250 |
| Increase in program advances | 2,296 | 1,028 |
| (Decrease) increase in deferred revenue and other liabilities | (457) | 255 |
| Increase in loan program liability | 116 | 59 |
| Increase (decrease) in deferred rent | 2,350 | (114) |
| Net cash provided by operating activities | <u>9,842</u> | <u>1,887</u> |
| Cash flows from investing activities: | | |
| Purchases of property and equipment | (5,346) | (190) |
| Proceeds from sale of property and equipment | 160 | 214 |
| Increase in accounts payable and accrued expenses - construction-in-progress | 574 | — |
| Proceeds from sale or redemption of investments | 40,151 | 57,856 |
| Purchases of investments | (40,826) | (63,085) |
| Net cash used in investing activities | <u>(5,287)</u> | <u>(5,205)</u> |
| Cash flows from financing activities: | | |
| Permanently restricted contributions | 4,334 | 1,775 |
| (Increase) decrease in permanently restricted contributions receivable | (1,260) | 1,385 |
| Proceeds from contributions under split-interest agreements | 1,080 | 1,078 |
| Proceeds from terminated pooled income fund | — | 6 |
| Payments to beneficiaries under split-interest agreements | (724) | (871) |
| Payments on capital lease | (32) | (13) |
| Net cash provided by financing activities | <u>3,398</u> | <u>3,360</u> |
| Net increase in cash and cash equivalents | 7,953 | 42 |
| Cash and cash equivalents at beginning of year | <u>15,186</u> | <u>15,144</u> |
| Cash and cash equivalents at end of year | \$ <u><u>23,139</u></u> | \$ <u><u>15,186</u></u> |
| Supplemental disclosure: | | |
| Acquisition of equipment through capital lease | \$ — | 172 |

See accompanying notes to financial statements.

INTERNATIONAL RESCUE COMMITTEE, INC.

Notes to Financial Statements

September 30, 2006

(With comparative financial information as of and for the year ended September 30, 2005)

(Amounts in thousands)

(1) **Organization and Summary of Significant Accounting Policies**

Organization

International Rescue Committee, Inc. (IRC) is a private, not-for-profit organization that serves refugees and communities victimized by oppression or violent conflict worldwide. IRC is committed to freedom, human dignity, and self-reliance. This commitment is expressed in emergency relief, protection of human rights, post-conflict development, resettlement assistance, and advocacy.

Basis of Accounting

The accompanying financial statements have been prepared using the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. Net assets are classified based on the existence or absence of donor-imposed restrictions. Accordingly, IRC's net assets and changes therein are classified and reported as follows:

- Unrestricted net assets – net assets that are not subject to donor-imposed restrictions, or the donor-imposed restrictions have expired. As reflected in the accompanying financial statements and discussed below, IRC's Board of Directors has designated a portion of the unrestricted net assets for specific purposes.
- Temporarily restricted net assets – net assets that are subject to donor-imposed restrictions that permit IRC to use or expend the assets as specified. The restrictions are satisfied either by the passage of time or by actions of IRC.
- Permanently restricted net assets – net assets that are subject to donor-imposed restrictions that they be maintained permanently by IRC and only the income be used as specified by the donor. Certain emergency funds allow temporary use of principal.

Revenues are reported as increases in unrestricted net assets unless their use is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments are reported as increases or decreases in unrestricted net assets unless their use is restricted by donors or by law.

When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported as release from restrictions in the statement of activities.

Grants and Cooperative Agreements

Grants and cooperative agreements with Federal, foreign, and local governments and United Nations, European, and other agencies are deemed to be exchange transactions and, accordingly, revenue is recognized when funds are utilized by IRC to carry out the activity stipulated in the grant or cooperative agreement. Accordingly, amounts received but not recognized as revenue are classified in the balance sheet as program advances, and amounts expended but not yet received are classified as grants and contracts receivable.

INTERNATIONAL RESCUE COMMITTEE, INC.

Notes to Financial Statements

September 30, 2006

(With comparative financial information as of and for the year ended September 30, 2005)

(Amounts in thousands)

Contributions

Contributions, including promises to give (pledges), are reported as revenues in the period received or pledged. Contributions are considered to be unrestricted unless they are received with donor stipulations that limit their use either through purpose or time restrictions. Contributions to be received after one year are discounted using a U.S. Treasury bill rate in effect at the end of the fiscal year in which the pledge was originally made. These rates ranged from 1.5% to 6% as of September 30, 2006 and 2005. An allowance for uncollectible contributions receivable is provided based upon management's judgment, including such factors as prior collection history, type of contribution, and nature of the fund-raising activity. Bequest income is recorded when the will is declared valid by the probate court and amounts can be reasonably determined.

Endowment and Emergency Funds

IRC has an ongoing capital campaign (Freedom Fund), which consists of the following:

Board-Designated Endowment

The Board of Directors has established a special fund to provide for the long-term financial stability of IRC and to enhance its ability to respond to extraordinary emergency needs. The purpose of this fund is to provide a mechanism for the Board of Directors to set aside and invest certain funds. Accordingly, the Board of Directors has designated the Leo Cherne Emergency Fund, certain unrestricted bequests, extraordinary gifts (as determined by the Board of Directors), and unrestricted surpluses in operating funds for this purpose.

Donor Endowment and Emergency Funds

In further support of the long-term financial stability of the organization, IRC receives donations for which the principal must be permanently maintained. Included in this category are endowment donations and emergency funds that allow IRC to use principal on a temporary basis for emergency response situations and to pre-position itself with commonly used emergency response inventory. Principal used by IRC must be subsequently returned to the fund.

Contributed Goods and Services

Contributed goods are recognized as revenue at their estimated fair value at the date of receipt and expensed when used.

Contributed services are recognized as revenue if the services create or enhance nonfinancial assets or require specialized skills, are provided by individuals possessing those skills, and typically need to be purchased if not provided by donation. Contributed services are recorded at the fair value of the services provided. Contributed services and promises to contribute services that do not meet the above criteria are not recognized as revenues and are not reported in the financial statements.

INTERNATIONAL RESCUE COMMITTEE, INC.

Notes to Financial Statements

September 30, 2006

(With comparative financial information as of and for the year ended September 30, 2005)

(Amounts in thousands)

Split-Interest Agreements

IRC is the beneficiary of a number of split-interest agreements with donors. IRC may control donated assets and may share with the donor or the donor's designee income generated from those assets until such time as stated in the agreement, at which time the remaining assets are generally for IRC's unrestricted use.

IRC records the assets of the agreements (at fair value) if the assets are controlled and invested by IRC. IRC records nonoperating contribution revenue at the date the agreement is established after recording a liability for the present value of the estimated future payments expected to be made to the beneficiaries. Adjustments to the annuity liabilities to reflect the amortization of the discount and revaluation of expected future payments to beneficiaries based on changes in actuarial assumptions are made annually and recognized as nonoperating revenue as change in value of split-interest agreements.

In other situations where assets are controlled and invested by an independent third party (primarily pooled income funds), IRC records a receivable and nonoperating contribution revenue for its share of the assets based on the present value of the estimated future distributions expected to be received by IRC over the expected term of the agreement.

The discount rate used in valuing split-interest agreement liabilities as of September 30, 2006 and 2005 was 6% and 5%, respectively.

Functional Expense Allocations

The majority of expenses can generally be directly identified with the program or supporting service to which they relate and are charged accordingly. Other expenses by function are allocated to components of these services based on allocation factors determined by management.

Operations

IRC excludes from operating activities unrestricted and permanently restricted bequests, contributions and expenses related to split-interest agreements and the Freedom Fund, changes in value of split-interest agreements, investment return on split-interest agreements, investment return in the Freedom Fund in excess of or less than the spending rate (see note 3), nonrecurring expenses funded by the designated special purpose fund and the renewals and replacement fund, and the minimum pension liability adjustment. All other revenue and expenses are included in operating activities.

Cash and Cash Equivalents

For the purposes of the statement of cash flows, IRC considers highly liquid debt instruments purchased with maturities of three months or less, other than those held as part of the investment portfolio, to be cash equivalents.

INTERNATIONAL RESCUE COMMITTEE, INC.

Notes to Financial Statements

September 30, 2006

(With comparative financial information as of and for the year ended September 30, 2005)

(Amounts in thousands)

Investments

Investments are stated at fair value based on quoted market prices except for the fair values of limited partnerships and certain mutual funds, which are provided by the general partners and fund managers, respectively, based upon the underlying net assets of the funds. These estimated values are reviewed and evaluated by management for reasonableness. Investments in limited partnerships are generally less liquid than other investments and the reported fair value may differ significantly from the values that would have been reported had a ready market for these securities existed. Included in the investments of the limited partnerships are certain types of financial instruments, including, among others, futures and forward contracts, options, and securities sold not yet purchased, intended to hedge against changes in the market value of investments. These financial instruments, which involve varying degrees of off-balance-sheet risk, may result in loss due to changes in the market.

Short-term investments primarily relate to investments with original maturities greater than three months that the organization may use to meet working capital needs. Short-term investments also include donated securities temporarily held at September 30 and immediately sold thereafter. Long-term investments are those included in the Freedom Fund and split-interest agreement investments.

Inventory

Inventory consists of program materials and emergency response supplies not used as of September 30th. Inventory is recorded at cost upon purchase and deducted from inventory and expensed when used.

Property and Equipment

Property and equipment are recorded at cost if purchased, or at fair market value at the date of the gift, if donated, less accumulated depreciation and amortization. Depreciation is provided on the straight-line method over the estimated useful lives of the assets, generally three to seven years. Amortization of leasehold improvements is provided on the straight-line method over the lesser of their useful lives or the terms of the related lease. Property and equipment acquired with funds received from grants in which the grantor retains a reversionary interest in the assets at the end of the grant period are expensed in the year of acquisition.

Foreign Currency Translation

The management of IRC has determined that the functional currency of its foreign offices is the U.S. dollar. Accordingly, current assets and current liabilities are translated using the current exchange rates in effect at the balance sheet date. Noncurrent assets and noncurrent liabilities are translated at historical rates and revenue and expense accounts are translated at the average rate in effect during the year. The resulting translation loss for 2006 and 2005 of \$80 and \$690, respectively, is reflected in the statement of activities.

Tax Status

The Internal Revenue Service has ruled that, pursuant to Section 501(c)(3) of the Internal Revenue Code (the Code), IRC is exempt from Federal income taxes and is a publicly supported organization, as defined

INTERNATIONAL RESCUE COMMITTEE, INC.

Notes to Financial Statements

September 30, 2006

(With comparative financial information as of and for the year ended September 30, 2005)

(Amounts in thousands)

in Section 509(a)(1) of the Code. As a not-for-profit organization, IRC is also exempt from state and local income taxes.

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 amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Comparative Financial Information

The statements of activities and functional expenses are presented with prior year summarized comparative totals. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with IRC's 2005 financial statements, from which the comparative totals were derived.

Reclassifications

Certain prior year amounts have been reclassified to conform with the current year's presentation.

(2) Investments

Long-term investments as of September 30, 2006 and 2005 consisted of the following:

| | 2006 | | 2005 | |
|---------------------------|-------------------|---------------|-------------------|---------------|
| | Fair value | Cost | Fair value | Cost |
| Cash and cash equivalents | \$ 496 | 496 | 585 | 585 |
| Mutual funds: | | | | |
| Equity funds | 8,317 | 6,555 | 7,575 | 6,731 |
| Debt funds | 379 | 390 | 4,000 | 4,045 |
| Debt securities | 15,595 | 16,253 | 13,964 | 14,338 |
| Equity securities | 31,255 | 28,703 | 26,880 | 23,235 |
| Limited partnerships | 11,080 | 9,000 | 7,110 | 6,000 |
| | <u>\$ 67,122</u> | <u>61,397</u> | <u>60,114</u> | <u>54,934</u> |

Mutual funds include \$3,474 and \$3,397 at September 30, 2006 and 2005, respectively, of funds which do not trade publicly and therefore do not have published market prices. The underlying investments, however, are principally marketable securities.

Long-term investments at September 30, 2006 and 2005 include \$58,203 and \$51,218, respectively, relating to IRC's Freedom Fund (see note 13) and \$8,919 and \$8,896, respectively, relating to split-interest agreements (see note 10).

Short-term investments as of September 30, 2005 consisted of debt securities of \$3,081 and cash equivalents of \$269. Subsequent to September 30, 2005, the Investment Committee approved the decision to sell the short-term investments, consisting solely of the Whitehead Emergency Fund, and invest the proceeds in long-term investments.

INTERNATIONAL RESCUE COMMITTEE, INC.

Notes to Financial Statements

September 30, 2006

(With comparative financial information as of and for the year ended September 30, 2005)

(Amounts in thousands)

IRC has an Investment Committee comprised of members of the Board of Directors, Overseers and other advisors, which is charged with the responsibility of providing fiduciary oversight over IRC's investments. The Investment Committee meets with executive management and external advisors on a quarterly basis to review investment performance, asset allocation, and investment manager performance.

(3) Investment Return

IRC maintains a spending rate policy on the Freedom Fund invested assets. The spending rate policy was designed to preserve the value of the investment portfolio in real terms and to reduce the impact of market fluctuations on operations. The spending rate used for operations is set at 4.5% of the previous two-year rolling average fair value. In addition to the return on the Freedom Fund invested assets, investment return used for operations includes investment income on working capital cash and short-term investments.

Investment return for the years ended September 30, 2006 and 2005 consisted of the following:

| | <u>2006</u> | <u>2005</u> |
|--|-----------------|--------------|
| Interest and dividend income | \$ 1,839 | 1,488 |
| Net realized gains | 2,438 | 4,059 |
| Net unrealized gains | 545 | 2,400 |
| Total return on investments | 4,822 | 7,947 |
| Less investment return used for operations | (2,622) | (2,002) |
| Reinvested return on investments | \$ <u>2,200</u> | <u>5,945</u> |

(4) Property and Equipment

Property and equipment consisted of the following as of September 30, 2006 and 2005:

| | <u>2006</u> | <u>2005</u> |
|--|-----------------|--------------|
| Furniture and equipment | \$ 2,016 | 656 |
| Cars, vans, and mobile units | 2,222 | 1,773 |
| Leasehold improvements | 5,425 | 2,526 |
| Construction-in-progress | 574 | — |
| Donated art portfolios | 85 | 85 |
| | 10,322 | 5,040 |
| Less accumulated depreciation and amortization | (3,482) | (2,723) |
| | \$ <u>6,840</u> | <u>2,317</u> |

INTERNATIONAL RESCUE COMMITTEE, INC.

Notes to Financial Statements

September 30, 2006

(With comparative financial information as of and for the year ended September 30, 2005)

(Amounts in thousands)

(5) Lease Agreements

IRC leases several office facilities and equipment under operating leases expiring at various dates through 2021. Rental expense is recognized on a straight-line basis, rather than in accordance with base payment schedules, for purposes of recognizing a constant annual rental expense. The difference between straight-lining the rental charge and actual payments is reported as deferred rent in the balance sheet. The deferred rent credit is expected to grow as payments are less than expenses until fiscal 2012. Future rental payments are subject to escalation for IRC's proportionate share of increases in certain building operating expenses. Lease agreements for facilities in overseas locations are generally for periods of one year or less.

The following is a schedule, by fiscal year, of the minimum future rentals on leases with expiration dates greater than one year as of September 30, 2006:

| | | |
|-------------------------------|----|----------------------|
| Year ending September 30: | | |
| 2007 | \$ | 3,713 |
| 2008 | | 3,743 |
| 2009 | | 3,664 |
| 2010 | | 3,528 |
| 2011 | | 3,467 |
| Thereafter | | <u>36,960</u> |
| Total minimum future payments | \$ | <u><u>55,075</u></u> |

Rent expense for the years ended September 30, 2006 and 2005 was approximately \$7,049 and \$5,442, respectively.

(6) Retirement Plans

IRC has two retirement plans that cover personnel – a noncontributory defined benefit pension plan covering all employees with one year of service and, effective January 1, 2004, a defined contribution plan which provides a match for employees who elect to participate in IRC's 403(b) Savings Plan.

Defined Benefit Pension Plan

Benefits are based upon years of service and average compensation at retirement. Participants are vested after three years of service. IRC makes contributions to the defined benefit pension plan based on actuarial calculations performed annually. These contributions are irrevocable and may be used only for the benefit of participants. In addition, IRC may adjust the scale of retirement benefits to maintain the actuarial soundness of the plan subject to certain limitations. Also, if the plan is terminated, any surplus that remains after the satisfaction of all liabilities under the plan shall be allocated, as defined, to the participants. Under no conditions shall any part of the surplus revert to IRC.

INTERNATIONAL RESCUE COMMITTEE, INC.

Notes to Financial Statements

September 30, 2006

(With comparative financial information as of and for the year ended September 30, 2005)

(Amounts in thousands)

On September 20, 2006, an amendment to IRC's defined benefit plan was approved by the Board of Directors. The amendment will terminate the defined benefit plan and freeze benefit accruals for all employees as of December 31, 2006. The amendment and related re-measurement of the benefit obligation at September 30, 2006 resulted in a reduction of the projected benefit obligation and an increase to the funded status, as of September 30, 2006, of \$4,545. The amendment and related re-measurement resulted in no curtailment expense.

In place of the defined benefit pension plan, IRC has enhanced their existing defined contribution plan, whereby the IRC will make base contributions in addition to the existing matching contributions program to IRC's 403(b) Savings Plan. The enhanced defined contribution plan will allow immediate eligibility while retaining the three year vesting requirement from the defined benefit plan for the base contributions.

The following tables set forth the financial information about the defined benefit plan as of September 30, 2006 and 2005:

Funded Status

| | 2006 | 2005 |
|--|-------------|-------------|
| Projected benefit obligation (assumes salary increases) | \$ 24,615 | 21,069 |
| Effect of curtailment | (4,545) | — |
| Projected benefit obligation after curtailment (assumes current salary) | 20,070 | 21,069 |
| Fair value of plan assets | 17,945 | 16,447 |
| Funded status | \$ (2,125) | (4,622) |
| Accumulated benefit obligation (assumes current salary) | \$ 19,502 | 16,780 |
| Fair value of plan assets | 17,945 | 16,447 |
| Minimum pension liability | \$ (1,557) | (333) |

INTERNATIONAL RESCUE COMMITTEE, INC.

Notes to Financial Statements

September 30, 2006

(With comparative financial information as of and for the year ended September 30, 2005)

(Amounts in thousands)

Balance Sheet

| | <u>2006</u> | <u>2005</u> |
|---|--------------------------|---------------------|
| Funded status | \$ (2,125) | (4,622) |
| Unrecognized net asset | (608) | (751) |
| Unrecognized loss | 14,067 | 11,019 |
| Effect of curtailment | <u>(4,545)</u> | <u>—</u> |
| Unrecognized loss after curtailment | <u>9,522</u> | <u>11,019</u> |
| Prepaid pension cost before minimum pension liability | 6,789 | 5,646 |
| Accumulated minimum pension liability adjustments | <u>(8,346)</u> | <u>(5,979)</u> |
| Minimum pension liability (included in accounts payable and accrued expenses) | <u><u>\$ (1,557)</u></u> | <u><u>(333)</u></u> |

The unfunded accumulated benefit obligation (ABO) at September 30, 2006 and 2005 was \$1,557 and \$333, respectively. The unfunded ABO is the minimum pension liability that is required to be recognized in the balance sheet and is included in accounts payable and accrued expenses.

Benefit Obligation Weighted Average Assumptions as of September 30

| | <u>2006</u> | <u>2005</u> |
|-------------------------------|-------------|-------------|
| Discount rate | 5.00% | 5.25% |
| Rate of compensation increase | — | 4.50 |

Benefit Cost Weighted Average Assumptions for the year ended September 30

| | <u>2006</u> | <u>2005</u> |
|--------------------------------|-------------|-------------|
| Discount rate | 5.25% | 6.00% |
| Expected return on plan assets | 8.00 | 8.00 |
| Rate of compensation increase | 4.50 | 4.50 |

INTERNATIONAL RESCUE COMMITTEE, INC.

Notes to Financial Statements

September 30, 2006

(With comparative financial information as of and for the year ended September 30, 2005)

(Amounts in thousands)

Other Information

| | | | |
|--|----|-------|-------|
| Benefit cost - operating | \$ | 1,544 | 1,296 |
| Minimum pension liability adjustment - nonoperating | | 2,367 | 836 |
| Contributions to and benefit payments from the plan: | | | |
| Employer cash contribution | | 2,687 | 2,321 |
| Benefits paid | | 1,557 | 1,163 |

In the statement of activities, the benefit cost is reported in operating expenses, allocated among all functional categories, and the minimum pension liability adjustment is reported as a nonoperating charge.

Plan Assets

The following table presents information with respect to pension plan assets:

| Asset category | Target asset allocation | Actual allocation at September 30 | |
|-------------------|----------------------------|--------------------------------------|------|
| | | 2006 | 2005 |
| Equity securities | 55 – 65% | 65% | 65% |
| Debt securities | 35 – 45 | 35 | 35 |

Based on historically indexed data, the assumed long-term rates of return for 2006 are: equity securities – 10% and debt securities – 5%, which produce an expected composite rate of return of 8%.

In order to satisfy the short-term requirement of the terminated defined benefit plan, in December 2006, IRC sold all of the pension plan investments and invested the proceeds in short-term debt securities, which produced an expected rate of return of 5%.

IRC's Investment Committee has adopted a set of investment policies and guidelines that serve as a guide for allocating pension plan assets among various asset classes and investment managers. Investment managers are evaluated against expected returns and relevant market indices and changes are made when deemed necessary.

Future Benefit Payments

The estimated benefit payment in 2007 is \$21,073 upon settlement. IRC is not expected to contribute to the defined benefit plan in 2007.

In September 2006, FASB issued SFAS No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans*. SFAS No. 158 requires an employer to recognize the funded status of a benefit plan, measured as the difference between plan assets at fair value and the benefit obligation, in the balance sheet. IRC will be required to adopt this standard in its September 30, 2007 financial statements.

INTERNATIONAL RESCUE COMMITTEE, INC.

Notes to Financial Statements

September 30, 2006

(With comparative financial information as of and for the year ended September 30, 2005)

(Amounts in thousands)

Defined Contribution Pension Plan

IRC also makes contributions to a defined contribution pension plan based on a prescribed matching schedule of employee contributions. Basic employee contributions up to 6% of compensation are eligible for a matching contribution by IRC. Matching contributions are deposited in the plan each payroll period based on the following formula:

- 100% of the basic employee contribution up to the first 3% of compensation, plus
- 50% of the basic employee contribution up to the next 3% of compensation.

Pension expense relating to the defined contribution plan for 2006 and 2005 was \$992 and \$849, respectively.

(7) Significant Funders and Concentrations of Credit Risk

Grants and contracts revenues consisted of the following for the years ended September 30, 2006 and 2005:

| | <u>2006</u> | <u>2005</u> |
|--|-------------------|----------------|
| U.S. Federal and local government agencies | \$ 93,313 | 80,924 |
| United Nations agencies | 17,928 | 16,578 |
| European agencies | 35,540 | 32,573 |
| Other agencies | 6,301 | 8,045 |
| Indirect cost recovery | 11,395 | 10,583 |
| | <u>\$ 164,477</u> | <u>148,703</u> |

During the year ended September 30, 2006, approximately 21% and 23% (16% and 25%, respectively, during fiscal year 2005), of revenues from grants and contracts were received from the U.S. Department of State (Bureau of Population, Refugees, and Migration) and the U.S. Agency for International Development, including the Office of Foreign Disaster Assistance, respectively. The operation of IRC's programs at present levels is dependent upon continued funding from these organizations and from United Nations and European agencies.

Financial instruments which potentially subject IRC to concentrations of credit risk consist principally of cash and cash equivalents and grants and contracts receivable. Cash and cash equivalents include program advances and, as of September 30, 2006 and 2005, approximately 35% and 22%, respectively, is deposited in banks in foreign locations. Approximately 24% and 25%, respectively, of grants and contracts receivable, are due from, through IRC's foreign affiliates, the European Union, including the European Commission Humanitarian Aid Office.

INTERNATIONAL RESCUE COMMITTEE, INC.

Notes to Financial Statements

September 30, 2006

(With comparative financial information as of and for the year ended September 30, 2005)

(Amounts in thousands)

(8) Grants and Contracts Receivable and Program Advances

Grants and contracts receivable consisted of the following as of September 30, 2006 and 2005:

| | 2006 | 2005 |
|---------------------------------------|-------------|-------------|
| Federal and local government agencies | \$ 2,077 | 5,489 |
| United Nations agencies | 1,554 | 1,718 |
| European agencies and other | 9,719 | 7,795 |
| | \$ 13,350 | 15,002 |

Program advances consisted of the following as of the September 30, 2006 and 2005:

| | 2006 | 2005 |
|---------------------------------------|-------------|-------------|
| Federal and local government agencies | \$ 1,241 | 2,906 |
| United Nations agencies | 2,064 | 1,230 |
| European agencies and other | 8,854 | 5,727 |
| | \$ 12,159 | 9,863 |

In accordance with the terms of certain government contracts, the records of IRC are subject to audit for varying periods after the date of final payment of the contracts. IRC is liable for any disallowed costs. In the opinion of management, adjustments that might result from such audits would not have a significant effect on IRC's financial position or changes in net assets.

(9) Contributions Receivable

Contributions receivable consisted of the following as of September 30, 2006 and 2005:

| | 2006 | 2005 |
|--|-------------|-------------|
| Due within one year | \$ 5,262 | 3,094 |
| Due within two to five years | 12,525 | 375 |
| Due beyond five years | 2,750 | 920 |
| | 20,537 | 4,389 |
| Less discount | (1,719) | (555) |
| Less allowance for uncollectible contributions | (25) | (225) |
| Contributions receivable, net | \$ 18,793 | 3,609 |

INTERNATIONAL RESCUE COMMITTEE, INC.

Notes to Financial Statements

September 30, 2006

(With comparative financial information as of and for the year ended September 30, 2005)

(Amounts in thousands)

| | <u>2006</u> | <u>2005</u> |
|---|------------------|--------------|
| Freedom Fund contributions receivable | \$ 2,968 | 1,708 |
| Temporarily restricted contributions receivable | 15,825 | 1,901 |
| Contributions receivable, net | <u>\$ 18,793</u> | <u>3,609</u> |

At September 30, 2006, gross contributions receivable include a \$15 million pledge from one donor.

(10) Split-Interest Agreements

Split-interest agreement assets, liabilities, and net assets are categorized on the balance sheets as of September 30, 2006 and 2005 as follows:

| | <u>2006</u> | <u>2005</u> |
|---|-----------------|--------------|
| Split-interest agreements – contributions receivable | \$ 580 | 748 |
| Investments | 8,919 | 8,896 |
| Total assets | <u>\$ 9,499</u> | <u>9,644</u> |
| Annuity liabilities related to split-interest agreements | \$ 5,730 | 6,004 |
| Unrestricted net assets – split-interest agreements | 2,838 | 2,336 |
| Temporarily restricted net assets – split-interest agreements | 931 | 1,304 |
| Total liabilities and net assets | <u>\$ 9,499</u> | <u>9,644</u> |

INTERNATIONAL RESCUE COMMITTEE, INC.

Notes to Financial Statements

September 30, 2006

(With comparative financial information as of and for the year ended September 30, 2005)

(Amounts in thousands)

(11) Temporarily Restricted Net Assets

Temporarily restricted net assets as of September 30, 2006 and 2005 are available subject to time and purpose restrictions as follows:

| | <u>2006</u> | <u>2005</u> |
|--|------------------|---------------|
| Time restrictions: | | |
| Split-interest agreements | \$ 931 | 1,304 |
| General purpose | 821 | 253 |
| Purpose restrictions: | | |
| Balkans, Caucasus, and other programs | — | 3 |
| Asian programs | 7,109 | 7,339 |
| African programs | 2,866 | 2,161 |
| Total international relief and assistance programs | <u>9,975</u> | <u>9,503</u> |
| Resettlement | 2,226 | 2,504 |
| Emergency preparedness, technical units, and other | 15,768 | 1,867 |
| Women's Commission | 2,314 | 1,871 |
| Supporting services | 303 | 624 |
| | <u>\$ 32,338</u> | <u>17,926</u> |

Program restrictions for the years ended September 30, 2006 and 2005 were satisfied by incurring expenses for the restricted purposes specified by the donors as follows:

| | <u>2006</u> | <u>2005</u> |
|---|------------------|---------------|
| Balkans, Caucasus, and other programs | \$ 529 | 405 |
| Asian programs | 7,858 | 5,553 |
| African programs | 3,853 | 2,179 |
| Total international relief and assistance programs | <u>12,240</u> | <u>8,137</u> |
| Resettlement | 3,183 | 1,824 |
| Emergency preparedness, technical units, and other programs | 1,523 | 753 |
| Women's Commission | 1,787 | 2,007 |
| Supporting services | 2,432 | 1,665 |
| | <u>\$ 21,165</u> | <u>14,386</u> |

During 2006 and 2005, total revenue for the Women's Commission was \$3,662 and \$2,727, respectively. This is reported as operating revenue, primarily as temporarily restricted contributions and grant and contract revenue.

INTERNATIONAL RESCUE COMMITTEE, INC.

Notes to Financial Statements

September 30, 2006

(With comparative financial information as of and for the year ended September 30, 2005)

(Amounts in thousands)

(12) Permanently Restricted Net Assets

The income earned on permanently restricted net assets as of September 30, 2006 and 2005 is available for the following purposes:

| | 2006 | 2005 |
|---------------------|-------------|-------------|
| Emergency response | \$ 6,050 | 4,550 |
| Reproductive Health | 3,000 | 1,000 |
| Children's programs | 100 | 100 |
| General purposes | 17,221 | 16,387 |
| | \$ 26,371 | 22,037 |

(13) Freedom Fund

IRC's Freedom Fund comprises the board-designated endowment, donor endowment, and emergency funds assets and net assets. As of September 30, 2006 and 2005, the Fund is categorized on the balance sheets as follows:

| | 2006 | 2005 |
|---|-------------|-------------|
| Assets: | | |
| Cash and cash equivalents | \$ 3,023 | 659 |
| Inventory – emergency response materials | 45 | 83 |
| Contributions receivable | 2,968 | 1,708 |
| Investments | 58,203 | 51,218 |
| Total | \$ 64,239 | 53,668 |
| Net assets: | | |
| Unrestricted board-designated endowment | \$ 37,521 | 31,522 |
| Temporarily restricted – reinvested return on emergency funds | 347 | 109 |
| Permanently restricted | 26,371 | 22,037 |
| Total | \$ 64,239 | 53,668 |

Freedom Fund contribution revenue consisted of:

| | 2006 | 2005 |
|--------------------------------------|-------------|-------------|
| Cash contributions | \$ 3,957 | 2,418 |
| Pledges and bequests receivable, net | 2,780 | 1,079 |
| Total | \$ 6,737 | 3,497 |

INTERNATIONAL RESCUE COMMITTEE, INC.

Notes to Financial Statements

September 30, 2006

(With comparative financial information as of and for the year ended September 30, 2005)

(Amounts in thousands)

(14) Foreign Affiliates

IRC is currently affiliated with two separately incorporated organizations, International Rescue Committee, U.K. and International Rescue Committee, Belgium. Revenue provided by these affiliates, primarily from European Commission Humanitarian Aid Office and Department for International Development, was \$30,088 and \$29,075 for fiscal years 2006 and 2005, respectively, and is included in grants and contracts and contributions revenues in the statement of activities. Net receivables due from these affiliates, consisting primarily of grants and contracts receivables, were \$2,351 and \$4,612 as of September 30, 2006 and 2005, respectively.

IRC operates in Banda Aceh, Indonesia through the Consortium for Assistance and Recovery Towards Development in Indonesia (CARDI), a partnership organization that includes the Danish Refugee Council, the Norwegian Refugee Council, Stichting Vluchteling, and IRC. Cash held on IRC's behalf at CARDI, consisting mainly of program advances, is included in other assets, and was \$263 and \$2,611 as of September 30, 2006 and 2005, respectively.

(15) Line of Credit

In May 2006, IRC obtained a \$2,500 unsecured line of credit from a financial institution bearing interest at a rate of LIBOR plus 90 basis points per annum. There are no fees associated with the unused portion of the line of credit. There were no amounts outstanding under such line during the year or at September 30, 2006.

(16) Contingencies

IRC is contingently liable under certain claims and lawsuits, many of which are covered in whole or in part by insurance. In management's opinion, none of these claims and lawsuits will have a material adverse effect on the financial position or changes in net assets of IRC.