



INTERNATIONAL RESCUE COMMITTEE, INC. AND SUBSIDIARIES

Consolidated Financial Statements

September 30, 2018

(With comparative financial information as of September 30, 2017)

(With Independent Auditors' Report Thereon)



KPMG LLP
345 Park Avenue
New York, NY 10154-0102

Independent Auditors' Report

The Board of Directors
International Rescue Committee, Inc.:

We have audited the accompanying consolidated financial statements of International Rescue Committee, Inc. and its subsidiaries (IRC), which comprise the consolidated balance sheet as of September 30, 2018, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated 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 consolidated financial statements based on our audit. 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the organization's preparation and fair presentation of the consolidated 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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of International Rescue Committee, Inc. and its subsidiaries as of September 30, 2018, and the changes in their net assets and their cash flows for the year then ended, in accordance with U.S. generally accepted accounting principles.



Report on Summarized Comparative Information

We have previously audited IRC's 2017 consolidated financial statements, and we expressed an unmodified audit opinion on those audited consolidated financial statements in our report dated March 6, 2018. In our opinion, the summarized comparative information presented herein as of and for the year ended September 30, 2017 is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

KPMG LLP

February 7, 2019

INTERNATIONAL RESCUE COMMITTEE, INC. AND SUBSIDIARIES

Consolidated Balance Sheet

September 30, 2018

(With comparative financial information as of September 30, 2017)

(Amounts in thousands)

Assets	2018	2017
Cash and cash equivalents (notes 7, 8, and 11)	\$ 99,894	105,490
Short-term investments (notes 2 and 8)	60,611	50,590
Grants and contracts receivable (notes 7 and 8)	43,869	65,448
Inventory	8,047	7,502
Contributions receivable, net	18,771	16,266
Other assets	8,803	8,166
Investments (notes 2 and 11):		
Endowment and emergency funds	117,245	112,068
Split-interest agreements	12,488	12,220
	<u>129,733</u>	<u>124,288</u>
Property and equipment, net (note 4)	3,725	4,531
Total assets	<u>\$ 373,453</u>	<u>382,281</u>
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued expenses	\$ 36,134	38,914
Accrued vacation and severance	14,498	12,455
Program advances (notes 7, 8, and 12)	85,360	95,278
Deferred revenue and other liabilities	4,220	3,310
Loan program liability	658	1,032
Annuity liabilities related to split-interest agreements	6,768	6,952
Deferred rent obligation (note 5)	3,139	4,088
Total liabilities	<u>150,777</u>	<u>162,029</u>
Commitments and contingencies (notes 2, 5, 6, 8, and 14)		
Net assets:		
Unrestricted (note 11):		
Board-designated endowment	50,840	49,341
Undesignated	17,817	18,840
Renewals and replacement fund	17,379	17,379
Designated for special-purpose fund	1,645	1,645
Total unrestricted	<u>87,681</u>	<u>87,205</u>
Temporarily restricted (notes 9 and 11):		
Donor contributions	69,582	70,009
Reinvested return on endowment funds	9,614	7,811
Split-interest agreements	306	311
Total temporarily restricted	<u>79,502</u>	<u>78,131</u>
Permanently restricted (notes 10 and 11):		
Donor endowment and emergency funds	55,493	54,916
Total permanently restricted	<u>55,493</u>	<u>54,916</u>
Total net assets	<u>222,676</u>	<u>220,252</u>
Total liabilities and net assets	<u>\$ 373,453</u>	<u>382,281</u>

See accompanying notes to consolidated financial statements.

INTERNATIONAL RESCUE COMMITTEE, INC. AND SUBSIDIARIES

Consolidated Statement of Activities

Year ended September 30, 2018

(With summarized financial information for the year ended September 30, 2017)

(Amounts in thousands)

	2018			Total	2017 Total
	Unrestricted	Temporarily restricted	Permanently restricted		
Operating activities:					
Operating revenues:					
Contributions (note 12)	\$ 93,920	54,936	—	148,856	155,361
Contributed goods and services	6,360	—	—	6,360	11,344
Grants and contracts (notes 7 and 12)	544,659	—	—	544,659	552,229
Foundation and private grants (note 7)	34,402	—	—	34,402	24,286
Investment return used for operations (note 3)	4,714	1,108	—	5,822	5,271
Loan administration fees and other income	3,740	600	—	4,340	5,016
Release from restrictions	57,067	(57,067)	—	—	—
Total operating revenues	744,862	(423)	—	744,439	753,507
Operating expenses:					
Program services:					
International programs	510,120	—	—	510,120	494,407
U.S. programs	83,198	—	—	83,198	94,021
Emergency preparedness, technical units, and other	56,940	—	—	56,940	52,709
Total program services	650,258	—	—	650,258	641,137
Supporting services:					
Management and general	57,697	—	—	57,697	48,523
Fund-raising	36,755	—	—	36,755	30,190
Total supporting services	94,452	—	—	94,452	78,713
Total operating expenses	744,710	—	—	744,710	719,850
Excess of (deficiency in) operating revenues over operating expenses	152	(423)	—	(271)	33,657
Nonoperating activities:					
Bequests and contributions (note 11)	—	—	577	577	12
Split-interest agreements	(38)	3	—	(35)	81
Excess of investment return, net (note 3)	2,107	1,791	—	3,898	9,071
Expenses related to:					
Split-interest agreements and endowment – fund-raising	(110)	—	—	(110)	(110)
Nonrecurring expenses	—	—	—	—	(572)
Foreign exchange (loss) gain	(1,635)	—	—	(1,635)	2,278
Total nonoperating activities	324	1,794	577	2,695	10,760
Increase in net assets	476	1,371	577	2,424	44,417
Net assets at beginning of year	87,205	78,131	54,916	220,252	175,835
Net assets at end of year	\$ 87,681	79,502	55,493	222,676	220,252

See accompanying notes to consolidated financial statements.

INTERNATIONAL RESCUE COMMITTEE, INC. AND SUBSIDIARIES
Consolidated Statement of Functional Expenses
Year ended September 30, 2018
(With summarized financial information for the year ended September 30, 2017)
(Amounts in thousands)

	Program services						Supporting services						Total	
	International			Europe and other countries	Total	U.S. programs	Emergency preparedness, technical units, and other	Total program services	Management and general	Fund-raising	Total supporting services	2018	2017	
	Africa	Asia	Middle East											
Personnel	\$ 99,898	23,649	70,047	10,426	204,020	49,627	35,422	289,069	38,665	16,106	54,771	343,840	305,379	
Professional services	2,841	641	4,399	390	8,271	1,180	3,320	12,771	7,061	3,205	10,266	23,037	20,327	
Travel, conferences, and events	8,916	1,914	2,720	610	14,160	2,876	5,787	22,823	2,173	1,510	3,683	26,506	22,608	
Occupancy	6,989	1,739	3,439	463	12,630	5,687	2,341	20,658	2,977	1,141	4,118	24,776	23,248	
Communications	2,803	411	1,059	153	4,426	1,241	863	6,530	958	13,682	14,640	21,170	18,267	
Vehicles, equipment, and supplies	15,842	1,412	3,815	385	21,454	2,494	862	24,810	2,622	821	3,443	28,253	24,197	
Subgrants	38,423	31,023	7,994	2,408	79,848	2,518	2,351	84,717	43	1	44	84,761	93,266	
Program materials and direct assistance	89,796	17,081	49,340	3,441	159,658	14,854	678	175,190	9	3	12	175,202	188,976	
Contributed goods and services	4,038	823	39	96	4,996	2,109	—	7,105	—	—	—	7,105	11,123	
Other	293	85	205	74	657	612	5,316	6,585	3,299	286	3,585	10,170	13,141	
Total expenses	269,839	78,778	143,057	18,446	510,120	83,198	56,940	650,258	57,807	36,755	94,562	744,820	720,532	
Less nonoperating expenses, primarily endowment and foreign exchange gain/loss	—	—	—	—	—	—	—	—	(110)	—	(110)	(110)	(682)	
Total operating expenses reported by function in the statement of activities	\$ 269,839	78,778	143,057	18,446	510,120	83,198	56,940	650,258	57,697	36,755	94,452	744,710	719,850	
2017 total	\$ 259,489	83,855	123,990	27,073	494,407	94,021	52,709	641,137	48,523	30,190	78,713	719,850	719,850	

See accompanying notes to consolidated financial statements.

INTERNATIONAL RESCUE COMMITTEE, INC. AND SUBSIDIARIES

Consolidated Statement of Cash Flows

Year ended September 30, 2018

(With comparative financial information for the year ended September 30, 2017)

(Amounts in thousands)

	<u>2018</u>	<u>2017</u>
Cash flows from operating activities:		
Increase in net assets	\$ 2,424	44,417
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation and amortization	1,628	1,531
Net realized and unrealized gains on investments	(6,979)	(11,886)
Loss on disposal of property and equipment	477	1
Change in value of split-interest agreements	195	226
Permanently restricted contributions	(577)	(12)
Changes in operating assets and liabilities:		
Grants and contracts receivable	21,579	1,012
Inventory	(545)	4,618
Contributions receivable	(2,513)	(10,146)
Other assets	(637)	1,140
Accounts payable and accrued expenses	(2,780)	4,102
Accrued vacation and severance	2,043	747
Program advances	(9,918)	47,042
Deferred revenue and other liabilities	910	55
Loan program liability	(374)	(427)
Deferred rent obligation	(949)	(938)
Net cash provided by operating activities	<u>3,984</u>	<u>81,482</u>
Cash flows from investing activities:		
Purchases of property and equipment	(1,299)	(762)
Proceeds from sale or redemption of investments	30,338	21,739
Purchases of investments	(28,804)	(17,381)
Purchases from short-term investments, net	<u>(10,021)</u>	<u>(24,656)</u>
Net cash used in investing activities	<u>(9,786)</u>	<u>(21,060)</u>
Cash flows from financing activities:		
Permanently restricted contributions	577	12
Proceeds from contributions under split-interest agreements	399	1,093
Payments to beneficiaries	<u>(770)</u>	<u>(805)</u>
Net cash provided by financing activities	<u>206</u>	<u>300</u>
Net (decrease) increase in cash and cash equivalents	(5,596)	60,722
Cash and cash equivalents at beginning of year	<u>105,490</u>	<u>44,768</u>
Cash and cash equivalents at end of year	\$ <u>99,894</u>	<u>105,490</u>
Supplemental information:		
Noncash contributed goods and services	\$ 6,360	11,344

See accompanying notes to consolidated financial statements.

INTERNATIONAL RESCUE COMMITTEE, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

September 30, 2018

(With comparative financial information as of September 30, 2017)

(Amounts in thousands)

(1) Organization and Summary of Significant Accounting Policies

(a) 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 helps people whose lives and livelihoods are shattered by conflict and disaster to survive, recover, and gain control of their future. IRC leads the humanitarian field by implementing high-impact, cost-effective programs for people affected by crisis, and by using our learning and experience to shape policy and practice.

IRC operates via an incorporated civil not-for-profit company according to article 741 Civil Code of Greece under the name of IRC Hellas. IRC owns 99% of IRC Hellas. IRC also operates through a separate incorporated and registered not-for-profit company in Germany as IRC Deutschland gGmbH, where IRC is the 100% shareholder of this entity under German law.

(b) Basis of Accounting

The accompanying consolidated financial statements have been prepared using the accrual basis of accounting in accordance with U.S. generally accepted accounting principles. 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 consolidated 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 consolidated statement of activities.

INTERNATIONAL RESCUE COMMITTEE, INC. AND SUBSIDIARIES

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(With comparative financial information as of September 30, 2017)

(Amounts in thousands)

(c) Fair Value Measurements

IRC follows the provisions of Accounting Standards Codification (ASC) Topic 820, *Fair Value Measurement*. Fair value is defined as the exchange price that would be received to sell an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. The three levels of the fair value hierarchy are as follows:

- Level 1 inputs are quoted or published market prices (unadjusted) in active markets for identical assets or liabilities that a reporting entity has the ability to access at the measurement date. Level 1 assets and liabilities include debt and equity securities that are traded in an active exchange market.
- Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. Level 2 assets and liabilities include debt securities with quoted market prices that are traded less frequently than exchange-traded instruments.
- Level 3 inputs are unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation.

The classification of investments in the fair value hierarchy is not necessarily an indication of the risks, liquidity, or degree of difficulty in estimating the fair value of each investment's underlying assets and liabilities.

The level in the fair value hierarchy within which a fair value measurement in its entirety falls is based on the lowest-level input that is significant to the fair value measurement.

(d) Grants, Contracts, and Contributions

IRC receives grants, contracts, and contributions from a number of sources including federal, foreign, and local governments, private foundations, and others. These agreements are evaluated as to whether they qualify as exchange transactions or contributions as defined by U.S. generally accepted accounting principles.

Grants and contracts that are treated as exchange transactions are reported as unrestricted revenue when expenses are incurred in accordance with the terms of the agreement and are classified as grants and contracts or foundation and private grants in the consolidated statement of activities. Accordingly, amounts received but not recognized as revenue are classified in the consolidated balance sheet as program advances, and amounts expended but not yet received are classified as grants and contracts receivable.

INTERNATIONAL RESCUE COMMITTEE, INC. AND SUBSIDIARIES

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(With comparative financial information as of September 30, 2017)

(Amounts in thousands)

Contributions, including unconditional promises to give (pledges), are recognized initially at fair value as revenue 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 risk-adjusted rate. Bequest income is recorded when the will has passed through the probate court and amounts can be reasonably determined. At September 30, 2018, contributions receivable due with one year were \$12,370. The remaining contributions receivable are due in fiscal years 2020 and 2021.

(e) Endowment Funds

IRC's endowment is subject to the provision of the New York Prudent Management of Institutional Funds Act (NYPMIFA). ASC 958-205, *Not-for-Profit Entities*, requires the portion of a donor-restricted endowment fund that is not classified as permanently restricted net assets to be classified as temporarily restricted net assets until appropriated for expenditure. Accordingly, the IRC classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. ASC 958-205 requires the portion of a donor-restricted endowment fund that is not classified as permanently restricted net assets to be classified as temporarily restricted net assets until appropriated for expenditure.

(i) Board-Designated Endowment

The board of directors has established a 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 portions of unrestricted surpluses in operating funds for this purpose.

(ii) Donor Endowment

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 preposition itself with commonly used emergency response inventory. Principal used by IRC must be subsequently returned to the emergency fund.

(f) Contributed Goods and Services

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

INTERNATIONAL RESCUE COMMITTEE, INC. AND SUBSIDIARIES

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(With comparative financial information as of September 30, 2017)

(Amounts in thousands)

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 revenue and are not reported in the consolidated financial statements.

(g) 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. The carrying amount approximates fair value. 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 a nonoperating activity in the line item split-interest agreements.

In other situations where assets are controlled and invested by an independent third party, IRC records a receivable and nonoperating contribution revenue at the date of the agreement 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, 2018 and 2017 ranged from 1.2% to 10.6%.

(h) 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.

(i) Operations

IRC excludes from operating activities bequests and contributions, and expenses related to split-interest agreements and the Freedom Fund (note 11); changes in value and investment return on split-interest agreements; investment return of the Freedom Fund in excess of or less than the spending rate (note 3); nonrecurring expenses funded by the designated special-purpose fund and the renewals and replacement fund; foreign exchange gains and losses; and other nonrecurring items. All other revenue and expenses are included in operating activities.

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(With comparative financial information as of September 30, 2017)

(Amounts in thousands)

(j) Cash and Cash Equivalents

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

(k) Short-Term Investments

Short-term investments consist of money market funds, certificates of deposit, and commercial paper with original maturities less than 12 months.

(l) Investments

Investments are stated at fair value based on quoted or published market prices except for the fair values of alternative investments that include hedge funds and a direct lending fund, which are stated at net asset value (NAV) as 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. Alternative investments 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 alternative investments 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. Losses from investments in alternative investments are limited to its investment.

(m) Inventory

Inventory consists of program materials and emergency response supplies not used as of September 30. Inventory is recorded at cost upon purchase, while contributed inventory is recorded at fair value. Inventory is deducted and expensed when used or distributed by IRC.

(n) Property and Equipment

Property and equipment are recorded at cost, if purchased, or at fair 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.

(o) Foreign Currency Translation

IRC applies the current rate method of translation when including the accounts of its foreign offices. All foreign-denominated assets and liabilities are translated into U.S. dollars using the current exchange rates in effect at the consolidated balance sheet date. Revenue and expenses are translated at the

INTERNATIONAL RESCUE COMMITTEE, INC. AND SUBSIDIARIES

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(Amounts in thousands)

average rate in effect during the year. The resulting translation (loss) gain for 2018 and 2017 of \$(1,635) and \$2,278, respectively, is reflected in the consolidated statement of activities.

(p) 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 in Section 509(a)(1) of the Code. As a not-for-profit organization, IRC is also exempt from state and local income taxes. Accordingly, IRC is not subject to income taxes except to the extent it has taxable income from activities that are not related to its exempt purposes. IRC utilizes a threshold of more likely than not for recognition and derecognition of tax positions taken or expected to be taken in a tax return. No provision for income taxes was required for fiscal year 2018 or 2017.

(q) Use of Estimates

The preparation of consolidated financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates. Significant estimates and assumptions include the valuation of alternative investments and the allocation of expenses to functional classifications.

(r) Comparative Financial Information

The consolidated 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 U.S. generally accepted accounting principles. Accordingly, such information should be read in conjunction with IRC's 2017 consolidated financial statements, from which the comparative totals were derived.

(s) Reclassifications

Certain amounts in the 2017 financial statements have been reclassified to conform to the 2018 presentation.

(t) New Authoritative Accounting Pronouncements

The Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*, which among other things, changes how not-for-profit entities report net asset classes, expenses, and liquidity in their financial statements. The significant requirements of the ASU include the reduction of the number of net asset classes from three to two: with donor restrictions and without donor restrictions; the presentation of expenses by their function and their natural classification in one location; quantitative and qualitative information about the management of liquid resources and availability of financial assets to meet cash needs within one year of the date of the statement of financial position; and retaining the option to present operating cash flows in the statements of cash flows using either the direct or indirect method. The ASU is effective for IRC's 2019 fiscal year.

INTERNATIONAL RESCUE COMMITTEE, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

September 30, 2018

(With comparative financial information as of September 30, 2017)

(Amounts in thousands)

In June 2018, the FASB issued ASU 2018-08, *Not-for-Profit Entities Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. ASU 2018-08 helps an entity evaluate whether it should account for a grant (or similar transaction) as a contribution or as an exchange transaction. The ASU also clarifies and expands the criteria for determining whether a contribution is conditional, which may delay recognition of contribution revenue (recipient) or expense (resource provided). The provisions in this ASU are effective for annual periods beginning after June 15, 2018. IRC is in the process of evaluating the impact of the ASU. IRC plans to implement the provisions of ASU 2018-08 as of October 1, 2019.

(2) Investments

(a) Fair Value Hierarchy

The following tables present IRC's investments (including short-term investments) at fair value, the only financial instruments measured at fair value as of September 30, 2018 and 2017:

	2018		
	Level 1	NAV	Total
Cash and cash equivalents	\$ 138	—	138
Short-term investments	8,051	—	8,051
Equities:			
Mutual funds:			
United States	42,861	—	42,861
International	24,542	—	24,542
Commingled funds	5,971	—	5,971
Total equities	<u>73,374</u>	<u>—</u>	<u>73,374</u>
Fixed income:			
Direct ownership:			
U.S. government/agency	367	—	367
U.S. corporate and other	215	—	215
Mutual funds:			
U.S. government/agency	10,216	—	10,216
U.S. corporate and other	3,995	—	3,995
Commingled fund	3,351	—	3,351
Total fixed income	<u>18,144</u>	<u>—</u>	<u>18,144</u>
Direct lending funds	—	3,825	3,825
Hedge funds	—	26,201	26,201
Total investments	<u>\$ 99,707</u>	<u>30,026</u>	<u>129,733</u>
Short-term investments	\$ 60,611	—	60,611

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		2017	
	Level 1	NAV	Total
Cash and cash equivalents	\$ 108	—	108
Equities:			
Mutual funds:			
United States	39,038	—	39,038
International	24,890	—	24,890
Commingled funds	6,455	—	6,455
Total equities	70,383	—	70,383
Fixed income:			
Direct ownership:			
U.S. government/agency	341	—	341
U.S. corporate and other	220	—	220
Mutual funds:			
U.S. government/agency	9,993	—	9,993
U.S. corporate and other	8,954	—	8,954
Commingled fund	3,299	—	3,299
Total fixed income	22,807	—	22,807
Direct lending funds	—	6,586	6,586
Hedge funds	—	24,404	24,404
Total investments	\$ 93,298	30,990	124,288
Short-term investments	\$ 50,590	—	50,590

Investments at September 30, 2018 and 2017 include \$117,245 and \$112,068, respectively, relating to IRC's Freedom Fund (note 11) and \$12,488 and \$12,220, respectively, relating to split-interest agreements.

IRC has an investment committee comprising members of the board of directors and overseers, which is charged with the responsibility of providing fiduciary oversight over IRC's investments. The investment committee meets with executive management and external advisers on a regular basis to review investment performance, asset allocation, and investment manager performance.

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(b) Strategies of Hedge and Direct Lending Funds

The following table lists the investment strategies, redemption terms, and assets for hedge and direct lending funds measured at fair value as of September 30, 2018:

	<u>Total fair value</u>	<u>Redemption dates per year</u>	<u>Redemption notice period</u>
Direct lending fund	\$ 3,825 (a)	N/A	N/A
Hedge funds:			
Distressed debt	9,137	Quarterly	65 Days
Multistrategy fund	8,015	Annually	90 Days
Quantitative	8,627	Monthly	62 Days
Long/short equity	<u>422</u>	N/A	N/A
Total hedge funds	<u>26,201 (b)</u>		
Total	<u>\$ 30,026</u>		

The following provides details for the investment strategies listed above:

(a) Direct Lending Fund

These consist of two investments in direct lending funds that provide debt financing for middle market companies. These investments have commitments of one and seven years remaining.

(b) Multistrategy Hedge Funds

This consists of \$26,201 invested in five hedge funds at September 30, 2018. All five funds are fully redeemable. These hedge funds invest in equity, fixed income, and derivatives, and vary their investment strategies in response to changing market opportunities. As of September 30, 2018, the IRC's combined investments in these funds included 35% credit strategies, 33% quantitative equity strategies, and 30% multistrategies. The remaining 2% represents cash from a long/short equity fund redemption to be distributed after the manager's year-end audit.

At September 30, 2018 and 2017, the IRC had unfunded commitments to limited partnerships amounting to \$3,175 and \$1,050, respectively.

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(3) Investment Return

IRC maintains a spending rate policy on the Freedom Fund (note 11) 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 three-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, 2018 and 2017 consisted of the following:

	<u>2018</u>	<u>2017</u>
Interest and dividend income	\$ 2,741	2,456
Net realized gains	2,512	1,021
Net unrealized gains	<u>4,467</u>	<u>10,865</u>
Total return on investments	9,720	14,342
Less investment return used for operations	<u>(5,822)</u>	<u>(5,271)</u>
Investment return in excess of amounts used for operations	\$ <u><u>3,898</u></u>	<u><u>9,071</u></u>

Return on investment is shown net of investment manager fees at September 30, 2018 and 2017.

(4) Property and Equipment

Property and equipment consisted of the following as of September 30, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Furniture and equipment	\$ 3,750	3,573
Cars, vans, and mobile units	3,942	3,673
Construction in progress	48	—
Leasehold improvements	8,618	8,564
Donated art portfolios	<u>84</u>	<u>84</u>
	16,442	15,894
Less accumulated depreciation and amortization	<u>(12,717)</u>	<u>(11,363)</u>
	\$ <u><u>3,725</u></u>	<u><u>4,531</u></u>

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(5) Lease Agreements

IRC leases several office facilities and equipment under operating leases expiring at various dates through 2028. Rental expense is recognized on the 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 obligation in the consolidated balance sheet. The deferred rent obligation in headquarters grew as payments were less than expenses until fiscal year 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, 2018:

Year ending September 30:		
2019	\$	7,275
2020		7,107
2021		4,701
2022		2,081
2023		1,562
Thereafter		<u>3,829</u>
Total minimum future payments	\$	<u><u>26,555</u></u>

Rent expense for the years ended September 30, 2018 and 2017 was \$16,544 and \$15,861, respectively.

(6) Defined Contribution Retirement Plan

IRC's 403(b) Retirement Savings Plan covers all U.S.-based and expatriate personnel subject to plan eligibility requirements. IRC makes contributions 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

IRC provides base contributions, in addition to the existing matching contributions program, which allows for immediate eligibility with a three-year vesting requirement for the base contributions.

Pension expense relating to the defined contribution plan for 2018 and 2017 was \$8,894 and \$6,884, respectively.

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IRC's 457(b) Plan covers highly compensated employees and enables eligible employees to enhance their retirement security by permitting them to defer a portion of their compensation once limits on the 403(b) plan have been reached during the calendar year.

IRC's 457(f) Plan is a nonqualified deferred compensation plan and is intended to constitute an unfunded plan for a select group of management or highly compensated employees and be exempt from Parts 2, 3, and 4 of Subtitle B of Title I of the Employee Retirement Income Security Act of 1974, as amended, and is intended to constitute a deferred compensation plan, as defined in Section 457(f) of the Internal Revenue Code of 1986, as amended.

(7) Significant Funders and Concentrations of Credit Risk

Grants and contracts revenues were from the following for the years ended September 30, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
U.S. federal and local government agencies	\$ 244,846	262,130
European agencies	196,699	188,819
United Nations agencies	86,911	86,393
Other agencies	<u>16,203</u>	<u>14,887</u>
	<u>\$ 544,659</u>	<u>552,229</u>

During the year ended September 30, 2018, 12% and 22% (13% and 23% each during fiscal year 2017) 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.

During the year ended September 30, 2018, approximately 52% of the \$34,402 revenues from foundation and private donors comprised grants from seven donors (56% from five donors during fiscal year 2017).

Financial instruments that 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, 2018 and 2017, 25% and 21%, respectively, is deposited in banks in foreign locations. At September 30, 2018 and 2017, 47% and 39%, respectively, of grants and contracts receivable are due from the European Union agencies, including Europeaid, the European Commission Humanitarian Aid Office, and the United Kingdom's Department for International Development, through IRC's foreign affiliate (note 12).

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(8) Grants and Contracts Receivable and Program Advances

Grants and contracts receivable were from the following as of September 30, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Federal and local government agencies	\$ 10,420	17,122
United Nations agencies	6,995	7,084
European agencies	19,342	33,538
Foundation and private donors	2,810	2,535
Other agencies	4,302	5,169
	<u>\$ 43,869</u>	<u>65,448</u>

Program advances, included in cash and cash equivalents and short-term investments, were received from the following as of September 30, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
United Nations agencies	\$ 12,119	12,425
European agencies	47,747	59,887
Foundation and private donors	19,223	16,317
Other agencies	6,271	6,649
	<u>\$ 85,360</u>	<u>95,278</u>

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 consolidated financial position or consolidated changes in net assets.

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(9) Temporarily Restricted Net Assets

Temporarily restricted net assets as of September 30, 2018 and 2017 are available subject to time and purpose restrictions as follows:

	<u>2018</u>	<u>2017</u>
Time restrictions:		
Split-interest agreements	\$ 306	311
General purpose	19,317	14,411
Purpose restrictions:		
Balkans, Caucasus, and other programs	2,519	2,042
Middle East programs	7,587	8,650
Asian programs	2,321	2,003
African programs	8,146	8,737
Total international programs	<u>20,573</u>	<u>21,432</u>
U.S. programs	19,086	19,242
Emergency preparedness, technical units, and other	19,258	21,438
Supporting services	962	1,297
	<u>\$ 79,502</u>	<u>78,131</u>

(10) Permanently Restricted Net Assets

The income earned on permanently restricted net assets as of September 30, 2018 and 2017 is available for the following purposes:

	<u>2018</u>	<u>2017</u>
Reproductive health	\$ 9,870	9,870
Emergency response	9,414	9,414
U.S. programs	1,203	1,203
President's office	1,000	1,000
Children's programs	294	294
International programs	99	99
General purposes	33,613	33,036
	<u>\$ 55,493</u>	<u>54,916</u>

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(11) Freedom Fund

IRC's Freedom Fund comprises the board-designated endowment and donor endowment, and net assets. As of September 30, 2018 and 2017, the Freedom Fund is categorized on the consolidated balance sheet as follows:

	<u>2018</u>	<u>2017</u>
Assets:		
Cash and cash equivalents (due to operating)	\$ (1,298)	—
Investments	<u>117,245</u>	<u>112,068</u>
Total	<u>\$ 115,947</u>	<u>112,068</u>
Net assets:		
Unrestricted board-designated endowment	\$ 50,840	49,341
Temporarily restricted – reinvested return	9,614	7,811
Permanently restricted	<u>55,493</u>	<u>54,916</u>
Total	<u>\$ 115,947</u>	<u>112,068</u>

The IRC endowment consists of 20 individual funds established for a variety of purposes, including both donor-restricted endowment funds and funds designated by the IRC to function as endowments (board-designated).

Net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

Endowment net assets, which exclude contributions receivable, consist of the following at September 30, 2018 and 2017:

	<u>2018</u>			
	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Donor-restricted	\$ —	9,614	55,493	65,107
Board-designated	<u>50,840</u>	<u>—</u>	<u>—</u>	<u>50,840</u>
Total	<u>\$ 50,840</u>	<u>9,614</u>	<u>55,493</u>	<u>115,947</u>

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		2017			
		Unrestricted	Temporarily restricted	Permanently restricted	Total
Donor-restricted	\$	—	7,811	54,916	62,727
Board-designated		49,341	—	—	49,341
Total	\$	<u>49,341</u>	<u>7,811</u>	<u>54,916</u>	<u>112,068</u>

Changes in endowment net assets, which exclude contributions receivable, for the fiscal years ended September 30, 2018 and 2017 were as follows:

		2018			
		Unrestricted	Temporarily restricted	Permanently restricted	Total
Net assets, September 30, 2017	\$	49,341	7,811	54,916	112,068
Investment return, net		5,381	2,897	—	8,278
Contributions		24	—	577	601
Distributions		(3,906)	(1,094)	—	(5,000)
Net assets, September 30, 2018	\$	<u>50,840</u>	<u>9,614</u>	<u>55,493</u>	<u>115,947</u>

		2017			
		Unrestricted	Temporarily restricted	Permanently restricted	Total
Net assets, September 30, 2016	\$	48,516	3,557	54,904	106,977
Investment return, net		4,680	5,350	—	10,030
Contributions		47	—	12	59
Distributions		(3,902)	(1,096)	—	(4,998)
Net assets, September 30, 2017	\$	<u>49,341</u>	<u>7,811</u>	<u>54,916</u>	<u>112,068</u>

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(12) Foreign Affiliates

IRC is currently affiliated with two separately incorporated organizations, International Rescue Committee, U.K. (IRC-UK) and International Rescue Committee, Belgium ASBL. Revenue provided by IRC-UK, primarily funded by the European Commission Humanitarian Aid Office and Department for International Development, was \$196,699 and \$177,105 for fiscal years 2018 and 2017, respectively, and is included in grants and contracts and contributions in the consolidated statement of activities. Program advances from the International Rescue Committee, U.K. were \$26,810 and \$30,846 as of September 30, 2018 and 2017, respectively.

(13) Line of Credit

IRC has a \$10,000 unsecured line of credit from a financial institution expiring in May 2019, which bears interest at a rate of LIBOR plus 125 basis points per annum. There were no amounts outstanding under such line during the year or at September 30, 2018 and 2017.

(14) 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.

(15) Subsequent Events

In connection with the preparation of the consolidated financial statements, the IRC evaluated subsequent events from September 30, 2018 through February 7, 2019, which was the date the consolidated financial statements were approved for issuance, and concluded that no additional disclosures are required.