



INTERNATIONAL RESCUE COMMITTEE, INC. AND SUBSIDIARIES

Consolidated Financial Statements

September 30, 2020

(With Comparative Financial Information as of September 30, 2019)

(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, 2020, 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 financial position of International Rescue Committee, Inc. and its subsidiaries as of September 30, 2020, 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 2019 consolidated financial statements, and we expressed an unmodified audit opinion on those audited consolidated financial statements in our report dated March 26, 2020. In our opinion, the summarized comparative information presented herein as of and for the year ended September 30, 2019 is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

KPMG LLP

February 16, 2021

INTERNATIONAL RESCUE COMMITTEE, INC. AND SUBSIDIARIES

Consolidated Balance Sheet

September 30, 2020

(With comparative financial information as of September 30, 2019)

(Amounts in thousands)

Assets	2020	2019
Cash and cash equivalents (notes 8, 9, and 11)	\$ 187,239	132,197
Short-term investments (notes 2 and 9)	16,181	25,974
Grants and contracts receivable (notes 8 and 9)	76,596	81,690
Inventory	16,816	8,946
Contributions receivable, net (note 4)	21,490	33,235
Other assets	10,399	9,084
Investments (notes 2 and 11):		
Endowment and emergency funds	112,646	116,714
Split-interest agreements	11,942	11,702
	<u>124,588</u>	<u>128,416</u>
Property and equipment, net (note 5)	<u>2,598</u>	<u>3,554</u>
Total assets	\$ <u>455,907</u>	<u>423,096</u>
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued expenses	\$ 47,944	50,807
Accrued vacation and severance	17,512	15,432
Program advances (notes 8, 9, and 12)	135,952	116,814
Deferred revenue and other liabilities	1,137	1,841
Annuity liabilities related to split-interest agreements	6,405	6,453
Deferred rent obligation (note 6)	1,167	2,001
Total liabilities	<u>210,117</u>	<u>193,348</u>
Commitments and contingencies (notes 2, 6, 7, 9, and 13)		
Net assets:		
Net assets without donor restrictions (note 11):		
Board-designated endowment	49,507	49,407
Undesignated	32,155	19,256
Renewals and replacement fund	11,659	16,564
Designated for special-purpose fund	1,500	1,625
Total net assets without donor restrictions	<u>94,821</u>	<u>86,852</u>
Net assets with donor restrictions (notes 10 and 11):		
Donor contributions restricted for time and purpose	87,416	77,751
Reinvested return on endowment funds	7,648	9,243
Split-interest agreements	412	409
Donor endowment and emergency funds	55,493	55,493
Total net assets with donor restrictions	<u>150,969</u>	<u>142,896</u>
Total net assets	<u>245,790</u>	<u>229,748</u>
Total liabilities and net assets	\$ <u>455,907</u>	<u>423,096</u>

See accompanying notes to consolidated financial statements.

INTERNATIONAL RESCUE COMMITTEE, INC. AND SUBSIDIARIES

Consolidated Statement of Activities

Year ended September 30, 2020

(With summarized financial information for the year ended September 30, 2019)

(Amounts in thousands)

	2020		Total	2019 Total
	Without donor restrictions	With donor restrictions		
Operating activities:				
Operating revenues:				
Contributions (note 12)	\$ 115,093	69,256	184,349	174,707
Contributed goods and services	9,010	—	9,010	7,252
Grants and contracts (notes 8 and 12)	581,783	—	581,783	566,061
Foundation and private grants (note 8)	41,143	—	41,143	37,631
Investment return used for operations (note 3)	4,385	1,152	5,537	6,516
Loan administration fees and other income	3,314	436	3,750	4,314
Release from restrictions	62,344	(62,344)	—	—
Total operating revenues	817,072	8,500	825,572	796,481
Operating expenses:				
Program services:				
International programs	542,590	—	542,590	523,111
U.S. programs	93,121	—	93,121	93,555
Emergency preparedness, technical units, and other	71,007	—	71,007	64,565
Total program services	706,718	—	706,718	681,231
Supporting services:				
Management and general	54,431	—	54,431	57,692
Fund-raising	47,114	—	47,114	46,413
Total supporting services	101,545	—	101,545	104,105
Total operating expenses	808,263	—	808,263	785,336
Excess of operating revenues over operating expenses	8,809	8,500	17,309	11,145
Nonoperating activities:				
Split-interest agreements	(311)	(21)	(332)	69
Investment return, net	(481)	(406)	(887)	(1,630)
Nonrecurring expenses	(5,030)	—	(5,030)	(834)
Foreign exchange gain (loss)	4,982	—	4,982	(1,678)
Total nonoperating activities	(840)	(427)	(1,267)	(4,073)
Increase in net assets	7,969	8,073	16,042	7,072
Net assets at beginning of year	86,852	142,896	229,748	222,676
Net assets at end of year	\$ 94,821	150,969	245,790	229,748

See accompanying notes to consolidated financial statements.

INTERNATIONAL RESCUE COMMITTEE, INC. AND SUBSIDIARIES
Consolidated Statement of Functional Expenses
Year ended September 30, 2020
(With summarized financial information for the year ended September 30, 2019)
(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	2020	2019
	Africa	Asia	Middle East										
Personnel	\$ 122,267	28,232	62,464	10,708	223,671	59,205	43,479	326,355	43,789	23,087	66,876	393,231	369,631
Professional services	3,458	765	2,258	1,051	7,532	1,878	3,262	12,672	6,733	4,524	11,257	23,929	25,172
Travel, conferences, and events	7,987	1,485	1,359	382	11,213	1,747	2,309	15,269	788	623	1,411	16,680	29,226
Occupancy	7,470	1,692	3,048	624	12,834	5,381	4,408	22,623	625	437	1,062	23,685	24,220
Communications	4,866	540	913	467	6,786	900	477	8,163	567	14,864	15,431	23,594	22,395
Vehicles, equipment, and supplies	18,694	4,049	6,487	618	29,848	2,510	1,917	34,275	6,375	1,273	7,648	41,923	41,043
Subgrants	41,235	25,515	11,126	7,869	85,745	3,594	3,476	92,815	—	10	10	92,825	87,444
Program materials and direct assistance	103,589	18,286	29,651	4,664	156,190	15,762	1,726	173,678	221	69	290	173,968	168,693
Contributed goods and services	5,720	624	116	56	6,516	1,358	—	7,874	—	—	—	7,874	6,576
Other	1,227	220	745	63	2,255	786	10,008	13,049	283	2,252	2,535	15,584	11,770
Total expenses	316,513	81,408	118,167	26,502	542,590	93,121	71,062	706,773	59,381	47,139	106,520	813,293	786,170
Less nonoperating expenses	—	—	—	—	—	—	(55)	(55)	(4,950)	(25)	(4,975)	(5,030)	(834)
Total operating expenses reported by function in the statement of activities	\$ 316,513	81,408	118,167	26,502	542,590	93,121	71,007	706,718	54,431	47,114	101,545	808,263	785,336
2019 total	\$ 290,272	85,538	131,447	15,854	523,111	93,555	64,565	681,231	57,692	46,413	104,105	—	785,336

See accompanying notes to consolidated financial statements.

INTERNATIONAL RESCUE COMMITTEE, INC. AND SUBSIDIARIES

Consolidated Statement of Cash Flows

Year ended September 30, 2020

(With comparative financial information for the year ended September 30, 2019)

(Amounts in thousands)

	<u>2020</u>	<u>2019</u>
Cash flows from operating activities:		
Increase in net assets	\$ 16,042	7,072
Adjustments to reconcile increase in net assets to net cash provided by (used in) operating activities:		
Depreciation and amortization	1,468	1,603
Net realized and unrealized gains on investments	(2,577)	(1,377)
Loss on disposal of property and equipment	890	15
Change in value of split-interest agreements	414	205
Changes in operating assets and liabilities:		
Grants and contracts receivable	5,094	(37,821)
Inventory	(7,870)	(899)
Contributions receivable	11,736	(14,466)
Other assets	(1,315)	(281)
Accounts payable and accrued expenses	(2,863)	14,673
Accrued vacation and severance	2,080	934
Program advances	19,138	31,454
Deferred revenue and other liabilities	(704)	(3,037)
Deferred rent obligation	(834)	(1,138)
Net cash provided by (used in) operating activities	<u>40,699</u>	<u>(3,063)</u>
Cash flows from investing activities:		
Purchases of property and equipment	(1,402)	(1,447)
Proceeds from sale or redemption of investments	22,448	16,962
Purchases of investments	(16,043)	(14,268)
Sales (purchases) from short-term investments, net	9,793	34,637
Net cash provided by investing activities	<u>14,796</u>	<u>35,884</u>
Cash flows from financing activities:		
Proceeds from contributions under split-interest agreements	252	355
Payments to beneficiaries	(705)	(873)
Net cash used in financing activities	<u>(453)</u>	<u>(518)</u>
Net increase in cash and cash equivalents	55,042	32,303
Cash and cash equivalents at beginning of year	<u>132,197</u>	<u>99,894</u>
Cash and cash equivalents at end of year	<u>\$ 187,239</u>	<u>132,197</u>
Supplemental information:		
Noncash contributed goods and services	\$ 9,010	7,252

See accompanying notes to consolidated financial statements.

INTERNATIONAL RESCUE COMMITTEE, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

September 30, 2020

(With comparative financial information as of September 30, 2019)

(Amounts in thousands)

(1) Organization and Summary of Significant Accounting Policies

(a) Organization

International Rescue Committee, Inc. and its subsidiaries (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. In 2019, IRC incorporated a subsidiary office in Sweden for the purpose of private fund-raising, which IRC owns 100%.

IRC is affiliated with two separately incorporated and non-consolidated entities, International Rescue Committee, U.K. (IRC-UK) and International Rescue Committee, Belgium ASBL.

(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:

- *Without donor restrictions* – 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 IRC's net assets without donor restrictions for specific purposes.
- *With donor restrictions* – Net assets 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. Also included in this category are net assets subject to donor-imposed restrictions that they be maintained in perpetuity by IRC and only income be used as specified by the donor. Certain emergency funds allow temporary use of principal.

Revenues are reported as increases in net assets without donor restrictions unless their use is limited by donor-imposed restrictions. Expenses are reported as decreases in net assets without donor restrictions. Gains and losses on investments are reported as increases or decreases in net assets without donor restrictions 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, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported as release from restrictions in the consolidated statement of activities. Restricted gifts are recorded as net assets without donor restrictions if the restrictions are fulfilled in the

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same time period in which the contribution is received. IRC adopts the simultaneous release option for donor-restricted conditional grants that are recognized and used within the same reporting period, and thus are reported as net assets without donor restrictions.

(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. Grants and government contracts are considered nonexchange transactions and are reported as revenue when expenses are incurred in accordance with the specific terms and conditions 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.

Contributions, including unconditional promises to give (pledges), are recognized initially at fair value as revenue in the period received or pledged and when all conditions have been met. Contributions are

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considered to be without donor restriction 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.

Revenues from nonexchange transactions are conditional if the agreement includes both a barrier that must be overcome for the recipient to be entitled to the assets transferred and a right of return for the transferred assets or a right of release of the promisor's obligation to transfer assets. Conditional promises to give are recognized only when the barriers on which they depend are met and the promises become unconditional. IRC has elected the simultaneous release option for conditional grants and government contracts that are also subject to purpose restrictions. Under this option, net assets without donor restrictions will include the donor-restricted revenue for which the purpose restrictions are met in the same reporting period.

Conditional contributions are related to funding for the establishment of new programs or continuation of current programs within IRC's overall mission, subject to the terms of each funding agreement. At September 30, 2020, IRC has \$908,504 of conditional public donor promises to give in the form of measurable performance related or other barriers and right of return that have not been reflected in the accompanying consolidated financial statements.

(e) Endowment Funds

IRC's endowment is subject to the provision of the New York Prudent Management of Institutional Funds Act (NYPMIFA). IRC classifies as donor-restricted endowment funds (a) the original value of gifts donated to the endowment, (b) the original value of subsequent gifts to the endowment, and (c) accumulations to the endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not held in perpetuity is classified as net assets with donor restrictions 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 bequests without donor restrictions, extraordinary gifts (as determined by the board of directors), and portions of surpluses in operating funds for this purpose.

(ii) Donor-Restricted Endowment

In further support of the long-term financial stability of the organization, IRC receives donations for which the principal must be maintained in perpetuity. 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.

INTERNATIONAL RESCUE COMMITTEE, INC. AND SUBSIDIARIES

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(With comparative financial information as of September 30, 2019)

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(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.

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 for IRC's general use.

IRC records the assets of the agreements (at fair value) if the assets are controlled and invested by IRC. IRC records nonoperating 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 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, 2020 and 2019 ranged from 0.6% to 10.6%.

(h) Functional Expense Allocations

The majority of the expenses can generally be directly identified with the program or supporting service to which they relate (management and general or fund-raising) and are charged accordingly.

Other expenses are allocated to the functional categories based on allocation factors determined by management, such as square footage for occupancy costs and time and effort reporting for personnel costs. For functions where roles or activities can change during the year, IRC sets an allocation percentage annually and updates the percentages during the fiscal year if roles or activities change.

(i) Operations

IRC excludes from operating activities contributions that are restricted for endowment; changes in value and investment return on split-interest agreements; investment return of the Freedom Fund less than or in excess of the spending rate (note 3); nonrecurring expenses funded by the designated

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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.

(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.

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(Amounts in thousands)

(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 average rate in effect during the year. The resulting translation gain/(loss) for 2020 and 2019 of \$4,982 and \$(1,678), 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 2020 or 2019.

(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 2019 consolidated financial statements, from which the comparative totals were derived.

(s) Reclassifications

Certain amounts in the 2019 consolidated financial statements have been reclassified to conform to the 2020 presentation.

(t) New Authoritative Accounting Pronouncement

The Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2018-08, *Not-for-Profit Entities: Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. ASU No. 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 provider). IRC adopted the contributions received provisions of ASU No. 2018-08 as of October 1, 2019. The new guidance is

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(Amounts in thousands)

effective for IRC as a grant maker beginning October 1, 2020. IRC does not expect that the grant making guidance will have a significant impact on its consolidated financial statements.

(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, 2020 and 2019:

	Level 1	2020	
		NAV	Total
Cash and cash equivalents	\$ 245	—	245
Short-term investments (endowment)	12	—	12
Equities:			
Mutual funds:			
United States	44,141	—	44,141
International	24,514	—	24,514
Commingled funds	5,378	—	5,378
Total equities	74,033	—	74,033
Fixed income:			
Direct ownership:			
U.S. government/agency	382	—	382
U.S. corporate and other	204	—	204
Mutual funds:			
U.S. government/agency	46	—	46
U.S. corporate and other	7,681	—	7,681
Commingled funds	3,294	—	3,294
Total fixed income	11,607	—	11,607
Direct lending funds	—	6,083	6,083
Hedge funds	—	32,608	32,608
Total investments	\$ 85,897	38,691	124,588
Short-term investments (operating)	\$ 16,181	—	16,181

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Notes to Consolidated Financial Statements

September 30, 2020

(With comparative financial information as of September 30, 2019)

(Amounts in thousands)

		2019	
	Level 1	NAV	Total
Cash equivalents	\$ 90	—	90
Short-term investments (endowment)	12	—	12
Equities:			
Mutual funds:			
United States	39,583	—	39,583
International	24,442	—	24,442
Commingled funds	5,377	—	5,377
Total equities	69,402	—	69,402
Fixed income:			
Direct ownership:			
U.S. government/agency	345	—	345
U.S. corporate and other	221	—	221
Mutual funds:			
U.S. government/agency	10,484	—	10,484
U.S. corporate and other	4,220	—	4,220
Commingled funds	3,107	—	3,107
Total fixed income	18,377	—	18,377
Direct lending funds	—	5,325	5,325
Hedge funds	—	35,210	35,210
Total investments	\$ 87,881	40,535	128,416
Short-term investments (operating)	\$ 25,974	—	25,974

Investments at September 30, 2020 and 2019 include \$112,646 and \$116,714, respectively, relating to IRC's Freedom Fund (note 11) and \$11,942 and \$11,702, 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, 2020:

	<u>Total fair value</u>		<u>Redemption dates per year</u>	<u>Redemption notice period</u>
Direct lending funds	\$ 6,083	(a)	N/A	N/A
Hedge funds:				
Distressed debt	9,936		Quarterly	65 Days
Multistrategy fund	8,325		Annually	90 Days
Quantitative	<u>14,347</u>		Monthly	62 Days
Total hedge funds	<u>32,608</u>	(b)		
Total	<u>\$ 38,691</u>			

The following provides details for the investment strategies listed above:

(a) Direct Lending Funds

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

(b) Multistrategy Hedge Funds

This consists of \$32,608 invested in four hedge funds at September 30, 2020. All four 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, 2020, the IRC's combined investments in these funds included 30% credit strategies, 44% quantitative equity strategies, and 26% multistrategies.

At September 30, 2020 and 2019, the IRC had unfunded commitments to limited partnerships amounting to \$875 and \$1,675, respectively.

(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. Return on investment is shown net of investment manager fees at September 30, 2020 and 2019.

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(4) Contributions Receivable

Contributions receivable are expected to be collected at September 30, 2020 as follows:

	<u>2020</u>	<u>2019</u>
Amounts expected to be collected:		
In one year or less	\$ 12,816	18,344
In one year to five years	8,675	15,149
In more than five years	<u>15</u>	<u>45</u>
	21,506	33,538
Less:		
Discount to present value (rates from 0.12% to 2.60%)	<u>(125)</u>	<u>(421)</u>
Total	21,381	33,117
Split-interest agreements – contributions receivable	<u>109</u>	<u>118</u>
Total contributions receivable, net	<u>\$ 21,490</u>	<u>33,235</u>

The amounts receivable from two donors represent approximately 34% and 47% of the gross receivable as of September 30, 2020 and 2019, respectively.

(5) Property and Equipment

Property and equipment consisted of the following as of September 30, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Furniture and equipment	\$ 3,826	3,781
Cars, vans, and mobile units	4,646	4,548
Construction in progress	352	754
Leasehold improvements	9,488	8,707
Donated art portfolios	<u>74</u>	<u>84</u>
	18,386	17,874
Less accumulated depreciation and amortization	<u>(15,788)</u>	<u>(14,320)</u>
	<u>\$ 2,598</u>	<u>3,554</u>

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(6) Lease Agreements

IRC leases several office facilities and equipment under operating leases expiring at various dates through 2032. 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. 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, 2020:

Year ending September 30:		
2021	\$	8,105
2022		7,035
2023		6,547
2024		6,460
2025		6,155
Thereafter		<u>38,892</u>
Total minimum future payments	\$	<u><u>73,194</u></u>

Rent expense for the years ended September 30, 2020 and 2019 was \$19,660 and \$17,706, respectively.

(7) 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.

IRC's International Retirement Plan (IRP) began effective April 1, 2019 and covers all non-U.S. based expatriate personnel subject to plan eligibility requirements. IRC makes contributions based on a prescribed matching schedule of employee contributions. Employee contributions up to 5% of compensation are eligible for a matching contribution by IRC. Matching contributions are deposited in the plan each payroll period based on 100% of the basic employee contribution up to the first 5% of

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compensation. IRC provides 5% of compensation for base contributions, in addition to the existing matching contributions program, which allows for immediate eligibility and vesting for the base contributions.

Pension expense relating to the defined-contribution plan for 2020 and 2019 was \$11,567 and \$10,317, respectively.

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.

(8) Significant Funders and Concentrations of Credit Risk

Grants and contracts revenues were from the following for the years ended September 30, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
U.S. federal and local government agencies	\$ 260,405	262,167
European agencies	221,297	193,550
United Nations agencies	85,229	91,060
Other agencies	<u>14,852</u>	<u>19,284</u>
	<u>\$ 581,783</u>	<u>566,061</u>

During the year ended September 30, 2020, 11% and 21% (12% and 22% during fiscal year 2019) 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, 2020, approximately 65% of the \$41,143 revenues from foundation and private donors comprised grants from seven donors (63% from seven donors during fiscal year 2019).

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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, 2020 and 2019, 31% and 48%, respectively, are deposited in banks in foreign locations. At September 30, 2020 and 2019, 55% and 42%, 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 subsidiaries and foreign affiliates (note 12).

(9) Grants and Contracts Receivable and Program Advances

Grants and contracts receivable were from the following sources as of September 30, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Federal and local government agencies	\$ 12,064	29,657
United Nations agencies	12,081	4,104
European agencies	43,045	35,493
Foundation and private donors	3,558	3,642
Other agencies	5,848	8,794
	<u>\$ 76,596</u>	<u>81,690</u>

Program advances, included in cash and cash equivalents and short-term investments, were received from the following sources as of September 30, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
United Nations agencies	\$ 19,831	17,488
European agencies	84,039	75,767
Foundation and private donors	26,149	16,648
Other agencies	5,933	6,911
	<u>\$ 135,952</u>	<u>116,814</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 balance sheet or consolidated statement of activities.

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(10) Net Assets with Donor Restrictions

Net assets with donor restrictions as of September 30, 2020 and 2019 are as follows:

	<u>2020</u>	<u>2019</u>
Time restrictions:		
Split-interest agreements	\$ 412	409
General purpose	19,161	16,367
Purpose restrictions:		
Balkans, Caucasus, and other programs	5,727	3,839
Middle East programs	6,998	10,421
Asian programs	1,996	3,000
African programs	<u>11,634</u>	<u>10,213</u>
Total international programs	26,355	27,473
U.S. programs	23,603	19,245
Emergency preparedness, technical units, and other	25,180	23,106
Supporting services	765	803
Donor endowment and emergency funds	<u>55,493</u>	<u>55,493</u>
	<u>\$ 150,969</u>	<u>142,896</u>

The income earned on donor endowment and emergency funds as of September 30, 2020 and 2019 is available for the following purposes:

	<u>2020</u>	<u>2019</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	<u>33,613</u>	<u>33,613</u>
	<u>\$ 55,493</u>	<u>55,493</u>

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(11) Freedom Fund

IRC's Freedom Fund comprises the board-designated endowment and donor endowment funds. As of September 30, 2020 and 2019, the Freedom Fund is categorized on the consolidated balance sheet as follows:

	<u>2020</u>	<u>2019</u>
Assets:		
Cash and cash equivalents (due to operating)	\$ 2	(2,571)
Investments	<u>112,646</u>	<u>116,714</u>
Total	<u>\$ 112,648</u>	<u>114,143</u>
Net assets:		
Board-designated endowment	\$ 49,507	49,407
With donor restrictions – reinvested return	7,648	9,243
With donor restrictions – endowment fund corpus	<u>55,493</u>	<u>55,493</u>
Total	<u>\$ 112,648</u>	<u>114,143</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, 2020 and 2019:

	<u>2020</u>		
	<u>Without donor restrictions</u>	<u>With donor restrictions</u>	<u>Total</u>
Donor-restricted	\$ —	63,141	63,141
Board-designated	<u>49,507</u>	<u>—</u>	<u>49,507</u>
Total	<u>\$ 49,507</u>	<u>63,141</u>	<u>112,648</u>

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	2019		
	Without donor restrictions	With donor restrictions	Total
Donor-restricted	\$ —	64,736	64,736
Board-designated	49,407	—	49,407
Total	<u>\$ 49,407</u>	<u>64,736</u>	<u>114,143</u>

Changes in endowment net assets, which exclude contributions receivable, for the fiscal years ended September 30, 2020 and 2019 were as follows:

	2020		
	Without donor restrictions	With donor restrictions	Total
Net assets, September 30, 2019	\$ 49,407	64,736	114,143
Investment return, net	4,161	(457)	3,704
Distributions	(4,061)	(1,138)	(5,199)
Net assets, September 30, 2020	<u>\$ 49,507</u>	<u>63,141</u>	<u>112,648</u>

	2019		
	Without donor restrictions	With donor restrictions	Total
Net assets, September 30, 2018	\$ 50,840	65,107	115,947
Investment return, net	2,518	734	3,252
Distributions	(3,951)	(1,105)	(5,056)
Net assets, September 30, 2019	<u>\$ 49,407</u>	<u>64,736</u>	<u>114,143</u>

(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 Department for International Development, was \$116,580 and \$178,804 for fiscal years 2020 and 2019, respectively, and is included in grants and contracts and contributions in the consolidated statement of activities. Program advances from the IRC-UK were \$19,054 and \$26,028 as of September 30, 2020 and 2019, respectively.

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(13) 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 consolidated balance sheet or consolidated statement of activities of IRC.

(14) Liquidity and Availability of Resources

Financial assets and other liquidity resources available for general expenditure within one year from September 30, 2020 and 2019 are as follows:

	<u>2020</u>	<u>2019</u>
Financial assets:		
Cash and cash equivalents	\$ 187,239	132,197
Short-term investments	16,181	25,974
Grants and contracts receivable	76,596	81,690
Contributions receivable	<u>12,816</u>	<u>18,344</u>
Total financial assets available	292,832	258,205
Other liquidity resources:		
Board-designated	49,507	49,407
Endowment spending	5,141	5,107
Line of credit	<u>—</u>	<u>10,000</u>
Total financial assets and other liquidity resources	<u>\$ 347,480</u>	<u>322,719</u>

General expenditure includes program and operational expenses. IRC is able to draw down and receive funds on a monthly basis in advance from donors to implement its programs. IRC Treasury units manage the cash flow and liquidity of its assets in order to meet the cash needs for the organization.

(15) Subsequent Events

In connection with the preparation of the consolidated financial statements, IRC evaluated subsequent events from September 30, 2020 through February 16, 2021, which was the date the consolidated financial statements were approved for issuance, and concluded, except for the below item, no additional disclosures are required.

The spread of coronavirus (COVID-19) continues to cause significant volatility in the U.S. and international markets. There is significant uncertainty around the breadth and duration of business disruptions related to COVID-19, as well as its impact on the U.S. and international economies, and as such, IRC is unable to determine if it will have a material impact on its operations in fiscal 2021.