



**INTERNATIONAL RESCUE COMMITTEE, INC. AND SUBSIDIARIES**

Consolidated Financial Statements

September 30, 2017

(with comparative financial information as of September 30, 2016)

(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 subsidiaries, which comprise the consolidated balance sheet as of September 30, 2017, 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 subsidiaries as of September 30, 2017, 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 International Rescue Committee, Inc.'s 2016 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated January 24, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended September 30, 2016 is consistent, in all material respects, with the audited financial statements from which it has been derived.

*KPMG LLP*

March 6, 2018

**INTERNATIONAL RESCUE COMMITTEE, INC. AND SUBSIDIARIES**

Consolidated Balance Sheet

September 30, 2017

(with comparative financial information as of September 30, 2016)

(Amounts in thousands)

<b>Assets</b>	<b>2017</b>	<b>2016</b>
Cash and cash equivalents (notes 7, 8, and 11)	\$ 105,490	44,768
Short-term investments (note 2)	50,590	25,934
Grants and contracts receivable (notes 7, 8, and 12)	65,448	66,460
Inventory	7,502	12,120
Contributions receivable, net (note 11)	16,138	5,992
Loan program receivables	245	721
Other assets, net	7,921	8,585
Investments (notes 2 and 11):		
Endowment and emergency funds	112,068	106,293
Split-interest agreements	12,220	10,465
	<u>124,288</u>	<u>116,758</u>
Split-interest agreements – contributions receivable	128	118
Property and equipment, net (note 4)	4,531	5,301
Total assets	\$ <u>382,281</u>	<u>286,757</u>
<b>Liabilities and Net Assets</b>		
Liabilities:		
Accounts payable and accrued expenses	\$ 38,914	34,812
Accrued vacation and severance	12,455	11,708
Program advances (notes 7 and 8)	95,278	48,236
Deferred revenue and other liabilities	3,310	3,255
Loan program liability	1,032	1,459
Annuity liabilities related to split-interest agreements	6,952	6,426
Deferred rent obligation (note 5)	4,088	5,026
Total liabilities	<u>162,029</u>	<u>110,922</u>
Commitments and contingencies (notes 2, 5, 6, 8, and 14)		
Net assets:		
Unrestricted (note 11):		
Board-designated endowment	49,341	48,516
Undesignated	18,840	9,343
Renewals and replacement fund	17,379	17,379
Designated for special-purpose fund	1,645	1,645
Total unrestricted	<u>87,205</u>	<u>76,883</u>
Temporarily restricted (notes 9 and 11):		
Donor contributions	70,009	40,185
Reinvested return on endowment funds	7,811	3,557
Split-interest agreements	311	306
Total temporarily restricted	<u>78,131</u>	<u>44,048</u>
Permanently restricted (notes 10 and 11):		
Donor endowment and emergency funds	54,916	54,904
Total permanently restricted	<u>54,916</u>	<u>54,904</u>
Total net assets	<u>220,252</u>	<u>175,835</u>
Total liabilities and net assets	\$ <u>382,281</u>	<u>286,757</u>

See accompanying notes to consolidated financial statements.

**INTERNATIONAL RESCUE COMMITTEE, INC. AND SUBSIDIARIES**

Consolidated Statement of Activities

Year ended September 30, 2017

(with summarized financial information for the year ended September 30, 2016)

(Amounts in thousands)

	2017			Total	2016 Total
	Unrestricted	Temporarily restricted	Permanently restricted		
Operating activities:					
Operating revenues:					
Contributions (note 12)	\$ 87,782	67,579	—	155,361	101,444
Contributed goods and services	11,124	220	—	11,344	6,827
Grants and contracts (notes 7 and 12)	552,229	—	—	552,229	602,449
Foundation and private grants (note 7)	24,286	—	—	24,286	20,257
Investment return used for operations (note 3)	4,174	1,097	—	5,271	4,956
Loan administration fees and other income	4,214	802	—	5,016	3,958
Release from restrictions	39,899	(39,899)	—	—	—
Total operating revenues	<u>723,708</u>	<u>29,799</u>	<u>—</u>	<u>753,507</u>	<u>739,891</u>
Operating expenses:					
Program services:					
International programs	493,988	—	—	493,988	533,294
U.S. programs	94,012	—	—	94,012	86,227
Emergency preparedness, technical units, and other	52,863	—	—	52,863	44,915
Total program services	<u>640,863</u>	<u>—</u>	<u>—</u>	<u>640,863</u>	<u>664,436</u>
Supporting services:					
Management and general	46,519	—	—	46,519	40,334
Fund-raising	30,190	—	—	30,190	17,966
Total supporting services	<u>76,709</u>	<u>—</u>	<u>—</u>	<u>76,709</u>	<u>58,300</u>
Total operating expenses	<u>717,572</u>	<u>—</u>	<u>—</u>	<u>717,572</u>	<u>722,736</u>
Excess of operating revenues over operating expenses	<u>6,136</u>	<u>29,799</u>	<u>—</u>	<u>35,935</u>	<u>17,155</u>
Nonoperating activities:					
Bequests and contributions (note 11)	—	—	12	12	2
Split-interest agreements	78	3	—	81	(1,598)
Excess of investment return, net (note 3)	4,790	4,281	—	9,071	3,548
Expenses related to:					
Split-interest agreements and endowment – fund-raising	(110)	—	—	(110)	(110)
Nonrecurring expenses	(572)	—	—	(572)	(2,881)
Designated special-purpose fund	—	—	—	—	(588)
Renewals and replacement fund	—	—	—	—	(1,467)
Total nonoperating activities	<u>4,186</u>	<u>4,284</u>	<u>12</u>	<u>8,482</u>	<u>(3,094)</u>
Increase in net assets	<u>10,322</u>	<u>34,083</u>	<u>12</u>	<u>44,417</u>	<u>14,061</u>
Net assets at beginning of year	<u>76,883</u>	<u>44,048</u>	<u>54,904</u>	<u>175,835</u>	<u>161,774</u>
Net assets at end of year	<u>\$ 87,205</u>	<u>78,131</u>	<u>54,916</u>	<u>220,252</u>	<u>175,835</u>

See accompanying notes to consolidated financial statements.

INTERNATIONAL RESCUE COMMITTEE, INC. AND SUBSIDIARIES  
Consolidated Statement of Functional Expenses  
Year ended September 30, 2017  
(with summarized financial information for the year ended September 30, 2016)  
(Amounts in thousands)

	Program services							Supporting services				Total	
	International				U.S. programs	Emergency preparedness, technical units, and other	Total program services	Management and general	Fund-raising	Total supporting services	2017	2016	
	Africa	Asia	Middle East	Europe and other countries									Total
Personnel	\$ 91,437	21,836	56,757	13,012	183,042	48,268	29,980	261,290	31,610	12,479	44,089	305,379	282,136
Professional services	2,718	863	2,528	116	6,225	1,263	2,820	10,308	6,905	3,114	10,019	20,327	20,536
Travel, conferences, and events	8,326	1,580	1,842	527	12,275	2,732	4,372	19,379	2,037	1,192	3,229	22,608	22,591
Occupancy	6,956	1,756	2,732	382	11,826	5,260	2,389	19,475	2,729	1,044	3,773	23,248	24,291
Communications	2,611	415	976	147	4,149	1,157	512	5,818	781	11,668	12,449	18,267	11,775
Vehicles, equipment, and supplies	13,309	1,416	2,978	477	18,180	2,226	692	21,098	2,553	546	3,099	24,197	25,246
Subgrants	38,484	37,933	7,241	4,331	87,989	3,255	2,022	93,266	—	—	—	93,266	132,540
Program materials and direct assistance	89,094	16,493	48,572	7,947	162,106	26,234	636	188,976	—	—	—	188,976	192,953
Contributed goods and services	6,053	1,461	581	108	8,203	2,920	—	11,123	—	—	—	11,123	5,899
Other	88	39	434	(249)	312	697	9,440	10,449	267	147	414	10,863	9,815
<b>Total expenses</b>	<b>259,076</b>	<b>83,792</b>	<b>124,641</b>	<b>26,798</b>	<b>494,307</b>	<b>94,012</b>	<b>52,863</b>	<b>641,182</b>	<b>46,882</b>	<b>30,190</b>	<b>77,072</b>	<b>718,254</b>	<b>727,782</b>
Less nonoperating expenses, primarily personnel related to split-interest agreements and endowment, and brand promotion	—	—	(319)	—	(319)	—	—	(319)	(363)	—	(363)	(682)	(5,046)
<b>Total operating expenses reported by function in the statement of activities</b>	<b>\$ 259,076</b>	<b>83,792</b>	<b>124,322</b>	<b>26,798</b>	<b>493,988</b>	<b>94,012</b>	<b>52,863</b>	<b>640,863</b>	<b>46,519</b>	<b>30,190</b>	<b>76,709</b>	<b>717,572</b>	<b>722,736</b>
2016 total	\$ 303,784	90,786	120,476	18,248	533,294	86,227	44,915	664,436	40,334	17,966	58,300	722,736	722,736

See accompanying notes to consolidated financial statements.

**INTERNATIONAL RESCUE COMMITTEE, INC. AND SUBSIDIARIES**

Consolidated Statement of Cash Flows

Year ended September 30, 2017

(with comparative financial information for the year ended September 30, 2016)

(Amounts in thousands)

	<u>2017</u>	<u>2016</u>
Cash flows from operating activities:		
Increase in net assets	\$ 44,417	14,061
Adjustments to reconcile increase in net assets to net cash provided by (used in) operating activities:		
Depreciation and amortization	1,531	1,217
Net realized and unrealized gains on investments	(11,886)	(6,659)
Proceeds on disposal of property and equipment	1	7
Change in value of split-interest agreements	226	1,709
Permanently restricted contributions	(12)	(2)
Changes in operating assets and liabilities:		
Grants and contracts receivable	1,012	(12,869)
Inventory	4,618	783
Contributions receivable	(10,146)	(2,130)
Loan program receivables	476	(101)
Other assets	664	(529)
Accounts payable and accrued expenses	4,102	6,729
Accrued vacation and severance	747	89
Program advances	47,042	(6,188)
Deferred revenue and other liabilities	55	1,191
Loan program liability	(427)	132
Deferred rent obligation	(938)	(800)
Net cash provided by (used in) operating activities	<u>81,482</u>	<u>(3,360)</u>
Cash flows from investing activities:		
Purchases of property and equipment	(762)	(1,278)
Proceeds from sale or redemption of investments	21,739	14,033
Purchases of investments	(17,381)	(8,711)
(Purchases) proceeds from short-term investments, net	<u>(24,656)</u>	<u>(25,544)</u>
Net cash used in investing activities	<u>(21,060)</u>	<u>(21,500)</u>
Cash flows from financing activities:		
Permanently restricted contributions	12	2
Decrease in contributions receivable	—	31
Proceeds from contributions under split-interest agreements	1,093	515
Payments to beneficiaries	<u>(805)</u>	<u>(754)</u>
Net cash provided by (used in) financing activities	<u>300</u>	<u>(206)</u>
Net increase (decrease) in cash and cash equivalents	60,722	(25,066)
Cash and cash equivalents at beginning of year	<u>44,768</u>	<u>69,834</u>
Cash and cash equivalents at end of year	\$ <u>105,490</u>	\$ <u>44,768</u>

See accompanying notes to consolidated financial statements.

## INTERNATIONAL RESCUE COMMITTEE, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

September 30, 2017

(with comparative financial information as of September 30, 2016)

(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 help people whose lives and livelihoods are shattered by conflict and disaster to survive, recover, and gain control of their future. IRC lead 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 art 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

Notes to Consolidated Financial Statements

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(with comparative financial information as of September 30, 2016)

(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 for 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 amount expended but not yet received are classified as grants and contracts receivable.

## INTERNATIONAL RESCUE COMMITTEE, INC. AND SUBSIDIARIES

### Notes to Consolidated Financial Statements

September 30, 2017

(with comparative financial information as of September 30, 2016)

(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.

#### **(e) Endowment and Emergency 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 and Emergency Funds*

In further support of the long-term financial stability of the organization, IRC receives donations for which the principal must be permanently maintained. Included in this category are endowment donations and emergency funds that allow IRC to use principal on a temporary basis for emergency response situations and to 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.

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.

## INTERNATIONAL RESCUE COMMITTEE, INC. AND SUBSIDIARIES

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(with comparative financial information as of September 30, 2016)

(Amounts in thousands)

### **(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, 2017 and 2016 ranged from 1% 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, 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; 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.

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### **(l) Investments**

Investments are stated at fair value based on quoted or published market prices except for the fair values of alternative investments, which 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 average rate in effect during the year. The resulting translation (gain) loss for 2017 and 2016 of \$(2,278) and \$898, 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

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(with comparative financial information as of September 30, 2016)

(Amounts in thousands)

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 2017 or 2016.

**(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 2016 consolidated financial statements, from which the comparative totals were derived.

**INTERNATIONAL RESCUE COMMITTEE, INC. AND SUBSIDIARIES**

Notes to Consolidated Financial Statements

September 30, 2017

(with comparative financial information as of September 30, 2016)

(Amounts in thousands)

**(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, 2017 and 2016:

	<b>2017</b>		
	<b>Level 1</b>	<b>NAV</b>	<b>Total</b>
Equities:			
Mutual funds:			
United States	\$ 39,038	—	39,038
International	24,890	—	24,890
Commingled funds	6,455	—	6,455
Total	<u>70,383</u>	<u>—</u>	<u>70,383</u>
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	<u>22,807</u>	<u>—</u>	<u>22,807</u>
Direct lending funds	—	6,586	6,586
Hedge funds	—	24,404	24,404
Total	—	<u>30,990</u>	<u>30,990</u>
Cash and cash equivalents	108	—	108
Short-term investments	50,590	—	50,590
Total	<u>\$ 143,888</u>	<u>30,990</u>	<u>174,878</u>

**INTERNATIONAL RESCUE COMMITTEE, INC. AND SUBSIDIARIES**

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	<u>Level 1</u>	<u>2016 NAV</u>	<u>Total</u>
Equities:			
Mutual funds:			
United States	\$ 29,307	—	29,307
International	17,309	—	17,309
Commingled funds	5,534	—	5,534
Total	<u>52,150</u>	<u>—</u>	<u>52,150</u>
Fixed income:			
Direct ownership:			
U.S. government/agency	349	—	349
U.S. corporate and other	195	—	195
Mutual funds:			
U.S. government/agency	9,732	—	9,732
U.S. corporate and other	7,507	—	7,507
Commingled fund	2,826	—	2,826
Total	<u>20,609</u>	<u>—</u>	<u>20,609</u>
Closed-end macro fund	4,322	—	4,322
Direct lending funds	—	6,628	6,628
Hedge funds	—	32,969	32,969
Total	4,322	39,597	43,919
Cash and cash equivalents	80	—	80
Short-term investments	25,934	—	25,934
Total	<u>\$ 103,095</u>	<u>39,597</u>	<u>142,692</u>

Investments at September 30, 2017 and 2016 include \$112,068 and \$106,293, respectively, relating to IRC's Freedom Fund (note 11) and \$12,220 and \$10,465, 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, 2017:

	<u>Total fair value</u>	<u>Redemption dates per year</u>	<u>Redemption notice period</u>
Direct lending fund	\$ 6,586 (a)	N/A	N/A
Hedge funds:			
Distressed debt	8,704	Quarterly	65 days
Multistrategy fund	7,287	Annually	90 days
Long-short equity	<u>8,413</u>	Annually; quarterly	45 days
Total hedge funds	<u>24,404 (b)</u>		
Total	<u>\$ 30,990</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 \$24,404 invested in three hedge funds at September 30, 2017. All three 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, 2017, the IRC's combined investments in these funds included 36% credit strategies, 34% long-short equity strategies, and 30% multistrategies.

At September 30, 2017 and 2016, the IRC had unfunded commitments to limited partnerships amounting \$1,050.

**(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.



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Investment return for the years ended September 30, 2017 and 2016 consisted of the following:

	<u>2017</u>	<u>2016</u>
Interest and dividend income	\$ 2,456	1,845
Net realized gains	1,021	1,550
Net unrealized gains	<u>10,865</u>	<u>5,109</u>
Total return on investments	14,342	8,504
Less investment return used for operations	<u>(5,271)</u>	<u>(4,956)</u>
Investment return in excess of amounts used for operations	\$ <u>9,071</u>	<u>3,548</u>

Return on investment is shown net of investment manager fees at September 30, 2017 and 2016.

**(4) Property and Equipment**

Property and equipment consisted of the following as of September 30, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Furniture and equipment	\$ 3,573	3,433
Cars, vans, and mobile units	3,673	3,324
Leasehold improvements	8,564	8,410
Donated art portfolios	<u>84</u>	<u>86</u>
	15,894	15,253
Less accumulated depreciation and amortization	<u>(11,363)</u>	<u>(9,952)</u>
	\$ <u>4,531</u>	<u>5,301</u>

**(5) Lease Agreements**

IRC leases several office facilities and equipment under operating leases expiring at various dates through 2025. 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 in the consolidated balance sheet. The deferred rent obligation 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.

## INTERNATIONAL RESCUE COMMITTEE, INC. AND SUBSIDIARIES

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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, 2017:

Year ending September 30:	
2018	\$ 7,543
2019	6,774
2020	6,275
2021	3,363
2022	370
Thereafter	356
Total minimum future payments	\$ <u>24,681</u>

Rent expense for the years ended September 30, 2017 and 2016 was \$15,861 and \$16,653, 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 2017 and 2016 was \$6,884 and \$5,103, 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.

## INTERNATIONAL RESCUE COMMITTEE, INC. AND SUBSIDIARIES

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#### (7) Significant Funders and Concentrations of Credit Risk

Grants and contracts revenues were from the following for the years ended September 30, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
U.S. federal and local government agencies	\$ 262,130	283,751
European agencies	188,819	213,148
United Nations agencies	86,393	84,758
Other agencies	14,887	20,792
	<u>\$ 552,229</u>	<u>602,449</u>

During the year ended September 30, 2017, 13% and 23% (13% and 26% each during fiscal year 2016) 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, 2017, approximately 56% of the revenues from foundation and private donors was comprised of grants from five donors (69% from five donors during fiscal year 2016).

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, 2017 and 2016, 21% and 68%, respectively, is deposited in banks in foreign locations. At September 30, 2017 and 2016, 39% and 44%, 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).

#### (8) Grants and Contracts Receivable and Program Advances

Grants and contracts receivable were from the following as of September 30, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Federal and local government agencies	\$ 17,122	18,467
United Nations agencies	7,084	5,999
European agencies	33,538	32,243
Foundation and private donors	2,535	2,010
Other agencies	5,169	7,741
	<u>\$ 65,448</u>	<u>66,460</u>

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Program advances, included in cash and cash equivalents and short term investments, and were received from the following as of September 30, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
United Nations agencies	\$ 12,425	10,262
European agencies	59,887	20,275
Foundation and private donors	16,317	11,559
Other agencies	<u>6,649</u>	<u>6,140</u>
	\$ <u>95,278</u>	<u>48,236</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.

**(9) Temporarily Restricted Net Assets**

Temporarily restricted net assets as of September 30, 2017 and 2016 are available subject to time and purpose restrictions as follows:

	<u>2017</u>	<u>2016</u>
Time restrictions:		
Split-interest agreements	\$ 311	306
General purpose	14,411	5,357
Purpose restrictions:		
Balkans, Caucasus, and other programs	2,042	5,338
Middle East programs	8,650	5,940
Asian programs	2,003	1,362
African programs	<u>8,737</u>	<u>6,218</u>
Total international programs	21,432	18,858
U.S. programs	19,242	7,755
Emergency preparedness, technical units, and other	21,438	11,083
Supporting services	<u>1,297</u>	<u>689</u>
	\$ <u>78,131</u>	<u>44,048</u>

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**(10) Permanently Restricted Net Assets**

The income earned on permanently restricted net assets as of September 30, 2017 and 2016 is available for the following purposes:

	<u>2017</u>	<u>2016</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>33,036</u>	<u>33,024</u>
	<u>\$ 54,916</u>	<u>54,904</u>

**(11) Freedom Fund**

IRC's Freedom Fund comprises the board-designated endowment, donor endowment, and emergency funds assets and net assets. As of September 30, 2017 and 2016, the Freedom Fund is categorized on the consolidated balance sheets as follows:

	<u>2017</u>	<u>2016</u>
Assets:		
Cash and cash equivalents	\$ —	684
Investments	<u>112,068</u>	<u>106,293</u>
Total	<u>\$ 112,068</u>	<u>106,977</u>
Net assets:		
Unrestricted board-designated endowment	\$ 49,341	48,516
Temporarily restricted – reinvested return	7,811	3,557
Permanently restricted	<u>54,916</u>	<u>54,904</u>
Total	<u>\$ 112,068</u>	<u>106,977</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.

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Endowment net assets, which exclude contributions receivable, consist of the following at September 30, 2017 and 2016:

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

  

		<b>2016</b>			
		<b>Unrestricted</b>	<b>Temporarily restricted</b>	<b>Permanently restricted</b>	<b>Total</b>
Donor-restricted	\$	(66)	3,557	54,904	58,395
Quasi (board-designated)		48,582	—	—	48,582
Total	\$	<u>48,516</u>	<u>3,557</u>	<u>54,904</u>	<u>106,977</u>

Changes in endowment net assets, which exclude contributions receivable, for the fiscal years ended September 30, 2017 and 2016 were as follows:

		<b>2017</b>			
		<b>Unrestricted</b>	<b>Temporarily restricted</b>	<b>Permanently restricted</b>	<b>Total</b>
Net assets, September 30, 2016	\$	48,516	3,557	54,904	106,977
Net appreciation (realized and unrealized)		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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	2016			Total
	Unrestricted	Temporarily restricted	Permanently restricted	
Net assets, September 30, 2015 \$	46,613	2,290	54,901	103,804
Net appreciation (realized and unrealized)	5,191	2,354	—	7,545
Contributions	581	—	3	584
Distributions	(3,869)	(1,087)	—	(4,956)
Net assets, September 30, 2016 \$	<u>48,516</u>	<u>3,557</u>	<u>54,904</u>	<u>106,977</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 the European Commission Humanitarian Aid Office and Department for International Development, was \$177,105 and \$200,927 for fiscal years 2017 and 2016, respectively, and is included in grants and contracts and contributions in the consolidated statement of activities. Net receivables (payables) due from the International Rescue Committee, U.K., consisting primarily of grants and contracts (payable) receivable, were \$(30,846) and \$10,398 as of September 30, 2017 and 2016, respectively.

**(13) Line of Credit**

IRC has a \$10,000 unsecured line of credit from a financial institution expiring in May 2018, 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, 2017 and 2016.

**(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, 2017 through March 6, 2018, which was the date the consolidated financial statements were approved for issuance, and concluded that no additional disclosures are required.